Czech Republic
Supreme Audit Office

EU REPORT 2022

REPORT ON THE FINANCIAL MANAGEMENT
OF EU FUNDS IN THE CZECH REPUBLIC

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Editor's note:

The editorial deadline for the *EU Report 2022* was set at 31 March 2022. Given this deadline, the report contains the figures and related contextual information available to the authors by the deadline. Only in exceptional cases, when the importance of the issue so warrants, are figures published after the editorial deadline included in the report. However, these data are not subject to analysis or comparison and are merely supplementary.

In line with the tried-and-tested good practice from previous EU Report editions, the authors asked for up-to-date data and information from the relevant organisational units of the Ministry of Finance (MoF) and the Ministry of Regional Development (MoRD). After minor editorial adjustments, the materials acquired were included in the various sections. Section B.1 provides information on the outputs of the Audit Authority (Department 52 – Audit Authority of the MoF) (AA), especially in the area of public audits and audits of European Structural and Investment Funds (ESIF). The second part of Section C.3 contains information on the activities of the AFCOS Central Contact Point (Department 69 – Analysis and Reporting of Irregularities of the MoF) (AFCOS CCP) in relation to the protection of the financial interests of the European Union (EU) in the Czech Republic (CR). Section D.2 informs about the activities of the National Coordination Authority (NCA), whose role is performed by the Ministry of Finance, in connection with the use of the ESIF allocation, including measures taken in response to the Covid-19 pandemic and the fulfilment of the drawdown prerequisites for the new programming period 2021–2027 (PP21+).

The authorial team would like to express their sincere thanks to all the responsible staff of both ministries for their cooperation.

LIST OF USED ABBREVIATIONS

AA	Audit Authority (MoF´s Department)
AAR	Annual Audit Report
Acceptance report	Government report on the acceptance of legislative obligations resulting from the Czech Republic‘s membership in the European Union
Act on Conflict of Interest	Act No 159/2006 Coll., on conflict of interests
Act on RRO	Act No 37/2021 Coll., on registration of real owners
Act on SAO	Act No 166/1993 Coll., on the Supreme Audit Office, as amended
AE	Audited Entity
AIS	*SAO Audit Information System*
AMIF	*Asylum, Migration and Integration Fund*
AML Directive	*Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC of 20 May 2015.*
Annual Report	Annual report on the implementation of the EU budget for the 2020 financial year
Annual Strategy	*Annual Strategy for Sustainable Growth 2021*
APP	Act No 134/2016 Coll., on public procurement
AR	SAO Audit Report
ASAA	*Application Support of the Audit Authority IS*
Audit	SAO Audit
Audit under review	SAO audits related to the EU budget and completed in the monitored period
Budget rules	Act No 218/2000 Coll., on budgetary rules and on the amendment of some related laws (budgetary rules)
CAP	Common agricultural policy
CAP2021+	The Common Agricultural Policy as it was supposed to apply from 2021
CC	Act No 40/2009 Coll., Criminal Code
CF	*Cohesion Fund*
CFP	Common Fisheries Policy
CJEU	Court of Justice of the EU
CMO	Common Market Organisation
Cohesion	EU budget heading: Economic, social and territorial cohesion
Cohesion Policy	Economic, social and territorial cohesion policy
Commission	European Commission
Competitiveness	EU budget heading- Sustainable growth: natural resources
Council	EU Council
CP	Convergence Programme of the Czech Republic
CPC AFCOS	Central point of contact for the network AFCOS (Anti-fraud coordination service)
CR	Czech Republic
CRD	Centre for Regional Development of the CR
CRII	*Coronavirus Response Investment Initiative*
CRII+	*Coronavirus Response Investment Initiative plus*
DAS	Statement of Assurance (déclaration d´assurance)
DC	Program Digital Czechia
Directive on VAT	Directive 2006/112/EC of 28 November 2006 on the common system of value added tax.
EAFRD	*European Agricultural Fund for Rural Development*

EAGF	*European Agricultural Guarantee Fund*
ECA	European Court of Auditors
EMFAF	*European Maritime, Fisheries and Aquaculture Fund*
EMFF	*European Maritime and Fisheries Fund*
EP	European Parliament
ERDF	European Regional Development Fund
ESF	*European Social Fund*
ESIF	European structural and investment funds
EU	European Union
EU ETS	*European Union Emissions Trading System*
EU Funds	A group of funds replacing the former ESIF for PO21+
EU Pilot	Structured dialogue system for dealing with breaches of EU law
EU-27	27 EU Member States (after the UK leaves the EU)
EU-28	28 EU Member States
FA	Financial Audit
FEAD	*Fund for European Aid to the Most Deprived (FEAD)*
FI	Financial Instruments
Financial Control Act	Act No 320/2001 Coll., Act on Financial Control in Public Administration and on Amendments to Certain Acts (Financial Control Act)
Financial Regulation	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
GDP	Gross Domestic Product
General Regulation	Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006.
GNI	Gross National Income
Government resolution	Resolution of the Government of the Czech Republic
Green Deal	Green Deal for Europe
IROP	*Integrated regional operational programme*
IROP21+	*Integrated regional operational programme 2021–2027*
ISF	*Internal Security Fund*
IZS	Integrated emergency system
MA	Management Authority
MCS	Management and control system
MFF	Multiannual Financial Framework
MoA	Ministry of Agriculture
MoE	Ministry of the Environment
MoF	Ministry of Finance
MoH	Ministry of Health
MoI	Ministry of Interior
MoIT	Ministry of Industry and Trade
MoJ	Ministry of Justice
MoLSA	Ministry of Labour and Social Affairs
MoRD	Ministry of Regional Development
MoT	Ministry of Transport
MS	Member State

Natural resources	EU budget heading: Sustainable growth: natural resources
NCA	National Coordination Authority
New General Regulation	Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy
NGEU	*Next Generation EU (also called the European Union Recovery Instrument)*
NPR	National Reform Programme
NRP	National Recovery Plan
NGS	*New green savings*
NGS21+	*New green savings 2021+*
OECD	Organization for Economic Cooperation and Development
OLAF	European Anti-Fraud Office
OoG	Office of the Government of the Czech Republic
OP	Operational programme
OP EIC	OP *Enterprise and Innovation for Competitiveness*
OP FMA	OP *for Food and Material Assistance*
OP JAK	OP *Jan Ámos Komenský*
OP PGP	OP *Prague – Growth Pole of the CR*
OP RDE	OP *Research, Development and Education*
OPEm	OP *Employment 2014–2020*
OPEn	OP *Environment 2014–2020*
OPEn21+	OP *Environment 2021–2027*
OPF	OP *Fisheries 2014–2020*
OPR21+	OP *Fisheries 2021–2027*
OPST	OP *Fair Transformation*
OPT	OP *Transport*
OPTP	OP *Technical Assistance*
OPTP21+	OP *Technical Assistance for the new programming period*
Other irregularities	Irregularities of a non-fraudulent nature
P.p.	Percentage point
PA	Partnership Agreement
PA	Priority axis
PCA	Paying and Certifying Authority
Period under review	1 April 2021 to 31 March 2022
PO14+	Programming Period 2014–2020
PO21+	Programming Period 2021–2027
PO7+	Programming Period 2007–2013
PR	Payment request
Procurement	Public procurement
PRV	Rural Development Programme
PRV14+	*Rural Development Programme CR for 2014–2020*
PRV7+	*Rural Development Programme CR for 2007–2013*
RA	Responsible authority
RDI	Research, Development, and Innovation
REACT-EU	European post - Covid economic recovery programme
Report	*32nd annual report on the protection of financial interests of the European Union - fight against fraud - 2020*
Report 2021	Report on the implementation of the National Reform Programme of the

	Czech Republic 2021
RHS	Regional hygiene station
SAIF	State Agricultural Intervention Fund
SAO	Supreme Audit Office
SAPS	Single payment per area
SDGs	Sustainable Development Goals
SEF	State Environmental Fund
Semester	European semester
SFDPA	Strategic framework for the development of the public administration of the Czech Republic for the period 2014–2020
SISF	State investment support fund
SME	Small and medium enterprises
SMS	*Single Market Scoreboard*
SO	Specific Objective
SR	ECA special report
Strategy	*Europe 2020 Strategy*
TEU	*Treaty on European Union*
TFEU	*Treaty on the Functioning of the European Union*
TOR	Traditional Own Resources
VAT	Value Added Tax
WD	Waterways Directorate of the CR

Abbreviations of EU Member States and the United Kingdom used in cart 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

Audit work by the SAO in the period under scrutiny

- From 1 April 2021 to 31 March 2022, the SAO Board approved a total of 13 audit reports from audits concerning EU budget funds.

- The standard of the financial management of programmes and projects is gradually improving. Among other things, the SAO's audit findings have significantly reduced the proportion of shortcomings identified in the area of pre-commitment or pre-payment controls. Having said that, the managing authorities of operational programmes still do not set sufficiently meaningful indicators to assess the actual benefits of the support provided or fail to apply an appropriate evaluation methodology.

- The SAO's overall satisfaction rate with the corrective measures adopted by the Czech government was 68.2%.

Audit work by other audit bodies

- Audit Authority: The management and control systems of the nine operational programmes of the 2014–2020 programming period are operating effectively and provide reasonable assurance that the statements of expenditure submitted to the European Commission were correct and the underlying transactions were legal and regular. The only exception is OP EIC.

- European Court of Auditors: The Annual Report on the Implementation of the EU Budget for the Financial Year 2020 assesses the reliability of the examined systems forming the basis of which the traditional own resources accounts are drawn up as generally satisfactory. The Czech Republic featured in the audit sample in two of the twenty-eight ECA Special Reports.

- European Commission: in response to the Commission's audits on conflicts of interest in the CR, a deputies' amendment to the Act on Budgetary Rules was proposed. The Act on Records of Beneficial Owners entered into force. The Commission therefore closed the audit procedure on conflict of interest.

SECTION II

EU budget and its relationship with the Czech Republic

- EU budget revenues in 2020 were €174.31 billion and expenditure totalled €173.31 billion. The ECA confirmed that the Commission had performed its duties properly in implementing the EU budget.

- According to the Commission's data, the value of the Czech Republic's net position (i.e. the value of net revenues) reached €3.22 billion in 2020, the fifth highest in the EU-28. Converted to net position per capita, the CR, with a figure of €300.50, was in ninth place among Member States.

- According to the Ministry of Finance, the Czech Republic's net position for 2021 amounted to €2.55 billion.

Protection of the EU's financial interests

- The Annual Report on the Protection of the European Union's Financial Interests in 2020 shows that a total of 9,726 irregularities of a fraudulent and non-fraudulent nature were reported across the EU (down by more than 17% year-on-year). The total value of the irregularities was €1,328.440 million (a year-on-year decrease of more than 14%).

- In 2020, the Czech Republic reported 24 suspected cases of fraud (2.4% of the EU total) and 281 other irregularities (3.2% EU share). The value of irregularities of a fraudulent nature was €6.05 million and other irregularities amounted to €16.59 million. By year-on-year comparison, reported cases of suspected fraud showed a significant decrease in both their number (58%) and volume (74%).

EU budget implementation measures in 2021

- The Annual Sustainable Growth Strategy 2021 builds on the Green Deal for Europe, the EU's long-term strategy for growth. The guiding principles of the Annual Strategy are green transformation, digital transformation and productivity, macroeconomic stability and fairness.

- The Commission assessed the Convergence Programme of the Czech Republic 2021 and the National Reform Programme of the Czech Republic 2021, together with the National Recovery and Resilience Plan. It recommended, inter alia, maintaining a supportive fiscal policy using the Recovery and Resilience Facility, strengthening investment to foster growth potential and paying attention to the composition of public finances with a view to green and digital transformation, prioritising structural reforms that will contribute to the sustainability of public finances.

- The Commission assessed the National Recovery Plan of the Czech Republic and concluded that the Plan represents a largely comprehensive and appropriately balanced response to the economic and social situation. The SAO sees a risk in meeting the condition of concluding legal documents covering 70% of the allocation by the end of 2022 and 100% of the allocation by the end of 2023.

- As regards the implementation of the Czech National Reform Programme 2021, the Czech Republic has followed the Council's recommendations from 2020. However, some of the green transformation targets have not been met, especially in the area of transport.

Revenues linked to the EU budget

- The ECA review of energy taxation, carbon pricing and energy subsidies found that current tax levels do not reflect the levels of pollution from different energy sources and recommended ensuring consistency in energy taxation across sectors and energy sources, reducing fossil fuel subsidies and aligning climate targets with social needs.

- Fit for 55 package: Preparing for the introduction of three new own resources – revenues from the reformed EU Emissions Trading Scheme, a carbon border adjustment mechanism and the introduction of a digital charge.

- In 2021, the Czech Republic amended the Act on Value Added Tax and approved the 2021 tax package.

Expenditure co-financed by the European Structural and Investment Funds

- As of 31 December 2021, the Czech Republic's standing in the year-on-year comparison of absorption of the ESIF allocation for the 2014–2020 programming period improved by four places, putting the CR 9th in the EU-28.

- All ten OPs satisfied the n+3 rule in 2021 and nine out of the ten OPs had already fulfilled the rule for 2022 by the end of March.

- The SAO analysed the territorial impact of the support provided from the ESIF on economic and social cohesion in individual districts of the Czech Republic (see Annex 3: https://infogram.com/1p90k5wm5vkz76t7lgx3ezjmn2i32966w5d?live).

- In the context of REACT-EU, the Czech Republic received an allocation of €1,151.8 million. The REACT allocation of €1.8 million is exclusively for operations supporting the recovery from the Covid-19 pandemic and for preparing the economic recovery by investing in operations contributing to the transition to a digital and green economy.

- The start of absorption of the OP 2021–2027 allocation has been delayed mainly by lengthy negotiations on legislation at EU level. In December 2021, formal negotiations with the Commission were launched on the "partnership agreement" and on the individual OPs submitted.

- In the context of the impact of the migrant crisis caused by the armed conflict in Ukraine, an uncommitted part of the IROP allocation was earmarked for helping refugees, with support for food banks reassigned from OP En.

Expenditure on the Common Agricultural Policy

- The new Common Agricultural Policy has not yet been agreed on and has been postponed for two years. In the meantime, a transitional period has been introduced to allow farmers to draw money from the EU budget even without the new legislation.

- Nearly CZK 39 billion was paid out in the Czech Republic under the CAP in 2021.

- Expenditure on the Common Fisheries Policy

- In 2021, a total of EUR 211.88 million was paid out under OP Fisheries 2014–2020. Cumulatively, more than 89% of the total programme allocation for the whole PP 2014–2020 has been disbursed so far.

Implementation and transposition of EU law in the Czech Republic

- The transposition deficit increased year-on-year to 1.5%. This result put the Czech Republic in 20th to 21st place in the ranking of Member States' success rates.

- As of 31 March 2022, a total of 94 infringement proceedings were being conducted against the Czech Republic, of which 77 were at the formal notice stage and 15 at the reasoned opinion stage, with two actions filed with the Court of Justice of the European Union.

SECTION I

AUDIT WORK BY THE SAO AND OTHER EXTERNAL AUDIT BODIES IN THE FIELD OF EU BUDGET FUNDS ALLOCATED TO THE CZECH REPUBLIC

A SAO AUDIT WORK IN THE PERIOD UNDER SCRUTINY

The Supreme Audit Office (SAO) bases its audit work on the provisions of Act No. 166/1993 Coll., on the Supreme Audit Office, as amended (Act on the SAO). Each SAO audit is closed upon the approval of its audit report by the SAO Board and the subsequent publication of the audit report.

The SAO has been systematically monitoring and auditing the Czech Republic's interaction with EU budget revenues and expenditures for a long time. The special attention paid to this area by the SAO is reflected in the fact that **more than one third of the audits** carried out under the annual audit plans cover **the expenditure or revenues side of the EU budget (at least in part).**

From the long-term perspective, it is fair to say that the implementation of EU budget support **has been marked by a significant improvement in terms of the absence of or deficiencies in conceptual and strategic materials** defining priorities for the use of EU budget support. On the other hand, **the absence of indicators measuring the actual effect of the support is more pronounced, and these have often lacked an appropriate evaluation method.**

An analysis of 13 SAO audit reports concerning EU budget expenditure approved from 1 April 2021 to 31 March 2022 (the period under scrutiny) reveals significant changes in the implementation process.

The standard of financial management of programmes and projects is gradually improving. In particular, relatively significant **progress can be observed in the absorption of the allocation** under the Partnership Agreement (PA) 2014–2020, including fulfilment of the milestones and n+3 rule. In the SAO's audit reports, t**he proportion of shortcomings identified in the area of pre-commitment or pre-payment controls has also decreased significantly.** Nevertheless, **there is still the enduring problem** that operational programmes' **managing authorities** (MAs) **do not define sufficiently meaningful indicators for assessing the actual benefits of the support provided or lack an appropriate evaluation methodology** (one example is the control of the implementation of Europe 2020 strategy objectives – see Section A.2.1 of EU Report 2022).

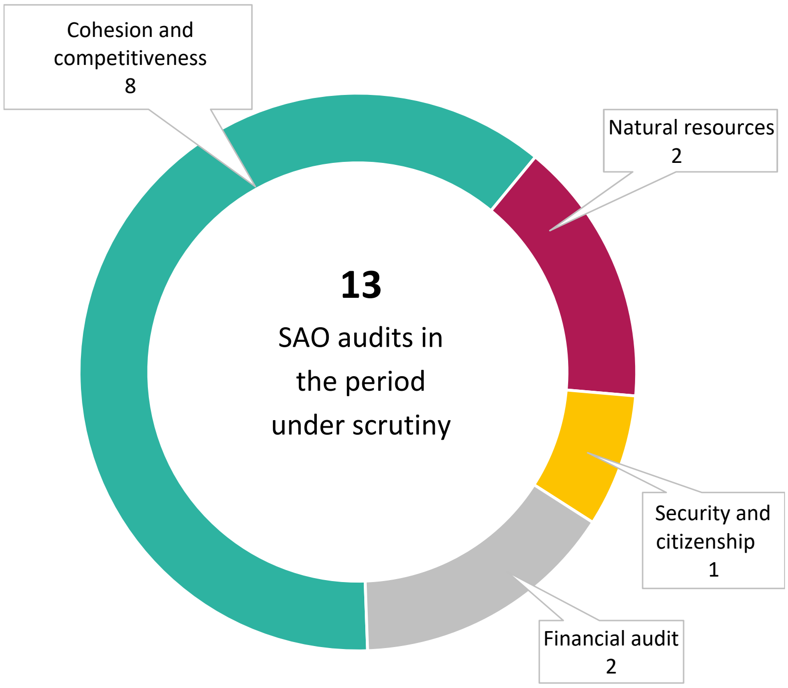
In a number of cases, the **objectives** that are supposed to be achieved **are still badly defined,** which is reflected in **low levels of effectiveness, efficiency and economy** in the use of the support. This has often been influenced by **insufficient absorption capacity** (e.g. programmes to reduce the energy consumption of residential buildings or for the construction of social housing – see Section A.2.1 of EU Report 2022). Another factor influencing the efficiency of investment projects in particular was the **postponement or early non-completion of follow-up projects.**

The selection of suitable projects and the prolongation of the administration process remains a long-term problem. Similarly, the **proportion of ineligible expenditure** is a persistent problem, as set out by the SAO in its audit findings. This proportion even increased significantly year-on-year.

A.1 OVERVIEW OF APPROVED AUDIT REPORTS

In the period under scrutiny, the SAO College approved **thirteen audit reports** from audits concerning (in full or at least in part) EU budget funds (the audits under scrutiny).

Chart 1: Breakdown of audits by their focus



Source: SAO, March 2022.

Table 1: Overview of audits in the period under scrutiny

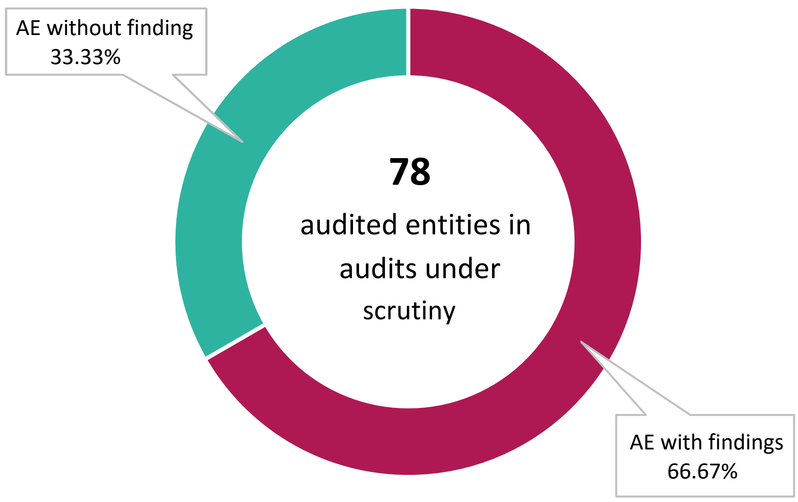
Audit No.	Audit title	Published in the *SAO Bulletin* (number/year)
20/04	*Interventions to ensure sustainable water quality*	4/2021
20/10	*State funds spent on implementation of selected goals of the migration policy of the Czech Republic*	3/2021
20/14	*Public transport using electric power supported from the Transport 2014-2020 Operational Programme*	4/2021
20/18	*Funds earmarked for meeting the national targets of the EUROPE 2020 strategy*	6/2021
20/19	*Measures aiming at reducing energy performance of residential buildings supported from the Integrated Regional Operational Programme and from the New Green Savings Programme*	4/2021
20/20	*Funds from the Enterprise and Innovation for Competitiveness Operational Programme granted to small and medium enterprises for consultancy, marketing, and training and in relation to the Covid-19 pandemic*	3/2021
20/23	*State budget funds and European funds provided for food aid for the most deprived persons and earmarked to reduce food waste*	6/2021
20/25	*Closing account of the state budget chapter "Ministry of Justice" for the year 2020, financial statements of the Ministry of Justice for the year 2020, and data submitted by the Ministry of Justice for the evaluation of the state budget implementation for the year 2020*	6/2021
20/34	*Closing account of the state budget chapter "Ministry of Industry and Trade" for 2020, financial statements of the Ministry of Industry and Trade for 2020, and data submitted by the Ministry of Industry and Trade for the evaluation of the state budget implementation for the year 2020*	4/2021
21/03	*State and EU funds earmarked for the promotion of recreational voyages*	1/2022
21/08	*Funds spent in support of social housing from the Integrated Regional Operational Programme*	1/2022
21/14	*Funds of the Integrated Regional Operational Programme intended to support presentation, protection strengthening, and development of cultural heritage*	3/2022
21/35	*Funds earmarked for information support for anti-epidemic measures*	3/2022

Source: SAO, March 2022.

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

A total of **78 audited entities** were audited by the SAO in the audits under scrutiny. Some of these entities, mainly ministries acting as managing authorities of operational programmes (OPs), were scrutinised in more than one audit.

Chart 2: Proportion of audited entities (AE) with and without SAO audit findings.



Source: SAO *Audit Information Systems* /AIS/, March 2022.

In these audits the SAO made **417 audit findings**[1], **46** of which were **quantifiable.**

The volume of identified **deficiencies** quantified **at the project level** (selected sample) amounted to almost **CZK 142.08 million. At the systemic level** (management and control system (MCS)), a sum of **CZK 206.33 million** was affected by deficiencies, with a further **CZK 1,278.69 million** representing shortcomings identified by **financial audits** (FA)[2].

The volume of recoverable deficiencies identified in the audits under scrutiny amounted to almost **CZK 137.50 million**[3]**; of that sum, only CZK 1.34 million is related to the EU budget (i.e. 0.98%).**

Seven of the audits in question (i.e. almost 54%) contained identified deficiencies which induced the SAO to submit a total of **14 notifications**[4] to the relevant **tax administrator** for further action. **The total amount of these notifications exceeded CZK 133.70 million.**

In one case a criminal complaint was filed.

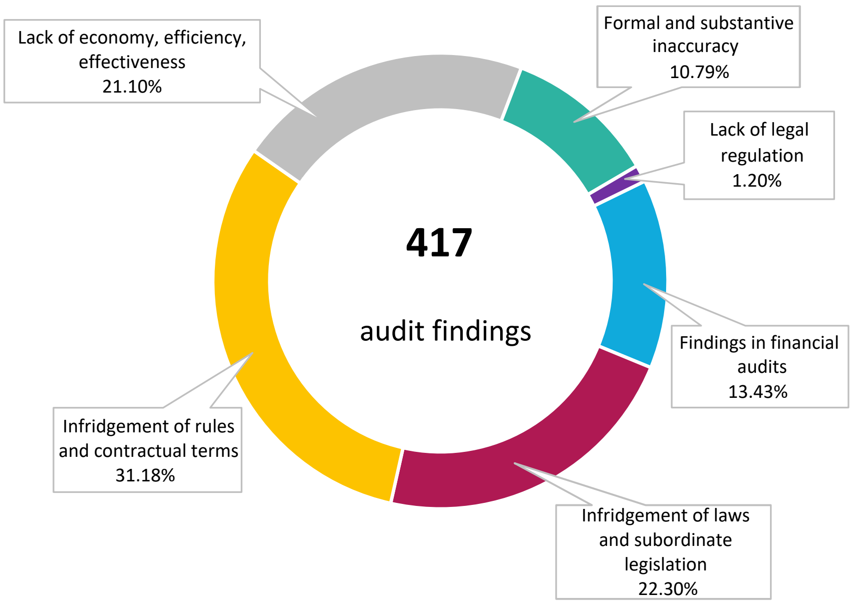
1 56 of these findings related to two financial audits.

2 The substantive focus of FA is usually the closing accounts of the relevant budget chapter and the financial statements of its administrator. The amounts of funds covered by FA are often many times higher than in the case of performance or legality audits. The accounting and reporting deficiencies identified in FA work also usually involve significantly larger sums. In order not to distort the statistical data presented below in relation to other types of audits, the volumes of deficiencies detected by FA are reported separately in this publication. Other FA data are already included in the aggregate figures, unless otherwise stated.

3 Almost 96% of this amount is accounted for by identified public procurement deficiencies.

4 The SAO submits notifications to tax administrators pursuant to Section 59 of Act No 280/2009 Coll., the Tax Code. In the period under scrutiny, the submissions concerned audits Nos 20/10, 20/18, 20/19 and 21/03 (one submission each), audits Nos 21/14 and 21/35 (two submissions each) and audit No 20/23 (six submissions).

Chart 3: Breakdown of audit findings by category



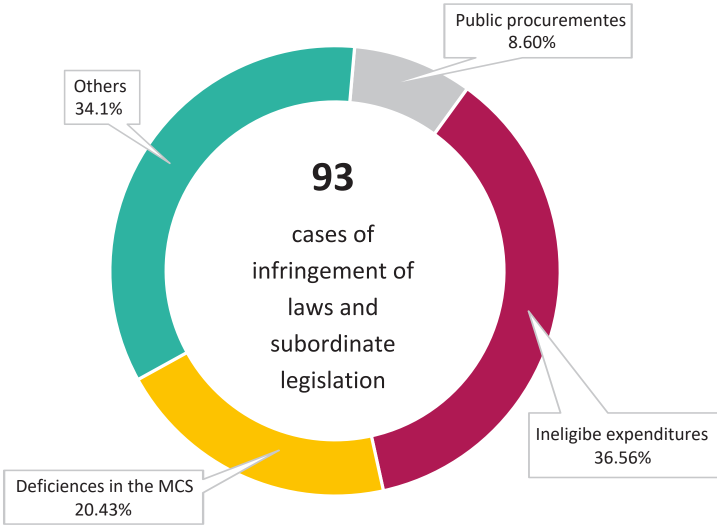
Source: AIS, March 2022.

All shortcomings detected by FAs are included in the category of findings in financial audits, even though they typically fall into the category of violations of primary and secondary legislation, i.e. laws and decrees governing accounting and in one case a resolution of the Government of the Czech Republic (government resolution). In audits of types other than FA, the SAO made a total of **361 audit findings, 93** of which were classified as **violations of primary and secondary legislation**[5].

Chart 4 shows the SAO's audit findings in the category of violations of primary and secondary legislation (excluding findings made within the framework of the FA) broken down by category of violation.

5 This category includes breaches of binding EU law as well as laws, decrees and government regulations or resolutions.

Chart 4: Type and rate of occurrence of infringement of laws and regulations in the audits under scrutiny excluding financial audits



Source: AIS, March 2022.

Note.: Individual findings are classified according to the primary regulation violated - e.g. there was a violation of the Act on Public Procurement and as a result ineligible expenditure with a qualification of violation of budgetary rules; this finding is classified only in the category of public procurement. The Other category includes infringements in the fields of hydrogeology, pesticide use, regional development, public aid and public administration information systems.

Compared to the previous reporting period (see Section C.1 of EU Report 2021), the proportions of each category have changed significantly. In particular, **the number of findings in the area of MCS** (MCS deficiencies) **has fallen by half.** In contrast, **ineligible expenditure[6] registered an increase** of more than 64.5% **to become the largest category of** infringements.

With financial audits, the most frequently violated legislation is the Act on Accounting[7]. In the period under scrutiny, this applied in more than 48% of cases.

6 This category includes ineligible expenditure in individual projects, ineligible projects and ineligible beneficiaries.
7 Act No 563/1991 Coll., on Accounting.

A.2 LEGALITY AUDITS AND PERFORMANCE AUDITS IN THE FIELD OF EU BUDGET EXPENDITURE

The following paragraphs of this subsection contain information from audit reports that are relevant to the area of EU budget expenditure. The results of legality audits and performance audits are described here.

In the period under scrutiny, a total of eleven audits fell under this category.

A.2.1 COHESION AND COMPETITIVENESS

The SAO's audit work focused on examining expenditure intended to support cohesion and competitiveness projects, which are traditionally the largest group of audits related to the EU budget. Eight audits fell under this audit category in the period under scrutiny.

Audit No 20/14 – ***Public transport using electric power supported from the Transport 2014-2020 Operational Programme***

The aim of the audit was **to check whether Operational Programme Transport (OP T) funds intended for the support of public transport using electric traction in cities were provided and used effectively, efficiently and economically.** The audit focused on the completeness of applications for support, including the documentation showing the projects' compliance with the urban transport concept, the projects' preparedness for implementation and the progress of project implementation.

Audit No 20/14 examined the conceptual, management and control work of the Ministry of Transport (MoT) in the audited area and the procedure followed by beneficiaries when preparing and implementing projects.

A similar issue of rail-based construction projects was dealt with in previous years by audit No 14/32[8].

At the systemic level, the audit focused on the calls for applications for support under specific objective (SO) 1.4 of OP T; projects' compliance with the urban transport concept; project evaluation; project selection criteria; fulfilment of SO 1.4 indicators; the issuing of legal documents granting support; and the costs of tram track construction. **At the systemic level, the entire allocation of CZK 11,700 million was audited. At the project level, funds worth CZK 1,423.30 million were audited.**

With regard to the support beneficiaries (the audited statutory cities and transport enterprises), the audit also focused on procurement. **At the level of beneficiaries, 12 projects were audited. Total expenditure on these projects amounted to CZK 4,076.43 million, with eligible expenditure totalling CZK 3,542.63 million.** As of 31 October 2020, an amount of CZK 1,423.30 million had been paid out of OP T on these projects.

DEFICIENCIES IDENTIFIED BY THE SAO

The SAO found that the **invested funds contributed to the partial achievement of the desired objectives, but the actual contribution is difficult to assess. The MoT did not put in place support evaluation indicators that made it possible to assess the actual benefits of the support provided.** In the programme documents the MoT set indicators assessing the outputs of the support solely in terms of technical parameters, i.e. fulfilment of the expected number of new facilities and the length of new lines in kilometres. These indicators, however, will not enable the MoT to judge whether the support has increased the use of public transport to the detriment of car transport, reduced pollutant emissions, improved the quality and speed of connections or met transport needs in cities.

8 Audit No 14/32 – Funds intended for the construction of route A of the Prague metro.

The MoT plans to evaluate the achievement of the objectives and benefits of the support at the end of the programming period by means of an assessment whose details are still being clarified. By acting in this way, **the MoT is not fulfilling its duty to continuously monitor and evaluate the effectiveness and efficiency of spending imposed on budget chapter administrators by Act No. 218/2000 Coll.[9] (the Budgetary Rules) and Act No. 320/2001 Coll.[10] (the Act on Financial Control).**

The utilisation of support is limited by low absorption capacity. Out of the total CZK 11,700 million earmarked for increasing public transport use in cities using electric traction, at least 34%, i.e. CZK 3,944.19 million, will not be invested. This is due to the lack of high-quality projects prepared in advance and to the fact that for the first call for projects the MoT considered an allocation of CZK 5,000 million for the construction of the metro D line for the City of Prague, but here the preparations were delayed and other cities were not able to make use of the available funds in the second call for proposals. As a result of the incomplete absorption of the allocation for SO 1.4, there was a risk that the **support would not contribute to the maximum extent possible to the achievement of the Europe 2020 Strategy objective** aimed at reducing energy use, including congestion and emissions in cities, which formed the basis of the OP T planning.

Scrutiny of project administration revealed that **framework agreements were not concluded with beneficiaries without undue delay,** but only several months after project support had been approved and, in some cases, only after project implementation had been completed. As a result, the beneficiaries had to find ways to cover the expenditure themselves before it was paid out. That was despite the fact that the calls for applications envisaged ex ante financing of projects.

PROPOSALS AND IMPLEMENTATION OF MEASURES TO REMEDY IDENTIFIED DEFICIENCIES

The audit report of audit No 20/14 had not been discussed by the Government by the editorial deadline of EU Report 2022.

Audit No 20/18 – ***Funds earmarked for meeting the national targets of the EUROPE 2020 strategy***

The aim of the audit was **to verify whether funds for the evaluation of progress towards the Europe 2020 strategy objectives were provided and used effectively and whether the work done by the Office of the Government of the Czech Republic (the Government Office) and the MoRD in preparing the documents on the implementation of the national strategic objectives was effective. The SAO investigated whether the activities of the Government Office and the MoRD were effective when:**

- **preparing the documents and monitoring the implementation of the national objectives of the Strategy;**
- **managing the risks of not meeting national targets;**
- **methodically defining and following procedures for assessing the contribution of the ESIF to the national objectives and providing related analytical information.**

In previous years, issues related to the Strategy have been covered by numerous audits.[11]

Audit No 20/18 focused both on the design and operation of the MCS and on the control of the relevant project.

9 Act No 218/2000 Coll., on Budget Rules and on Amendments to Related Laws (Budget Rules).
10 Act No 320/2001 Coll., on Financial Control in Public Administration and on Amendments to Related Laws (Act on Financial Control).
11 It was mainly audit No 16/13 – Funds spent on development of education in the Czech Republic, No 17/15 – State funds earmarked for research, development, and innovation, No 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, No 17/26 – Funds earmarked for the measures of cooperation within the Rural Development Programme CR 2014 -2020, No 18/06 – Support for the promotion of research and development for innovation provided by the OP Enterprise and Innovations for Competitiveness, No 18/28 – Funds earmarked for the implementation of the measures of the 2014-2020 operational programme Employment to increase employment and adaptability of the workforce, No 18/33 – Subsidy from the operational programme „Prague – Growth Pole of the Czech Republic“ provided for promoting social inclusion and combating poverty, No 19/19 – Funds from the EU and state budget allotted for common education of pupils, No 19/23 – Support for employment of people over 50 and for the policy of positive ageing from the Operational Programme Employment, No 20/05 – Support for energy savings in public buildings, No 20/06 – State funds earmarked for public universities and No 20/19 – Measures aiming at reducing energy performance of residential buildings supported from the Integrated Regional Operational Programme and from the New Green Savings Programme

The audit examined the work done by the Government Office and the MoRD in connection with the preparation of documents and information on the achievement of the national Europe 2020 objectives and the money spent by these bodies on providing analytical information on the ESIF's contribution to the achievement of the Europe 2020 objectives.

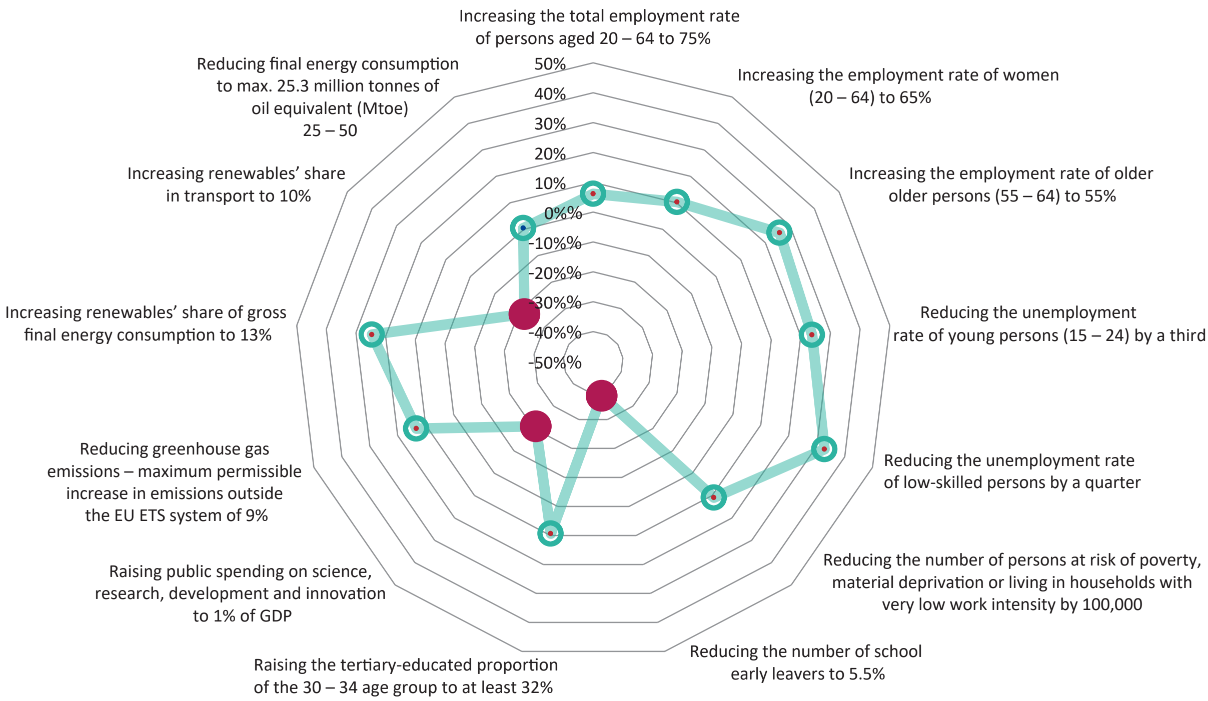
The audited volume of funds at the systemic level amounted to CZK 386 billion. This amount corresponds to the ESIF funds paid to beneficiaries as at 31 December 2020.

Further details on audit No 20/18 and on the whole issue of Europe 2020 and its auditing in the Czech Republic are also provided in the SAO's Summary Report on the Implementation of the National Objectives of the Europe 2020 Strategy12.

DEFICIENCIES IDENTIFIED BY THE SAO

Some of the national targets set for the Europe 2020 Strategy were not ambitious enough, which relativizes the successful achievement of the target values for most of the objectives. The Government Office did not take any significant steps to adjust the values of the targets to reflect the Czech Republic's favourable economic development.

Diagram 1: Rate of achievement of the Europe 2020 national objectives/sub-objectives



Source: National Reform Programmes 2014–2020.

Note: Sub-objectives for which the Czech Republic failed to achieve the set target values are marked in red.

12 See https://www.nku.cz/assets/publikace-a-dokumenty/ostatni-publikace/souhrnna-zprava-strategie-evropa-2020.pdf

The Government Office, as the national **coordinator of the Strategy, did not have the necessary legal mandate to coordinate economic policy instruments** in order to prevent non-fulfilment of national targets.

The Government Office did not use the appropriate MoRD methodology to evaluate the ESIF's contribution to the achievement of the Europe 2020 Strategy's national objectives, nor did it secure the necessary information for most of the objectives in any other way.

To evaluate the contribution of the ESIF to the objectives of the Strategy, the **Government Office obtained funds from OP Technical Assistance, but it spent the money on econometric studies with a different focus. The MoRD, as the provider of the public money, did not take issue with this use of funds. The SAO assessed the activities of the Government Office and MoRD in providing information on the ESIF's contribution** to the Strategy's objectives as ineffective. The results of the audit pointed to deficiencies which the SAO assessed as indicating a **breach of budgetary discipline.** Consequently, **a submission was sent to the tax administrator quantifying the shortcoming's value at CZK 1.35 million.**

PROPOSALS AND IMPLEMENTATION OF MEASURES TO REMEDY IDENTIFIED DEFICIENCIES

The SAO recommended that when linking a system as complex as the ESIF programmes to higher-level strategies (such as the 2030 Agenda's Sustainable Development Goals), the responsible authorities should focus on:

- defining the strategy's objectives at national level in such a way as to reflect the real situation and ensuring that these objectives are reasonably flexible so that they permit a response to changes in social and economic realities in particular;
- equipping the strategy's coordinator with the necessary competences to coordinate the other actors involved so that its efforts have an effective impact on achieving the strategy's objectives;
- developing sufficiently robust models describing the response of individual objectives to ESIF resources, thereby building an information base for better funding allocation.

The MoRD and the Government Office proposed some corrective measures, with the most practical being those relating to adjustments in the design of PP21+, or those relating to the repayment of money used for a purpose that was not realised. For example, **the MoRD is aware that the above-described gap in the knowledge base for defining or adjusting the ESIF for PP21+ has not yet been satisfactorily bridged.** The MoRD is also aware of the need to acquire this knowledge on the ESIF's contribution to the sustainable development goals (in the context of the 2030 Agenda) in the foreseeable future. **The SAO offered the MoRD and the Government Office examples of good practice, which included models that could be used in this respect.**

Audit No 20/20 – ***Funds from the Enterprise and Innovation for Competitiveness Operational Programme granted to small and medium enterprises for consultancy, marketing, and training and in relation to the Covid-19 pandemic***

The goal of the audit was **to examine whether the provision and use of funds intended for small and medium-sized enterprises** (SMEs) for consultancy, marketing, training and measures in connection with Covid-19 **was efficient and economical and whether it achieved the stated objectives.**

In previous years, similar issues were dealt with in audit No 18/29[13].

The audit scrutinised the system for providing and using funds from the OP Enterprise and Innovation for Competitiveness (OP EIC) that were intended for SMEs for consultancy, marketing and training. Support was provided under the Advisory, Marketing and Training Centres programmes.[14] The SAO also examined the provision of support to SMEs in relation to Covid-19 under the Technology and Innovation Vouchers support programmes.

The SAO audited the procedure followed by the Ministry of Industry and Trade (MoIT) as the managing authority of OP EIC when preparing and providing this support to SMEs. The audit also audited the trade promotion agency CzechTrade, Prague, which drew funds from OP EIC under the Marketing support programme for so-called "internal projects". These funds were supposed to support SME participation in trade fairs.

At the systemic level, funds amounting to CZK 2,316 million were audited, with CZK 414 million audited at the project level (of which CZK 367 million came from the EU budget).

DEFICIENCIES IDENTIFIED BY THE SAO

The MoIT measured the achievement of the support's stated objectives using indicators covering all economically active SMEs, even though the supported enterprises constituted only a small proportion of them (about one per cent of the total number of about 1.1 million SMEs).

After the completion of OP EIC implementation, **the MoIT will not be able to evaluate the benefits of the support provided or the fulfilment of the set objectives** on the basis of the indicators designed in this way.

The SAO found that the **MoIT spent four years preparing the first call for the support programme "Consulting"**; the first projects were not implemented until in 2019 **and only CZK 239,000 was paid out. The monitored programme result indicators increased between 2015 and 2019 without any influence of the support provided under OP EIC. The MoIT did not monitor the actual use of consultancy services or their impact on business activity.**

In the **Marketing** support programme, the MoIT **disbursed CZK 701 million by January 2021. The monitored indicator of overall performance of SMEs accounted for by SME exports has steadily decreased since 2015. It is not possible to show whether and how the support delivered the stated goal of increasing SME exports and international expansion of SMEs.**

The costs of the implementation and administration of "internal projects" under the Marketing support programme, through which **CzechTrade,** the support beneficiary, provides discounted services to SMEs, **are high: they account for 47% of the support funds utilised so far.** In view of the repeated extension of the implementation period for internal projects, the SAO warned of the **risk of a further increase in the share of these costs to the detriment of the SME support itself. This may lead to wasteful spending. The MoIT did not monitor the impact and benefits of the provided services for individual SMEs in terms of their ability to develop and expand onto foreign markets.**

13 Audit No 18/29 – Promoting competitiveness through ICT-supported projects funded under the Operational Programmes Enterprise and Innovation and Enterprise and Innovation for Competitiveness.

14 The aim of the support in these programmes was to improve the competitiveness of SMEs at the start-up stage, to facilitate their access to foreign markets and to increase opportunities for training of employees.

For the **Training Centres** support programme, **the MoIT defined a result indicator with a reporting period of five years. The MoIT put in place an unsuitable method for monitoring the workload of training centres and will not be able to assess the achievement of the objectives** in the field of training and human resources development in the enterprise sector.

At the time of the SAO audit, the provision of OP EIC support for m**easures related to Covid-19** was in the phase of issuing decisions on the provision of subsidies and gradual disbursement of funds. However, it is already evident from the defined indicators that **after the projects' completion the MoIT will not be able to evaluate the extent to which the purpose of the support was fulfilled.**

PROPOSALS AND IMPLEMENTATION OF MEASURES TO REMEDY IDENTIFIED DEFICIENCIES

The MoIT conceded that it had set unsuitable indicators for evaluating the SME support. As the relevant programmes have already been terminated, this shortcoming will be addressed by preparing follow-up evaluations. **The MoIT also stated that result indicators would be linked directly to the supported projects in the new programming period.**

The MoIT declared that it would put in place more meaningful monitoring of the operation of supported training centres and a better system of benefit assessment and better monitoring of projects for the new programming period. The SAO will verify the effectiveness of the proposed measures by means of a follow-up audit.

The MoIT sought to justify the costliness of the administration of CzechTrade internal projects, but at the same time it stated that **it did not recommend further increases in the agency's expenditure on project administration at the expense of SME support.**

Audit No 20/23 – *State budget funds and European funds provided for food aid for the most deprived persons and earmarked to reduce food waste*

The aim of the audit was **to verify whether the Ministry of Agriculture (MoA) and the Ministry of Labour and Social Affairs (MoLSA) provided and whether beneficiaries used state budget and EU funds for food and material aid to the poorest persons, and for measures to reduce food waste, efficiently and effectively so as to achieve the set objectives.**

This primarily involved checking compliance with the obligations of the provider and the programme administrator in defining the subsidy conditions and providing MoA funds under the national subsidy programme and MoLSA funds under the Operational Programme for Food and Material Assistance[15].

Scrutiny of the beneficiaries focused on compliance with the conditions for the use of the subsidy for the collection, storage and distribution of food. Furthermore, the effectiveness, efficiency and economy of spending was examined.

Audit No 20/23 scrutinised the design of the MCS as well as projects.

In previous years, similar issues were covered by audits Nos 18/03[16] and 13/25[17].

At the systemic level, funds of CZK 221.94 million were audited (of which CZK 100.39 million came from the EU budget). EU budget funds were not audited at the project level. From national sources, the use of CZK 101.36 million was examined: the identified shortcomings were quantified at CZK 4.38 million. **The SAO also sent six submissions to the tax administrator, with a total value of almost CZK 1.80 million.**

15 This OP is funded from the EU budget and is directly managed by the European Commission. It is not funded by the ESIF, however.
16 Audit No 18/03 - *Funds provided to non-governmental non-profit organizations*.
17 Audit No 13/25 - *State funds spent on social services of a national or supra-regional character.*

DEFICIENCIES IDENTIFIED BY THE SAO

The audit at the MoLSA found deficiencies in the definition of the support's objectives and in the evaluation of its effectiveness and efficiency.

The MoLSA did not set clearly defined objectives for the support provided under the Operational Programme for Food and Material Assistance. The MoLSA monitors the amount and type of aid provided as well as the number and structure of persons supported. However, the reported values of the monitoring indicators cannot be reviewed due to the anonymity of the persons supported. This set-up does not permit consistent evaluation of the effectiveness and efficiency of the support provided or the impact of the implemented programme.

The MoLSA left the selection of specific persons to be supported and the level of assistance to be provided to partner organisations that distributed the aid. **The MoLSA cannot verify that the support was actually provided to persons in need.**

PROPOSALS AND IMPLEMENTATION OF MEASURES TO REMEDY IDENTIFIED DEFICIENCIES

The audit report of audit No 20/23 had not been discussed by the government by the editorial deadline of EU Report 2022.

Audit No 21/03 – ***State and EU funds earmarked for the promotion of recreational voyages***

The aim of the audit was **to verify whether state and EU funds were provided and used in accordance with the legal regulations and in an effective, efficient and economical manner.** The audit focused on the **MoT's conceptual work** and its procedure for approving and evaluating projects, as well as **on the procedure followed by two beneficiaries when preparing and implementing projects** selected for audit.

The audit covered funds provided from the budget of the State Fund for Transport Infrastructure and, in the case of one project, EU funds provided under OP T. The audit examined the conceptual, management and control activities of the MoT, inter alia in its role as OP T managing authority, and the procedure followed by the support beneficiaries when preparing and implementing 13 projects selected for audit, including Completion of the Vltava Waterway in the section Hněvkovice – Týn nad Vltavou co-financed by the EU.

Because the MoT does not track financial data for recreational boating separately, **the audited funds cannot be quantified at the systemic level.[18] At the project level, funds of CZK 2,772 million were audited** (of which CZK 210.67 million came from the EU budget).

DEFICIENCIES IDENTIFIED BY THE SAO

The SAO found that the **provision and drawdown** of state and EU funds earmarked for the development of recreational boating **were marred by deficiencies that reduced the effectiveness, efficiency and economy** of the use of these funds. **The SAO had already pointed out persistent shortcomings in the conceptual and management activities of the MoT in previous audits.**

The transport department's conceptual documents contain ambiguities and data inconsistencies, which undermines their credibility. The MoT continues to lack a binding basis for waterways development planning. In the field of recreational boating, the MoT has not developed an effective investment management system. **The MoT approved poorly prepared projects with unreliable assessments of their effectiveness. The MoT failed to evaluate projects' actual benefits and the overall results of state and EU financing** for the development of recreational navigation. The MoT did not implement the measures of the Transport Policy of the Czech Republic 2014–2020, with the outlook to 2050, aimed at greening waterborne passenger transport in the Czech Republic. It has no knowledge of the operational and technical condition of the fleet of these vessels.

18 Only aggregated data for waterborne transport are available, which includes waterborne freight transport, which was not the focus of audit No 21/03.

When preparing the projects, the Waterways Directorate of the Czech Republic (the Directorate) did not put in place the right conditions for objective evaluation of their results and benefits, i.e. the effectiveness and efficiency of spending on the projects' preparation and implementation, and nor did the MoT when it approved them. The objectives and expected results of the projects were defined in merely general terms and without measurable indicators that would allow an assessment of the extent to which expectations were met. The shortcomings in project preparation necessitated a large number of changes during their implementation, with a number of negative consequences, including breaches of public procurement law in the case of the project Completion of the Vltava Waterway in the section Hněvkovice – Týn nad Vltavou.

The Directorate prepared projects and the MoT approved them on an individual basis, not as part of comprehensive transport solutions. **Whenever any of the interrelated projects are postponed or left unfinished, there is a risk of reduced efficiency or even ineffectiveness in the use of the funds** spent on partial projects. For example, the efficiency of Completion of the Vltava Waterway in the section Hněvkovice – Týn nad Vltavou is reduced by the failure to date to execute the project to increase the insufficient height of a bridge in Týn nad Vltavou and by the delay in resolving the problematic navigability of the Vltava below the Kořensko lock. **In the project's final monitoring report, the Directorate gave false information on the achievement of the project objectives.**

On the basis of the findings made in the context of audit No 21/03, the SAO submitted notifications to the tax administrator totalling almost CZK 86.72 million.

PROPOSALS AND IMPLEMENTATION OF MEASURES TO REMEDY IDENTIFIED DEFICIENCIES

The Czech government had not discussed the audit report from audit No 21/03 by this report's editorial deadline.

Audit No 21/08 – ***Funds spent in support of social housing from the Integrated Regional Operational Programme***

The aim of the audit was **to check whether support in the area of social housing under the Integrated Regional Operational Programme (IROP) was set up and implemented in such a way as to contribute to ensuring adequate housing availability in the social housing segment.**

In previous years, this issue was addressed in audit No 15/08[19] and above all in audit No 17/02[20].

The audit covered EU funds provided through IROP and funds paid out of the state budget as co-financing. **The audited volume of funds at the systemic level and at the project level amounted to almost CZK 4 billion and CZK 79.80 million respectively (of which CZK 73.10 million came from EU funds).**

The audit examined the fulfilment of the MoRD's obligations as the IROP managing authority when preparing and implementing social housing support, especially its obligations in the area of defining the conditions of support, determining allocations and achieving objectives. At the same time, the SAO used a selected sample of projects to examine the procedure followed by the Regional Development Centre of the Czech Republic (RDC) when selecting, approving and evaluating projects, mainly drawing on data contained in the European funds monitoring system for the 2014–2020 programming period (MS2014+).

19 Audit No 15/08 – *State property and funds allotted to the selected organisational units of the state within the Fire Rescue Service of the Czech Republic.*

20 Audit No 17/02 – *Support of social housing as a part of the social inclusion policy*.

DEFICIENCIES IDENTIFIED BY THE SAO

The SAO found **shortcomings primarily in the areas of evaluation and achievement of the set objectives.**

According to the IROP programme document, **5,000 social housing units were planned to be acquired. The SAO found that with IROP support the acquisition of a maximum of 2,212 units will be supported for the 2014–2020 programming period (PP14+), so the defined outputs of social housing support will not be delivered.**

Although it was clear that **even the originally defined allocation** of funds to support social housing **was not sufficient to provide the necessary social housing, the MoRD reduced the planned allocation by more than a third in 2017.** The reason for trimming the allocation **was the low level of interest among applicants** for support in the calls already held. **The reduction of the total allocation was done by the MoRD without first verifying the effectiveness of the measures being prepared to increase the absorption capacity in subsequent calls.** One of the consequences of this was the fact that 28 substitute projects did not receive support even though they satisfied the support provision conditions. Another reason for the low number of implemented projects was the **frequent withdrawal of applicants from the project,** in many cases after the support had been awarded.

The total allocation for the acquisition of social housing was reduced from the planned CZK 7.5 billion to CZK 4.5 billion, and the audit moreover found that one third of these funds will not be utilised.

The MoRD did not put in place a system for evaluating the impact of the use of acquired social housing on the target group's living conditions **and therefore has not evaluated the support's impact and benefits** for the integration of the supported persons, which is necessary for evaluating whether SO 2.1 has been fulfilled.

The audit also found **deficiencies mainly in the way project evaluation criteria were defined** and in the frequent failure to meet the deadlines set for individual actions.

The SAO's analysis of the substantive evaluation found that **the majority of the projects scored the maximum number of points, and that the criteria chosen for project selection did not allow for a comparison of projects according to their quality.** None of the selected criteria assessed projects in terms of cost per supported unit, bed or person using social housing. **The MoRD did not define any other criterion for giving precedence to projects that would lead to the fulfilment of the programme's objectives at the lowest cost.**

Throughout the entire project administration, neither the MoRD nor the RDC complied with the various set deadlines. The principal factor causing the failure to remain with the total expected time limit for the administration of applications – set at 152 days in IROP – was the time required for obtaining building permits, but the time required for approving the increase in the calls allocation also played a role.

In the case of the audited call, the average time from the closing date of the call to the subsidy decision was more than 252 working days.

During the administration of some project implementation reports, the RDC used non-standard procedures which, although they did not affect the accuracy and completeness of data in the summary reports generated from MS2014+, caused data in the project tabs to be incorrect or out-of-date.

PROPOSALS AND IMPLEMENTATION OF MEASURES TO REMEDY IDENTIFIED DEFICIENCIES

Measures to remedy the identified deficiencies have not yet been proposed.

At the time when the MoRD was designing the support under IROP, the area of social housing was not regulated in a way that clearly defined social housing, including the rights and obligations of the various entities implementing social housing – this was pointed out by the SAO in the context of audit No 17/02. The IROP documentation therefore stated that if legislation on social housing were to come into force during the implementation of IROP, the IROP managing authority would take it into account in the programme documentation.

In 2018, the MoRD was tasked by the Czech government with preparing a draft legislative intention for an act on social housing, but this task was cancelled by the government later that same year, and the area of social housing remains unregulated. The current state of affairs is thus one of considerable uncertainty, in particular for municipalities as regards their role in providing social housing, and this has a negative effect on the level of interest among applicants in acquiring housing units for social housing.

Audit No 21/14 – ***Funds of the Integrated Regional Operational Programme intended to support presentation, protection strengthening, and development of cultural heritage***

The aim of this audit was **to verify whether the selected IROP projects intended for the revitalisation of cultural monuments contributed to the preservation, protection and development of the potential of cultural heritage and whether they were able to meet the programme's objectives in an efficient, economical and legally compliant manner.** The selection of the audited projects considered inclusion on the lists of national cultural monuments or UNESCO World Heritage Sites[21].

The audit covered the provision and drawdown of IROP funds within the framework of the 13th and 52nd call for proposals under SO 3.1 – Improving the presentation, protection and development of cultural heritage intended for the revitalisation of selected heritage sites.

The audited volume of funds at systemic level amounted to CZK 7,906 million (the entire amount came from the EU budget), while at the project level it was CZK 546 million (of which CZK 496 million came from the EU budget).

On the basis of the audit's findings, the SAO submitted two notifications to the tax administrator. The total amount involved in these submissions was CZK 0.10 million.

DEFICIENCIES IDENTIFIED BY THE SAO

The audit **identified deficiencies in the design, management and implementation of SO 3.1** of IROP that diminish the economy and effectiveness of the provided and utilised funding. These shortcomings also undermine the meaningfulness and verifiability of data on the programme's contribution to the use of cultural heritage sites' potential for territories' balanced development bringing positive impacts on local or regional employment and competitiveness. The SAO audit found **breaches of the legal regulations among beneficiaries, with deficiencies consisting in ineligible expenditure in the case of two beneficiaries.**

The IROP managing authority did not put in place a results indicator system that would make it possible measure changes or progress in achieving the programme objectives under SO 3.1. The values of the indicator "number of visits to cultural monuments and heritage institutions that charge an entrance fee" are based on data that do not fully allow monitoring of visitor numbers at the level of the supported heritage sites.

Neither the MoRD nor the RDC detected any use of subsidy funds by beneficiaries for materially ineligible expenditure in the course of project administration. The MoRD and the RDC also failed to comply with the administrative deadlines set for individual actions in their control work.

Due to the average duration of the projects' implementation phase, the SAO flagged up the **risk of some projects not being completed and possible under-utilisation of the support,** as the beneficiaries of nine projects with expected IROP support totalling CZK 545.8 million still had not signed contracts for building and restoration work by 31 December 2021.

21 United Nations Educational, Scientific and Cultural Organization.

The audit report from audit No 21/14 had not been discussed by the Czech government by the editorial deadline of the EU Report 2022.

Audit No 21/35 – ***Funds earmarked for information support for anti-epidemic measures***

The aim of the audit was **to examine the effectiveness, efficiency and economy of funds spent related on information support for counter-epidemic activities, especially in the provision and design of technical "IT solutions" in the event of Covid-19 outbreaks and the related services purchased.**

The audit mainly covered funds paid out of the state budget and EU funds provided through IROP. The audit examined the project entitled Integrated User System for Regional Health Stations, which was implemented by the Ministry of Health (MoH) within the framework of IROP call No 23 – Specific Information and Communication Systems and Infrastructure. The project's purpose was to build a new single and integrated MoH communication system for regional public health stations and to provide a secure technological platform for communication between the MoH and individual public health stations.

The project started on 1 January 2018 and ended on 31 March 2021. **Total project expenditure was CZK 60.81 million, including VAT (of which CZK 45.64 million came from the EU budget).**

DEFICIENCIES IDENTIFIED BY THE SAO

The SAO **found deficiencies in the implementation phase of the project.** According to the original plan, the project was supposed to be completed by the end of 2019, but its **implementation period was extended three times.** The MoH repeatedly asked the managing authority for extensions of the implementation deadline, which prolonged the project implementation period **by 15 months, so the project was only completed after the deadline set by the call.** The extension of the project in 2020 was mainly due to circumstances caused by the epidemiological situation and the related workload of the regional health stations.

The SAO assessed the postponement and non-compliance with the original timetable as inefficient project management, which was a fundamental factor in the state of affairs where **the regional health stations could not use a single integrated communication system for information support for counter-epidemic measures,** which would have greatly facilitated the implementation of the Smart Quarantine service system.

PROPOSALS AND IMPLEMENTATION OF MEASURES TO REMEDY IDENTIFIED DEFICIENCIES

The SAO's audit report did not contain any recommendations in response to findings relating to the use of EU funds.

A.2.2 MANAGEMENT OF NATURAL RESOURCES

Audit No 20/04 – *Interventions to ensure sustainable water quality*

The aim of this audit was **to examine the effectiveness and efficiency of the funding allocated to interventions to ensure sustainable water quality and eliminate anthropogenic pollution.** The scrutinised interventions mainly concerned the implementation of national action plans, the monitoring of water quality and the provision of funds for upgrading water treatment facilities.

The projects were audited at the systemic level, where the financial requirements of and the need for the support (with regard to raw water pollution and poor drinking water quality) were ascertained. **The volume audited was CZK 2,585 million, of which CZK 1,406 million came from the EU budget.**

In connection with the efficiency of spending on ensuring sustainable drinking water quality, the audit at the Ministry of the Environment (MoE) focused on the design of the subsidy programmes and on the two most important projects in terms of cost and the number of inhabitants supplied with drinking water: the Plzeň and Želivka water treatment plants, which were financed out of OP Environment 2014–2020.

For these selected projects, the audit also sought information on the subsequent impact of the modernisation of the water treatment plants on delivering the required drinking water quality. The actual execution of the projects was not covered by the audit.

DEFICIENCIES IDENTIFIED BY THE SAO

In its audit report, the SAO pointed out that **significant amounts of money were being spent on upgrading water treatment plant technologies** to remove hazardous substances from water and ensure the required quality of drinking water. **These investments do not tackle the causes of the pollution, however.**

PROPOSALS AND IMPLEMENTATION OF MEASURES TO REMEDY IDENTIFIED DEFICIENCIES

Czech government resolution No 171 of 9 March 2022 instructed the Minister of Agriculture to implement the measures set out in the ministry's opinion. **The measures proposed by the Ministry of Agriculture were mainly aimed at addressing the causes of pollution,** i.e. they focused on agricultural policy and implementation of the measures of the National Action Plan for the Safe Use of Pesticides in the Czech Republic. **The proposed measures did not, however, concern the selected projects for the modernisation of water treatment plants Plzeň and Želivka or the design of OP En.**

Audit No 20/19 – ***Measures aiming at reducing energy performance of residential buildings supported from the Integrated Regional Operational Programme and from the New Green Savings Programme***

The aim of the audit was **to check whether the audited entities provided and utilised funding intended for reducing the energy consumption of residential buildings efficiently, effectively and in accordance with legal regulations.** The SAO also investigated whether the **supported measures contributed to the Czech Republic's national target of increasing energy savings** in accordance with the Europe 2020 strategy.

The audit verified the formal and factual correctness of selected activities at the MoRD and MoE (the subsidy providers), the RDC and the State Environmental Fund (SEF) (the support administrators). Also audited were beneficiaries of support provided under IROP (in regions outside Prague) and the New Green Savings Programme22 (NGS) (in the city of Prague) carrying out projects that were supposed to contribute to reductions in final energy consumption, i.e. reductions in energy consumption in the household sector, by means of the energy savings.

22 National subsidy title managed by the Ministry of the Environment.

The SAO's audit examined the design and functioning of the MCS of both programmes as well as individual supported projects from the audit sample, with the SAO auditing 14 beneficiaries. **At the systemic level, the audited amount of funds was CZK 10,604.72 million (of which CZK 7,303.39 million came from the EU). At the project level, the audited volume was CZK 60.41 million (with CZK 34.28 million of that coming from the EU budget).**

DEFICIENCIES IDENTIFIED BY THE SAO

The SAO found the **principal shortcomings in the non-fulfilment of significantly overestimated energy savings targets** for residential buildings, which both audited programmes had specified as their programme commitment to contribute to the CR's national energy efficiency target under the Europe 2020 strategy. The IROP and NGS **programmes used only part of the allocation** earmarked for the respective calls, specifically **less than 32%** of the IROP allocation (CZK 11,350 million) and **33%** of the NGS allocation (CZK 1,500 million).

Both programmes reported energy savings, but the values achieved **were low and fell short of the planned programme commitments** as of 31 December 2020. **In the case of IROP,** energy savings were planned to reach 3.1 petajoules (PJ) but in reality, only reached 1.3 PJ, i.e. **41%. For the NGS programme,** the energy savings achieved were even lower: of the planned 2.8 PJ of energy savings for residential buildings, only 0.4 PJ was actually saved, i.e. **just 13.5%.**

A significant reason for the **IROP** commitment not being fulfilled was the **late start of support provision.** The failure to live up to the energy savings commitment was further influenced by **the reduction of available IROP resources** for these measures due to the initial low demand for support in this area. The main reason for the **NGS** commitment not being achieved was also the **late start** of the Apartment Buildings sub-programme and the **lack of interest among applicants** due to the low subsidy rate set in the first call for this sub-programme.

The SAO also looked at how the MoRD and MoE defined the conditions for the distribution of subsidies and how their administration was carried out. The identified **shortcomings occurred in the area of IROP project selection,** where **the MoRD**, in its role as the IROP managing authority, **failed to evaluate** projects according to whether they had the **best ratio between expected energy savings and costs – the MoRD did not set criteria for evaluating project efficiency.** In the case of IROP, **the project administration process was long and demanding.** Approvals took on average 104 days.

Other **deficiencies** were found in the **IROP and NGS methodologies and rules.** For example, **the MoRD did not set clear and comprehensible rules for the time eligibility of expenditure** for IROP beneficiaries. The SAO also noted significant **errors in control and administrative work, especially in the MoE** and **SEF.** One weakness in **the case of the MoE** is the **insufficient control of activities delegated to the SEF** as the administrator of the NGS support. In the case of the NGS programme, the MoE did not impose specific rules on beneficiaries for the selection of contractors, it merely obliged them to comply with the law. Neither the MoE nor the SEF checked how the beneficiaries went about selecting contractors. In the NGS programme, the SAO also found deficiencies in the registration of support in the Central Register of Small-scale (de minimis) Aid.

With one exception, all the beneficiaries audited used the money for its intended purpose and most of them followed the rules and regulations. The SAO found minor shortcomings in several beneficiaries.

PROPOSALS AND IMPLEMENTATION OF MEASURES TO REMEDY IDENTIFIED DEFICIENCIES

In the case of both IROP and NGS, the adoption of measures to address the identified shortcomings – or the implementation of these measures – falls in the period when the process of elaborating the methodology and rules for support provision after 2021 is coming to a head. **The implementation of the measures from audit No 20/19 overlaps with the period when both the new IROP and the successor NGS programme** (New Green Savings 2021+ (NGS21+)) **were being launched.**

The SAO's **recommendation to reassess and re-evaluate the projected energy savings** for residential buildings, as set out in the audit report, **remains particularly relevant for the NGS21+ programme.** The fulfilment of climate targets in the post-2021 period concerns both programmes (i.e. Integrated Regional Operational Programme 2021–2027 (IROP21+) and NGS21+), but support for energy saving measures in residential buildings will only be provided under NGS21+.

Methodology-related measures concern both the MoRD and the MoE. Most notably, **the MoE undertook to adopt appropriate measures** to address the shortcomings detected in the registration of small-scale aid in the Central Register of Small-Scale (de minimis) Aid. The SAO will continue to monitor this process.

A.2.3 SECURITY AND CITIZENSHIP

Audit No 20/10 – *State funds spent on implementation of selected goals of the migration policy of the Czech Republic*

The aim of this audit was to **verify whether the Ministry of the Interior (MoI) spent state funds to achieve selected goals of Czech migration policy economically and efficiently and whether the implementation of the activities and projects contributed to the achievement of the set goals.**

The audit focused on **four thematic areas of Czech migration policy:**

1. free movement of people within the EU and Schengen cooperation;
2. integration;
3. asylum;
4. the external dimension of migration policy.

The SAO examined how the MoI set up and managed four programmes designed to achieve the goals of the above-mentioned thematic areas, as well as selected projects implemented by a total of seven beneficiaries, including the MoI. **Of the four programmes audited, two were co-financed by EU funds** in the area of internal affairs.

The audit covered both EU funding through the Internal Security Fund (ISF) – Borders and the Asylum, Migration and Integration Fund (AMIF) and Czech state budget co-financing in the form of national programmes. The audit scrutinised the programmes' design and management and whether the selected programme goals were achieved. It also looked at the implementation of 27 supported projects[23].

The SAO found deficiencies that undermine the effectiveness, efficiency and economy of spending on projects – most of these deficiencies **should have been identified by the MoI at the stage of evaluating proposals and selecting projects** for support. While the funds spent contributed to the achievement of the stated migration policy objectives, their exact contribution is difficult to assess. Consequently, the MoI, as the budget chapter administrator, cannot fulfil its obligation to monitor and evaluate the economy, efficiency and effectiveness of the expenditure in this area on a continuous basis, as required by Article 39(3) of the Budgetary Rules.

23 The audit sample consisted of seven projects co-financed by the Borders part of the ISF and 20 projects co-financed by the AMIF. The selection of the sample considered the maximum coverage of the most supported areas of migration policy, such as free movement of persons within the EU and Schengen cooperation, integration and asylum. Projects were selected that either had a completion date scheduled for the time of the end of the SAO audit or were a follow-up to an already completed project. The funds spent on these projects amounted to CZK 445.28 million and represented approximately 55% of the total funds spent on the two programmes.

DEFICIENCIES IDENTIFIED BY THE SAO

***Homeland Security Fund* – Borders area**

At the systemic level, **shortcomings** were identified in the **definition of project goals and the setting of monitoring indicators.** The MoI did not link the main goals to sub-goals for some projects, did not set target values for some monitoring indicators and set only output indicators, not result indicators. Consequently, the indicators' meaningfulness in terms of assessing achievement of the set goals was limited. The MoI also approved beneficiaries' monitoring reports late, which delayed the drawdown of funds.

In its audit of seven projects, the SAO rated the **use of funds** in four projects as effective with minor deficiencies and in **two projects as effective to a limited degree.** For one project, it did not perform an evaluation as the project was still ongoing.

The SAO assessed the **efficiency** of spending in **three projects** as **limited** and did not evaluate four projects as they were still ongoing.

Asylum, Migration and Integration Fund

At the systemic level, the results of the audit revealed additional weaknesses over and above the findings in the ISF case above. The **MoI did not require beneficiaries to monitor feedback on the integration and asylum services provided,** which would have enabled an assessment of the projects' concrete benefits for clients. For projects aimed at funding centres to support the integration of foreign nationals, **the MoI did not monitor the average cost of an activity** (e.g. a Czech language course) **per client and did not compare costs between projects. Beneficiaries** gave a planned budget for project activities in their support applications, but **were subsequently not obliged by the MoI to track the actual costs** of these **activities**, which would then have allowed the MoI to assess their impact on the budget and project goals.

In the audit of a sample of **20 projects, the SAO assessed the use of funds** as effective in three cases, effective with minor deficiencies in 12 cases and merely effective to a limited degree in three cases. In the case of two projects, the evaluation was not carried out due to the early stage of these projects' implementation.

In terms of efficiency, one project was rated as efficient, nine as efficient with minor deficiencies, and four as only efficient to a limited degree[24]. For the remaining six projects, the SAO did not carry out an evaluation due to the early phase of their implementation.

PROPOSALS AND IMPLEMENTATION OF MEASURES TO REMEDY IDENTIFIED DEFICIENCIES

The MoI does not plan to announce further calls in the audited programmes due to the expiry of PP14+. However, **it will apply measures to correct** the identified shortcomings **in PP21+ in the context of the follow-up EU financial instruments for migration policy.** The legal basis for these financial instruments had not been approved at the time the corrective measures were set but, according to the MoI, the draft regulation establishing the instruments contains a more sophisticated set of monitoring indicators that are, inter alia, broken down into output and result indicators. The result indicators also cover feedback from project participants. The evaluation process for expenditure on projects co-financed by the EU will be designed by the MoI to comply with the provisions of Article 39(3) of the Budgetary Rules.

In the case of the project with limited efficiency (see footnote 24), the MoI reduced the unit price per pupil/student via negotiations with the beneficiary. This reduced the total project expenditure from CZK 6,165,000 to CZK 5,530,000.

The SAO will monitor the implementation of measures to remedy the identified shortcomings.

24 An example of a project that was efficient only to a limited degree was an ongoing project aimed at raising majority society's awareness in the area of integration of foreigners from third countries, where the target group was 8th and 9th grade primary school pupils and secondary school students. The main content of the prepared workshops was supposed to be a game centred on common misinformation. The cost per targeted pupil/student approved by the MoI was CZK 2,500. The SAO assessed that price as high in view of the fact that the support does not directly target foreigners, but it is a cost per member of the majority society. The SAO therefore considers that the costs represent a significant risk of inefficiency in the project and is not proportionate to the benefits for achieving the programme goals.

A.3 FINANCIAL AUDITS LINKED TO EU BUDGET FUNDS

As a rule, financial audit focuses on verifying the closing accounts of state budget chapters, book-keeping and financial statements, and verifying the accuracy of the data submitted for assessment of the state budget implementation. This entails checking the findings' compliance with the law, and in particular Act No 563/1991 Coll., on Accounting, Decree No 410/2009 Coll., implementing certain provisions of Act No 563/1991 Coll., on Accounting, as amended, for certain selected accounting units, the Czech Accounting Standards for Certain Selected Accounting Units, Decree No 323/2002 Coll., on Budgetary Composition, and Decree No 419/2001 Coll., on the submission of data for the preparation of the draft state closing account. Compared to legality audit or performance audit, FA has its own specific features and the nature of the audit findings is also different.

The remaining two audits of the period under scrutiny that were also at least partly related to EU budget funds come under the FA category.

Audit No 20/25 – ***Closing account of the state budget chapter "Ministry of Justice" for the year 2020, financial statements of the Ministry of Justice for the year 2020, and data submitted by the Ministry of Justice for the evaluation of the state budget implementation for the year 2020***

This audit was carried out as an **interim financial audit,** where the audited entity had the opportunity to respond to the risks identified during the audit. The audit's aim was **to check whether the Ministry of Justice (MoJ) complied with the relevant legal regulations when drawing up the closing account, keeping accounts, preparing financial statements and submitting data for the assessment of the state budget implementation for 2020.**

The closing account of the MoJ chapter, the ministry's accounts, financial statements and data for the assessment of the state budget implementation for 2020 were audited. Compliance with the aforementioned legal regulations was also examined, as well as compliance with other legislation using a selected sample.[25] The SAO also evaluated the measures taken to remedy the shortcomings identified in audit No 16/08[26].

As part of audit No 20/25, the SAO also verified the correctness of reported data linked to EU funds. These were mainly Community programmes and also the EEA/Norway Financial Mechanisms 2014–2021.

DEFICIENCIES IDENTIFIED BY THE SAO

The SAO found no significant deficiencies linked to EU funds in the sample.

Audit No 20/34 – ***Closing account of the state budget chapter "Ministry of Industry and Trade" for 2020, financial statements of the Ministry of Industry and Trade for 2020, and data submitted by the Ministry of Industry and Trade for the evaluation of the state budget implementation for the year 2020***

The aim of this **interim FA** was to **examine whether the MoIT complied with the relevant legal provisions when preparing closing accounts, in its accounting and financial statements, and when submitting data for the assessment of the 2020 state budget implementation.** Using a selected sample, compliance with other legal regulations (see footnote 25) was checked. The SAO also evaluated the measures taken to correct the deficiencies identified in audit No 16/25.[27] As part of audit No 20/34, the SAO also verified the **correctness of reporting data linked to EU funds.** These were mainly **OP EIC funds and funds provided in the form of financial instruments**[28]**.**

25 Above all, Acts No 218/2000 Coll., on budgetary rules and on the amendment of some related laws (budgetary rules), No 219/2000 Coll., on the property of the Czech Republic and its conduct in legal relations, No 340/2015 Coll., on special conditions for the effectiveness of certain contracts, publication of these contracts and the register of contracts (Act on the Register of Contracts), No 320/2001 Coll., on financial control in public administration and on the amendment of certain laws (Act on Financial Control), and related implementing decrees.

26 Audit No 16/08 – Financial statements of the Ministry of Justice for 2015.

27 Audit No 16/25 – Closing account of the state budget chapter the Ministry of Industry and Trade for the year 2015, their financial statements and data for 2015 submitted for the assessment of fulfilment of the state budget 2015.

28 A repayable form of support from the state budget and EU budget funds implemented by a financial institution through loans, guarantees and capital inputs.

DEFICIENCIES IDENTIFIED BY THE SAO

In relation to EU funds, the SAO found the following systemic shortcomings with a significant impact on the reported data:

1. Deficiencies that were corrected during and thanks to the FA audit:

- The MoIT incorrectly accounted for CZK 108 million in funds from the terminated Inostart programme, which the MoIT received from the National Fund (MoF, Department 55) in 2017. The MoIT accounted for these funds as deferred income, even though they were transfer income with an impact on the year's profit or loss;

- The MoIT incorrectly accounted for non-existent receivables from the National Fund in the form EU co-financing in the amount of CZK 776 million as at 31 December 2020. This irregularity was not even detected by the MoIT's inventory. The irregularity in question was related to the fact that the MoIT did not reconcile receivables with the National Fund, even though it was a significant item in the accounts.

2. Deficiency that was not corrected:

In data for assessment of the 2020 state budget implementation, the MoIT incorrectly classified expenditure of CZK 1.1 billion related to the implementation of technical assistance projects under OP EIC. The assistance concerned the provision of support to the energy sector (electricity). The MoIT misclassified this expenditure under heading 2124 – Measures to increase the competitiveness of industrial sectors instead of heading 2117 – Electricity.

The SAO recommends modifying the legislation to eliminate cases where the names of headings express the purpose of the expenditure instead of the sector into which the expenditure was channelled.

3. Risk of impact on reporting arising from the absence of separate legislation:

The MoIT reports specific assets in the form of financial instruments co-financed by the EU budget in Account 069 – Other long-term financial assets. From a reporting perspective, these assets are significant (almost 48% of the gross value of assets).

The financial instruments audited by the Supreme Audit Office **are accounting cases on the borderline between transfers, receivables and financial assets. There is no separate account or item for them in the chart of accounts or among the items in the financial statements, which are laid down by Decree No 410/2009 Coll.** Furthermore, there is no separate Czech accounting standard governing the accounting procedures.

Bar some exceptions[29], the procedure followed by the MoIT in accounting and reporting is regarded by the SAO as compliant with the accounting regulations. In general, however, the possibility of other reporting procedures being used cannot be ruled out in such cases, as it will always depend on the evidence provided for the specific facts.

29 Cases where the MoIT did not comply with the legislation in accounting and reporting of FN in some cases:
- The MoIT did not account for some financial instruments transactions on an interim basis, but in aggregate as of 31 December 2020, and did not produce all accounting documents without undue delay after the facts they reflect were identified (impact on interim financial statements).
- The MoIT incorrectly reported CZK 5.77 million in cash in a bank account at a financial institution as long-term financial assets in account 069 instead of account 241 – Current Accounts, even though these funds did not meet the condition laid down in Act No 563/1991 Coll. for reporting as a long-term asset.

PROPOSALS AND IMPLEMENTATION OF MEASURES TO REMEDY IDENTIFIED DEFICIENCIES

In the context of draft measures, **the MoIT responded to most of the identified shortcomings in the area of EU funds that were mentioned in the audit report.** One exception is the SAO's finding concerning incorrect sectoral classification of expenditure under OP EIC. This finding was not accepted by the MIT in its proposal for corrective measures.

A follow-up audit will be required to verify the effectiveness of most of the measures.

A.4 MEASURES TAKEN BY THE CZECH GOVERNMENT TO REMEDY DEFICIENCIES IDENTIFIED BY THE SAO AUDITS

The President of the SAO publishes all audit reports approved by the SAO Board in the Bulletin of the Supreme Audit Office and sends them to the Government of the Czech Republic, the Chamber of Deputies and the Senate of the Parliament of the Czech Republic.[30] In accordance with the government's rules of procedure[31], the audit reports are submitted to the government by its members together with their opinions. These opinions contain comments on the SAO's audit findings, as well as proposals for specific measures to remedy the identified shortcomings. Prior to the session of government, the SAO is informed in writing of these draft opinions, and issues its comments on the proposed measures. In cases where the SAO considers certain corrective measures to be insufficient or has substantive reservations, the discrepancy is resolved with the relevant ministry at various stages of the process. The SAO can thus directly influence the scope and quality of the proposed remedial measures and exert a significant influence on their final form and content. **The SAO monitors progress in the implementation of remedial measures discussed by the government on a long-term and systematic basis and, from 2015 on, evaluates them** in the SAO Audit Information System application. By the end of the period under scrutiny, i.e. by 31 March 2022, the AIS contained data on 92 SAO audits related to the revenue or expenditure side of the EU budget. In the context of these audits, a total of **906 audit findings discussed by the government** were entered in the AIS. For each audit report, the SAO monitors the implementation of the declared corrective measures and assesses the SAO's level of satisfaction with the standard of implementation. The assessment of the remedial measures in terms of the sufficiency of their implementation is categorised into four groups, as demonstrated in the following graph.

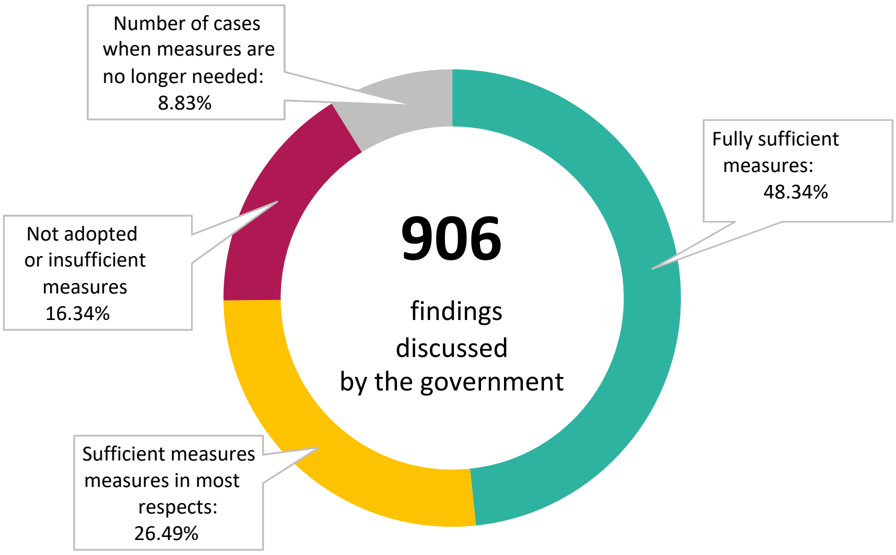
Of the total number of deficiencies identified by the SAO's audit work and subsequently discussed by the government, **438 measures** were adopted **to remedy the identified deficiencies in full** and **240 measures responded** to the identified deficiencies **in most respects. 148 deficiencies** specified in the audit reports **were not acted upon or the measures taken were not considered sufficient by the SAO.** For the remaining **80** deficiencies, **action was no longer required** for a variety of reasons.[32]

30 Section 30(1) of the Act on the SAO.

31 Rules of Procedure of the Government approved by government resolution no. 610 of 16 September 1998, last amended by government resolution no. 145 of 2 March 2022.

32 This includes, for example, measures taken in response to the SAO's findings at the same time as the completion of an on-site audit or cases where the audited entity itself reported an irregularity. This category also includes cases of deficiencies identified in management documents of programmes from the previous programming period which have not been reflected in the current management documents.

Chart 5: Evaluation of the measures taken by the government to remedy the identified deficiencies for the period 2015-2021



Source: AIS, 31 March 2022.

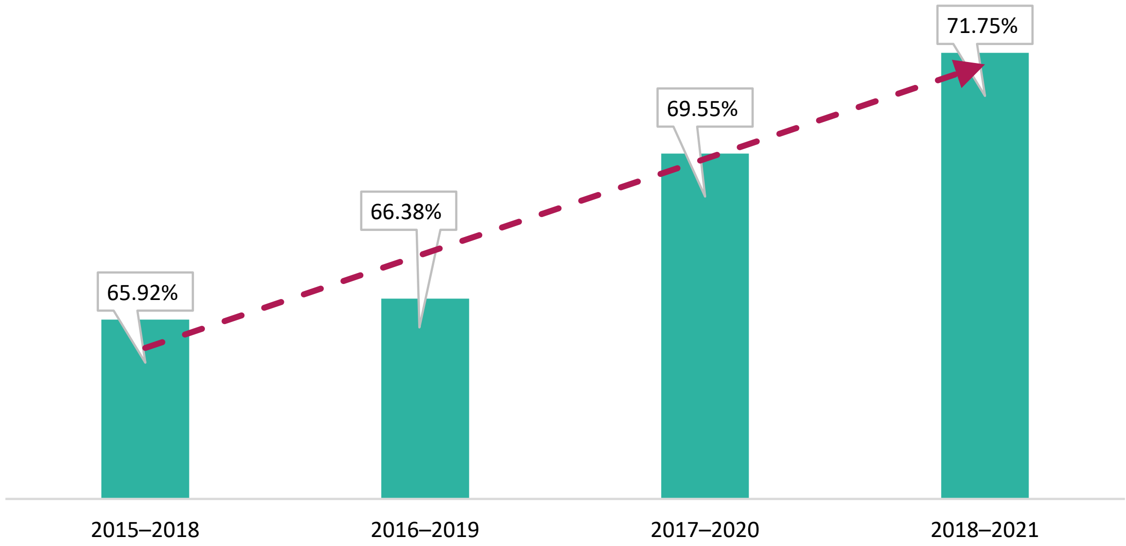
The SAO determines its overall level of satisfaction with the measures taken to remedy the identified deficiencies according to the following formula:

$$\frac{(Number\ of\ fully\ sufficient\ measures\ +0{,}75\ x\ number\ of\ sufficient\ measures\ in\ most\ respects)}{Total\ number\ of\ SAO\ findings}\ x100.$$

The SAO's overall level of satisfaction with the measures taken to remedy the identified deficiencies increased slightly year-on-year (by 0.9 percentage point (p.p.)) and to reach a cumulative rate (since 2015) of 68.21%.

As mentioned above, the SAO has assessed the corrective measures adopted by the government since 2015. Given that the number of audit reports at least partially related to EU budget funds is around 13 per year and the number of audit findings for which corrective action is supposed to be taken is around 130, assessing the SAO's level of satisfaction with the measures adopted and comparing it year-on-year could be somewhat misleading. In order to present this data and evaluate it over time, the SAO grouped the corrective measures into four overlapping four-year periods (2015–2018, 2016–2019, 2017–2020 and 2019–2021), thus substantially eliminating the shortcoming of a relatively small sample size – see the following chart.

Chart 6: Evolution of the SAO's level of satisfaction with the corrective measures adopted by the government to address deficiencies identified in the periods in question (i.e. from 1 April of the calendar year to 31 March of the following calendar year) for the years 2015–2021 (%)



Source: AIS, dates as of 31 March 2022.

Although the time period under scrutiny is relatively short, the chart clearly shows a trend of increasing SAO satisfaction in each overlapping four-year period. While the satisfaction rate was found to be only 65.92% in the 2015–2018 period, in the 2018–2021 period it was 71.75%, which represents an increase of 5.83 p.p. The dashed line in the graph represents the linear regression[33] and demonstrates **a positive trend, where the key outputs of the audits are transformed into substantive measures to remedy the identified shortcomings in the areas under scrutiny. However, only the coming years and audits will show whether the described trend is sustained.**

33 Linear regression is a mathematical method used to represent a set of points on a graph with a straight line.

B. AUDIT ACTIVITIES OF OTHER AUDIT BODIES IN THE CZECH REPUBLIC IN 2021

B.1 OUTPUTS OF THE AUDIT AUTHORITY

For PP14+, the role of the audit authority in EU Member States is laid down in Article 127 – *Functions of the Audit Authority* of Regulation No 1303/2013[34] (General Regulation). In the Czech Republic, this role is fulfilled for ESIF funds (except for the *European Agricultural Fund for Rural Development* (EAFRD)) by the Ministry of Finance, and specifically its Department 52 – Audit Authority. The AA also carries out independent audit activities for the *EEA/Norway Financial Mechanism 2014–2021*[35], AMIF and ISF.

B.1.1 PUBLIC ADMINISTRATION CONTROL AND AUDIT OF ESIF FINANCES

In 2021, the AA focused its activities on audits of operations, audits of systems and audits of OP financial statements in PP14+.

With regard to the fifth year of full audit activity for PP14+, it can be concluded that **the MCS is working effectively and provides reasonable assurance that the statements of expenditure submitted to the European Commission (the Commission) were correct and the related transactions were legal and regular, except in the case of OP EIC.**

For PP14+, the AA's main activities focused on work linked to the annual audit report (AAR) for individual OPs, i.e. both audits of operations and assessment of the functioning of the MCS for individual OPs on the basis of the audits of systems and audits of financial statements for the accounting period from 1 January 2020 to 31 June 2021. While **the audits of operations were focused on the operations' compliance with EU and Czech legislation, with publicity rules, and the adequacy of the audit trail, fulfilment of relevant monitoring indicators etc., systems audits mainly assessed the functionality of the MCS put in place by the respective MAs or intermediate bodies.**

In view of the situation in 2020 and the subsequent declaration of a state of emergency due to the Covid-19 pandemic, the AA amended its *Audit Strategy for 2020 and 2021*. The state of emergency made it impossible to carry out the extent of audit work envisaged in the original Audit Strategy for these years. This change to the strategy was based on Regulation (EU) 2020/558[36]. In order to reduce the extent of audit work in line with the Regulation, *Verification of activities carried out by the NCA under the 2014–2020 programming* period was postponed until 2021, when it was successfully carried out. In addition, a milestones audit was carried out in 2021 using a questionnaire-based survey as part of the scrutiny of the systems of OPs. The audit of the Paying and Certifying Authority (PCA) entitled *Verification of activities carried out by the PCA under the 2014-2020 programming period (Key Requirement 9–13)* remained postponed until 2022. In this context, a general update of the auditors' tasks for 2020 to 2022 was performed, including the schedule of auditors' tasks for the current and the two following accounting periods.

34 Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund, laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006.

35 The Financial Mechanism is not part of the EU budget.

36 Regulation (EU) 2020/558 of the European Parliament and of the Council of 23 April 2020 amending Regulations (EU) No 1301/2013 and (EU) No 1303/2013 as regards specific measures to provide exceptional flexibility for the use of the European Structural and Investments Funds in response to the COVID-19 outbreak.

Complete audit work for all OPs was carried out in 2021. The **AA conducted a total of 404 audits in 2021, with 388 operational audits,** 13 system audits and three financial statement audits, covering the ten OPs (ESIF), the *National Programme for Internal Security and the Asylum, Migration and Integration Fund.* The figures for each OP, further broken down into system audits, operational audits and financial statement audits, are given in the table below.

Audits of operations involving expenditure reported to the European Commission for the given accounting period are based on a representative sample and draw on statistical sampling techniques.

Detailed information on the audit work of the *National Internal Security Programme and the Asylum, Migration and Integration Fund* is given in section B.1.2.

Table 2: Overview of audits performed by AA in individual OPs in 2021

OP	Acronym	System audits	Operational audits	Audit of financial statements**	Audit NCA***
Integrated Regional Operational Programme	IROP	1	31	1	1
OP Enterprise and Innovation for Competitiveness	OP EIC	1	66	1	1
OP Employment 2014–2020	OP Em	1	30	1	1
OP Prague – Growth Pole CR	OP PGP	1	31	1	1
OP Research, Development and Education	OP RDE	1	33	1	1
OP Environment 2014–2020	OP En	1	31	1	1
OP Transport	OP T	1	28	1	1
OP Technical assistance 2014–2020	OP TA	1	20	1	1
OP Fisheries 2014–2020	OP F	1	30	1	1
Interreg V-A Czech Republic – Poland	INTERREG CR–PL	1	29	1	1
Interreg V-A Free State of Bavaria – Czech Republic	INTERREG BY–CR	–	16	–	–
Interreg V-A Free State of Saxony – Czech Republic	INTERREG SN–CR	–	16	–	–
Interreg V-A Austria – Czech Republic	INTERREG AT–CR	–	5	–	–
Interreg V-A Slovak Republic – Czech Republic	INTERREG SR–CR	–	12	–	–
Internal Security Fund	ISF	1	3	1	–
Asylum, Migration and Integration Fund	AMIF	1	7*	1	–
Total		12	388	3**	1***

Source: Application Support of the Audit Authority /ASAA/, April 2022.

Notes:

* Two audits were carried out for Technical Assistance projects. These projects use financial resources from both funds, i.e. from AMIF and ISF.

** As regards AMIF, one audit of the financial statements was carried out for the ten OPs listed above in the table. Audits of the financial statements were carried out separately for AMIF and ISF.

*** Audit Verification of the activities provided by the NCA was carried out once for all the ten above-mentioned OPs.

With regard to the relevant EU regulations and the Commission's methodological guidelines, the annual audit reports and the auditor's opinions for the relevant OPs for 2021 were prepared and sent to the Commission by 15 February 2022 at the latest, except for IROP and OP EIC, for which the AARs and the auditor's opinions were sent to the Commission by 1 March 2022.

The findings from the audit of operations were linked to the results of the system audit and became the basis for defining systemic findings.

The AA assessed the management and control systems of all MAs in terms of their compliance with the requirements set out in the General Regulation, i.e. whether the MCS worked effectively and thus provided reasonable assurance that statements of expenditure submitted to the Commission were correct and the related transactions were legal and regular, and this assessment of the MAs' management and control systems was reported by the AA in its audit opinion.

To evaluate the effectiveness of an MCS, the following categories and corresponding reliability levels of the system are used.

Table 3: Category and corresponding level of the MCS´s reliability

Category	The level of assurance resulting from the system audit	Corresponding level of system reliability
1	Functioning well. Only some minor improvements needed or none.	High
2	Functioning. Some improvements needed.	Average
3	Functioning partially. Substantial improvements needed.	Average
4	Basically, not functioning.	Low

Source: AA, April 2022.

Table 4: Assessments of the MCSs of individual OPs according to performed system audits in 2021

OP	Category of MCS	Findings in total	Gravity of findings		
			High	Medium	Low
Integrated Regional Operational Programme	2	3	0	3	0
OP Enterprise and Innovation for Competitiveness	3	22	3	8	11
OP Employment	1	1	0	0	1
OP Prague– Growth Pole CR	2	1	0	1	0
OP Research, Development and Education	2	4	0	2	2
OP Environment	2	4	0	2	2
OP Transport	1	4	0	0	4
OP Technical assistance	2	1	0	1	0
OP Fisheries 2014–2020	2	8	0	2	6
Interreg V-A Czech Republic – Poland	2	5	0	4	1
Total	-	**53**	**3**	**23**	**27**

Source: ASAA, April 2022.

Unqualified opinions were issued for nine OPs. A qualified opinion was issued for OP EIC due to the high error rate (above 2%) and also because of the category 3 MCS rating.

The volume of audited funds selected by the AA for a 2021 sample for all OPs was approx. CZK 133.93 billion (24.08% of the expenditure reported to the Commission was audited). **Identified ineligible expenditure amounted to approx. CZK 73.99 million, which is roughly 0.89% of the audited expenditure.** Specific data for individual OPs are presented in the table below.

Table 5: Number of audits in individual OPs with findings (with and without financial impact) and without findings for 2021.

OP	Number of Audits	Audits with findings		Audits without findings
		with financial impact	without financial impact	
Integrated Regional Operational Programme	31	10	4	17
OP Enterprise and Innovation for Competitiveness	66	19	8	39
OP Employment 2014 – 2020	30	4	1	25
OP Prague– Growth Pole CR	31	1	1	29
OP Research, Development and Education	33	6	12	15
OP Environment 2014 – 2020	31	8	2	21
OP Transport	28	3	1	24
OP Technical assistance 2014 – 2020	20	0	2	18
OP Fisheries 2014 – 2020	30	4	5	21
Interreg V-A Czech Republic – Poland	29	6	1	22
Interreg V-A Free State of Bavaria – Czech Republic	16	4	1	11
Interreg V-A Free State of Saxony – Czech Republic	16	4	0	12
Interreg V-A Austria – Czech Republic	5	1	0	4
Interreg V-A Slovak Republic – Czech Republic	12	7	0	5
Total	**378**	**77**	**38**	**263**

Source: ASAA, April 2022.

The results of operations audits show that **out of 378 audits of operations carried out, 77 audits identified ineligible expenditure, i.e. the audit had a financial impact on the audited entity. This represents 20.32% of the audited projects.** Another 10.29% of the audits carried out ended with no financial impact on the audited entity and 263 audits were completely without findings (69.39%).

Table 6: Number of findings with financial and no financial impact for audits in 2021

OP	Number of findings	Findings without financial impact	Findings with financial impact
Integrated Regional Operational Programme	36	23	13
OP Enterprise and Innovation for Competitiveness	37	13	24
OP Employment 2014 – 2020	5	1	4
OP Prague– Growth Pole CR	2	1	1
OP Research, Development and Education	36	28	8
OP Environment 2014 – 2020	14	2	12
OP Transport	4	1	3
OP Technical assistance 2014 – 2020	2	2	0
OP Fisheries 2014 – 2020	15	10	5
Interreg V-A Czech Republic – Poland	9	1	8
Interreg V-A Free State of Bavaria – Czech Republic	8	2	6
Interreg V-A Free State of Saxony – Czech Republic	11	3	8
Interreg V-A Austria – Czech Republic	1	0	1
Interreg V-A Slovak Republic – Czech Republic	10	0	10
Total	**190**	**87**	**103**

Source: ASAA, April 2022.

Table 6 reveals that a **total of 190 findings were identified in 2021,** 87 of which had no financial impact and **103 had a financial impact with a total value of CZK 73,986,484.71.**

Table 7: Areas of violation of financing conditions according to audits of operations for all OPs for 2021

Areas of violation	Number	Share (%)	Financial impact (CZK)	Financial impact (%)
01.I Public procurement – contract notice, tender documentation	39	20.53	26,813,859	36.24
01.II Public procurement – evaluation of tender bids	9	4.74	9,670,728	13.07
01.III Public procurement – execution of the contract	9	4.74	15,972,676	21.59
01.IV Public procurement – others	9	4.74	153,489	0.21
02. Public support	1	0.53	242,859	0.33
04. Financial instruments	14	7.37	0	0.00
05. Missing background information or documentation	33	17.37	224,136	0.30
06. Ineligible project	4	2.11	7,417,114	10.02
07. Errors in accounting and project calculation	7	3.68	40,419	0.05
08. Other ineligible expenditure	50	26.32	13,125,013	17.74
11. Information and promotion measures	2	1.05	2,117	0.00
12. Simplified cost reporting	1	0.53	2,772	0.00
13. Sound financial management (3E, sound financial manager)	12	6.32	321,303	0.43
Total	**190**	**100.00**	**73,986,485**	**100.00**

Source: ASAA, April 2022.
Note: Differences in column totals are due to rounding.

Among the most common deficiencies identified by the audits of operations are found in public procurement. These are cases where the contracting authority restricts competition by including items containing references to companies, trade names of products, materials etc. in the contracting notification or tender documentation. Contracting authorities are not permitted to favour or disadvantage certain suppliers or products by specifying technical specifications with direct or indirect reference to certain suppliers, products or patents for inventions, utility models, industrial designs, trademarks or designations of origin.

Another frequent finding is the **inadequate design of internal control systems** (see Section 25(1) of the Act on Financial Control), where the beneficiary did not set up clear and specific approval procedures in its internal directives for preliminary management control of expenditure operations or the representation of authorised persons in the functions of budget manager, operation payments authoriser and chief accountant. As a result, the risk cannot be ruled out that the required ex-ante management control approval procedures were not carried out at all or not rigorously enough by the authorised staff. Vague procedural rules do not make clear who is responsible for the pre-commitment and post-commitment approvals done in the context of the ex-ante management control. There were also **errors in the category of miscellaneous ineligible expenditure,** such as misreporting of payroll expenditure, ineligible expenditure on personnel costs, claiming gross salary compensation, expenditure not conforming to the eligibility rules or ineligible VAT expenditure.

In 2021, the audit authority **identified 34 findings of a serious nature in audits of operations containing ineligible expenditure** (findings exceeding a value of CZK 300,000).

The most serious finding was non-compliance with the provisions of Section 222(1) of Act No 134/2016 Coll., on public procurement, as amended (Act on Public Procurement), where **the contracting authority for the public works contract allowed a substantial change in the contractual obligations under the public works contract, because when re-announcing the tender it failed to react to a significant price increase and prepared the list of works in the tender documentation in ASPE[37] at the level of expert prices in 2017.** The contracting authority clearly did not act with due diligence, because it could have known about the significant price increase for the execution of the contract at the time of the call for tenders. It also could and should have known that changes would have to be made to the subsidy project following this kind of increase in the contract price.

Another significant finding was the **failure to meet the objective of a project, or the objective of the *Energy Savings* programme.** The investment was not completed within the project implementation deadline. For this reason, the beneficiary was not in a position to claim reimbursement. At the same time, the beneficiary failed to prove that the works were carried out according to the tender procedure.

A violation of the Act on Public Procurement (Section 18(2)) was also identified as a serious finding when **the contracting authority did not include the value of all the work and services in the estimated value of the procurement or did not award the procurement in the corresponding legal regime.**

In 2021, the AA also carried out audit work under the European Territorial Cooperation programme (see Tables 4–6).

INFORMATION ON AUDITS OF FINANCIAL STATEMENTS

An audit of financial statements is performed for each financial year and is designed to provide reasonable assurance regarding the completeness, accuracy and truthfulness of the amounts reported in the financial statements. With due regard to these requirements and in order to comply with the 3E principle (effectiveness, efficiency, economy), the results of the system audits carried out by the PCA and MAs and the results of the audits of operations are considered when assessing the financial statements submitted. The results of audits carried out by the Commission and the European Court of Auditors (ECA) are also considered.

System audit No ESIF/2021/U/002 *Audit of the financial statements of ESIF programmes for the financial period 1 July 2020 – 30 June 2021*

The goal of the audit was to verify that all the elements required under Article 137 of the General Regulation were duly presented in the financial statements and were consistent with the underlying accounting records kept by all the competent authorities or bodies and beneficiaries. On the basis of the financial statements provided by the PCA, the Audit Authority checked whether:

1. the total amount of eligible expenditure declared in accordance with Article 137(1)(a) of the General Regulation tallied with the expenditure and the corresponding contribution from public sources shown in payment claims submitted to the Commission for the accounting period concerned and, if there were discrepancies, whether adequate explanations for the discrepancies were given in the accounts;

2. amounts withdrawn and recovered during the accounting period, amounts to be recovered at the end of the accounting period, amounts recovered under Article 71 of the General Regulation and amounts that cannot be recovered, as shown in the financial statements, corresponded to the amounts contained in the accounting systems of the MAs and were based on decisions of the responsible MA or the PCA;

3. where applicable, expenditure was removed from financial statements in accordance with Article 137(2) of the General Regulation and all the necessary corrections were applied in the financial statements for the given financial year;

37 Electronic system used in the construction industry.

4. the amount of programme contributions paid out on financial instruments and the amount of state aid advance payments to beneficiaries tallied with the information provided by the MAs or the PCA.

During the audit of the financial statements, **one finding of low seriousness** was identified.

In accordance with the audit strategy, an *Audit of the effective working of the management and control system and the activities of the National Coordination Authority, including the procedures and activities carried out to comply with Article 123(8) of Regulation (EC) No 1303/2013*, was carried out in the reference period 2021.

System audit No ESIF/2021/S/001

This audit sought to verify and assess the NCA's activities in relation to the ESIF system, and in particular activities carried out by the NCA as part of the system covering the following areas in PP14+:

- management and coordination of OPs at central level with regard to the implementation of the Partnership Agreement;
- monitoring and evaluation of the achievement of the PA objectives;
- communication with the Commission;
- communication strategy, information and publicity relating to the ESIF;
- the administrative capacity of the ESIF;
- single methodological environment;
- termination of programmes for MAs and the PCA.

The audit covered all OPs (including *INTERREG V-A Czech Republic – Poland, but excluding the Rural Development Programme 2014–2020* (RDP14+)). The actual work was carried out remotely. **No findings were identified** in system audit No ESIF/2021/S/001.

Table 8: Overview of statements, projected error rate and values of certified, audited and ineligible expenses for individual OPs for 2021

Název OP	Annual audit report		Audits of operations			
	Opinion	Projected error rate	Opinion	Projected error rate	Opinion	Projected error rate
IROP	Unmodified	1.85%	1,185.72	50.62	4.26	228,739
OP EIC	Qualified	3.37%	1,223.74	468.92	38.32	1,156,940
OP Em	Unmodified	0.12%	344.14	5.08	1.47	2,828
OP PGP	Unmodified	0.00%	84.25	39.80	47.14	184
OP RDE	Unmodified	1.27%	677.71	52.67	7.76	29,665
OP En	Unmodified	1.46%	548.00	42.29	7.72	158,961
OP T	Unmodified	0.02%	937.73	538.88	57.50	68,718
OP TA	Unmodified	0.00%	38.82	10.66	27.50	0
OP F	Unmodified	0.58%	7.23	3.92	54.20	15,415
INTERREGG CR–PL	Unmodified	1.03%	46.03	13.45	29.21	30,468
Total			**5,093.37**	**1,226.29**	**24.08**	**1,691,918**

Source: AA annual audit reports, April 2022.

Legend:
* This amount represents the certified expenditure from which the sample was selected (so-called positive population).
** Amount of ineligible expenditure in a random sample according to annual audit reports.

B.1.2 PUBLIC ADMINISTRATION CONTROL AND AUDIT OF OTHER EU BUDGET FUNDS

The AA **audited the financial statements for the AMIF and ISF** in 2021. The work on the financial statements was completed in time to issue an opinion by the 15 February 2022 deadline. **No findings were identified in these two financial statement audits.**

Based on the audit work carried out, an **unqualified opinion was issued** on the AMIF and ISF financial statements – the financial statements presented a true and fair view and the expenditure that the Commission was expected to pay was legal and regular. The findings identified in the context of the audits of operations were of a formal nature with no financial impact.

In 2021, **system audits were also** carried out **at the responsible authority**[38] (RA), one audit for AMIF and one for ISF. A **total of six findings** were identified **in connection with AMIF, one of medium gravity** and five of low gravity. A total of **five findings of low gravity** were identified **for the ISF.**

Table 9: Evaluation of MCS according to performed system audits for 2021

OP	Opinion	Category of MCS	Number of findings	Findings gravity	
				Medium	Medium
ISF	Unmodified	2	5	0	5
AMIF	Unmodified	2	6	1	5
Total			**11**	**1**	**10**

Source: AA annual audit reports, April 2022.

In 2021, the AO carried out **three audits of ISF operations, five audits of AMIF operations and two audits of operations** for ***Technical Assistance*** **projects** drawing down finances from both these funds.

A total of **three findings with no financial impact** were identified in the **AMIF** audits of operations.

No findings were identified for the **ISF.**

Table 10: An overview of the error rate and values of expenditure, audited and ineligible for individual programmes for the year 2021

OP	Opinion	Certified (CZK)	Audited (CZK)	Sample (%)	Irregularities (CZK)	Error rate (%)
ISF	Unmodified	3,849,955	1,097,639	28.50	0	0,00
AMIF	Unmodified	4,530,586	994,864	22.00	0	0,00
Total		**8,380,541**	**2,092,503**	**24.97**	**0**	**0,00**

Source: AA annual audit reports, April 2022.

38 The responsible authority in the CR for these two funds is the Ministry of the Interior.

INFORMATION ON AUDITS OF FINANCIAL STATEMENTS

Audit of the ISF 2021 financial statements: audit no. ISF/2021/U/001 *Audit of the ISF financial statements for 2021*

The goal of the audit was to verify that all the particulars required by Regulation 513/2014[39] and Article 63(5) of Regulation 2018/1046[40] (Financial Regulation) were duly included in the financial statements and were consistent with the underlying accounting records of the RA and the beneficiaries.

No findings were identified in the audit.

Audit of the AMIF 2021 financial statements: audit no. AMIF/2021/U/001 *Audit of the AMIF financial statements for 2021*

The goal of the audit was to verify that all particulars required by Regulation 514/2014[41] and Article 63(5) of the Financial Regulation were duly included in the financial statements and were consistent with the underlying accounting records of the RA and the beneficiaries.

No findings were identified in the audit.

B.1.3 INFORMATION ON THE STATE OF PREPAREDNESS OF CZECH IMPLEMENTING BODIES' MANAGEMENT AND CONTROL SYSTEMS TO UTILISE THE 2021–2027 PROGRAMMING PERIOD ALLOCATION

Dialogue was conducted between the Commission and the national OP implementation bodies in 2021. It is expected that most OPs will be approved by the Commission in the first half of 2022. From the perspective of the AA's work, it is essential that a description of the MCS is developed in this context as required by Article 69(11) of Regulation (EU) 2021/1060[42] (New General Regulation).

The AA informed MAs about this obligation within the "MoRD-NCA working group" and will request the following documents from the MAs in this context:

- descriptions of the MCS for OP21+ drawn up in accordance with Annex XVI of the New General Regulation;
- overviews of the identified changes between the MCS for PP14+ and the MCS for PP21+, which the managing authorities will provide to the AA in the form of a change table with links to the relevant documentation (operational manuals, internal regulations, documents, handbooks etc.), which will also be subjected to appropriate analysis by the AA.

To this end, the MAs will receive a letter from the AA requesting the above-mentioned documents with a submission deadline of 30 June 2022.

39 Regulation (EU) No 513/2014 of the European Parliament and of the Council of 16 April 2014 establishing, as part of the Internal Security Fund, the instrument for financial support for police cooperation, preventing and combating crime, and crisis management and repealing Council Decision 2007/125/JHA

40 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

41 Regulation (EU) No 514/2014 of the European Parliament and of the Council of 16 April 2014 laying down general provisions on the Asylum, Migration and Integration Fund and on the instrument for financial support for police cooperation, preventing and combating crime, and crisis management.

42 Regulation (EU) No 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and on the financial rules applicable to those Funds and to the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for financial support for border management and visa policy.

On the basis of the MCS descriptions, the AA will draw up an audit strategy in accordance with Article 78(1) of the New General Regulation. **Early preventive system audits** will be conducted on the MAs of operational programmes where significant changes to the MCS are identified or where a new MCS is put in place. The AA expects these audits **to start in late 2022.**

B.2 ECA AUDIT WORK IN RELATION TO THE CZECH REPUBLIC

The European Court of Auditors is the EU's external auditor. Since its establishment in 1977, its mission has been to help improve the management of the EU's financial resources and to help put in place public accountability for EU budget revenues and expenditure through assurance and advice.

The ECA's audit work focuses primarily on assessing the reliability of the Commission's financial statements and the subsequent issuance of the *Statement of* (DAS)[43] (see section B.2.1 and in particular C.1.2), as well as on stand-alone audits, whose results it publishes mostly in the form of special reports. **ECA auditors carry out their audit missions and other investigations both at the Commission itself and its institutions, and in Member States, where they mainly scrutinise expenditure under shared management and specific revenue areas.**

An overview of the audit missions carried out by ECA staff in the Czech Republic in 2021 is provided in Annex 1.

B.2.1 DAS AUDITS

In accordance with the provisions of Article 287(1) and (4) of the *Treaty on the Functioning of the European Union*[44] (TFEU) and Article 258 of the Financial Regulation, the ECA adopted the annual reports for the financial year 2020 at its meeting on 8 and 15 July 2021.

The Annual Report on the Implementation of the EU Budget for the Financial Year 2020 explicitly mentions the Czech Republic in point 3.15. The report states that the Commission examined in detail the systems on whose basis Member States compile their traditional own resources (TOR) statements. **According to the Commission's findings, the Czech Republic is one of four out of the ten examined Member States for which the reliability of the statements was generally satisfactory**[45] (for the remaining six MSs the reliability was rated only partially satisfactory)[46].

The Annual Report also provides a comparison of the status of the absorption of ESIF funds between Member States (boxes 2.8 and 2.9 of the Annual Report). According to this comparison, **by the end of 2020 the Czech Republic had already spent 58% of its allocation** (in the comparable phase of the previous programming period, i.e. by the end of 2013, the figure was just 51%), which **ranks the Czech Republic in 14th place in the EU[47].**

The report also compares the **number of unresolved reservations concerning EU budget revenue** by Member State (see Annex 3.2 of the report).[48] The total number of deficiencies has increased year-on-year from 480 to 587. **The Czech Republic accounts for nine deficiencies, an increase of one third, but 26% fewer per million inhabitants (0.841) than the EU-28 as a whole (1.142).**

43 From French déclaration d'assurance.
44 Treaty on the Functioning of the European Union (consolidated version), Official Journal of the European Union, C 326/47, 26 October 2012.
45 Czech Republic, Germany, Hungary and Poland.
46 Bulgaria, France, Malta, Portugal, Slovakia and Sweden.
47 The 28 Member States, i.e. including the UK (EU-28), are compared here.
48 Open cases on TOR and reservations on VAT and GNI resources.

The ECA assessed the work in the area of economic, social and territorial cohesion policy (Cohesion policy) of 21 audit authorities in 17 Member States, including the Czech Republic[49]. According to the data presented in Annex 5.2 of the Annual Report, **the Czech Republic accounted for 14 out of 200 audited operations in OP14+, but no quantifiable errors were identified** (there were 15 in total for the EU-28). In the area of Common Agricultural Policy (CAP) and Common Fisheries Policy (CFP), the work of the Czech audit authorities[50] was not part of the ECA audit sample.

5.2.2 ECA SPECIAL REPORTS

The ECA presents the results of selected performance and compliance audits in its special reports. The subjects of the audits are specific expenditure areas or an area of the EU budget or its financial management. **In the period under scrutiny, the ECA published a total of 28 special reports, with the Czech Republic featuring in the audit sample in two of the reports below. In a number of others, the CR participated in questionnaire surveys** or was the subject of a desk review as part of a broad audit sample.

Special Report 14/2021: *Interreg cooperation: The potential of the European Union's cross-border regions has not yet been fully unlocked*

Cross-border cooperation is one of the two goals of Cohesion Policy, and has been in place for five programming periods. The Czech Republic is one of 17 Member States where more than 80% of the national territory is eligible for cross-border funding.

This audit was timed so that its outputs could assist in the preparation and more successful implementation of PP21+ and also in the development of a mechanism to remove legal and administrative barriers in cross-border regions.

In this audit, the ECA verified whether the Commission and Member States addressed the problems of cross-border regions in the framework of the Interreg V-A cooperation programmes for internal cross-border cooperation in an effective manner. The auditors examined whether:

- the programme authorities analysed the cross-border effects of projects and, given the scarcity of available resources, prioritised them in terms of importance in order to concentrate the cooperation programmes where they would have the greatest impact;

- the cooperation programmes were designed with a coherent intervention logic and in synergy with the mainstream ESIF programmes of the adjacent regions, including a project evaluation system that allowed the cross-border effect to be measured;

- the Commission's guidance was helpful for cross-border regions to identify their challenges, providing input and assistance, especially in terms of mitigating the effects of the Covid-19 crisis, and for the smooth launch of the new PP21+.

The audit sample included:

- the Commission directorate-general for Regional and Urban Policy (DG REGIO);

- 23 cooperation programmes (involving all 28 Member States),[51] i.e. 43% of EU funding to support Interreg V-A programmes for internal cross-border cooperation and 27% of the total budget of Interreg in PP14+.

49 The audit authority for cohesion policy is the MoF.
50 In both cases it is the Ministry of Agriculture.
51 These programmes also involved the cross-border cooperation programmes Austria – Czechia, Germany/Bavaria – Czechia, Germany/Saxony – Czechia, Slovakia – Czechia and also Czechia – Poland, which is the only one managed by the Czech Republic (specifically the Ministry of Regional Development) and which, as the only one mentioned here, also featured an on-site audit.

The text of the Special Report lists the projects of the Czechia – Poland cross-border cooperation programme among the examples of good[52] and weak[53] practice. This programme is also listed in the special report as an example of good practice in terms of project selection (box 6 of this special report).

The auditors found that, with one exception, all the cooperation programmes they examined were based on analysis of the needs of the regions concerned. However, the financial resources allocated to these programmes only partially addressed cross-border problems.

The examined programmes generally showed a clear link between the proposed objectives, the planned inputs and activities and the intended outcomes and impacts. However, it is often the case that the boundary between cooperation programmes and the main ESIF programmes is not clearly defined. As a result, the same type of operations can be financed under the cross-border programmes as under the mainstream programmes.

The auditors found that:

- for half of the projects examined, cooperation among partners was limited to presenting a common project proposal to secure financing for interventions, and these projects lacked a common identity as a cross-border project;
- project selection procedures did not always lead to the best projects being selected;
- the indicators used did not generally capture the cross-border effect, making it impossible to compare the results with the programme's objectives;
- weaknesses in statistical data affect the evaluation of the co-funded projects;
- problems at the level of the Member States were also related to the delay in adopting the legal framework for PP21+.

Based on the above findings, the **ECA recommended:**

- **to focus the cooperation programmes better** so that projects complement those of the mainstream programmes;
- to prioritise and **award support to projects by ranking them based on merit;**
- **to use indicators that aim to capture the cross-border effect.**

Special Report 2/2022: ***Energy efficiency in enterprises: Some energy savings but weaknesses in planning and project selection***

In this special report, the ECA stated that the auditors assessed the work of both the Commission and the Member States, in particular their planning and use of the European Regional Development Fund (ERDF) and Cohesion Fund (CF) for energy efficiency objectives and to promote efficient and effective projects. The auditors also assessed the monitoring framework and the actual results of co-financed projects.

The ECA examined whether the funds were soundly spent and analysed whether:

- The Commission and the MSs judged the appropriateness of the use of the EU funding in the light of energy efficiency objectives;
- Member States' procedures allowed the selection of efficient projects;

52 *„Cross-border cooperation of police units: all eight police units in the two regions of the cooperation programme applied for funding to increase coordination in combating drug-related crime. Project activities included: the purchase of equipment for revealing drugs (such as spectrometers), common police patrols, joint training for officers, including language training, and information campaigns to teachers and parents on drug substances and equipment used. This project brought the eight police services in closer cooperation, and had a genuine cross-border character. „*

53 *„Revitalising the pavilions of a zoo and the facilities of a tourist attraction: two tourist attractions, one in country around 75 km apart, applied for funding in order to modernise their facilities, and to design a joint marketing campaign. However, the websites of each did not advertise the other's partner establishment and the common ticketing system was implemented, so there was no cross-border character underpinning the project."*

- the results of this funding demonstrate improvements in energy efficiency.

The special report contains information about the number of co-financed energy efficiency projects in Member States. In total, more than 12,000 projects have been implemented in the EU, with the Czech Republic accounting for the largest number (2,682 projects).[54] The audit sample consisted of 198 projects (including 39 projects in the CR) from 41 operational programmes in 16 Member States.

The audit confirmed that it was cheaper to save one unit of energy than to pay for the same amount of electricity, meaning that the **investments were generally efficient.**

The ESIF offered the possibility of co-financing energy efficiency in enterprises without the Commission and the MSs having first assessed the energy efficiency options in enterprises or justified their need for EU funding.

At programme level, the auditors found that the **funding plans were not aligned with the relevant national priorities and did not include a justification for the choice of the funding instrument.** They also found that **individual programmes had their own indicators for measuring energy efficiency improvements and therefore could not be aggregated at EU level.**

The ECA extrapolated the average energy savings expected to be achieved by each euro invested in the projects in the audit sample to the whole database of energy efficiency projects. It was found that the **potential annual savings across all programmes represent approximately 0.3% of the annual saving effort of EU-27 to reach the current energy efficiency targets for 2030.**

The European Court of Auditors recommended that the Commission:

- assess the potential and actual contribution of cohesion policy funds to energy efficiency;
- verify whether the choice of funding instrument is appropriately justified.

B.3 CONFLICT OF INTERESTS

Developments in the issue of Czech political leaders' conflicts of interest[55] were also covered by *EU Report 2021* (see section D.3 of that report). The following text updates previously published information on the evolution of the legal framework and the impact of the Commission's audits on conflicts of interest in the Czech Republic.

B.3.1 DEVELOPMENT OF FUNDAMENTAL LEGISLATION ON CONFLICTS OF INTEREST

Section 3(3)(a) of **Act No 159/2006 Coll., on conflicts of Interest,** provides that **a public official must not jeopardise the public interest by using his or her position or authority or information obtained in the performance of his duties to gain a pecuniary or other benefit or advantage for himself or for another person.** Title three of part one of the Act on Conflicts of Interest provides, inter alia, that a company in which a public official referred to in Section 2(1)(c) of the Act or a person controlled by him owns a stake of at least 25% in the company may not participate in procurement procedures and is prohibited from providing subsidies. According to a parliamentary proposal[56] circulated to deputies in December 2021,

54 State at the end of October 2020.

55 The content of this section is based on the current attempts to resolve the Commission's audits. Given the importance of this issue, the text has been inserted in the EU Report 2022 after the editorial deadline.

56 Parliamentary print 110/0; the amendment to the Act on Conflicts of Interest contains the following proposal in point 9: „Section 4c (1) It is prohibited to provide a subsidy under a legal regulation governing the provision of subsidies or an investment incentive under a legal regulation governing investment incentives to a public official referred to in Section 2(1)(c) or to a legal entity whose beneficial owner is such a public official.“ See https://www.psp.cz/sqw/text/tiskt.sqw?O=9&CT=110&CT1=0.

the wording of Section 4c of the Act is to be amended, because in the current state of affairs it can be concluded that the substantive scope of **the provision does not extend to those cases where subsidies are granted under a regulation other than the Budgetary Rules**[57]. One example is subsidies provided under Act No 256/2000 Coll., on the State Agricultural Intervention Fund and on amendments to certain other acts. The State Agricultural Intervention Fund (SAIF) pays no heed to the issue of conflicts of interest as defined in Section 4c of the Act on Conflicts of Interest. However, subsidies are also granted from other public sources and according to other legal provisions, and not only according to the Budgetary Rules.

If the amendment is approved by the Parliament of the Czech Republic in this wording, this shortcoming of the law will be eliminated.[58]

On 19 January 2021, the Parliament of the Czech Republic passed **Act No 37/2021 Coll., on the registration of beneficial owners** (the Act on Registration of Beneficial Owners) and the Act came into force on 1 June 2021. This Act **replaced part 5 of Act No 304/2013 Coll., on public registers of legal and natural persons and on the registration of trusts.** In response to the ongoing infringement proceedings brought by the Commission against the Czech Republic for the incorrect transposition of Directive 2015/849[59] (AML Directive), the government proposed an amendment to this Act, as the Commission made the utilisation of funding under the *National Recovery Plan: Recovery and Resilience Plan of the Czech Republic* (NRC) conditional on an amendment. **The proposed amendment to the Act on Registration of Beneficial Owners aims to change the definition of beneficial owner along the lines of the AML Directive and to restrict the exemptions for entities deemed not to have a beneficial owner to public entities only** (Article 7 of the Act on Registration of Beneficial Owners). There will no longer be a distinction between the terms “person with ultimate influence” and “ultimate beneficiary”, so the beneficial owner will be any natural person who ultimately owns or controls a legal person or legal arrangement. The Czech Republic has been criticised by the Commission for the redundancy of the so-called ultimate beneficiary element. Information on the nature of the beneficial owner’s status will thus be limited to whether the influence is direct or indirect and whether the beneficial owner is an actual (under Section 4 of the Act on Registration of Beneficial Owners as drafted), surrogate (under Section 5 of the Act) or formal (under Section 6 of the Act) beneficial owner.[60]

Act No 527/2020 Coll.[61] amended the **Act on Budgetary Rules** (Part Eight, Article XVI) so that Section 14(3) of the Budgetary Rules now reads: *“An application for a subsidy or repayable financial assistance may not be entered in the protocol orally. Applications for a subsidy or repayable financial assistance shall include … (e) if the applicant for a subsidy is a legal person: … 2. information on the beneficial owner of the legal person in accordance with the act governing the registration of beneficial owners, in the form of a full statement of the valid data and of data which have been deleted without replacement or replaced by new data, if it is a registrant; where the applicant for a subsidy is a foreign legal person, it shall provide evidence of its beneficial owner either by means of an extract from a foreign register equivalent to the register of beneficial owners or, where no such foreign register exists, by providing the identification data of all persons who are the beneficial owner of the foreign legal person, and shall submit documents showing the relationship of all persons to the foreign legal person, in particular an extract from a foreign register equivalent to the commercial register, a list of shareholders, a decision of the statutory body on the disbursement of a profit share, the articles of association, the founding deed or the statutes.”*

57 The aim of the amendment is to extend the prohibition on granting subsidies and awarding public contracts to all cases where a public official, according to Section 2(1)(c) of the Act on Conflicts of Interest, is the actual owner of the applicant, which is a broader term than control.

58 The proposal in question had not been discussed by the Chamber of Deputies by the editorial deadline of the *EU Report 2022*.

59 Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, amending Regulation (EU) No 648/2012 of the European Parliament and of the Council, and repealing Directive 2005/60/EC of the European Parliament and of the Council and Commission Directive 2006/70/EC (Text with EEA relevance).

60 The amendment to the ESM Act was approved in the first reading by the Chamber of Deputies of the Parliament of the Czech Republic after the editorial deadline of the EU Report 2022 on July 7, 2022.

61 Act No 527/2020 Coll., which amends Act No 253/2008 Coll., on certain measures against the legalization of proceeds from criminal activity and the financing of terrorism, as amended, and other related laws, laws related to the adoption of the Act on register of beneficial owners and Act No 186/2016 Coll., on gambling, as amended.

B.3.2 COMMISSION AUDITS TARGETING CONFLICTS OF INTEREST

Cohesion policy

Quoted from the Commission report published on 9 April 2021[62]:

"In early 2019, the Commission services carried out an audit in Czechia on the system in place to avoid a conflict of interests for operations co-financed under seven ERDF/Cohesion Fund and ESF programmes[63] *for the 2007–2013 and 2014–2020 periods. Following a thorough contradictory procedure, the REGIO*[64] *and EMPL*[65] *joint final audit report of DG REGIO and EMPL was issued in English on 29 November 2019 as per the applicable legal requirements, and in the national language on 5 February. After February 2020, the audit entered into a follow-up stage, where the Commission services monitor the implementation of recommended actions. Since the final audit report was issued, progress has been made to clarify some audit findings (for example as regards the decisive date for the application of Article 4c of the Czech Conflict of Interests Act, which the Commission services accepted to be 1 September 2017, following the decision of the Czech Constitutional Court Pl. ÚS 4/17), to adequately implement audit recommendations (findings nos. 7 to 12, 14, 18, 20, 21 and 22) or to partially address others. The Czech authorities have also brought some improvements in the management and control system to mitigate potential conflicts of interests of public officials.* ***Due to the precautionary measures taken by the programme authorities at the request of the Commission, no expenditure was declared for the operations affected by the audit results and EU funds remain protected from the risks identified during the audit."***

As the Commission's audit did not scrutinise all the subsidies granted to AGROFERT group, the Czech authorities were instructed by the Commission to carry out checks on a further 11 projects that were not audited by the Commission. On the basis of this audit, AGROFERT's subsidiaries have to reimburse EUR 4.6 million to the Commission.

According to a communication from the Minister for Regional Development, on 19 July 2022 the Commission sent a letter to the Permanent Representation of the Czech Republic to the EU[66], stating that it had closed the audit procedure on the conflict of interest. According to this communication, **the Czech side is already complying with the conflict of interest regulations and has implemented all the recommendations.** It is clear from the final letter that the Commission appreciates this progress.

According to this communication, **all subsidy providers are now verifying that public funds are not received by companies controlled by members of the government.** In order to do so, they keep and update lists of companies controlled by members of the government in order to comply with the Act on Conflicts of Interests and the European Financial Regulation on Conflicts of Interests.

Agricultural subsidies from the EU budget[67]

In December 2018, the Commission sent the Czech Republic a notice of the launch of an audit and subsequently the programme for an audit mission on possible conflicts of interests in the area of the use of agricultural subsidies from the EU budget[68]. The audit mission of the Commission representatives took place at the MoA and SAIF from 14 to 18 January 2019.

62 See https://ec.europa.eu/regional_policy/sources/docoffic/official/reports/cz_functioning_report/cz_functioning_report_en.pdf, https://ec.europa.eu/regional_policy/sources/docoffic/official/reports/cz_functioning_report/cz_functioning_report_cs.pdf.

63 *European Social Fund.*

64 General Directorate of the Commission for Regional and Urban Policy.

65 Directorate General of the Commission for Employment, Social Affairs and Social Inclusion.

66 See https://www.mmr.cz/cs/ostatni/web/novinky/konec-mezinarodni-ostudy-evropska-komise-uzavrela.

67 See https://www.szif.cz/cs/auditni-setreni-ek.

68 The aim of the audit was to verify whether there were any irregular payments of subsidies, not only in the narrow time period from 2 August 2018 (when the new Financial Regulation on conflict of interest came into force). The audit focused on the setting up of the conditions and procedures for the provision of RDP subsidies through the SAIF in relation to the applicability of Section 4c of the Act on Conflicts of Interests, effective from 9 February 2017, and at the same time in relation to the Financial Regulation on Conflicts of Interests effective from 2 August 2018.

The Czech version of the final audit report of the Commission was delivered to the Czech Republic on 4 April 2022[69]. On 10 June 2022, the Commission published Commission Implementing Decision (EU) 2022/908 on the audit investigation, which informs about the exclusion of certain expenditure from EU budget financing and the exclusion of the subsidy provided for the project investigated for conflict of interest[70]. In total, according to the Commission, this amounts to approximately EUR 3.3 million, or more than CZK 82 million at the current exchange rate. For the specific project linked to the conflict of interest, the amount is approximately CZK 1.1 million.

B.4 COMMISSION AUDIT MISSIONS IN THE CZECH REPUBLIC

An overview of all Commission audit missions carried out in the Czech Republic in 2020 and 2021, including the relevant Directorates-General, is provided in Annex 2.

69 See https://www.szif.cz/cs/auditni-setreni-ek.
70 See https://eur-lex.europa.eu/legal-content/CS/TXT/PDF/?uri=CELEX:32022D0908&from=CS.

SECTION II.

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

C EU BUDGET AND ITS RELATIONSHIP TO THE CR

C.1 EUROPEAN UNION BUDGET IN 2020

On 25 November 2019, the Council of the European Union (the Council) approved its agreement reached with the European Parliament (EP). This agreement was confirmed two days later by the EP. This successfully concluded the procedure for adopting the EU budget for 2020.

During 2020, the Council adopted eight amending budgets that adjusted the approved budget. One of the reasons was the need to combat the Covid-19 pandemic.

The data sources used to make the graphs in sections C.1.1 and C.2 below were figures published on the Commission's website[71], Eurostat and the MoF.

C.1.1 EU REVENUES AND EXPENDITURE IN 2020

C.1.1.1 REVENUE SIDE OF THE EU BUDGET

The source based on gross national income (GNI) is variable. It has been used since 1988 to make up the difference between EU budget revenues and expenditure so that the budget as a whole is balanced. It is financed from the national budgets of the Member States.

Correction mechanisms are instruments whereby some Member States pay reduced payments to the EU budget. These reductions are mainly intended to compensate for significant budgetary imbalances between EU budget contributions and EU budget receipts or some Member States' non-participation in selected EU policies. The costs of these measures are borne by the other MSs.

Traditional own resources include customs duties collected on imports of products from non-EU countries, as well as sugar levies. TOR are collected on behalf of the EU by the Member States themselves, which pay 80% of the funds thus collected into the EU budget and retain the rest to compensate for the costs of collection.

The VAT-based resource is created by applying a uniform rate to all Member States, which is applied to the harmonised VAT assessment base. The total volume of the harmonised base is limited to 50% of a Member State's GNI.

Other revenue includes revenue from fines imposed for infringements of competition rules or other regulations, income taxes and other levies on staff of EU institutions, or contributions from non-EU countries to EU programmes.

The smallest part of the EU budget's revenue by volume comes from the transfer of the **budget surplus from the previous year.**

71 Mainly https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2014-2020/spending-and-revenue_en.

C.1.1.2 EXPENDITURE SIDE OF THE EU BUDGET

The ***Smart and Inclusive Growth*** budget chapter (policy area) has two sub-chapters. The first, ***Competitiveness for Growth and Jobs*** (Competitiveness), encompasses resources mainly in the areas of research, innovation and technological development, lifelong learning, support for SMEs and the development of transport, energy and digital networks. The ***Economic, Social and Territorial Cohesion*** (Cohesion) sub-chapter covers funds to be invested in building new infrastructure, training programmes and cross-border cooperation, with the aim of strengthening economic, social and territorial cohesion and boosting the growth and development of regions that are lagging behind.

The ***Sustainable Growth: natural resources*** chapter covers expenditure in the areas of agriculture, food, rural development, fisheries and environmental protection.

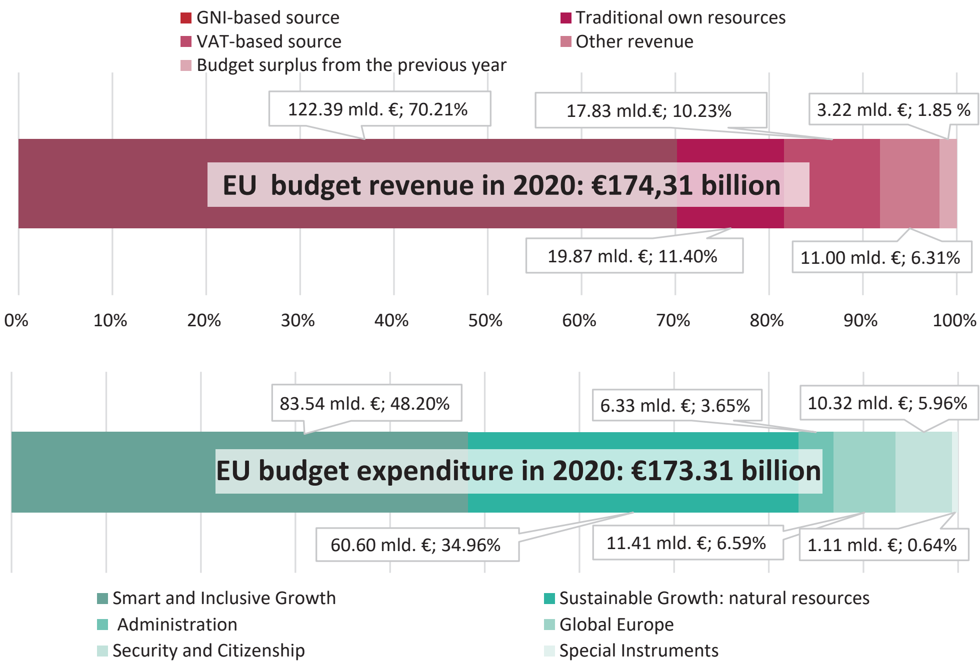
Spending under ***Security and Citizenship*** contributes to fighting terrorism and crime, managing migration flows and creating a common asylum system, as well as protecting EU consumers and promoting European culture.

Global Europe finances the EU's external policy – spending on the EU's cross-border activities, EU enlargement, bilateral relations and humanitarian or development aid.

The ***Administration*** chapter covers expenditure mainly on staff salaries and the management of EU institutions' buildings.

Special Instruments consist of the *Emergency Aid Reserve,* the European *Globalisation Adjustment Fund,* the *European Union Solidarity Fund* and the *Flexibility Instrument.*

Outside the EU budget and the structure of the 2014–2020 Multiannual Financial Framework (MFF) is the ***European Development Fund***, which is intended to finance development cooperation and aid implemented by the EU towards the ACP (Africa, Caribbean, Pacific) group of countries.



Source: https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2014-2020/spending-and-revenue_en, Commission, 2021.

C.1.2 ANNUAL REPORT OF THE EUROPEAN COURT OF AUDITORS ON THE IMPLEMENTATION OF THE BUDGET FOR THE FINANCIAL YEAR 2020

In accordance with Article 287(1) and (4) of the TFEU and Article 258 of the Financial Regulation, the ECA, at its meeting on 8 and 15 July 2021, adopted the annual reports for the financial year 2020, namely the *Annual Report on the Implementation of the EU Budget for the 2020 Financial Year* (Annual Report) and the *Annual Report on the Activities Funded by the Eighth, Ninth, Tenth and Eleventh European Development Funds for the 2020 Financial Year*. These annual reports primarily contain the results of financial and compliance audits in relation to the EU budget and the *European Development Funds,* but also aspects of budgetary and financial management and performance.

The **Declaration of Assurance (DAS)** presented by the European Court of Auditors to the European Parliament and the Council is an essential part of the Annual Report.

The ECA issued an opinion that the **EU's consolidated financial statements for 2020 present fairly, in all material respects, the EU's financial position as at 31 December 2020.** The results of its operations, cash flows and changes in net assets for the year are in accordance with the Financial Regulation and with accounting rules based on internationally accepted accounting standards for the public sector.

Furthermore, the ECA found that the **revenue underlying the accounts for the financial year 2020 was legal and regular in all material respects.**

The ECA also stated that the **estimated overall level of error for expenditure accepted in the accounts for the financial year 2020 was 2.7%, i.e. the same level of error as in 2019. More than half of this expenditure,** i.e. a significant proportion, **was materially affected by error.** This mainly concerns reimbursement-based expenditure, where the estimated level of error was 4.0%. Due largely to a rise in Cohesion spending, such expenditure increased to €87.2 billion in 2020, representing 53.1% of the audited population. The effects of the errors found were therefore both material and pervasive to the accepted expenditure of the year. On this basis, **the ECA issued a negative opinion on the legality and regularity of the expenditure,** concluding that the expenditure authorised in the accounts for the financial year 2020 was materially affected by error.

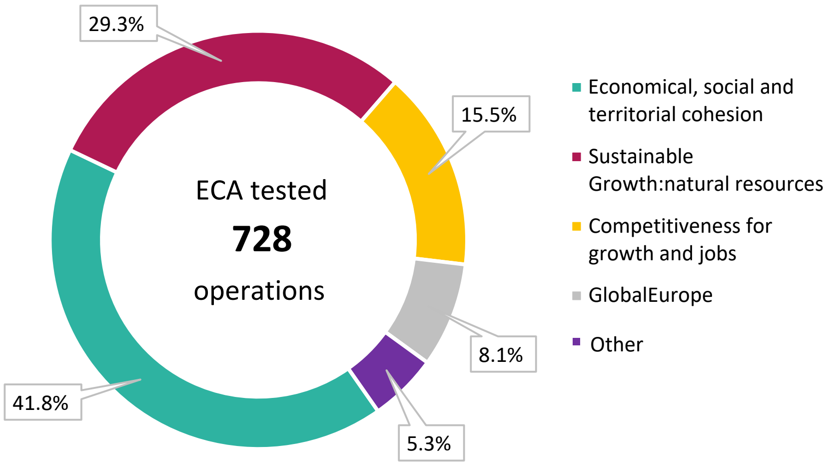
C.1.2.1 REGULARITY OF EXPENDITURE OPERATIONS

In order to assess whether expenditure conformed to the relevant legislation, the ECA selected a representative sample of 728 transactions. These consisted of transfers from the EU budget to the final beneficiaries of EU funding. The testing of these transactions contributed to the statement of assurance and the estimation of the proportion of irregular transactions in the overall audit baseline, in high-risk and low-risk expenditure[72] and in each MFF heading. The representative sample of transactions was selected by the ECA by dividing the baseline of effected transactions into low-risk and high-risk expenditure.[73]

72 See below.

73 On the basis of risk analysis based on the results of past audits and the assessment of the MCS

Chart 8: Share of individual MFF sections on the total error rate (%)



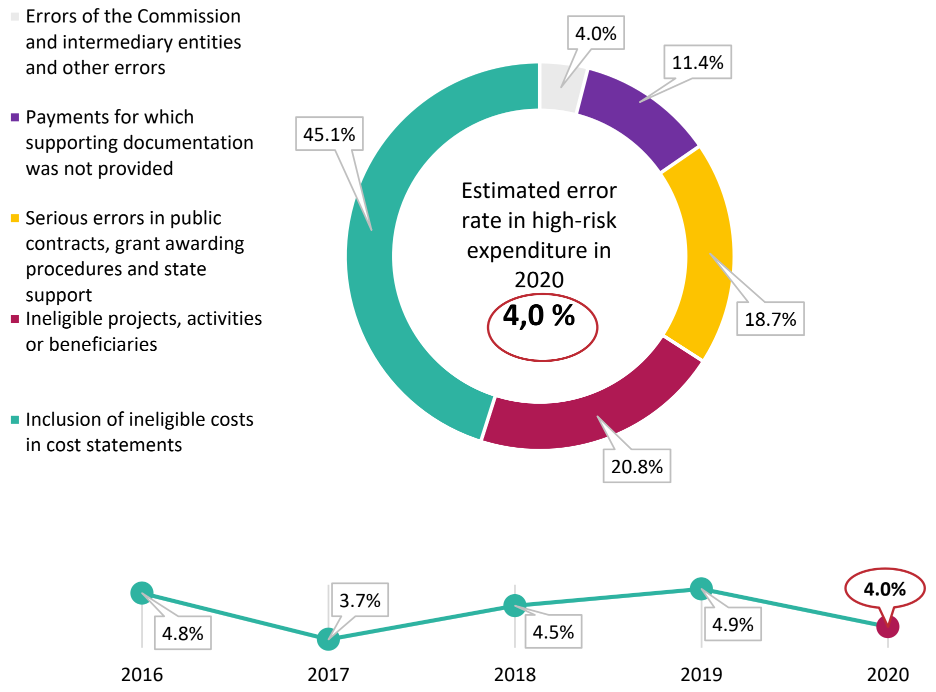
Source: *Annual Report on the Implementation of the EU Budget for 2020, Publications Office of the European Union, 2021.*

The ECA found a **lower risk of error in expenditure covered by simplified rules.** This type of expenditure mainly includes **entitlement-based payments** where beneficiaries have to fulfil certain relatively simple conditions. This type of expenditure includes, for example, direct support to farmers (Natural Resources), student and research scholarships (Competitiveness) and salaries and pensions of EU staff (Governance). Low-risk expenditure accounted for 41% of MFF expenditure in 2020 (€60.6 billion). **Here, the ECA found a level of error below the materiality threshold of 2%.**

In contrast, **in expenditure subject to complex rules** the ECA found a **high risk of error, most notably in reimbursement-based payments** where beneficiaries submit a claim for reimbursement of eligible expenditure incurred. Beneficiaries have to prove that they will carry out or have carried out an activity eligible for support and also provide supporting documents for the eligible expenditure incurred. This category of expenditure includes, for example, investments in regional and rural development (*Cohesion* and *Natural Resources*[74]), research projects (*Competitiveness*) or development aid projects (*Global Europe*). Expenditure with a high risk of error represents 59% of MFF expenditure, equivalent to €87.2 billion (of which *Cohesion* accounts for €48.4 billion, *Natural Resources* €18.8 billion and *Competitiveness* €10.3 billion). The **ECA estimated the level of error rate in this expenditure at 4.0%, which is 0.9 p.p. lower than in 2019. Nevertheless, this value is well above the materiality threshold of 2.0%.**

74 The high-risk areas are rural development, market measures, fisheries, environment and climate action, which account for around 31% of payments under this policy area.

Chart 9: Share of individual types of errors in the estimated error rate of high-risk expenditure in 2020 and its evolution in 2016-2020

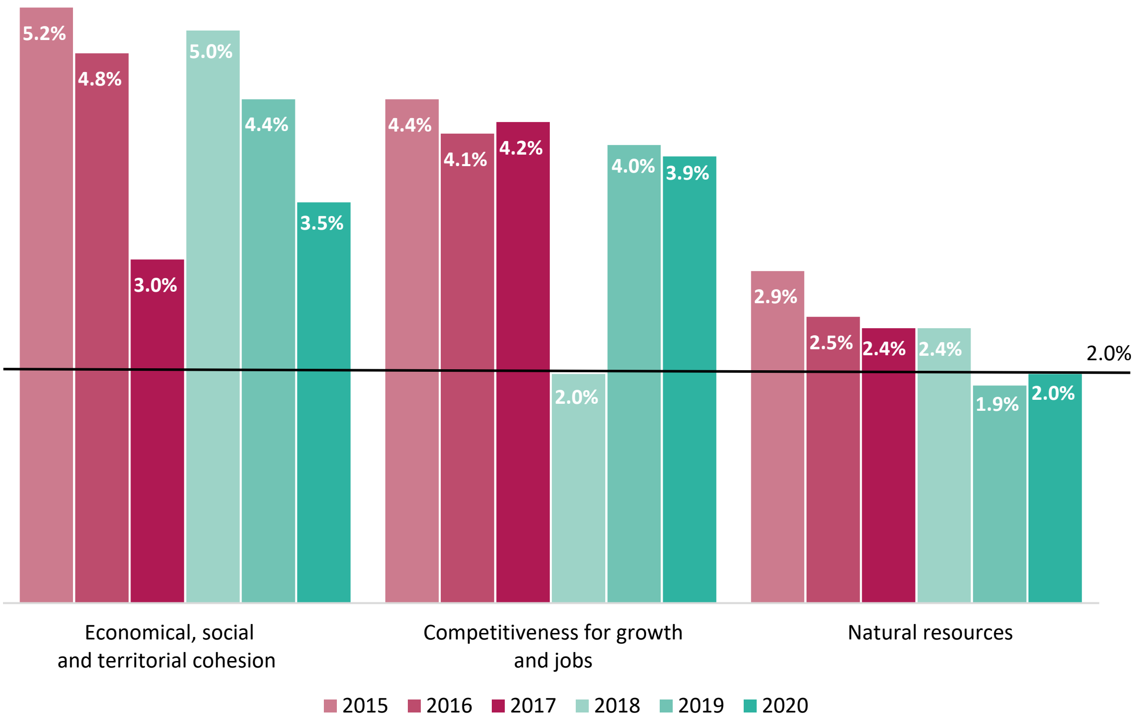


Source: *Annual report on the implementation of the EU budget for the financial year 2020,* Publications Office of the European Union, 2021.

In the case of *Competitiveness*, most expenditure is managed directly by the Commission, including management through the executive (decentralised) agencies. In *Cohesion*, actions are implemented under "shared management"[75]. Although the Commission has responsibility for CAP (*Natural Resources*), management is shared with the paying agencies in the Member States. **In view of this, the SAO is publishing here the ECA's information on the regularity of expenditure operations mainly for the *Cohesion* and *Natural Resources* areas.**

75 The Commission shares the management with the EU Member States.

Chart 10: Comparison of the estimated error rates for EU spending areas 2015–2020



Source: Annual reports on the implementation of the EU budget for the budget years 2015-2020., Publications Office of the European Union, 2016–2021.

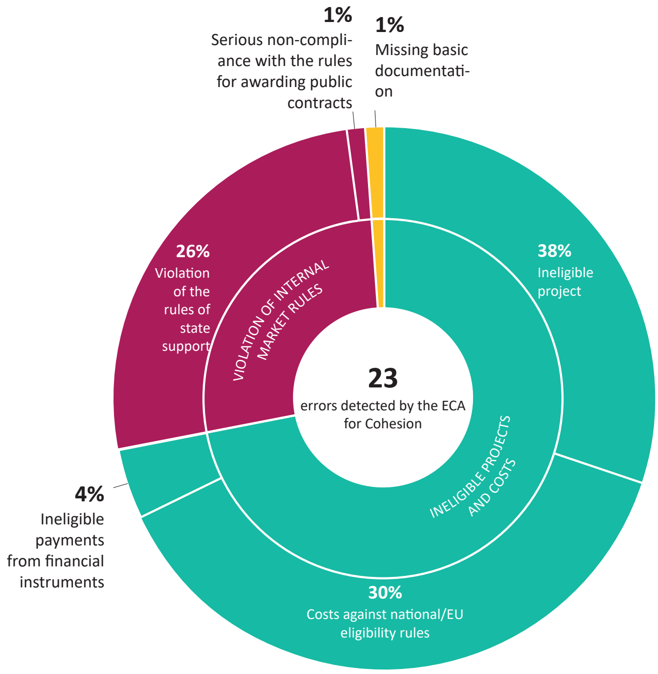
Note: The horizontal line represents the specified significance threshold of 2 %.

Regularity of expenditure operations under the *Cohesion* heading

The aim of this spending is to reduce the differences in the level of development of different Member States and EU regions and to boost the competitiveness of all regions.

The ECA detected and quantified a total of 23 errors in 227 operations that were not detected by the Member States' audit authorities. Considering the additional 64 errors detected by the MSs´ audit authorities, **the ECA estimated the level of error at 3.5%.** Although still far over the materiality threshold, **this represents a decrease of 0.9 p.p. year-on-year.**

Chart 11: Distribution of errors detected by the ECA for the year 2020 in the area of *Cohesion*.



Source: Annual reports on the implementation of the 2020 EU budget, Publications Office of the European Union 2021.

The ECA expressed the view (see point 5.17 of the Annual Report) that *"the number and impact of the errors detected demonstrate that* ***the controls in place do not yet sufficiently mitigate the high inherent risk of error in this area.*** *This particularly concerns managing authorities whose verifications are ineffective for preventing or detecting irregularities in the expenditure declared by beneficiaries. Other errors are the result of decisions taken by managing authorities themselves."*

Regularity of expenditure operations under the heading Natural resources

Natural Resources spending aims to ensure viable food production with a focus on agricultural incomes, agricultural productivity and price stability, sustainable management of natural resources and climate action focusing on greenhouse gas emissions, biodiversity, soil and water and balanced territorial development.

The ECA tested 104 payments in the area of rural development, 87 of which were free from error. **In the case of six payments** the irregularity **had no financial impact.** In the remaining **11 cases the error was quantified,** and in five of them an impact exceeding 20% was found.

The ECA also **tested 88 direct payments.** Of this sample, 76 operations were error-free. **Ten of the quantified errors** in these schemes were due to overestimation of the eligible agricultural area or number of animals by the farmers claiming aid. **In two cases** of direct payments the ECA found non-compliance with the rules, but this did not **have a financial impact.**

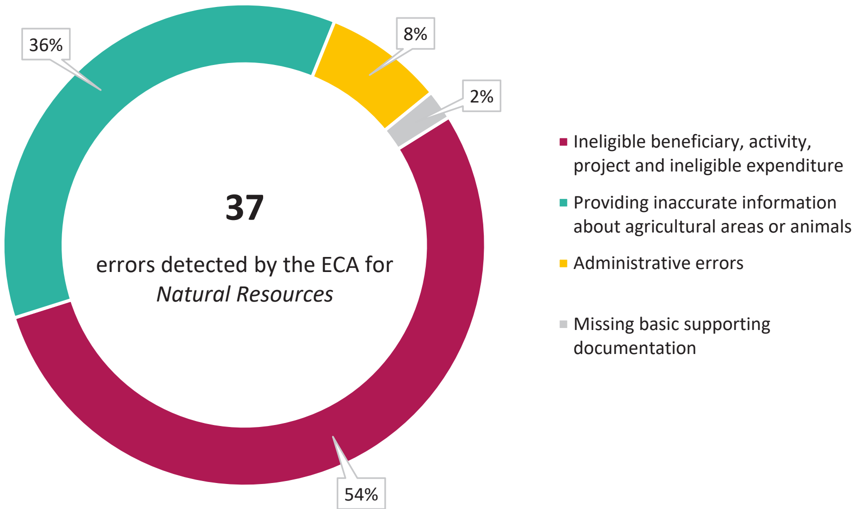
In the case of agricultural **market measures, the ECA tested a total of 16 operations and found three cases** where the paying agencies reimbursed ineligible expenditure. In two of these cases the error exceeded 20%. **In one case,** non-compliance with the rules was found which **had no financial impact.**

Various selection criteria and eligibility conditions also apply to **fisheries, environment and climate action projects. In nine operations, the ECA found one quantified error** arising from the claiming and reimbursement of ineligible expenditure. **In four cases, non-compliance** with the rules **had no financial impact.**

The last operation audited was one repayment to a Member State relating to a previous CAP correction.

The level of error in *Natural Resources* expenditure was close to the materiality threshold. Testing of operations under this MFF policy area (218 operations audited in total) shows that the estimated overall level of error **was 2.0%, 0.1 p.p. higher than in 2019.** The level of error for direct payments, which represent 69% of payments under this policy area, was not material. In contrast, in expenditure areas where the ECA identified a higher risk of error[76] and which account for 31% of payments under this heading, the estimated level of error was material.

Chart 12: Distribution of errors detected by the ECA for the year 2020 in the field of Natural Resources.



Source: Annual report on the implementation of the 2020 EU budget, Publications Office of the European Union 2021.

C.1.2.2 REGULARITY OF REVENUE OPERATIONS

The Commission verifies the GNI in a multiannual cycle. It examines whether the procedures applied by Member States for compiling national accounts are in line with the ESA 2010 framework[77] and whether GNI data are comparable, reliable and exhaustive. The verification cycle in respect of GNI data for own resources, which has been running since 2010[78], was closed by the Commission in 2020 for all Member States except France[79], which increases uncertainty in national budgets and uncertainty in the calculation of future contributions of France and other Member States.

The Commission issued a large number of GNI reservations. With the exception of the reservation on the impact of globalisation on GNI (applying to R&D in multinational companies), **these reservations allow for changes to be made to the Member States' statistical data over a ten-year period.** If an exception were also granted in the area of the impact of globalisation, the reliability, comparability and completeness of Member States' GNI data for the 2010–2017 period would be undermined, and this kind of limitation is not in line with the EU rules on the calculation of the GNI-based own resource.

In its annual activities report for 2020, the Commission's Directorate-General for Budget (DG BUDG) maintained the reservation (for the fifth year in a row) **concerning undervalued imports of textiles and footwear from China between 2011 and 2017. This undervaluation has caused the amount of TOR paid to the EU budget to be incorrect.** Weaknesses persist in the national control systems for the compilation of TOR statements[80].

76 I.e. rural development, market measures, fisheries, environment and climate measures.
77 *The European System of Accounts 2010* sets out a methodology on common standards, definitions, classifications and accounting rules to be used when compiling accounts and tables in a comparable way for EU purposes.
78 With the exception of Croatia, where the period for which data remain open starts from 2013.
79 In the case of France, the verification was delayed due to an unsatisfactory description of the procedures for compiling data in its GNI inventory
80 For example, in the case of the Netherlands, the ECA has been questioning the reliability of the TOR statements since 2013 due to limitations in the customs information system.

Compared to 2019, the number of VAT reservations increased from 95 to 104 (i.e. by 9%) and the number of TOR open points decreased from 356 to 326 (by 8%).

The ECA found that the level of error in revenues was not material. However, both the main internal TOR controls, which the ECA assessed in some Member States, and the closure of the GNI verification cycle, which the ECA examined with the Commission, were only partially effective due to the persisting weaknesses.

In view of the above findings, the ECA recommended:

- that the Commission review and update its approach to verifying Member States' GNI data by the end of 2024 to reduce the period over which GNI data remain open;

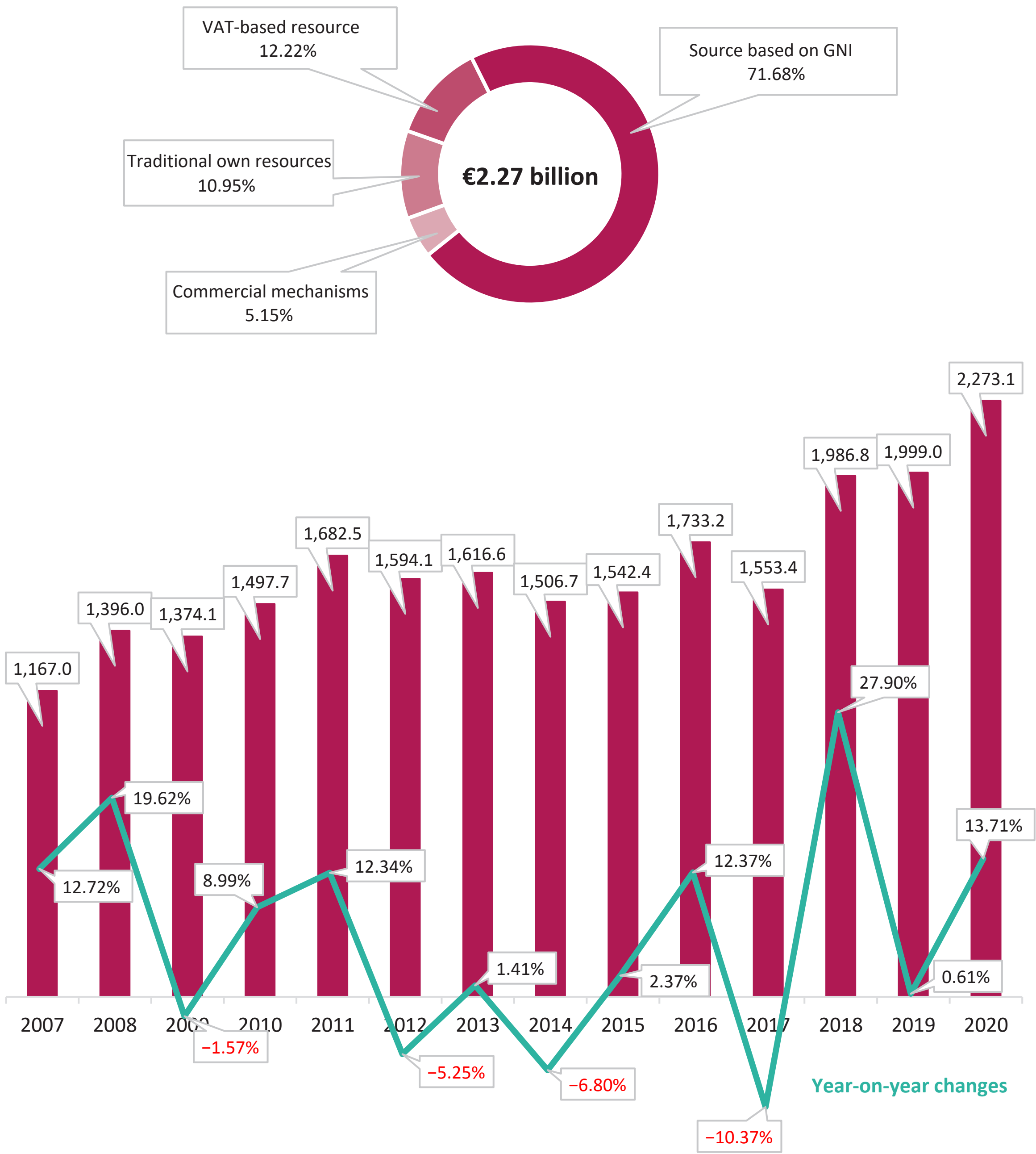
- that further action be taken by mid-2023 to properly address the impact of globalisation on GNI;

- that the Netherlands ensure the reliability of Dutch TOR statements by the end of 2022.

C.2 EU BUDGET AND ITS RELATIONSHIP TO THE CR

At CZK 2,273.10 million, payments made by the Czech Republic to the EU budget in 2020 were the highest ever. This figure represents a year-on-year increase of 13.71% (see bar chart below). The structure of payments for 2020 is shown in the following circular chart.

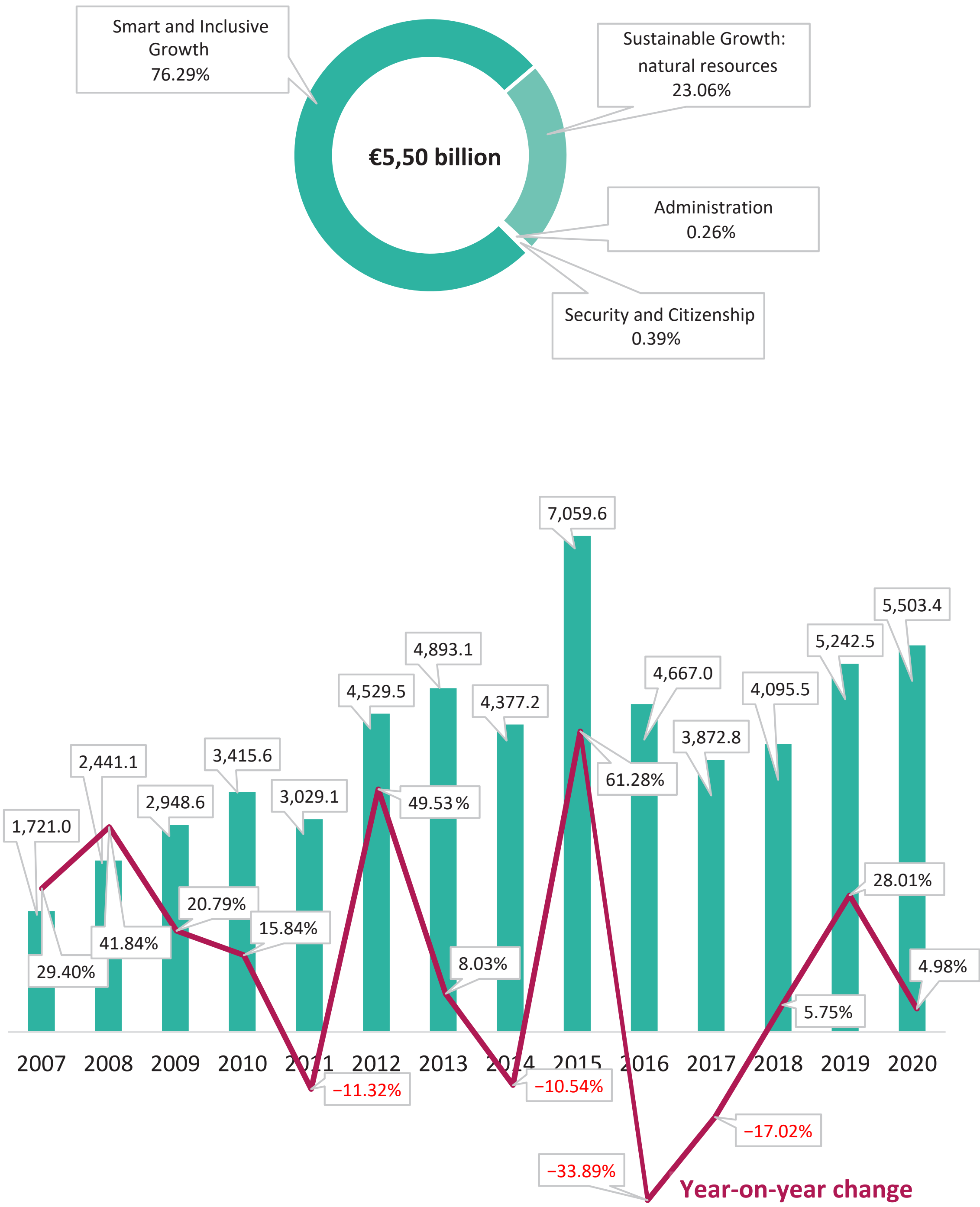
Chart 13: The structure of the Czech Republic's payments to the EU budget in 2020 (in %) and the development of the total amount of these payments (in millions of €) and their year-on-year changes (in %) in the years 2007–2020



Source: https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2014-2020/spending-and-revenue_en, Commission, 2021.

The evolution of the Czech Republic's revenue from the EU budget depends on the phase of the programming period, or more precisely the related intensity of ESIF drawdown (see the following bar chart). This also corresponds to the fact that the **amount of payments from the EU to the CR has been gradually increasing since 2017, reaching €5,503.36 million in 2020.** The revenue structure is presented in the following circular chart.

Chart 14: The structure of the revenue of the Czech Republic from the EU budget in 2020 (in %) and the development of the total amount of the revenue (in million €) and their year-on-year changes (in %) in the years 2007–2020



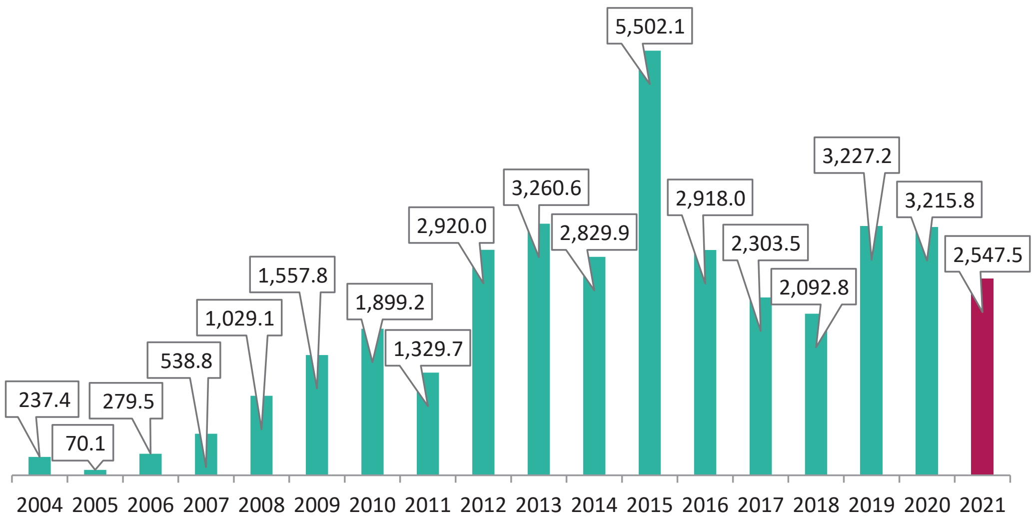
Source: https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2014-2020/spending-and-revenue_en, Commission, 2021.

C.2.1. DEVELOPMENT OF THE CR'S NET POSITION IN RELATION TO THE EU BUDGET UP TO 2021

The Czech Republic is still one of the so-called net beneficiary countries, meaning those Member States that receive more money from the EU budget than they pay in. The difference between receipts from the budget and payments into it gives the value of the net position.[81] For the 2004–2020 period, the CR's net position amounted to more than €35.21 billion (and this is excluding expenditure on the Commission's decentralised agencies and spending on *Administration*).

The CR's net position remained virtually unchanged year-on-year. The CZK 11.41 million decline represents a reduction of just 0.35%. Chart 15 shows the evolution of the net position over the entire period of the Czech Republic's membership in the EU. It is noteworthy that the net position in 2020 (€3,215.78 million) is almost identical not only to the value for 2019 (€3,227.20 million) but also to the value reported for 2013 (€3,260.58 million). Both 2013 and 2020 were the last years of a programming period. And both these years saw a significant decrease in the growth rate of EU budget revenue (see the line graph in chart 14).

Chart 15: The CR's net position in 2004–2020 (with the addition of the MoF data for 2021) (in million €)



Source: https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2014-2020/spending-and-revenue_en, Commission, 2021; press release The net position of the Czech Republic vis-à-vis the EU reached nearly CZK 89 billion in 2021, MoF, 1 February 2022.

NB: The 2021 net position published by the MoF is shown here without the *NextGenerationEU* advance.

Compared to 2019, the Czech Republic dropped from fourth to fifth place in the ranking of net beneficiaries. Larger net positions were held by Poland (€12,276 million), Greece (€5,441 million), Romania (€4,717 million) and Hungary (€4,651 million). Conversely, the largest net contributor in 2020 was Germany (€19,739m), followed by the UK (€13,039m) and France (€10,012m).

Needless to say, this kind of comparison does not consider population sizes, so the SAO converted the net position of all Member States (and the UK) into a per capita value.

81 The net position figures presented below (unless stated otherwise) were calculated from the EU budget as reviewed by the ECA (DAS). The net position is calculated by deducting the total contributions from the MS to the EU budget, including TOR net of the cost of collecting customs duties (20%), from the total revenue of the MS from the EU budget net of the revenue intended to cover administrative costs and the costs of the Commission's decentralised agencies.

Chart 16: Net position per capita in 2020 (€)

Source: https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2014-2020/spending-and-revenue_en, Commission, 2021; Eurostat, 31 March 2022.

By this calculation method the Czech Republic also dropped down the ranking, **falling from seventh place to ninth place in 2020, while the CR's per capita net position fell by almost €2** (down to €300.49). The chart shows that the CR is in the "second tier" of net recipients (on a per capita basis), along with Poland, Slovakia and Portugal. The Baltic republics, Hungary, Croatia and Greece have traditionally the largest net recipients per capita. Unusually, in 2020 this group of Member States was joined by Luxembourg, which is usually a net contributor (after deduction of the *Administration* budget area).

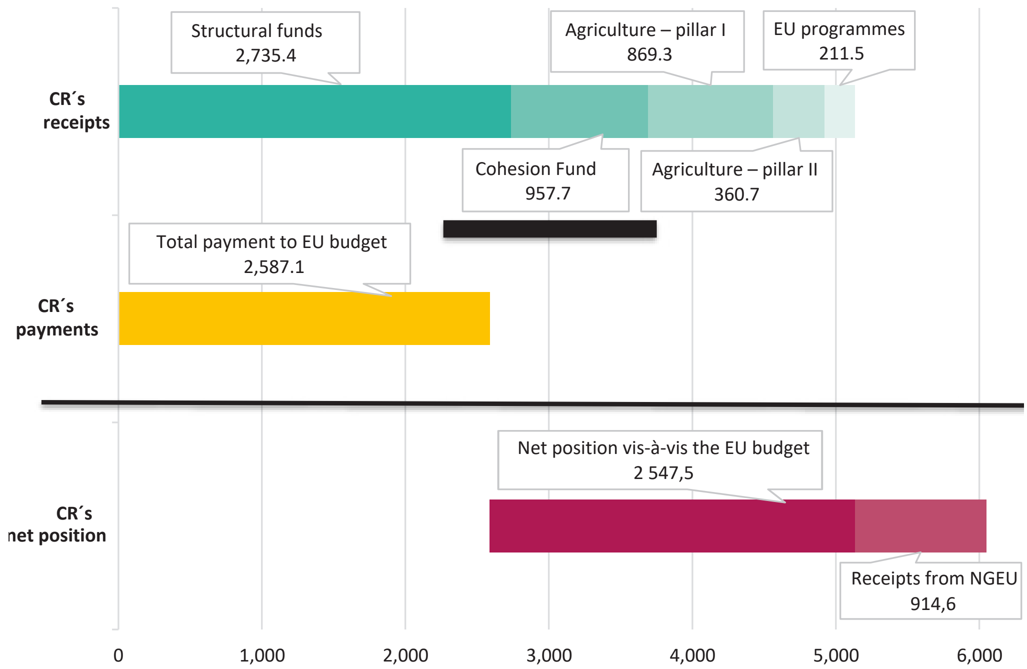
On 1 February 2022, the Ministry of Finance issued a press release entitled *The Czech Republic's net position relative to the EU reached almost CZK 89 billion in 2021.*[82] The statement informs that the Czech Republic's revenues from the EU were CZK 65.3 billion higher than its contributions to the EU budget (i.e. the CR's net position in 2021 according to the MoF[83]). The MoF adds to this amount an advance of CZK 23.5 billion provided by the Commission from the *NextGenerationEU* instrument[84] (NGEU).

82 See https://www.mfcr.cz/cs/aktualne/tiskove-zpravy/2022/cista-pozice-cr-vuci-eu-dosahla-v-roce-2-46333.

83 The values reported by the Ministry of Finance are somewhat different from those subsequently reported by the Commission. The SAO also calculates the net position differently from the MoF, e.g. it does not include administrative costs (the Administration heading) in the net position.

84 This is an EU economic recovery package designed to support the CR's recovery from the economic consequences of the Covid-19 pandemic.

Diagram 2: Receipts, payments and CR´s net position in 2021 according to MoF (million €)



Source: Press release entitled *The Czech Republic's net position relative to the EU reached almost CZK 89 billion in 2021*, MoF, 1 February 2022.

NB: *Agriculture - Pillar I* includes funding for direct payments, market measures and veterinary measures.
Agriculture - Pillar II includes funding for rural development and fisheries.

C.3 PROTECTION OF THE EU'S FINANCIAL INTERESTS

Sections C.3.2, C.3.3 and C.3.4.2 were written by the Central Contact Point of the AFCOS network at the SAO's request.

C.3.1 ANNUAL REPORT ON THE PROTECTION OF THE EU'S FINANCIAL INTERESTS IN 2020

Under Article 325(5) TFEU, the Commission, in cooperation with the Member States[85], submits an annual report to the European Parliament and the Council on measures taken to combat fraud and other illegal activities affecting the EU's financial interests. The 2020 Annual Report (the Report) was the 32nd report in the series.[86]

85 The MSs collaborate on the annual reports given that they manage three quarters of EU budget expenditure under shared management and collect TOR as revenue.

86 Report from the Commission to the European Parliament and the Council: 32nd annual report on the protection of the financial interests of the European Union - fight against fraud - 2020, COM(2021) 578 final of 20 September 2021.

In its introduction, **the Report characterises 2020 as a year marked by the Covid-19 pandemic and its impact.** It provides information on the unprecedented decisions taken by EU institutions to address this situation, particularly in the area of economic policy support. **The competent authorities approved the EU budget for the 2021–2027 period (over €1.07 trillion), the *NextGenerationEU* instrument (€750 billion) and its flagship programme, the Recovery and Resilience Facility. Totalling €1.8 trillion, the EU budget is to be channelled into measures to renew Europe, with priorities focused on protecting and improving the environment, digitisation and increasing economic resilience**. The management of EU budget funds in PP21+ is expected to bring relatively significant changes and streamlining, especially for the ESIF observing an increased:

- share of payments based on performance rather than costs;
- use of simplified cost options and lump sums.

According to the Report, **cooperation between the Anti-Fraud Office (OLAF)** and the other bodies forming the EU anti-fraud and anti-money laundering architecture for the protection of EU taxpayers' money **was further intensified** during 2020, in particular with the **European Public Prosecutor's Office** (investigation and prosecution), **Eurojust**[87] (coordination role), **Europol**[88] (analytical capacity) **and national authorities.**

EU Member States are obliged to report irregularities[89] of a fraudulent nature as well as irregularities of a non-fraudulent nature (other irregularities) to OLAF through the *Irregularities Management System* (IMS). Irregularities relating to expenditure under direct management of the EU budget are reported by the Commission through the ABAC accounting system[90].

In the area of EU revenue, Member States are responsible for implementing customs rules, customs controls and collecting customs duties, excise duties and taxes payable on imports. Customs authorities are also responsible for implementing non-fiscal measures aimed at improving the EU's internal security and protecting the EU from unfair and illegal trade.

In 2020, a total of 9,726 irregularities of both fraudulent and non-fraudulent nature were reported to OLAF, representing a **decrease of more than 17% compared to 2019. The total volume** of the reported irregularities was **€1,328.44 million.** In terms of financial volume too, there was a **year-on-year fall of more than 14%.**

This positive trend was driven by most of the aggregate value indicators, as can be seen in the bottom row of Table 11. The number of suspicions of fraud indicator was an exception, where a 50% year-on-year increase in cases was registered in the expenditure category. This was mainly due to an increase in the number of suspected fraud reports for Cohesion Policy and Fisheries expenditure (up 50%). The revenue category also saw an increase in the number of notifications in this indicator, up by 6%. Despite these increases in the number of notifications, the overall value of the indicator on the volume of suspected fraud decreased by 19% year-on-year. The indicators tracking the evolution of other irregularities showed a similar downward trend.

87 The European Union Agency for Criminal Justice Cooperation is based on Article 85 of the Lisbon Treaty and the Eurojust Regulation, which entered into force on 12 December 2019. Eurojust coordinates the activities of national authorities from EU and third countries in the investigation and prosecution of cross-border crime.

88 The European Union Agency for Law Enforcement Cooperation, established in 1994. Europol is a support centre for crime information and a centre of expertise in law enforcement.

89 MSs are obliged to notify OLAF of any irregularities exceeding €10,000 of EU funds. OLAF distinguishes between irregularities of a fraudulent and non-fraudulent nature. The category of fraudulent irregularities includes "suspected fraud" and "confirmed fraud".

90 *Accrual Based Accounting*.

In line with published data, the Report notes that the number of fraud and irregularities reported by EU and national competent authorities in 2020 has broadly decreased compared to previous years. It also states that the reduction in the number of non-fraudulent irregularities detected and reported in some areas of expenditure cannot be easily explained and therefore raises credibility concerns. At the same time, according to the Commission, there are additional challenges related to new ways of managing EU funds linked to performance and the achievement of specific objectives or areas of increased spending, for example in the context of the green transformation, digital transformation or health.

The following summary is based on Annex 2 of the Report and shows the values of irregularities reported by all MSs, i.e. excluding third countries (pre-accession area excluding MSs), excluding the UK and excluding direct expenditure.

Table 11: Numbers and amounts of suspected fraud and other irregularities reported to OLAF in 2020 by EU Member States and their year-on-year change (%).

Budget sector (expenditures/revenues)		Number of fraud suspicions		Volume of fraud suspicions		Number of other irregularities		Volume of other irregularities	
		2020	Y-on-Y change	2020 (EUR mil)	Y-on-Y change	2020	Y-on-Y change	2020 (EUR mil.)	Y-on-Y Change
Agriculture	EU	255	9%	28.39	15%	3,016	8%	162.42	-21%
	out of which CR	2	-82%	0.21	-95%	44	-52%	0.88	-64%
Cohesion policy and fisheries	EU	281	50%	225.11	-34%	2,297	27%	490.29	-2%
	out of which CR	22	-52%	5.84	-69%	175	33%	10.73	-33%
Internal policy total	EU	2	100%	0.48	N/A	54	500%	2.80	30%
	out of which CR	0	-	0.00	-	2	100%	0.15	-32%
Pre-accession policy	EU	2	50%	0.43	N/A	4	0%	0.24	200%
	out of which CR	0	-	0.00	-	0	-	0.00	-
Total expenditure	EU	540	26%	254.41	-31%	5,371	16%	655.75	-8%
	CR	24	-58%	6.05	-74%	221	-1%	11.76	-37%
Total revenue	EU	449	6%	107.83	35%	3,366	-21%	311.26	-22%
	out of which CR	0	-	0.00	-	60	18%	4.83	12%
Total	EU	989	16%	362	-19%	8,737	-1%	967.01	-13%
	out of which CR	24	-58%	6.05	-74%	281	2%	16.59	-28%

Source: Report from the Commission to the European Parliament and the Council: 32nd annual report on the protection of the financial interests of the European Union - fight against fraud - 2020, COM(2021) 578 final of 20 September 2021.

Note: Year-on-Year change: the figure represents a deviation from 2019 expressed in %

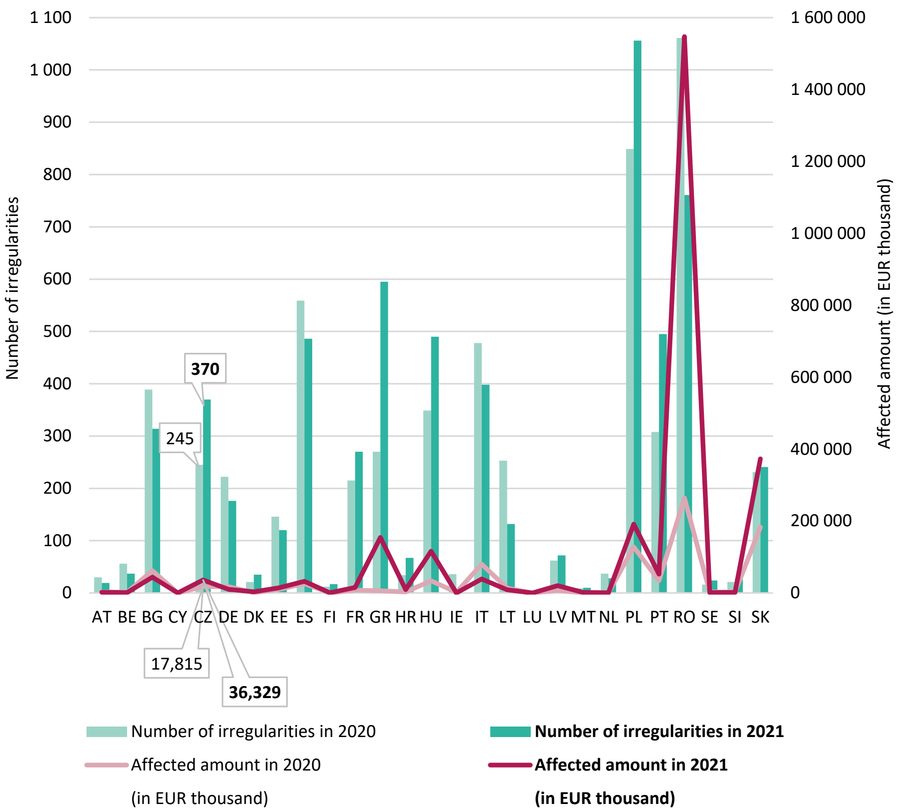
The table shows that the Czech Republic reported a total of 24 suspected fraudulent irregularities in 2020 (2.4% of the EU total), a 58% reduction year-on-year. This number comprised solely the expenditure area, mainly in Cohesion Policy and Fisheries, as no reports were made in the revenue area. The related volume of suspected fraud was estimated at €6.05 million (1.7% of the EU total), a fall of 74% year-on-year. The number of other irregularities reported amounted to 281 (3.2% of the EU total), representing an increase of 2% compared to 2019. This year-on-year increase was due to a rise in reported cases in the area of revenue. The related volume of other irregularities amounted to €16.59 million (1.7% of the EU total), a fall of 28% year-on-year. The significant decrease in the volume of other irregularities reported by the Czech Republic is due to the pronounced reduction in Cohesion Policy, Fisheries and Agriculture expenditure.

C.3.2 REPORTING OF IRREGULARITIES TO OLAF FROM THE MEMBER STATES' PERSPECTIVE

The data below compares the number of irregularities reported to OLAF by each MS in 2020 and 2021 for all programming periods. The higher number of irregularities detected is driven by, among other things, the size of the total allocation and the number of projects in a given country. However, it does not necessarily mean a higher susceptibility to irregularities, but rather a higher-quality control and irregularities detection system.

Compared to 2020, there was an increase of almost 6% in the number of reported irregularities at European level in 2021, with a 194% increase in the amount affected by irregularities. The rate of confirmed fraud remained constant. The most pronounced year-on-year increases were for Greece (120%), Croatia (97%), Denmark (67%) and Portugal (61%). In contrast, some Member States saw a decrease in the number of reported irregularities, notably Ireland, Lithuania, Austria and Belgium. **In terms of the number of irregularities reported and the amount concerned, the Czech Republic is approximately in the middle of the Member States ranking. As regards fraudulent conduct, the Czech Republic is among the countries that have reported at least one confirmed fraud in the last two years.**

Chart 17: Irregularities reported to OLAF by individual MSs in 2020 and 2021 for all program periods



Source: CCP AFCOS according to OLAF, April 2022.

An interesting comparison was offered by OLAF in 2021 when it analysed the decrease in the number of other irregularities between the 2007–2013 programming period (PP7+) and PP14+, comparing the number of all reported irregularities of this type by Member States over a period of seven years. The difference between the two periods, especially towards the periods' end, is pronounced: the cumulative number of other irregularities at the end of PP7+ was practically double that of PP14+. The **trend in the number of irregularities in the Czech Republic is similar to that of the EU as a whole.**

The main reasons for the different number of reported irregularities between PP7+ and PP14+ were:

- **A change in the Commission's guidance on the reporting of irregularities regarding suspected/ confirmed fraud:**

  In the 2007–2013 programming period, all irregularities classified as suspected/confirmed fraud were submitted to the Commission, regardless of the amount involved. In the 2014–2020 programming period, the same rule as for other irregularities started to apply to these irregularities, i.e. a threshold of €10,000 for reporting them to the Commission.

- **Clear definition of the time of suspected fraud and confirmed fraud by CCP AFCOS for reporting purposes:**

  In 2017, CCP AFCOS consulted with representatives of the Police of the Czech Republic to determine the decisive moments and correlated them to the individual actions defined in the Criminal Procedure Code[91]. Now there are no longer discrepancies in this reporting between the various MAs; the inputs are uniform and comparable.

- **Use of simplified reporting methods:**

  This is an alternative method for calculating eligible project costs (as opposed to the actual cost method), where the main point is that each euro of co-financed expenditure no longer has to be tracked for each submission. This method of reporting significantly reduces the administrative burden and also contributes to a lower error rate.[92]

- **Change in approach to the definition of an irregularity:**

  In the shortened programming period 2004–2006, the national definition of an irregularity was much broader than today, leading to the reporting of irregularities even in cases that arose before the actual declaration of expenditure, and also in cases where the irregularity was substantiated but still not confirmed. In the following programming period, especially at the beginning, the situation was the same. However, towards the end of PP7+ the methodology was revised. It redefined the irregularity reporting moment so that only irregularities that are confirmed by the relevant MAs and at the same time relate to expenditure that has already been certified are reported.

Looking ahead, **another significant change will be introduced in PP21+, namely the reporting of interlinked irregularities.** Thus, the reporting of irregularities will now also include **below-the-threshold irregularities of the same economic operator if they reach the total limit of €10,000.** During PP14+, this option was on a voluntary basis for the Member State; **in the Czech Republic it was used for CAP funds.** At this moment, all technical requirements have been incorporated into the monitoring system and are already covered at the methodological level by CCP AFCOS.

91 Act No 141/1961 Coll., on Criminal Procedure (Criminal Procedure Code).
92 The Czech Republic has started to use this possibility under PP14+ and control mechanisms have been adapted for this purpose.

C.3.3 PROTECTION OF THE EUROPEAN UNION'S FINANCIAL INTERESTS IN THE CZECH REPUBLIC

Reporting irregularities[93] is a fundamental obligation of all Member States and is one step in the anti-fraud cycle consisting of prevention, detection, investigation, prosecution and redress. Information is sent to the Commission[94], or directly to OLAF, in the form of regular reports, provided certain conditions are met (the amount of European co-financing affected by the irregularity is at least €10,000). These reports contain information both on the new irregularities detected and on progress in the investigation of previously reported irregularities. On the basis of the input received from all Member States, OLAF analyses the data collected, evaluates the practices used in committing the irregularity and also targets its control activities. In this sense, the CCP AFCOS is its partner at national level for the administrative area.

Government resolution no. 1010 of 5 September 2007 established CCP AFCOS at the MoF by transferring this function and the related activities from the Supreme State Prosecutor's Office. The role of CCP AFCOS as a coordination service for cooperation with OLAF is regulated by European legislation, specifically defined in Article 3(4) of Regulation No 883/2013[95].

CCP AFCOS constantly liaises with OLAF representatives and consults with them on any ambiguities of either a methodological or technical nature to make sure that the methodology is consistent throughout the Czech Republic. CCP AFCOS continuously monitors developments in the field of irregularities reporting, incorporates all necessary adjustments into its guidance documents and informs about changes and new developments at regular seminars organised for the staff of entities involved in the protection of the EU financial interests.

The important duties of CCP AFCOS include ensuring the harmonisation of methodological management within the framework of reporting irregularities to OLAF and actively contributing to the protection of the EU's financial interests and minimising the related risks. CCP AFCOS is responsible for reporting irregularities on the expenditure side of the general EU budget on behalf of the Czech Republic. The Customs Administration of the Czech Republic is responsible for reporting irregularities on the revenue side of the EU budget.

The issue of irregularities reporting is governed by EU regulations and at national level it is reflected in the *Methodological Instruction on Reporting Irregularities to the European Anti-Fraud Office*. The protection of the EU's financial interests is based on a document entitled *National Strategy for the Protection of the Financial Interests of the European Union*[96]. This document was last updated with effect from 1 May 2020. Both documents come under the responsibility of CCP AFCOS.

As mentioned above, CCP AFCOS covers the area of reporting irregularities affecting the implementation of EU funds in the Czech Republic[97] and sent to OLAF, processes statistical outputs and analyses information on fraudulent activities obtained from final judgments confirming the commission of a criminal offence of damage to EU financial interests within the meaning of Section 260 of the Criminal Code[98].

Rudimentary and easily detectable crimes committed by individual individuals or legal entities can still be encountered. However, the trend of the previous years is beginning to be confirmed, i.e. the detection of crimes involving multiple colluding entities. The crimes are committed in more sophisticated ways and with the intention of illegally obtaining the largest possible amount of EU funds. All this is done using various practices to make the detection of criminal activity as difficult as possible.

93 European legislation, in particular Council Regulation (EC, Euratom) No 2988/95 of 18 December 1995 on the protection of the European Communities' / European Union's financial interests, provides that 'irregularity' means any infringement of a provision of Community/EU law resulting from an act or omission by an economic operator, which has, or would have, the effect of prejudicing the general budget of the Community or budgets managed by it, either by reducing or losing revenue accruing from own resources collected directly for the benefit of the Community, or by an unjustified item of expenditure.

94 Reporting of irregularities to the Commission is done through the *Irregularities Management System.*

95 Regulation of the European Parliament and of the Council (EU, Euratom) No 883/2013 of 11 September 2013 on investigations 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. In the current version of the regulation, the AFCOS coordination service is regulated in Article 12a.

96 It was approved by Government Resolution No 535 of 14 May 2008.

97 Funds from the area of Cohesion Policy, Common Agricultural Policy, Fund for Aid to the Most Poor, Funds for Asylum and Migration Policy, Recovery and Resilience Instrument, etc., for all program periods.

98 Act No 40/2009 Coll., Criminal Code.

Table 12: Most commonly used practices to harm to the EU's financial interests

Area of violation	Practice used
Acquisition of equipment, machinery and capital goods, including the CAP	- buying an old machine instead of a new one; - overstating the value of investments (price of materials, price of labour); - investments are not carried out at all or only partially; - equipment or parts thereof are sold off; - creation of contrived invoicing chains.
Training	- training is not carried out at all or only partially; - training events are implemented in another form (distance versus in person); - irregularities in costs reporting (equipment, supplies, room hire, instructors' pay).
New jobs	- fictitious creation of special-purpose jobs; - reduced pay in special-purpose jobs; - non-compliance with compulsory payroll taxes in special-purpose jobs.
Other	- fictitious tendering procedure; - influencing the parameters of tenders to select pre-agreed suppliers; - fraud in proving sufficient own funds; - false evidence of debt-free status.

Source: MoF – CCP AFCOS, April 2022.

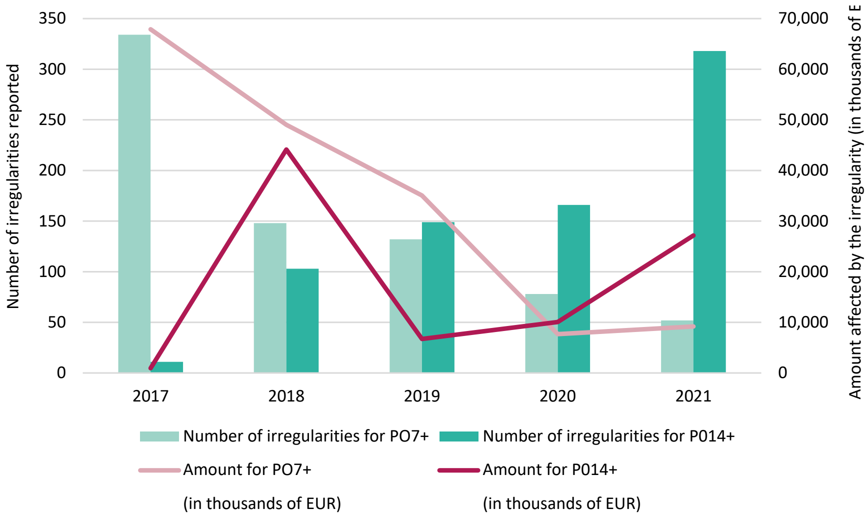
In all these areas, it often occurs that a suspected infringement is reported by an employee or associate of the beneficiaries or by a third party. Infringements are also discovered in the course of investigations originally targeting other entities and their business activities. In detecting offences, it is important to make use of all available information, including final convictions, which can reveal the practices and patterns by which offences are committed. However, appropriately targeted control systems at all levels of management, at all stages of the project life cycle (from applications to the actual implementation of the project conditions and ex post controls) play a crucial and irreplaceable role in the fight against fraud.

In more than half the final convictions, reimbursements were only partially made or prevented altogether because the crimes were detected during the reimbursement process or were detected before the first disbursement.

C.3.3.1 IRREGULARITIES REPORTED FOR THE CZECH REPUBLIC FOR ALL PROGRAMMING PERIODS 2017–2021

It is clear from the available data that the number of irregularities (and the financial volume affected by these irregularities) relating to the 2000–2006 programming period is almost negligible. The decrease in irregularities detected during the implementation of projects co-financed by PP7+ is also clearly visible. At the same time, there is an obvious increase, first gradual and then abrupt, in the number of irregularities linked to PP14+. These trends are clearly related to the gradual slowdown or acceleration in in the use of funds from individual programming periods. As far as the data for 2020 are concerned, it should be noted that this was the year when the government's anti-Covid measures and the related reduction in the activity of control bodies became fully manifested.

Chart 18: The number of irregularities reported to OLAF for the Czech Republic in 2017-2021 and the related amounts concerned.



Source: MoF – CCP AFCOS, April 2022.

NB: Data for the 2000–2006 programming period are not shown in the graph due to their negligible levels.

Given that drawdown for PP14+ projects has not been completed yet with regard to the n+3 rule, it is not possible at this moment to make a meaningful comparison between these data and the data available for PP7+. **The following text therefore focuses only on irregularities related to PP14+ expenditure, specifically comparing irregularities detected and reported to OLAF in 2020 and 2021** (see section C.3.4).

C.3.4 REPORTING OF IRREGULARITIES IN THE CR IN 2021

C.3.4.1 IRREGULARITIES IN REVENUES

In accordance with Article 5 of Regulation No 768/2021[99], Member States are obliged to report to the Commission cases of detected fraud and other irregularities concerning TOR with a value of €10,000 or more.

In 2021, the Customs Administration of the Czech Republic reported a total of 65 cases of detected fraud and other irregularities, with the affected amount of customs duties totalling €3.04 million. The most frequent reason for additional assessment of customs debt was **incorrect tariff classification of goods.**

C.3.4.2 IRREGULARITIES IN EXPENDITURE

Between 2020 and 2021 there was a sharp increase in the reporting of irregularities for PP14+. This was influenced both by the resumption of control activities in 2021 after the Covid-19 "paralysis" in the previous year and by the implementation of projects and more active drawdown of funds. In 2021, a total of 318 cases of irregularities were reported to OLAF on behalf of the Czech Republic, an increase of more than 93% compared to 2020. The amount affected by irregularities increased by as much as 169% compared to 2020.

99 Council Regulation (EU, Euratom) 2021/768 of 30 April 2021 laying down implementing measures for the system of own resources of the European Union and repealing Regulation (EU, Euratom) No 608/2014.

From the perspective of individual funds and OPs, the **highest number of irregularities** was reported to OLAF in connection with the ERDF, and specifically for **OP EIC** under the responsibility of the MoIT (246% increase in the number of reported irregularities compared to 2020 and 250% increase in the amount affected). This spike is the result of the intensification of control activities in connection with both the relaxation of anti-Covid measures and a revision of the applied procedures in the context of national and European legislation. The overhaul of procedures was carried out as a result of a *system audit* carried out by the AA. In particular, emphasis was placed on how the impact of the application of Article 14f(3) of the Financial Regulation was interpreted in terms of the possibility of payments at alternative times.

The second most affected programme by irregularities was RDP14+, which comes under the responsibility of the State Agricultural Intervention Fund and the Ministry of Agriculture and concerns the CAP. 60% more cases were reported compared to 2020 and the amount affected by irregularities was up by 25%. Analysis of the modus operandi showed that the infringements of the rules consisted **mainly in failures to comply with deadlines and to submit the required documents.**

The third most affected OP in 2021 was OP Employment 2014–2020 (OP Em) under the responsibility of the Ministry of Labour and Social Affairs. Although OP Em was one of the most affected in terms of the number of irregularities, **there was a 21% reduction in the number compared to 2020.** As regards the amount affected by irregularities, this increased by 7% compared to 2020. The most frequent **violations** in this OP were non-fulfilment of the **purpose of a subsidy and non-compliance with the conditions for awarding public contracts.**

For the remaining OPs, the numbers of reported irregularities and the amounts involved were comparable in the years under scrutiny.

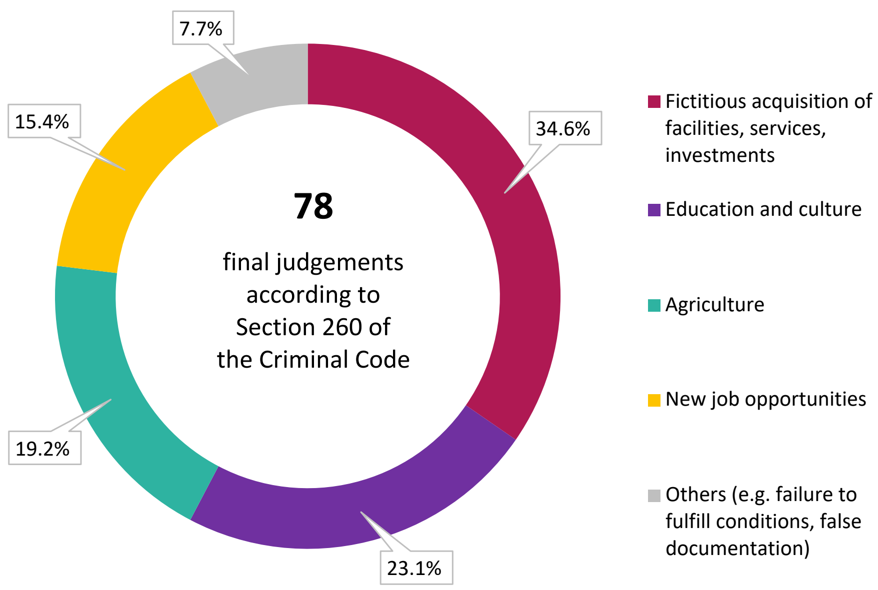
Among the most common errors were the type of **irregularity where one or more of the conditions were not fulfilled, e.g. non-compliance with deadlines, violation of the rules relating to the co-financing system, failure to fulfil the purpose of a subsidy or problems related to the termination of a project by the beneficiary.** Another frequent area of wrongdoing was **incorrect documentation, i.e. submission of incomplete or even falsified documents** or failure to submit documents at all. Problems were also related to **irregularities in the area of procurement** (e.g. failure to meet the deadline for contract implementation, tender documents containing discriminatory qualification requirements, failure to prove compliance with technical qualification requirements or irregularities in the announcement of the award procedure). Another significant area of irregularities was related to the submission of grant applications. In particular, **there were false or falsified documents in subsidy applications, incompatible combinations of various types of support, multiple applications for the same product or applications for projects not eligible for support.**

In terms of **fraudulent acts** (suspected/confirmed fraud), both the **number** of cases **and the amount affected for PP14+ decreased in 2021 compared to 2020:** the number by one and the amount affected by more than half. In 2020 there were seven cases with a total amount of €1,756,302.92 affected by irregularities; **in 2021, there were only six cases with a total amount of €887,161.** In each year, the Czech authorities obtained one final conviction for a criminal offence against the EU's financial interests. Both convictions related to OP Em. **The practices used in both cases centred on the fictitious creation of special-purpose jobs, falsification of documents, reduced pay in special-purpose jobs and non-compliance with compulsory payroll levies in these jobs. In both cases, the court held that the defendant was guilty and had committed both the offence of subsidy fraud under Section 212(1) and (4) of the Criminal Code and the offence of damaging the financial interests of the European Union under Section 260(1) and (3) of the Criminal Code.** In the first case, the person was sentenced to one year's imprisonment, suspended for one year. In the second case, the person was sentenced to a total term of imprisonment of two years, suspended for three years. CCP AFCOS informed the relevant Directorate-General of the Commission of these sentences.

By the end of 2021, CCP AFCOS had processed a total of 78 final court judgments convicting natural or legal persons under the provisions of Section 260 of the Criminal Code.[100] The judgments concern projects from all programme periods, regardless of the amount of damage caused.

100 From the perspective of offences against the Criminal Code, apart from the violation of Section 260 itself, the most frequent are combinations with the violation of Section 212 (subsidy fraud) and combinations with the violation of other provisions (e.g. the offence of forgery and tampering with a public document, fraud, evasion of taxes, fees and similar compulsory payments).

Chart 19: Areas in which final judgments have been issued in the matter of damage to the EU's financial interests



Source: MoF – CCP AFCOS, April 2022.

C.4 MEASURES FOR IMPLEMENTING THE EU BUDGET IN 2021

C.4.1 COORDINATED MEASURES OF EU ECONOMIC POLICY

The **European Semester** provides an established framework for coordinating economic and employment policies and is designed to help the EU and its Member States address the challenges linked to economic recovery and resilience.

The Commission launched the European Semester 2021 with the publication of the ***Annual Sustainable Growth Strategy 2021***[101] (Annual Strategy), the flagship document of the so-called Autumn Package[102] setting out the EU's economic priorities. The Annual Strategy builds on the previous Annual Growth Strategy and is fully based on the long-term strategy for growth, the ***European Green Deal***[103] (Green Deal) and the concept of competitive sustainability. According to the Annual Strategy, the impact of the Covid-19 pandemic makes its first priority protecting Europe's citizens, their health and jobs, while ensuring fairness, resilience and macroeconomic stability across the EU. Growth and employment prospects should be positively stimulated on the basis of the **European Council agreement on the next MFF (€1,074.3 billion)** and the agreement on the **NGEU**[104] **(€750 billion for grants and loans)** reached on 21 July 2020.

101 Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank: Annual Strategy for Sustainable Growth 2021, COM(2020) 575 final of 17 September 2020.

102 The 2021 package of documents published on 18 October 2020, following the Annual Strategy, includes, among others, the 2021 recommendations for the euro area, the Single Market Performance Report, the Alert Mechanism Report, the opinion on the draft budgetary plans and the Joint Employment Report.

103 Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions: The Green Deal for Europe, COM(2019) 640 final of 11 December 2019.

104 Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions: Moments for Europe: repairing the damage and preparing for the next generation, COM(2020) 456 final of 27 May 2020.

The Annual Strategy defines the guiding principles the recovery and resilience plans are based on – these plans are fundamental to the priorities set by Member States. These principles focus on **challenges and priorities – see diagram below.**

Diagram 3: Guiding principles of the Annual Strategy, their challenges and priorities

GREEN TRANSFORMATION

- o achieve climate neutrality by 2050;
- o significantly reduce greenhouse gas emissions through fast deployment of renewable energy and hydrogen and increased energy efficiency action in buildings by 2030;
- o foster investment in sustainable mobility to improve air quality;
- o take action to promote a more developed circular economy, improve environmental infrastructure and protect and restore biodiversity.

DIGITAL TRANSFORMATION AND PRODUCTIVITY

- o focus on reforms and investments that improve connectivity;
- o increase the focus on developing digital skills to let all citizens participate in society and take advantage of the digital transformation;
- o focus on building and deploying cutting-edge digital capacities.

FAIRNESS

- o prevent growing inequalities, ensure support from all parts of society and contribute to social, economic and territorial cohesion;
- o adopt measures to ensure equal opportunities, inclusive education, fair working conditions and adequate social protection;
- o ensure equal access to education and quality healthcare, and strengthen long-term care.

MACROECONOMIC STABILITY

- o continue to provide targeted and temporary fiscal support, while safeguarding fiscal sustainability in the medium term;
- o improve the quality of public finances to boost growth potential and support economic transformation;
- o ensure orderly developments regarding private debt by putting in place the right conditions to ensure speedy and effective remedies and ensure that lending to businesses and households continues in line with best practices agreed between the financial sector, consumers and businesses.

In line with the Commission's recommendation on the priorities set, the Czech Republic drew up the **Convergence Programme of the Czech Republic 2021** (CP). After discussion in the relevant committees of the Chamber of Deputies and the Senate of the Parliament of the Czech Republic, the draft CP was approved by the Czech government105.

105 *The Convergence Program of the Czech Republic 2021 was prepared by the Ministry of Finance and approved by Government Resolution No 261 dated 26 April 2021.*

The CR submitted the CP to the Commission on 30 April 2021 in accordance with Article 8 of Regulation (EC) No 1466/97[106]. Based on its assessment of the CP, the Commission[107] issued the following recommendations for a Council Recommendation:

1. Maintain a supportive fiscal policy stance in 2022, including the impetus provided by the Recovery and Resilience Facility[108], and maintain nationally financed investment.

2. Economic conditions permitting, implement fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability over the medium term. At the same time, strengthen investment to support growth potential.

3. Pay particular attention to the composition of public finances on both the revenue and expenditure side of the budget and the quality of budgetary measures to ensure a sustainable and inclusive recovery. Prioritise sustainable and growth-enhancing investments, in particular with regard to green and digital transformation. Prioritise fiscal structural reforms that will help ensure the financing of public policy priorities and contribute to the long-term sustainability of public finances, including by strengthening health and social protection systems so that they are inclusive, adequate and sustainable.

On 18 June 2021, the Council, in its finance ministers' format (ECOFIN), adopted specific recommendations for individual Member States, including the Czech Republic. The recommendations related solely to the CP and not to the National Reform Programme (NRP), as was common in the European Semester in previous years. The *Council Recommendation of 18 June 2021 delivering a Council opinion on the Convergence Programme of the Czech Republic*[109] was fully in line with the Commission recommendations.

The Annual Strategy also stated that the European Semester for 2021 is set to be coordinated with the ***Recovery and Resilience Facility,*** which is the main instrument for economic recovery in the context of the damage caused by the Covid-19 pandemic. In the first key years, the Facility is set to provide l**oans and grants of €672.5 billion,** primarily **to support green transformation in line with the Green Deal and to support digital transformation.**

In order to streamline the content and reduce the number of submissions, **EU Member States were invited to submit their NRP and National Recovery and Resilience Plan in a single integrated document.**

In line with this appeal, the Government of the Czech Republic approved the ***National Reform Programme of the Czech Republic 2021***[110], containing reforms and investments planned for the next twelve months, together with the ***National Recovery Plan***[111] as a complementary document on whose basis the CR will draw from the Recovery and Resilience Facility the equivalent of almost **CZK 200 billion for economic revival following the Covid-19 pandemic.** At the same time, the Czech government approved the establishment of the NRP coordinating body at the MoIT and, in addition to the statutes, rules of procedure and codes of ethics of the NRP Steering Committee and the NRP Committee, approved the division of duties and responsibilities among the various entities carrying out implementation, coordination and audit activities related to the NRP.

106 Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.

107 *Recommendation for a Council recommendation issuing a Council opinion on the 2021 convergence program of the Czech Republic, COM(2021) 503 in the final version of 2 June 2021.*

108 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility.

109 Official Journal of the European Union (2021/C 304/03) of 29 July 2021

110 *The National Reform Programme of the Czech Republic 2021 was approved by Government Resolution No 466 dated 17 May 17 2021.*

111 *The National Recovery Plan was approved by Government Resolution No 467 of May 17, 2021.*

Following consultation with the social partners, local and regional authorities and other relevant stakeholders, the Czech Republic submitted its NRP to the Commission on 1 June 2021. The **Commission assessed the submitted Recovery and Resilience Plan,** saying that it presented a largely comprehensive and adequately balanced response to the economic and social situation. **On 19 July 2021,** the Commission **endorsed the NRP and issued a draft *Council Implementing Decision***[112] approving the assessed Recovery and Resilience Plan of the CR. In this proposal it set out specific milestones and targets as commitments of the CR and proposed to **provide a total EU financial contribution of €7,035,697,549.** This contribution will be provided by the Commission in **instalments**, with **€3537,379,398** to be provided under a legal commitment by 31 December 2022 and the second part of **€3,498,318,151** to be transferred between 1 January 2023 and 31 December 2023. **13%** (i.e. €914,640,681) **will be provided as pre-financing,** with the Commission being able to disburse the pre-financing and instalments in one or more tranches.

C.4.2 IMPLEMENTATION OF THE NATIONAL REFORM PROGRAMME OF THE CZECH REPUBLIC 2021

As part of EU economic policy coordination through the European Semester, the Office of the Government of the Czech Republic prepares a report on the implementation of the NRP every year. ***The Report on the Implementation of the National Reform Programme of the Czech Republic 2021*** (2021 Report) was discussed with the social partners and approved by the government at its Committee for EU meeting on 13 December 2021. More detailed information from the 2021 Report is provided below in the following sections of EU Report 2022.

C.4.2.1 MACROECONOMIC CONTEXT

The 2021 Report states that the impact of the Covid-19 restrictions generally halted economic dynamism and exacerbated problems in global supply chains. It described the Czech economy as “highly vulnerable” given its open nature. The rise in the price of most commodities, including energy, and relaxed monetary and fiscal policies have resulted in accelerating inflation in all price categories, including consumer prices. In terms of macroeconomic indicators, the 2021 Report notes that real gross domestic product (GDP) in the Czech Republic increased by 1% quarter-on-quarter in Q2 2021 and by 1.4% in Q3 2021, driven mainly by increased household consumption. **Economic output was expected to grow by 2.5% in 2021 and by 4.1% in 2022.** On the other hand, **inflation was rising sharply,** with an average rate of **3.5% in 2021** and **6.1% in 2022** (the actual inflation rate more than doubled in 2022, mainly due to the sharp rise in energy prices and the economic impact of the armed conflict in Ukraine, accompanied by a massive wave of refugees).

The 2021 Report further states that the strategic objectives outlined in the NRP 2021 for digital and green transformation have been met. In the area of digital transformation, the objectives of the government’s *Digital Czechia* programme were achieved. The allocation of support from the *Modernisation Fund* was launched to support green transformation. However, the Covid-19 pandemic in 2021 hampered the achievement of the targets, including passenger transport targets, where public transport’s share of total journeys decreased.

112 Proposal for a Council implementing decision approving the assessment of the recovery and resilience plan for the Czech Republic, COM(2021) 431 in the final version of 19 July 2021.

C.4.2.2 2020 COUNCIL RECOMMENDATIONS TO THE CZECH REPUBLIC AND EU FUNDS

In line with Council Recommendation No. 1, which concerned fiscal matters, the Czech Republic **continued to support the business sector** through the ***COVID III* programme**, in the form of guarantees for bank operating loans to enterprises with up to 500 employees. The ***COVID III – Invest Adjustment*** programme was launched to support bank investment loans. The ***COVID CK Guarantee* programme** was launched to support tourism businesses, along with the ***COVID Travel Agency II*** and ***COVID Accommodation II*** support programmes, which had a total allocation of almost **CZK 4.2 billion. To support employees and employers and help them cope** with the Covid-19 crisis and respond to changes on the labour market, the Labour Office of the Czech Republic announced the ***Outplacement***[113] **project** with a budget **of approximately CZK 1 billion.**

The healthcare system in the Czech Republic received **support from IROP** totalling over **CZK 13.3 billion.** Support for projects to improve the preparedness of health service providers to respond to pandemic threats was financed using the European post-Covid economic recovery programme REACT-EU (REACT-EU)[114]. The Czech Republic's allocation from this programme was incorporated into the IROP, so a further sum of **approximately CZK 22 billion** should be utilised through this programme.

In line with Council Recommendation No. 2 aimed at supporting employment through active labour market policies, a project was financed from the ***Active Employment Policy*** instrument, the beneficiary being the Labour Office of the Czech Republic. The project called ***Education and Skills for the Labour Market II*** has a total budget of **CZK 1.45 billion** and is primarily focused **on retraining for job seekers.**

Support for digital skills and learning was provided in 2021 within the framework of projects under OP *Research, Development and Education* (OP RDE) designed to implement the ***Digital Education Strategy up to 2020*** and through calls for the implementation of regional action plans.

Council Recommendation No 3 concerned **support to SME**s (recommending, among other things, increased use of financial instruments to provide liquidity support and reducing the administrative burden), improving e-government and focusing investment on green and digital transformation. In response to this recommendation, **two new financial instruments were launched under the auspices of the National Development Bank. The first was the *IPO*[115] *Fund*** for investing in IPOs of SMEs. The second instrument is the implementation of programmes to support investment in SMEs **through OP EIC, in the form of loans and guarantees in the *EXPANSION* programme.** By the end of October 2021, **480 guarantees worth a total of CZK 4.73 billion** had been provided in the guarantees part of this programme, i.e. commercial **loans amounting to CZK 6.11 billion** had been guaranteed. In the credit part of the *EXPANSION* programme, **375 loans worth CZK 2.20 billion** were granted.

The 2021 Report also states that analysis of the impact of financing obtained from directly managed programmes and EU funds has shown that this financing had a significant impact on the Czech economy. **The implementation of directly managed EU programmes in 2014–2020** added **CZK 12.7 billion** to the Czech Republic's real GDP (cumulative GDP growth of 0.3%) and **created almost 10,000 additional jobs.**

113 The project is co-financed from the European Social Fund within the OPEm and from the Czech state budget.
114 Recovery Assistance for Cohesion and the Territories of Europe.
115 Initial Public Offering.

C.4.2.3 REFORMS AND PUBLIC INVESTMENT

Structural reforms

In the area of tax policy, the 2021 Report stated that measures to meet long-term objectives included the introduction of a flat-rate tax (from 1 January 2021) and a meal voucher lump sum, a gradual increase in excise duty rates on tobacco products and the launch of the MY Taxes project, which is intended to bring greater convenience and a modern method of electronic communication with the Czech Financial Administration.

Measures to support the economy affected by the Covid-19 pandemic included the **abolition of the super-gross wage** and a **reduction in excise duty on diesel** by 1 CZK/litre aimed at reducing the costs of the pandemic-afflicted transport sector. According to the 2021 Report, the abolition of the super-gross wage brought an increase in disposable income and convergence in the levels of taxation on self-employed persons and employees in the light of the recommendations of both the Commission and the OECD[116]. Measures adopted in 2020 continued to apply in 2021. In particular, these were **the possibility of loss carry back for personal and corporate income taxes, the widening of the application of the second reduced VAT rate of 10%, a 25% reduction of road tax for trucks with a maximum permissible weight of more than three tonnes and the introduction of extraordinary tax depreciation for tangible assets acquired from 1 January 2011 to 1 January 2008.** Among the other measures mentioned by the 2021 Report are the deferral of electronic records of sales[117], the extension of certain deadlines through the waiving of penalties or a compensation bonus.

A new ***Housing Concept of the Czech Republic 2021+***[118] has been adopted, in which analyses concerning changes in the housing market are planned. These analyses should help prepare housing affordability solutions (e.g. informing the Housing Affordability Act or other instruments). The **State Investment Support Fund** (SISF) has launched the ***Rental Flats*** programme, which is a loan programme based on the provision of low-interest loans with a maturity of up to 30 years. The intended beneficiaries are mainly municipalities and the target groups are seniors over 65 years of age, the disabled and young people under 30 years of age. The SISF also started providing loans for the acquisition or modernisation of houses and apartments under the ***Own Housing*** programme.

In 2021, there were a total of **2,316 social housing units** in various stages of construction. Due to be completed by 2023 at the latest, these units should support the social housing sector in the future. They should be completed by 2023 at the latest. Following the approved ***Social Inclusion Strategy 2021–2030***[119] and in order to meet the set objectives, work to prepare a **social/affordable housing act** went ahead.

Among the ways housing policy is implemented, there are the ***"housing support"*** programme (prepared for individual years) and ***Housing Support in Strategic Industrial Zone.*** The SISF also spends hundreds of millions of koruna on other programmes such as ***Panel 2013+, Thermal Insulation, Rental Flats, Regeneration of Housing Estates, Own Housing*** and ***Building for Municipalities.***

116 Organization for Economic Co-operation and Development.
117 Electronic records of sales.
118 Approved by Government Resolution No 358 of 12 April 2021.
119 Approved by Government Resolution No 55 of 20 January 2020.

Digital transformation

This area is implemented though the government's ***Digital Czech Republic*** programme, which has three pillars:

- *Czech Republic in Digital Europe,*
- *Information Strategy of the Czech Republic,*
- *Digital Economy and Society.*

Among the priorities of the *Digital Czech Republic* programme are basic registers 2.0, the ***Public Administration Portal*** and ***Citizen Portal,*** the generational renewal of ***CzechPOINT*** and the **interconnected data pool.** In PP21+ eGovernment will be supported mainly through **specific objective 1.1** of IROP.

The digital transformation of the EU in PP21+ is to be supported by the ***Digital Europe*** (DIGITAL) programme, which was approved by **regulation No 2021/694**[120] on 29 April 2021. The MoIT has taken charge of the programme's management at national level.

During 2021, a **number of projects achieving the aims and objectives of digital transformation** were underway in the Czech Republic. These included:

- ***Information Obligations Database*** project (analysis of possible ways to reduce administrative obligations for the business environment);
- **Banking Identity project** (to enable citizens with internet banking to access services of public administration and other third parties);
- ***Public Administration Portal*** and ***Citizen Portal*** (both portals have undergone major overhauls, with modifications to their structure and design and new services added);
- ***eGovernment cloud project*** (the aim being to reduce the overall cost of public administration systems, improve data security and accelerate digital transformation in public administration);
- **payment gateway for public administration** (an online channel for citizens to pay for public administration services);
- ***e-Collection*** and ***e-Legislation*** projects (the aim being to modernise the legislative process and improve the accessibility and clarity of the law);
- Project ***Digitisation of building and land-use proceedings*** (the aim being to speed up and simplify the entire authorisations process) etc.

120 Regulation (EU) 2021/694 establishing the Digital Europe Programme of 29 April 2021, which establishes the Digital Europe Programme and repeals Decision (EU) 2015/2240.

Physical infrastructure and green transformation

The basic strategic document **for the transport sector** is the ***Transport Policy of the Czech Republic for the 2021–2027 Period with a view to 2050,*** which is followed up by policy documents like the *Strategy for the Development of Intelligent Transport Systems 2021–2027 with a view to 2050 and the BESIP Strategy*[121] *2021–2030*.

According to the 2021 Report, the priority **for rail transport** is the construction of transit rail corridors, including railway junctions, and the modernisation of other **TEN-T trans-European transport network lines. In road transport,** emphasis is placed on the modernisation of the **D1 motorway** and the commissioning of new sections of the **D3, D4** (construction in the form of a PPP project122), **D6, D7, D11, D35, D48 and D55 motorways** with the relevant bypasses.

As a result of the anti-pandemic measures, **some of the green transformation targets were missed,** in particular public transport's share of total journeys. On the other hand, the significant increase in the subsidy amount from CZK 200 million to CZK 750 million resulted in **the development of cycling infrastructure.** Support for urban public transport mainly took the form of **construction of new tram and trolleybus lines.** As part of **support for clean mobility, 107 fast charging stations** and **142 conventional charging stations** were installed.

In the area of the CAP, the draft ***Strategic Plan of the Common Agricultural Policy for the Period 2023-2027 for the Czech Republic*** was prepared at the national level and submitted to the Commission for analysis on 28 January 2022. In the context of the implementation of European legislation, an **amendment to the Act on Food and Tobacco Products**[123] was promulgated in the Collection of Laws, which, in addition to adapting EU regulations, regulates the prohibition of dual quality of food. Transposition of the Directive on unfair commercial practices between undertakings in the agricultural and food chains also entered the legislative process[124]. Extensive changes to the legal framework for animal health through an amendment to the Veterinary Act[125] could not be completed in 2021.

In the area of climate protection, additional measures financed by the ***Modernisation Fund*** were adopted after an assessment of the ***Climate Protection Policy in the Czech Republic*** and of the assumptions for meeting the greenhouse gas emissions reduction targets by 2030. The ***Modernisation Fund*** covers nine specific programmes, and during 2021 funding started for measures from three programmes aimed at supporting the modernisation of thermal power plants, the construction of photovoltaic power plants and the improvement of energy efficiency and the reduction of greenhouse gas emissions in industry. The Government approved an update of the ***Strategy for Adaptation to Climate Change in the Czech Republic*** and an update of the ***National Action Plan for Adaptation to Climate Change,*** responding to the latest findings on climate change's negative impacts on the territory of the Czech Republic, with particular regard to long-term drought, rising temperatures and extremely high temperatures.

In 2021, preparations were underway for **OP *Fair Transformation*** (OP FT), which aims to support **measures to address the impacts of coal phase-out** in three coal regions of the Czech Republic. Furthermore, work went ahead to prepare new legislation on waste and update the ***Waste Management Plan of the Czech Republic for the Period 2015–2024.*** Preparation of the ***Strategic Framework for the Circular Economy in the Czech Republic 2040: Circular Czechia 2040,*** which will be supported by OP ***Environment 2021–2027*** (OP En21+), was supposed to be completed by the end of the year. Projects focusing on waste prevention, including food bank projects, will continue to receive support. **In the area of air protection,** approved measures to reduce emissions continued, such as support for the replacement of solid fuel boilers from the **NGS** programme.

Drought and **flood protection** have been implemented through existing subsidy programmes funded by the OP En and will continue with the support of **OP En21+.**

121 Traffic Safety.
122 Public Private Partnership.
123 Act No 174/2021 Coll., amending Act No 110/1997 Coll., on food and tobacco products and on the amendment and addition of certain related laws, as amended, and other related laws.
124 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.
125 Act No 166/1999 Coll., on veterinary care and on the amendment of some related laws (veterinary law).

Education and the labour market

In the field of education and the labour market, projects were selected and financed under subsidy calls aimed at supporting the improvement of the quality and inclusiveness of education and training systems, promoting technical and digital skills, supporting the teaching profession, employment through active labour market policies, the provision of skills (including digital skills) and access to digital learning in line with the key requirements of the *Strategy of Education Policy of the Czech Republic 2030+*. The support was provided through **OP RDE** and the programme document **OP *Jan Amos Komenský*** (OP JAK) was approved for PP21+.

In the area of employment policy, the key challenge in 2021, as in the previous year, was to deal with the **impact of the Covid-19 pandemic** on the labour market and prevent a rise in unemployment through the ***Antivirus*** programme. In the second half of the year, a measure was launched to pay a **part-time work allowance.** Implementation of the ***Family Policy Concept*** continued and, specifically in the area of **women's employment,** a number of measures[126] were implemented to put in place the right conditions for increased employment. To reduce gender differences, combat gender stereotypes and eliminate gender inequalities in the labour market, the Czech government adopted the ***Strategy for Gender Equality 2021–2030***[127]. The project entitled ***Support for the Implementation of Children's Groups*** continued.[128]

Institutions, regulations and business support in response to Covid-19

In the area of the internal market, the Czech Republic has long been striving to expand this market and break down the remaining barriers, in accordance with the approach contained in the material ***Priorities of the Czech Republic in the EU Internal Market Agenda 2021–2025***[129].

To address the impact of the Covid-19 pandemic, support continued in 2021 under the ***COVID III*** guarantee programme, which was expanded in the latter part of the year to include the ***Invest Modification*** to support investments. The ***COVID CK Guarantee programme*** was launched to **support the tourism sector,** and was designed primarily for small and medium-sized travel agencies and tour operators, which were to be helped to meet their legal obligation to take out **bankruptcy protection insurance** through **guarantees from the National Development Bank.**

On the basis of the government's assignment, the ***National Investment Plan of the Czech Republic 2020–2050*** is being prepared. To implement this, the ***Information System for the Collection of Project Plans*** has been created, which makes it possible to respond to possible new resources or needs of the territory, including "green projects".

In the fight against corruption, the implementation of the ***Government's Concept for the Fight against Corruption for 2018–2022***[130] continued through the ***Action Plan for the Fight against Corruption for the years 2021 and 2022.*** During 2021, the draft Whistleblower Protection Act and the related amending act, the adoption of which was designed to transpose Directive 2019/1937[131]. were under debate. The bill was not passed by the end of the transposition deadline of 17 December 2021. Given that the Czech Republic will not be able to avoid some of the obligations arising from this EU Directive, on 15 December 2021 the MoJ issued a ***Methodology on the Direct Applicability of Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law.***

126 For example, expanding the availability of early childcare services, promoting flexible forms of employment, adjusting parental allowance to increase the take-up of early childcare services, and measures to reduce the gender pay gap.

127 Approved by Government Resolution No 269 of 8 March 2021.

128 The provision of childcare services for children aged 6 months to 4 years in a small team facilitated the parents' return to the labour market. For example, an evaluation of the Micro-Nursery project showed that the number of parents who were able to return to employment as a result of this childcare doubled.

129 Material approved at government level by the Committee for EU in 18 October 2021.

130 Approved by Government Resolution No 855 of 17 December 2018.

131 Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law.

The development of public administration and eGovernment in the Czech Republic was guided by the ***Strategic Framework for the Development of Public Administration in the Czech Republic for the Period 2014–2020*** (SFDPA). In the course of 2021, the specific objectives and measures specified in the implementation plans for the SFDPA were implemented, within the framework of which projects and measures will be completed by the end of 2023. In accordance with the Commission and OECD recommendations aimed at improving strategic management and planning, the project Support for *Strategic Management and Planning in Public Administration* was implemented, which also fulfils the new concept called *Client-Oriented Public Administration 2030.* ***The forthcoming amendment to the Competences Act***[132] ***may also improve the coordination and management of public administration in the implementation of strategic objectives.***

Research, development and innovation

In the area of research, development and innovation (RDI), in 2021 the Czech Republic continued to implement the ***Innovation Strategy of the Czech Republic 2019–2030.*** Analytical activities were coordinated, and their output was the STRATIN system project for the education sector and its link to the ***National Research and Innovation Strategy for Intelligent Specialisation of the Czech Republic for 2021–2027***[133] under the responsibility of the MoIT. These two new activities strengthened the analytical base of RDI, which was also useful for the launch of the ***National Research, Development and Innovation Policy of the Czech Republic 2021+.***

Population health and resilience

Public health insurance saw a significant improvement in 2021, as the financial forecast for the system has improved compared to the original assumptions. Following a pilot project, **reform of the financing of acute inpatient care** continued. Basic premises and measures were developed and submitted to the government, and these will be elaborated in detail in the ***National Cancer Programme of the Czech Republic,*** based inter alia on the national priorities for the implementation of the ***European Cancer Plan.*** The digitisation of healthcare remains a priority area, with digitisation regarded by healthcare providers as a key area for crisis planning and response, managing pandemics and cyber security incidents. To this end, implementation plans have already been developed for the government's ***Digital Czech Republic*** programme.

C.4.2.4 CONTRIBUTION OF THE NATIONAL RECOVERY PLAN TO THE ACHIEVEMENT OF THE SUSTAINABLE DEVELOPMENT GOALS

In July 2021, the Czech Republic presented its ***Second Voluntary National Review of the 2030 Agenda in the Czech Republic*** at the United Nations. The review set out the progress made since the first review conducted in 2017 in terms of the development trend, without quantifying the degree of achievement of individual SDGs. The results showed progress on eight of the 17 SDGs ***(2 Zero Hunger, 6 Clean Water and Sanitation, 7 Affordable and Clean Energy, 8 Decent Work and Economic Growth, 9 Industry, Innovation and Infrastructure, 10 Reduced Inequalities, 14 Life below Water and 16 Peace, Justice and Strong Institutions). Limited progress has been made on eight other SDGs (1 No Poverty, 3 Good Health and Well-being, 4 Quality Education, 11 Sustainable Cities and Communities, 12 Responsible Consumption and Production, 13 Climate Action, 15 Life on Land and 17 Partnerships for the Goals).*** Only ***SDG 5 Gender Equality*** has so far failed to eliminate *"structural social and economic barriers, although existing legislation ensures equal access and rights for all women".*

132 Act of the Czech National Council No 2/1969 Coll., on the establishment of ministries and other central bodies of the state administration of the Czech Republic.

133 National RIS3 strategy.

D. SECTOR MATTERS 2021

D.1 REVENUES LINKED TO THE EU BUDGET

D.1.1 DEVELOPMENTS IN EU REVENUE SOURCES IN 2021

On 14 December 2020, a new Council Decision on the system of own resources of the European Union was adopted.[134] The Decision was ratified by all Member States by 31 May 2021 but was applied retroactively for the calculation of EU revenue from 1 January 2021. For TOR amounts to be provided by Member States between 1 March 2014 and 28 February 2021, Member States retained twenty per cent of these amounts to cover the costs of collection. As of the beginning of March 2021, the MS retain 25% of TOR to cover those costs.

The revenue mix is now set as follows:

1. **Traditional own resou**rces consist of customs duties, agricultural levies and sugar levies. To cover the cost of collecting these resources, the MS may retain 25% of the amount collected.

2. **The VAT-based own resource** corresponds to a share of 0.3% of the VAT bases of all Member States (VAT bases are calculated according to the applicable EU rules).

3. **The GNI own resource** is based on the collection of a uniform percentage of Member States' GNI, the value of which is set annually in the respective budgetary process.

4. **The plastic waste own resource** was introduced from 1 January 2021. It is a contribution from the Member States based on the amount of non-recycled plastic packaging waste, with a flat rate of €0.80 per kilogram. The revenue from this source is estimated at around 4% of the EU budget.[135]

5. **Other revenues** include taxes on EU staff, contributions from non-EU countries to certain EU programmes, fines for breaching competition rules and surpluses from the previous year.

6. **Correction mechanisms** - these rebates in favour of Denmark, Germany, the Netherlands, Austria and Sweden remain in place.

In July 2021, the Council was presented with the *Fit for 55* package, a set of proposals to revise and update EU legislation and to introduce new initiatives. **It is designed to ensure that EU policies are in line with the climate targets agreed by the Council and the EP.** *Fit for 55* refers to the EU's target to reduce net greenhouse gas emissions by at least 55% by 2030. The package is being discussed across several policy areas such as environment, energy, transport and taxation.

The proposed changes are linked to the introduction of new EU own resources. **The Commission plans to propose three new own resources in the future.** These would be **revenues from the revised** *European Emissions Trading Scheme*[136] (EU ETS)[137], **the introduction of a border carbon adjustment mechanism**[138] and **the introduction of a digital levy.** The presentation of the new own resources package has been postponed to take account of the outcome of the OECD negotiations on a global digital tax.

134 Council Decision (EU, Euratom) 2020/2053 of 14 December 2020 on the system of own resources of the European Union and repealing Decision 2014/335/EU, Euratom.

135 The contributions of MSs whose GNI per capita is below the EU average are reduced by an annual lump sum equivalent to 3.8 kg of plastic waste per capita. For the Czech Republic, this reduction is set at €32,187,600.

136 Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC on the establishment of a system for trading in greenhouse gas emission allowances in the Union, Decision (EU) 2015/1814 on the establishment and application of a market stability reserve for the Union scheme for greenhouse gas emission allowance trading, and Regulation (EU) 2015/757, COM(2021) 551 final of 14 July 2021.

137 *European Union Emissions Trading Scheme.*

138 Proposal for a Regulation of the European Parliament and of the Council establishing a carbon border offset mechanism, COM(2021) 564 final of 14 July 2021..

New own resources are covered by **the proposal to extend the EU ETS to maritime transport;** this package also introduces a separate emissions trading scheme for road transport and housing. In the current system, free emission allowances allow some market participants to pay for part of their CO2 emissions. **The phasing out of free allowances, coupled with the risk of carbon leakage** (i.e. an increase in GHG emissions as a result of production being relocated to a country with more lenient emission restrictions), **is accompanied by the proposed phasing in of a border carbon offsetting mechanism.** This new mechanism aims **to put a price on carbon emissions resulting from the import of certain goods. This comprehensive set of changes to the existing EU Emissions Trading Scheme should lead to an overall reduction of 61% in emissions in the impacted sectors by 2030 compared to 2005.**

As part of the *Fit for 55* legislative package, the European Commission also published a **proposal to revise the Energy Taxation Directive**[139]. The purpose of the proposal is to **increase the current EU-level target of a minimum 32% share of renewable energy in the total energy mix to at least 40% by 2030.** Even after the revision, the possibility for Member States to cut energy tax rates for certain sectors on grounds of energy efficiency or environmental protection or on grounds of fuel poverty is maintained.

On 22 December 2021, the Commission issued **a Communication on the next generation of own resources.**[140] The Commission proposes amending the December 2020 Council Decision on the own resources system so that part of the revenues generated by the legislative proposals on the carbon border adjustment mechanism and emissions trading (proposals submitted on 14 July 2021) will be allocated to the EU budget. **The Commission proposes that 25% of the revenues generated by EU emissions trading and 75% of the revenues from the carbon border adjustment mechanism will become an own resource of the EU budget.** The Commission also proposes **an own resource of 15% of the share of the residual profits of the largest and most profitable multinational enterprises.** This resource will be redistributed among Member States on the basis of the G20[141]/OECD agreement[142] on the reform of the international tax framework. This agreement is **the starting point of a complete overhaul of the international corporate tax framework.** The agreement has two pillars:

- adjusting international rules on how the taxation of corporate profits is apportioned between countries to reflect the changing nature of business models, including companies' ability to do business in certain jurisdictions (countries) without a physical presence. A certain proportion of the excess profits of multinational enterprises will be distributed to the jurisdictions in which the excess profits were generated;

- ensuring that multinationals are subject to a minimum effective tax rate on all their profits each year. This rate should apply to all multinational groups with combined financial revenues of more than EUR 750 million. It will be set at a rate of at least 15%.

A stable revenue stream from the new own resources should ensure that the repayment of the ***NextGenerationEU*** **instrument is predictable and stable.** The Commission **put forward a proposal to set up a** *Social Climate Fund*[143] **to protect vulnerable households** from the additional financial burden of the new EU Emissions Trading Scheme for construction and road transport. The fund's financial coverage should correspond to approximately 25% of the expected revenues from the inclusion of the construction and road transport sectors in the EU greenhouse gas emissions trading.

139 Proposal for a Directive of the European Parliament and of the Council amending Directive (EU) 2018/2001 of the European Parliament and of the Council, Regulation (EU) 2018/1999 of the European Parliament and of the Council and Directive 98/70/EC of the European Parliament and of the Council as regards energy support from renewable sources, and repeals Council Directive (EU) 2015/65, COM(2021) 557 final of 14 July 2021.

140 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: A new generation of own resources for the EU budget, COM(2021) 566 final of 22 December 2021.

141 The G20 is a group of the world's 19 largest economies and the EU's single internal market.

142 On 8 October 2021, the 137 countries that are members of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting agreed on a two--pillar system for the redistribution of multinational companies' profits and a global minimum effective tax rate.

143 Proposal for a Regulation of the European Parliament and of the Council establishing a Social Fund for Climate Action, COM(2021) 568 final of 14 July 2021.

In addition to its corporate taxation priorities, the Commission[144] proposes **other new own resources, which could include a financial transaction tax and an own resource linked to the corporate sector. This second package will build on the proposal for** *Business in Europe: framework for income taxation*[145] and is planned for 2023.

Additional measures have been proposed or adopted to combat tax evasion. In March 2021, the Council adopted a Directive[146], amending the Directive[147] on administrative cooperation in the field of taxation in relation to the use of digital platforms for the sale of goods and services. It did so mainly because, although digital platforms are used by a large and growing number of individuals and businesses for the sale of goods and services, the income generated through these platforms often remains unreported and untaxed. This is particularly the case when digital platforms operate in more than one country.

As a result, merchants operating on these digital platforms ultimately gain an unfair advantage over traditional businesses and Member States lose tax revenue. The Directive therefore imposes an obligation on the operators of digital platforms to report revenues realised by vendors. The Member States themselves are also obliged to automatically exchange information on revenues generated on digital platforms.

The new rules should apply from January 2023. Compliance with the requirements set out in the Directive should be easier for operators of digital platforms as they will only have to report in one Member State, in line with the common EU framework. On the other hand, national tax authorities will be able to identify income generated through digital platforms and determine the relevant tax obligations. The new rules also provide a framework148 within which the competent authorities of two or more MS can carry out joint controls. Other changes to the Directive aim to improve both cooperation between Member States' tax authorities149, and the exchange of information itself. Improvements are also supposed to be made to the rules to allow officials to be present during an investigation in another Member State or to the rules governing the conduct of simultaneous controls.

On 24 November 2021, the EP and the Council adopted a **Directive**[150] **on greater tax transparency for large multinational companies.** Until now, large multinationals had no obligation to report on where they make their profits and where they pay tax in the EU on a country-by-country basis. **At the same time, aggressive tax planning and tax avoidance by large multinationals is estimated to have deprived EU countries of tens of billions of euros of revenue per year.**

The proposal for **a Directive was put forward by the Commission in 2016151 and is part of its action plan for a fairer corporate tax system.** The purpose of the Directive is to ensure that both multinational companies and stand-alone companies with total consolidated revenues exceeding €750 million are not subject to the same tax treatment as other companies. In each of the last two consecutive accounting periods, they should issue a separate report disclosing the income tax paid in each MS or disclosing information on income tax paid in each MS and in each third country listed in the Annex to the Council Conclusions on the EU list of non-cooperative jurisdictions for tax purposes or listed in the Annex to the Council Conclusions for two consecutive years. These reports must be submitted in machine-readable electronic formats using a common EU form. The Directive does not apply to banks that are required to submit information under the terms of another Directive.

This Directive **establishes a complete and definitive list of information to be provided, the purpose being to avoid excessive or disproportionate administrative burdens.** The information should be disclosed only to the extent strictly necessary to enable effective public scrutiny. Reports must be submitted within 12 months of the balance sheet date of the relevant accounting period. Member States have been given 18 months to transpose the Directive into national law. Four years after the date of transposition, the

144 Communication from the Commission to the European Parliament and the Council: Corporate Taxation for the 21st Century, COM(2021) 251 final of 18 May 2021.

145 Business in Europe: Framework for Income Taxation (BEFIT).

146 Council Directive (EU) 2021/514 of 22 March 2021 amending Directive 2011/16/EU on administrative cooperation in the field of taxation.

147 Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC.

148 This framework is to be operational in all MSs by 2024 at the latest.

149 For example, they will be able to obtain information on taxpayer groups more easily than before.

150 Directive (EU) 2021/2101 of the European Parliament and of the Council of 24 November 2021 amending Directive 2013/34/EU as regards the publication of income tax information by certain undertakings and branches.

151 Proposal for a Directive of the European Parliament and of the Council amending Directive 2013/34/EU as regards the publication of income tax information by certain undertakings and branches, COM(2016) 198 final of 12 April 2016..

Commission should present a report on the application of the Directive.

On 7 December 2021 **the Council** agreed[152], and the following year it **adopted a Directive153 updating the VAT rules and rates in line with Member States' current needs, primarily to provide more flexibility in the application of reduced or zero VAT rates.** In the context of Annex 3 of Directive 2006/112/EC[154] (VAT Directive), the list of goods and services allowed at reduced VAT rates will be extended. In the case of environmentally harmful goods, the use of preferential rates is also to be discontinued in the future.[155] **On the other hand, goods and services that have a positive environmental impact have been added to the list of reduced rate items. These include electric bicycles, waste recycling services and solar panels.** Exemptions negotiated specifically for selected Member States should now also be automatically applicable to all MS.

At the end of 2021, **the Commission presented initiatives to promote fair taxation in the EU. The first156 is related to the use of shell companies for tax purposes.** The Commission wants to ensure that entities with only minimal or no economic activity are not a burden on taxpayers and cannot benefit from any tax advantages. Individuals use shell entities to shield assets and real estate from taxes. On the basis of defined criteria for assessing such entities (origin of income, outsourcing of managerial and administrative staff or cross-border transactions), the new rules are intended to help tax authorities detect such entities. If an entity fails this assessment, it will not be able to benefit from tax advantages.

The second proposed Directive157 sets a minimum tax rate for the global activities of large multinational groups. In line with the October 2021 OECD global agreement on corporate tax reform**, this effective tax rate is to be 15%.** The proposed rules are to apply to any large international or domestic group with an annual turnover of more than €750 million whose parent or subsidiary is located in a Member State. If the low-taxation country in which the company was located did not impose the minimum effective rate, the MS could apply a top-up tax. The second part of the global agreement concerns the redistribution of taxation rights. The Commission intends to present a related proposal during 2022.

On 10 February 2022, the Commission presented **a proposal for a Council Directive158 to extend the application of the reverse charge mechanism**[159]. The Directive is intended to allow EU Member States to apply the reverse charge mechanism and make use of the rapid reaction mechanism against VAT fraud in very specific cases. The period for the use of these exceptional measures was set as temporary, lasting until 30 June 2022. **A definitive VAT system was to be introduced in the EU from 1 July 2022, but the state of negotiations on it is preventing it from entering into force. The Commission has therefore proposed to extend the above mechanisms and is preparing a modernisation of the existing VAT rules.**

152 Proposal for a Council Directive amending Directive 2006/112/EC as regards rates of value added tax - general approach, FISC 237, ECOFIN 1214, Brussels, 7 December 2021.

153 Council Directive (EU) 2022/542 of 5 April 2022 amending Directives 2006/112/EC and (EU) 2020/285 as regards rates of value added tax.

154 Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax.

155 For fossil fuels, etc. by 1 January 2030, for chemical fertilisers and pesticides by 1 January 2032.

156 Proposal for a Council Directive laying down rules on the prevention of abuse of cover entities for tax purposes and amending Directive 2011/16/EU, COM(2021) 565 final of 22 December 2021.

157 Proposal for a Council Directive on ensuring a global minimum level of taxation of multinational groups in the Union, COM(2021) 823 final of 22 December 2021.

158 Proposal for a Council Directive amending Directive 2006/112/EC as regards the extension of the period of application of the optional reverse charge mechanism in relation to the supply of certain goods and the provision of certain services with a high risk of fraud and the rapid response mechanism against VAT fraud, COM (2022) 39 in the final version of 10 February 2022.

159 This mechanism is used by the CS to combat VAT fraud.

In December 2021 the Commission reported that, according to the latest VAT collection report[160] the overall shortfall in VAT revenue in nominal terms decreased slightly again in 2019. This annual report provides an estimate of the shortfall in VAT revenue and measures the effectiveness of enforcement measures for this tax in each Member State. It also includes an estimate of revenue foregone due to fraud and tax evasion, tax avoidance, as well as bankruptcies, cases of financial insolvency and miscalculations. **The VAT gap decreased by almost €6.6 billion year-on-year to a total of €134 billion, or 10.3% in relative terms as a share of the total VAT liability161. The relative year-on-year reduction of the VAT gap was thus around 0.8%.**

Although the overall VAT gap has decreased in 18 EU Member States, there are still significant differences in the size of the relative shortfalls in VAT revenue.[162] In fact, in most Member States the year-on-year change in the VAT gap was less than two percentage points. **Half of the Member States, including the Czech Republic, registered a VAT gap above 8.6% in 2019.**

D.1.2 DEVELOPMENT OF BUDGET REVENUES IN THE CZECH REPUBLIC IN 2021

The Czech Republic responded to the changes to the VAT Directive, which are effective from 1 July 2021, by adopting Act No. 355/2021 Coll.[163] The Act came into force on 1 October 2021 and contains the following key changes:

- broadening of the registration of a person liable for VAT as a taxable person or an identified person;
- taxation of the sending of goods (now called distance selling) between Member States:
    - abolition of the limits of €35,000 or €100,000 in the case of goods sent from the CR to the EU;
    - abolition of the limit of CZK 1,140,000 in the case of goods sent from the EU to the CR;
    - introduction of a €10 000 limit;
- abolition of the VAT exemption for imports of goods with an intrinsic value not exceeding €22 from a third country;
- modification of the area of deliveries (of goods) facilitated by the operator of an electronic interface (digital platform);
- broadening of the One Stop Shop scheme.

Tax entities could proceed voluntarily from 1 July 2021 to 30 September 2021 according to the direct effect of the EU VAT Directive, as the changes specified in this Directive were not transposed into the Czech VAT legislation by 1 July 2021 due to the delay in the legislative process. **The One Stop Shop scheme** is intended to facilitate the declaration and payment of VAT on selected supplies in Member States where the supplier of goods or services does not have an establishment or registered office. It can be used for distance sales of goods, distance sales of goods up to €150 from a third country, cross-border supplies of services to non-EU taxable persons or supplies of goods facilitated by the taxable person using an electronic interface.

160 VAT Gap in the EU, Report 2021, Publications Office of the European Union, Luxembourg, 6 December 2021.
161 VAT revenue increased by 3.8%, while total VAT liability increased by 2.9%, leading to a decrease in the VAT gap in both relative and nominal terms.
162 In addition to Malta, the largest increases in the VAT gap were observed in Slovenia and Romania. In contrast, apart from Croatia and Cyprus, the most significant reductions in the VAT gap were observed in Greece, Lithuania, Bulgaria and Slovakia.
163 Act No 355/2021 Coll., amending Act No 235/2004 Coll., on value added tax, as amended, and Act No 242/2016 Coll., Customs Act, as amended.

According to the Commission, the advantage of this scheme is that **VAT is paid at the point of consumption of the goods, which will simplify the process for businesses operating in the European Digital Single Market and increase tax revenues.** According to the Commission's impact study, the introduction of these measure should eliminate the current loss of revenue to Member States on these transactions, **estimated at €7 billion per year.**

The 2021 tax package, effective (with exceptions) from 1 January 2021, brought a number of significant changes, primarily to the Income Tax Act. The 2021 tax package was promulgated on 31 December 2020 as Act No 609/2020 Coll.[164] **The process of promulgating this Act was highly unusual** as it was not signed by the president and the president did not agree with it (which could be understood as a presidential veto). Moreover, it was promulgated before the expiry of the president's veto deadline. The Constitutional Court, however, in its ruling Pl. ÚS 6/21 found the promulgation of the law to be constitutional.

The tax package brought the following principal changes:

- **abolition of the super gross wage** along with **the introduction of a progressive tax rate** – a 15% tax rate applies up to 48 times the average wage and a 23% rate applies to the tax base above 48 times the average wage;

- **increase in the discount per taxpayer** by CZK 3,000 for 2021, i.e. to CZK 27,840, and by a further CZK 3,000 from 2022, i.e. to CZK 30,840;

- **tax support for the cash catering allowance** (which could first be claimed for January 2021);

- **changes affecting depreciation of fixed assets** – above all an increase in the value threshold for tangible assets from CZK 40,000 to CZK 80,000, and acceleration of depreciation of investments by restoring extraordinary depreciation and abolishing the category of intangible assets for legal entities.

Companies and cooperatives can publish their 2021 financial office through the tax office for the first time, so changes were made to the corporation tax return as regards the financial statements filed as part of the tax return. **The change to the tax code is effective** from January 2021[165], **extending the deadline for filing the tax return;** this deadline is automatically extended from three to four months if the tax return is filed electronically.

The tax package introduced changes to VAT following up the changes to income taxes on fixed assets, and also **moved waste recycling to the 15% VAT** rate from 1 January 2021. Another change in VAT was brought about by the finance minister's decision to grant **an extraordinary exemption from value added tax on the supply of electricity or gas for November and December 2021.**[166] The ministry thereby responded to the sharp hikes in the prices of these commodities on world markets.

The tax package also affected **excise duties** and changed the tax rates on tobacco products with effect from 1 January 2022 (and again from 1 January 2023). Based on an amendment adopted by the Chamber of Deputies, the increase in tax rates was **expedited compared to the original government proposal.** Specifically, the increase approved for 2022 was moved forward to 2021 and the tax increase **will continue to increase by 5% per year in 2022 and 2023.**

Act No 39/2021 Coll.[167] **temporarily increased the limit for deduction of donations to 30% of the tax base.** This increase applies to the 2020 and 2021 tax years (in the case of a financial year, most recently for the financial year ending 28 February 2022). The extension of the application of this change to 2022 as well and other changes to the tax deduction for gifts are expected to be contained in an act on tax measures in connection with the armed conflict on the territory of Ukraine caused by the invasion by Russian Federation troops. Approval of this act is still pending.

164 Act No 609/2020 Coll., amending some tax laws and some other laws.
165 Act No 283/2020 Coll. amending Act No. 280/2009 Coll., the Tax Code, as amended, and other related laws.
166 Decision on exemption from value added tax due to an extraordinary event, Financial Bulletin, volume LV, amount 34, 20 October 2021.
167 Act No 39/2021 Coll., amending Act No. 586/1992 Coll., on income taxes, as amended.

D.1.3 ECA REVIEWS

The output of ECA reviews are thematic reports, drawing on the ECA's knowledge and experience gained mainly through audit and monitoring activities. This type of report replaced the previous "situation reports", "briefing papers" and "rapid reviews" in 2019.

In January 2022, the ECA published **a review on energy taxation, carbon pricing and energy subsidies**[168]. The ECA concluded that **energy taxation can support climate protection efforts, but current tax levels did not reflect the extent to which different energy sources pollute.** While renewable energy subsidies almost quadrupled between 2008 and 2019, fossil fuel subsidies remained stable. This is despite the fact that the Commission and some Member States committed to phasing them out.

The ECA highlighted **three areas of concern in relation to the EU's 2050 climate neutrality target.** These are ensuring consistency in energy taxation across sectors and energy carriers; reducing fossil fuel subsidies; and reconciling climate objectives with social needs.

Under the current Energy Taxation Directive, more polluting energy sources can be given a tax advantage over carbon-efficient energy sources. For example, coal is taxed less than natural gas and some fossil fuels are taxed significantly less than electricity. Although most Member States impose high taxes on fuels, in a few the taxes are close to the minimum level, which may lead to distortions in the internal market. The ECA stated that although some energy subsidies can be used to move towards a less carbon-intensive economy, fossil fuel subsidies hinder an efficient energy transition. **In total, Member States' fossil fuel subsidies amount to more than €55 billion per year and 15 MS spend more on fossil fuel subsidies than on renewable energy subsidies.**

The ECA warned that **the impact of energy taxation on households can be significant and may lead to resistance to energy taxation.** The amount households spend on energy (including heating and transport) varies considerably: in some cases – **for example the poorest households in the Czech Republic and Slovakia – these costs can account for more than 20% of household income.** In order to alleviate the risk of tax reforms being rejected, the ECA argues that reductions in other taxes should be encouraged, redistributive measures should be adopted and there should be greater transparency about the reasons for tax reforms.

168 Review 01 *Energy taxation, carbon pricing and energy subsidies*, ECA, Luxembourg, 31 January 2022.

D.2 EXPENDITURE CO-FINANCED BY THE EUROPEAN STRUCTURAL AND INVESTMENT FUNDS

Cohesion policy is one of the EU's oldest and most complicated policies. Since its inception in the 1980s, its primary objective has been the integration of less developed regions. Cohesion policy gradually developed through strategic frameworks for programmes based on EU priorities and has become, in principle, the EU's main expenditure policy. In the late 20th century it underwent a series of reforms in response to deepening economic integration, together with the preparations for the single currency. With the accession of Central and Eastern European countries at the beginning of the new millennium, further reforms were associated with re-channelling expenditure to the new Member States.

For PP14+, the governance of cohesion policy was reformed to improve efficiency and effectiveness. The measures adopted focused closely on the objectives set out in the programming strategies and on the achievement of spending targets, including through **the introduction of ex-ante conditions and the performance reserve. These measures have proven entirely successful.** The coordination of Member States' economic and employment policies in the framework of the European Semester also had a positive impact on Cohesion policy in PP14+. Three crisis events, namely **Brexit, the Covid-19 pandemic and the Russian invasion of Ukraine, had the opposite impact on cohesion policy.**

PP21+ provides further incentives to rethink the principles of Cohesion policy. **The priority is to channel financial support, together with investments from the new Recovery and Resilience Facility**[169], into **projects aiding post-pandemic economic recovery, coping with social shocks and improving resilience to future shocks.** Efforts to accelerate both green transformation (to tackle climate change) and digital transformation (to address differential social and territorial impacts) are also crucial. At the same time, the transformations should be "orderly and fair". Cohesion policy should **retain its strategic and long-term focus on convergence and reducing inter-regional disparities,** but should also be **able to respond to short-term crises.** Using this policy to respond to a crisis, however, absorbs significant administrative resources and risks diverting political attention and funding away from the main purpose of the policy.

The question now is not only whether to rethink the principles of Cohesion policy, but above all how. While the basic principles enshrined in the 1988 reform of the Structural Funds have remained in force, the procedures for applying them have changed over time, as is particularly evident in the principle of concentration on less developed areas. From 2007 onwards, all regions, including the more prosperous ones, became eligible for support from the Structural Funds. While the partnership principle remains in place, there has been a rationalisation of regional programmes and a centralisation of decision-making in several Member States where the extent of Cohesion policy funding has decreased over time. The additionality principle, which requires that EU funding should not replace national funding, has even been abolished for PP21+.

The relationship between Cohesion policy and other EU policies is also complex. EU funding is multifaceted with a number of financial instruments (the Recovery and Resilience Facility is one example) impacting on economic, social and territorial cohesion. Furthermore, the Commission has identified strengthening coordination and ensuring a clear definition of EU funds and instruments and developing their complementarity as key objectives for PP21+. **The Commission regards the growing complexity of the management system, which places increased demands on both administrative capacity and quality in Member States, as an enduring problem. The current challenge is therefore to devise a single regulatory framework for managing and financing the funds and to rethink the shared management model.**

(This explanatory foreword was drawn from an article by Professor **John Bachtler** of the European Centre for **Policy Research entitled Cohesion Policy** – Where has it come from? Where is it going? which was published by the European Court of Auditors on 3 June 2022.)

169 The Recovery and Resilience Facility is not part of Cohesion policy.

D.2.1 ABSORPTION OF ESIF FUNDS IN THE 2014–2020 PROGRAMMING PERIOD (AS AT 31 MARCH 2022)[170]

The following passages of *EU Report 2022* (specifically sections D.2.1.1 to D.2.4.2) were prepared by the Ministry of Regional Development, as the national coordinating authority, at the request of the Supreme Audit Office.

D.2.1.1 CALLS ANNOUNCED IN PP14+ PROGRAMMES

From the beginning of PP14+ to 31 March 2022, a cumulative total of 1,176 calls were announced for all programmes, with an allocation of CZK 906.3 billion (EU contribution) which represents 137.8% of the total allocation of CZK 657.7 billion for this programming period.[171]

Of all the programmes, OP EIC, followed by IROP and OP T have so far announced the highest volume of calls in absolute terms.

The NCA also monitors the announced calls' share of the total allocation for individual programmes. At the end of March 2022, the highest share of calls in relation to the total programme allocation had been announced by the managing authorities of OP Fisheries 2014-2020 (OP F), OP EIC and OP *Prague – growth pole of the Czech Republic* (OP PGP).

Table 13: Announced calls in individual programmes as of 31 March 2022

Programme		Managing Authority	Fund	Calls	Volume of announced calls CZK billion)	Share of announced calls for total allocation
OP	Abbr.					
OP Enterprise and Innovation for Competitiveness 2014–2020	OP EIC	Ministry of Industry and Trade	EIC	339	192.4	195.5%
OP Research, Development and Education	OP RDE	Ministry of Education, Youth and Sport	RDE	76	98.9	139.5%
OP Employment 2014–2020	OP Em	Ministry of Labour and Social Affairs	ESF (+YEI*)	128	75.8	124.0 %
OP Transport	OPT	Ministry of Transport	ERDF FS	77	157.4	134.5 %
OP Environment 2014–2020	OP En	Ministry of the Environment	ERDF FS	161	108.8	158.2 %
Integrated Regional Operational Programme	IROP	Ministry of Regional Development	ERDF	104	186.1	123.8 %
OP Prague – Growth Pole CR	OP PGP	Prague	ERDF ESF	60	8.3	161.4 %
OP Technical assistance	OP TA	Ministry of Regional Development	FS	4	5.8	106.4 %
Rural Development Program for 2014–2020	RDP14+	Ministry of Agriculture	EAFRD	168	71.0	89.1 %
OP Fisheries 2014–2020	OPF	Ministry of Agriculture	EMFF	59	1.8	233.9 %
Total				**1,176**	**906.3**	**137.8 %**

Source: MS2014+, MA, as of 31 March 2022.
Legend: * *Youth Employment Initiative.*

170 An assessment of the achievement of the specific substantive objectives of the Partnership Agreement is presented in Chapter 3.3 of the *Annual Report on the Implementation of the Partnership Agreement for 2021.*
171 The exchange rate used for the conversion was the March 2022 rate of 24.66 CZK/€.

D.2.1.2 CURRENT STATE OF PP14+ PROGRAMMES DRAWDOWN

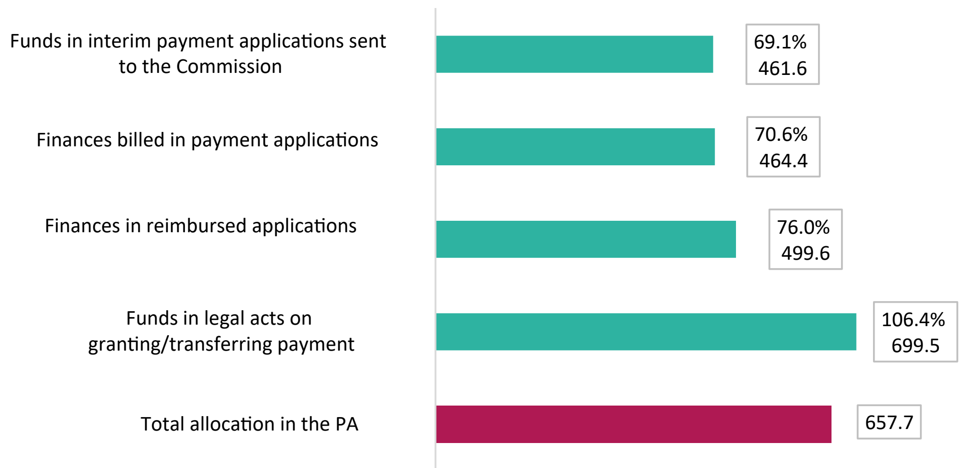
By the end of March 2022, legal documents on granting/transferring support totalling CZK 699.5 billion had been issued under the announced calls, representing 106.4% of the total allocation for the programming period. OP *Technical Assistance* (OP TA) had the highest share of funding in legal documents issued in relation to the total programme allocation, followed by OP F and OP EIC.

By the end of March 2022, CZK 499.6 billion had been paid to beneficiaries, i.e. 76.0% of the total allocation. The largest amount of funds in relation to the total programme allocation was paid out in OP RDE, OP TA and OP Em.

The volume of funds billed in payment requests at the end of March 2022 amounted to CZK 464.4 billion, i.e. 70.6% of the total allocation. Again, the highest billing of funds in relation to the total programme allocation occurred in OP TA, OP RDE and OP Em.

By the end of March 2022, *interim payment requests* **worth CZK 461.6 billion, i.e. 69.1% of the total allocation, had been sent to the Commission** (this figure takes into account financial corrections made in the context of the closure of accounts).

Chart 20: The state of usage of the PA as of 31 March 2022 (%, billion CZK)



Source: MS2014+, MA, MoF – PCA, as of 31 March 2022; rate EUR 1 = CZK 24.66

NB: The graph does not cover programmes under the European territorial cooperation objective.

Legend: * This figure takes into account financial corrections made in the context of the closure of accounts.

Table 14: The state of utilization of programmes in PO14+ as of 31 March 2022 (EU contribution)

Programme	Financial resources in legal acts on the provision/transfer of support			Funds in reimbursed payment requests		Funds billed in payment requests	
	Number*	Billion CZK	% total allocation	Billion CZK	% total allocation	Billion CZK	% total allocation
OP EIC	13,357	113.9	115.7%	67.6	68.7%	62.8	63.8%
OP RDE	20,960	79.6	112.2%	71.0	100.2%	55.9	78.9%
OP Em	9,356	68.8	112.4%	52.0	85.0%	47.7	78.0%
OPT	315	132.4	113.0%	93.5	79.9%	89.6	76.5%
OP En	9,473	66.7	97.0%	51.0	74.2%	50.0	72.7%
IROP	12,230	160.5	106.8%	93.1	62.0%	93.0	61.9%
OP PGP	1,483	5.5	106.6%	4.0	78.6%	3.3	64.3%
OPTA	253	6.6	121.7%	4.7	86.3%	4.7	86.3%
RDP	331,697	64.6	81.0%	62.0	77.8%	56.8	71.2%
OPF	1,165	0.9	120.2%	0.6	73.4%	0.6	73.4%
Total for the fund:							
ERDF	28,813	358.9	109.7%	225.1	68.8%	210.9	64.5%
CF	7,705	169.7	109.0%	127.5	81.9%	124.1	79.7%
ESF (+IZM)	30,909	105.3	111.7%	84.3	89.4%	72.1	76.4%
EAFRD	331,697	64.6	81.0%	62.0	77.8%	56.8	71.2%
EMFF	1,165	0.9	120.2%	0.6	73.4%	0.6	73.4%
Total	**400,289**	**699.5**	**106.4%**	**499.6**	**76.0%**	**464.4**	**70.6%**

Source: MS2014+, MA, as of 31 March 2022.

NB: The funds billed may be higher than the funds disbursed in the case of programmes where ex-post funding is applied, as in this type of financing the funds are only disbursed some time after they are billed.

In the case of financial instruments, the funds billed cover the funds provided to final beneficiaries (not the contribution to the financial instrument).

Legend: * The total number of projects with a legal document granting/transferring support also includes area measures (including commitments from previous years) under the RDP.

Table 15: The state of utilization of programmes in PO14+ as of 31 March 2022 (EU contribution)

Programme	Total allocation	Summary requests from managing authorities (approved)[1, 2]		Applications for interim payment sent to the Commission [2, 3]	
	CZK	Kč	%	Kč	%
OP EIC	98,384,631,462.42	65,526,895,975.31	65.4	60,896,325,698.44	60.8%
OP RDE	70,904,462,449.74	54,080,584,040.37	75.4	53,058,796,875.79	73.9%
OP Em	61,160,014,266.47	46,686,693,518.27	75.4	46,057,248,398.47	74.6%
OPT	117,086,060,578.99	85,568,894,869.72	72.0	83,546,955,382.02	70.5%
OP En	68,791,869,848.56	49,704,690,233.93	68.9	55,422,386,036.61	77.1%
IROP	150,245,940,245.89	91,050,533,545.64	59.4	96,610,967,365.03	63.0%
OP PGP	5,141,894,909.59	3,398,528,365.00	64.9	4,273,563,894.24	82.3%
OP TA	5,419,802,725.79	4,479,252,594.02	81.8	4,399,670,787.51	80.6%
RDP	79,765,093,174.38	56,786,975,162.30	71.5	56,786,975,162.30	71.5%
OPF	767,123,649.90	536,320,358.00	67.2	510,670,523.67	63.8%
Total for the fund					
ERDF	327,153,930,719.60	210,142,879,887.08	63.0	211,665,796,121.91	63.5%
CF	155,677,707,788.30	119,984,463,551.87	75.1	123,436,353,088.04	77.5%
ESF (+IZM)	94,303,037,979.55	70,368,729,703.31	73.7	69,163,765,228.16	72.5%
EAFRD	79,765,093,174.38	56,786,975,162.30	71.5	56,786,975,162.30	71.5%
EMFF	767,123,649.90	536,320,358.00	67.2	510,670,523.67	63.8%
Total	**657,666,893,311.73**	**457,819,368,662.56**	**68.4**	**461,563,560,124.08**	**69.1 %**

Source: MoF – PCA, RDP managing authority, as of 31 March 2022.

NB: 1) In the case of the RDP, this is the state of funds billed in payment applications.
2) The percentages are based on values in euros, as these values remain constant (not dependent on the exchange rate).
3) The state of payment applications taking into the closure of accounts represents the current state of drawdown of the allocation as it includes financial corrections made in the context of the closure of accounts.

In cumulative terms, the Czech Republic ranks ninth in the EU-28 in terms of the uptake of ESIF support (EU share) in 2021. The Czech Republic has successfully speeded up drawdown in the last four years.

D.2.1.3 COMPLIANCE WITH THE N+3 RULE

Table 16 shows the status of compliance with the n+3 rule (i.e. fulfilment of the spending limit) for 2022 for individual programmes as of 31 March 2022. **The drawdown limit for 2022 was reached by the end of March 2022 in nine out of the ten programmes.**

Table 16: Fulfilment of the n+3 rule for 2022 as of 31 March 2022 (EU contribution) (€)

Programme	Allocation for 2019 (n+3 rule)	Advance payments until 2022	Payment application submitted by 31 March 2022	Fulfilling the limit	Remaining to be used up in 2022
	(€)	(€)	(€)	(%)	(€)
OP EIC	3,342,531,786	802,290,835	2,428,663,530	96.7	111,577,421
OP RDE	2,207,810,386	533,543,972	2,070,595,745	118.0	0
OP Em	1,715,011,979	426,872,937	1,806,068,179	130.2	0
OPT	3,625,317,064	885,516,162	3,257,834,268	114.3	0
OP En	2,195,977,523	524,698,525	2,180,325,733	123.2	0
IROP	3,758,081,056	1,037,643,298	3,736,354,549	127.0	0
OP PGP	160,788,562	38,856,492	166,902,071	128.0	0
OP TA	179,270,841	43,532,678	170,144,403	119.2	0
RDP	1,872,170,179	69,170,220	2,192,829,789	120.8	0
OPF	24,875,304	5,996,070	20,350,403	105.9	0
Total	**19,081,834,680**	**4,368,121,189**	**18,030,068,672**	**X**	**111,577,421**

Source: MoF – PCA, MA of RDP, as of 31 March 2022.

D.2.2 COVID-19

D.2.2.1 REALLOCATIONS AND OTHER PROGRAMME CHANGES

The Commission **modified the ESIF legislation (CRII and CRII+) in response to the Covid-19 pandemic. Revisions of programmes** responding to Covid-19 can be carried out in an accelerated mode (shorter timeframe for the Commission to approve programme modifications); **support for new activities responding to the pandemic is permitted;** requirements for thematic concentration, categorisation of regions etc. **were simplified. Eligibility of expenditure for programme revisions in response to Covid-19 is from 1 February 2020.**

During 2021, **the Czech Republic sent a total of seven requests for programme revisions to the Commission and five notifications were made.** All the requests were approved. In total, changes were made to eight programmes.

The most significant changes **included transfers of funds within programmes and changes related to the use of the additional allocation provided to the Czech Republic under REACT-EU** (see below). Notifications were related to the use of the **100% EU co-financing rate,** a facility temporarily allowed as part of the EU response to the Covid-19 pandemic.[172]

172 The use of the 100% co-financing rate was made possible by Article 25a *Exceptional measures for the use of the ESI funds in response to the COVID-19 outbreak* of Regulation (EU) 2020/558 of the European Parliament and of the Council of 23 April 2020 amending Regulations (EU) No 1301/2013 and (EU) No 1303/2013 as regards specific measures to provide exceptional flexibility for the use of the European Structural and Investment Funds in response to the COVID-19 outbreak (CRII+). This increase applied to expenditure declared in payment applications sent during the accounting period, i.e. from 1 July 2020 to 30 June 2021.

D.2.2.2 REACT-EU

Under REACT-EU[173], the EU's instrument to support the recovery from the crisis caused by the Covid-19 pandemic, the Czech Republic **was allocated a total of approx. €1,151.8 million.** The allocation was divided into two tranches. **The first tranche amounting to approx. €834.7 million was transferred to IROP** on the basis of government resolution no. 811 of 27 July 2020. The related request for revision of the programme was approved by the Commission on 27 May 2021. The financial volume of the second tranche was fixed on the basis of GDP and unemployment data for the Czech Republic and the EU-27 available on 19 October 2021 and **amounted to approx. €317.1 million.** Based on government resolution no. 983 of 5 November 2021, this tranche was split between IROP (€313,203,897) and **the Operational Programme for Food and Material Assistance** (OP FMA)174 (€3,889,688). The request for revision of IROP for the second tranche was sent to the Commission on 17 December 2021 and approved in January 2022.

The additional funding can be used exclusively for operations supporting recovery from the Covid-19 pandemic and for preparing for a green, digital and resilient recovery by investing in operations contributing to the transition to digital and green economy. Expenditure is eligible from 1 February 2020 and funded projects must be completed by the end of 2023.

Table No 17: Overview of the usage of additional funding for the CR provided under REACT-EU (€)

Programme	Allocation for 2021	Allocation for 2022	Supported activities
IROP	834,776,027	313,203,897	Support of healthcare, integrated rescue system and social infrastructure. Additional technical assistance of the program.
OP FMA (FEAD)	0	3,889,688	Food and material assistance to the most vulnerable people (food banks, etc.).

173 Regulation (EU) 2020/2221 of the European Parliament and of the Council of 23 December 2020 amending Regulation (EU) No 1303/2013 as regards additional resources and implementing arrangements to provide assistance for fostering crisis repair in the context of the COVID-19 pandemic and its social consequences and for preparing a green, digital and resilient recovery of the economy (REACT-EU)

174 OP FMA draws funding from the *Fund for European Aid for the Most Deprived* (FEAD) to help the most vulnerable people (homeless people, single parents, seniors etc.). The aid is of a non-financial nature, mostly food, hygiene products etc. In the CR, this fund is managed by the MoLSA. The FEAD is one of the funds directly managed by the Commission, so it is not a direct part of the Partnership Agreement.

D.2.3 STATE OF FULFILMENT OF THE PREREQUISITES FOR UTILISATION OF THE ALLOCATION TO THE CR FOR PP21+

New EU legislation has entered into force for PP21+. In relation to Cohesion policy, this is mainly the New General Regulation. The new general regulation no longer deals with the ESIF. It redefines the group of "EU funds" (EU funds), which now includes:

- *European Social Fund plus;*
- *European Regional Development Fund;*
- *Cohesion Fund;*
- *European Agricultural Fund for Rural Development;*
- *European Maritime, Fisheries and Aquaculture Fund (EMFAF);*
- *Asylum, Migration and Integration Fund;*
- *Internal Security Fund;*
- *Border Management and Visa Instrument;*
- *Just Transition Fund.*

D.2.3.1 KEY MILESTONES, CURRENT STATE OF PREPARATION AND NEGOTIATION OF THE PARTNERSHIP AGREEMENT AND PROGRAMMES WITH THE COMMISSION

Another key document for EU funds at national level in PP21+ **is the Partnership Agreement, which covers the use of EU funds under Cohesion policy. The PA is based on Article 10 of the New General Regulation and the NCA is responsible for the agreement.** The PA is followed up by the individual programmes, which the respective managing authorities (MAs) are responsible for.

Due to its nature, the PA is also binding for the programme documents of the various programmes. It is hierarchically superior to them and these programmes are based on it in terms of their focus and content. **The PA does not, however, contain detailed information on the programmes; it is a more general document. Issues related to the future functioning of the programmes are covered in the programme documents themselves. The PA defines the basic strategic framework, i.e. the basic range of interventions supported by EU funds in the CR, and also defines the expected results to be achieved in each substantive area.**

Under the leadership of the MoRD, the PA was drawn up under a broad partnership that included representatives of the Commission, individual ministries, regional and local governments, employers' and employees' associations, the non-profit sector, academia and many others. **The PA is thus a document based on broad consensus of all stakeholders in the Czech Republic.**

The CR has long been one of the most advanced countries in the preparation of the PP21+ compared to other Member States and has repeatedly been commended by the Commission for the standard of its work on and its approach to the discussion of the relevant documents.

Nevertheless, the start of drawdown in the new period is delayed. The key factor that delayed the overall preparation was **the lengthy negotiations on the legislation at EU level.** The delay was mainly caused by the Covid-19 pandemic and the urgent need to negotiate new European measures proposed to tackle it (REACT-EU, Recovery and Resilience Facility). As a result, the Cohesion policy legislation for the 2021–2027 period was only approved at the end of June 2021 (i.e. half a year later than in the 2014–2020 period).

Despite the fact that the final legislation was not available until mid-2021, the NCA worked intensively to prepare the PA and **the main concept of the use of EU funds** in the CR and the main funding priorities in the 2021–2027 period were submitted to the government **as early as in spring 2019.** These activities led in 2019 to a decision on programmes in the CR, i.e. their number (eight), targeting and the responsible managing authorities.

This was followed by two years of intensive debate with a wide range of partners on the focus of support, including the corresponding financial sums. **As a result of these efforts, the Czech government approved the distribution of allocations among the various programmes in spring 2021.**

The PA was approved by the government in September 2021, followed by **the approval of almost all the programmes between September and November 2021.**

In 2020 and 2021, the NCA held **very intensive discussions with the Commission (informal negotiations),** during which they had a number of meetings and exchanged several draft versions of the PA and programmes, with the Commission issuing its comments on them.

In the second year, the preparation of the PA and programmes passed the following key milestones:

- On 27 September 2021, the PA was discussed and approved by Czech government resolution no. 841, on the Partnership Agreement for the programming period 2021–2027.

- In the following months, all the major open issues in the PA negotiations with the Commission (in particular transfers between funds and between categories of regions, the calibration of Cohesion Fund support for transport vs. environment) were resolved. Informal PA negotiations with the Commission were thus concluded.

- **On 16 December 2021, the PA was submitted to the European Commission for formal negotiation and approval via the EU's fund management system SFC21+**[175] (according to the New General Regulation, the Commission will adopt a decision on the approval of the PA by means of an implementing act within four months of its submission by the Member State). **The Czech Republic entered into the formal dialogue without any substantial comments from the Commission that could not be resolved during the informal discussions.**

- On 20-22 December 2021, three programmes (OP JAK, OP Technical Assistance for the new programming period (OP TA21+) and OP Technologies and Applications for Competitiveness 2021–2027) were submitted to the Commission for formal negotiation and approval (according to the New General Regulation, the Commission will adopt a decision on the approval of a programme by means of an implementing act no later than five months from the date of the first submission of a programme by a Member State). On 5 January 2022, OP Employment Plus was submitted to the Commission for formal negotiation and approval.

- The other programmes (IROP21+, OP En21+ and OP Transport for the new programming period) were submitted to the Commission for formal negotiations on 17–20 January 2022, OP Fisheries 2021–2027 (OP F21+) on 15 February 2022 and lastly OP JT and the Territorial Just Transition Plan on 16 March 2022.

175 The Commission's information system for monitoring PP21+ administration.

- **On 22 February 2022, the Commission sent its comments** in the context of the formal **PA negotiations** (Observations letter). In the following weeks, the Commission also sent its formal comments on individual programmes. By the end of March 2022, only the last submitted OP JT programme had not received formal comments.

- Following the receipt of the formal observations on the PA and programmes, intensive negotiations were conducted with the Commission. Following the successful clarification of all comments, the PA was resubmitted to the Commission on 8 April 2022, initiating the approval process proper. Immediately after the PA, OP TA21+ was submitted to the Commission on 12 April 2022 after all comments had been resolved. The report of negotiations and submission of the other programmes will take place in late April and May 2022.

- **Commission approval of the PA is expected to occur in the second half of May 2022**[176]. The approval of individual programmes will follow.

Once the programmes are approved, the first calls will be announced. The largest volume of calls is subsequently planned for the second half of 2022.

In order to speed up the launch of PP21+ and the rapid roll-out of calls after the approval of the programmes, the managing authorities will pre-negotiate the relevant documents with partners within framework of “shadow platforms” or monitoring committees.

One exception is that the first call in OP En21+ for boiler subsidies with an allocation of CZK 5 billion was announced on 25 February 2022. The earlier announcement was made in view of the fact that the Air Protection Act, which would prohibit the operation of outdated boilers, was due to come into force on 1 September 2022. The deadline for banning the operation of old coal-fired boilers was finally postponed by the government on 8 April 2022 by two years, i.e. to 1 September 2024, in the light of the current energy situation.

D.2.4 MIGRATION CRISIS CAUSED BY THE WAR IN UKRAINE

D.2.4.1 RESPONSE TO THE DIRECT IMPACTS OF THE CRISIS

Due to the huge number of refugees (currently more than 360,000 persons with temporary residence in the Czech Republic), the NCA, in cooperation with the PP14+ operational programmes’ managing authorities, is addressing the possibility of providing for the refugees’ current needs in the field of accommodation, education or health out of EU funds. **In the 2014–2020 programming period, almost all funding allocated for Cohesion policy in the Czech Republic have already been exhausted, but the NCA is still trying to map the possibilities and to release at least some remaining funds to cover the costs of the consequences of this crisis.** The Commission is proposing and the competent authorities are adopting other measures (e.g. the approved CARE legislative package), but their utility for the Czech Republic is minimal due to limited resources. Moreover, a number of projects under preparation or already being implemented are jeopardised by the current situation.

In IROP, the remaining uncommitted allocation of approximately CZK 246 million will be used to help refugees. In OP En there are plans to hold a call for support for food banks with an allocation of CZK 200 million and support for up to 100% of total eligible expenditure. Projects that are in the implementation phase and financed by the European Social Fund (ESF) are being adapted to the needs of addressing the refugee crisis.

176 The partnership agreement in the 2021–2027 programming period was approved by the Commission on 24 May 2022 (information added after editorial deadline).

In addition, **the NCA is seeking to conclude the approval process for the PP21+ PA and new OPs as soon as possible.** Among other things, these OPs would help to secure funding for new projects responding to the current crisis.

D.2.4.2 RESPONSE TO THE INDIRECT EFFECTS OF THE CRISIS

The impact of the Covid-19 pandemic, inflation and current developments in the war in Ukraine suggest that many of the beneficiaries currently implementing EU projects in the Czech Republic may find it difficult to complete them on time. The cut-off date for the reimbursement of all eligible expenditure is fixed by the General Regulation at 31 December 2023. For that reason, the NCA is currently involved in an initiative with other Member States severely affected by the impact of the situation in Ukraine (Visegrad Group countries[177], Baltic countries, Romania, Bulgaria and Croatia) to negotiate with the Commission for a greater relaxation of the rules, and above all increased flexibility in Cohesion policy. **The Member States submitted a set of nine proposals for PP14+ and six proposals for PP21+.** These are proposals all the participating countries agreed on. The proposals for the first period include a further extension of time frame for **100% co-financing, an extension of the eligibility period or an increase in the limit for priority axis drawdown adjustments. For the period getting underway, the Member States proposed 100% co-financing for the first year** (years), **allowing eligibility for already completed operations or relaxing the conditions for thematic concentration.**

The NCA's goal is to protect projects supported by the European Union that cannot be implemented on time for objective reasons. One of the measures the NCA is seeking a relaxation of the rules for is "project phasing". **Project phasing is one of the ways to complete a European project with an EU co-financing value above €5 million** if it cannot be completed within the set time frame. In practice, this means that the project is divided into two parts by the beneficiary in cooperation with the MA. One part, which will be completed by 31 December 2023, will be financed by the operational programme under PP14+. The second part of the project will be financed by the follow-up operational programme in PP21+. **The NCA is seeking to get the €5 million threshold lowered, so that phase more projects could be "phased" and thus utilise support from European funds.**

Another area where Member States, including the Czech Republic, are proposing change is in **"non-functioning projects". These are European projects worth more than €2 million that could be completed later, up to 15 February 2026,** according to the Commission. If a European project is put in this category, the beneficiary gets more time to implement the project, but at the cost of covering the remaining part of the expenditure itself. **The NCA is seeking to reduce the project size limit here as well, or to remove the limit for the value of non-functioning projects.**

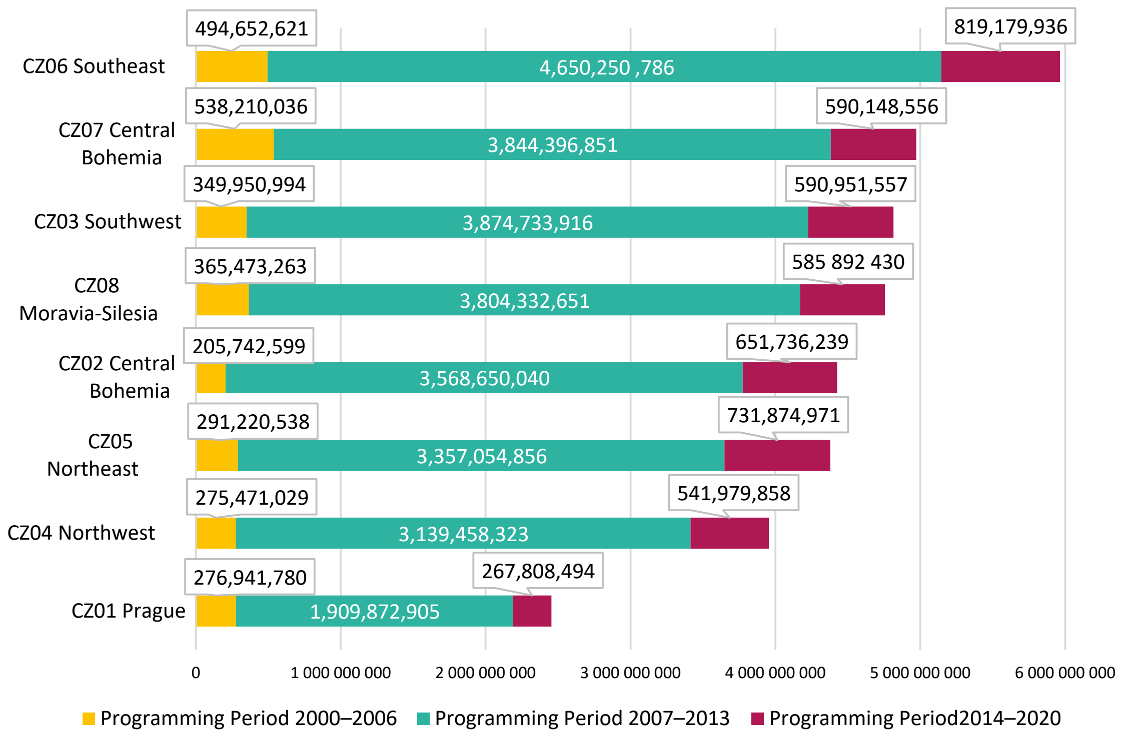
177 Czech Republic, Hungary, Poland and Slovakia (V4).

D.2.5 MAP OF PROJECTS SUPPORTED BY THE ESIF[178]

EU Report 2022 includes an interactive data annex that provides information on the use of EU budget funds in the area of economic and social cohesion policy in the Czech Republic (Annex 3). The data used come from open sources made available at European level by the Commission and at national level, in particular by the MoRD.

During its EU membership, the Czech Republic has received almost €35.73 billion from the EU budget for economic and social cohesion projects. The following chart shows the breakdown of these funds by NUTS2 cohesion region. The values are given for each programming period.

Chart 21: Distribution of EU budget funds in individual NUTS2 cohesion regions (€)



Source: https://kohesio.ec.europa.eu/en/.

The chart shows that **the largest total amount of EU budget funding was received by entities based in the NUTS2 Southeast cohesion region, with more than €5.96 billion. In contrast, the least EU funding went to the NUTS2 Prague region (over €2.46 billion),** which is not eligible for Cohesion support.

Given the structure of the available data, the analytical construction in part 4 of this data annex cannot be exhaustive. The aim of this analysis is to show readers some of the factors determining the use of EU funds in the Czech Republic (but undoubtedly also in other Member States) in the area of economic and social cohesion policy.

A detailed overview of projects implemented in the CR and co-financed by the ESIF is provided by the **"project map" on the website of the MoRD.**[179] The SAO divided **the projects listed in this database into 76 districts and the capital city of Prague depending on the beneficiaries' location.**[180] **The aim was to assess the overall distribution of support across the Czech Republic and point out any territorial imbalances.**

178 See https://infogram.com/1p90k5wm5vkz76t7lgx3ezjmn2i32966w5d?live.
179 See https://www.dotaceeu.cz/cs/statistiky-a-analyzy/mapa-projektu.
180 For the purposes of the analysis, Prague is introduced as a single unit at the district level.

The list of operations (beneficiaries)[181], which is populated with data from MS2014+, **contained more than 68,000 currently implemented or successfully completed projects at the time of the** *EU Report 2022* **editorial deadline.** The SAO analysis was intended to assess the specific territorial impact of the support, **but the structure of the available data contained the following limitations:**

- **The database does not include CAP and European territorial cooperation projects,** which represent a significant amount of financial support (about ¼ of total EU budget revenue); nor **does it include projects supported by programmes/funds directly managed by the Commission or from purely national sources.**
- The database does not take into account the fact that **many projects clearly transcend district boundaries** in terms of their nature and impact. This concerns mainly linear infrastructure constructions and beneficiaries with national or regional competence (ministries, offices with national competence, regional organisations, universities etc.).
- **The database does not indicate projects' place of implementation, only the beneficiary's location, so the local impact cannot be clearly identified.** Many beneficiaries are headquartered in a different district (most often Prague or other large cities) from the actual place of project implementation.
- The database also contains **projects** that are **in various stages of development,** so **the possibility that the administration of some of them will be terminated prematurely cannot be ruled out.**

The SAO performed its analysis both on the entire base set (more than 68,000 projects) and on a set excluding beneficiaries who, given the above list of limitations, had the most distorting impact on the objectivity of the initial analysis.

The initial analysis (see diagram 4) clearly showed that **the highest concentration of ESIF subsidies** for economic and social cohesion policy projects (per capita) is in the **districts in which regional capitals are located.**

Picture 1: Volume of co-financing from ESIF per district resident (basic file)

Source: https://www.dotaceeu.cz/cs/statistiky-a-analyzy/seznamy-prijemcu, MoRD.

After objectifying the input data (see diagram 5), i.e. after excluding beneficiaries whose activities have a clear supra-regional impact, it turned out that the **actual distribution of support per inhabitant of districts is significantly more even.**

181 See https://www.dotaceeu.cz/cs/statistiky-a-analyzy/seznamy-prijemcu.

Picture 2: Volume of co-financing from ESIF per district resident (after exclusion of selected beneficiaries)

Source: https://www.dotaceeu.cz/cs/statistiky-a-analyzy/seznamy-prijemcu, MoRD.

As can be seen in Figure 2, **even after the adjustment, districts with the largest cities** (Brno, Prague, Ostrava and others) are still among the largest beneficiaries of the aid. This is mainly due to the fact that **a large number of companies that are relatively large beneficiaries of ESIF support are located in these places.**

Some differences remain between districts. Among the more significant beneficiaries are entities located in the districts of Semily, Strakonice, Frýdek-Místek and Uherské Hradiště. Conversely, beneficiaries from the districts of Teplice, Louny, Jindřichův Hradec and Karviná received less from the EU budget.

However, **these disparities may be offset by higher levels of support in the CAP and European territorial cooperation areas,** which are not included in the SAO's analysis because the necessary input data is not available. **One of the other forms of "compensation" is support provided under projects of the Labour Office based in Prague** (one of the beneficiaries excluded from the analysis). **This support is mainly channelled into districts with higher unemployment rates,** such as the aforementioned Louny or Karviná districts.

D.3 EXPENDITURE ON THE COMMON AGRICULTURAL POLICY

D.3.1 RECENT DEVELOPMENTS IN THE COMMON AGRICULTURAL POLICY

The Common Agricultural Policy (CAP) has undergone significant reforms throughout its existence. The latest, **which was due to apply from 2021** (CAP 2021+), **is currently still under preparation.** The first discussions on CAP 2021+ were launched in 2016 and the Commission published the relevant legislative proposals in June 2018. Following extensive negotiations between the EP, the Council and the Commission, an agreement on the new CAP was reached in June 2021. With the formal approval of the necessary legislation by the European Parliament and the Council in the autumn of 2021, the new CAP **will start on 1 January 2023.**

In order to continue payments to farmers and other beneficiaries of CAP subsidies, a transition period **was introduced for 2021 and 2022, based on Regulation 2020/2220**[182]. During this two-year period, funding is drawn from the CAP budget allocation for 2021–2027. During the transition period, **most of the CAP rules in force for the 2014–2020 period remain in place,** with the inclusion of new elements that should contribute more significantly to the Green Deal and ensure a smooth transition to the future strategic CAP framework from 2023.

The CAP allocation for 2021–2027 is €378.53 billion. This sum will be reinforced by an additional €8.07 billion transferred from the NGEU recovery instrument to the EAFRD for rural development measures. At least 37% of these additional funds must be **earmarked for organic farmers and for environmental and animal welfare measures. A further 55% must go towards investments in resilient, sustainable and digital recovery and start-up aid for young farmers.** The total CAP 2021+ funding is therefore set at **€386.60 billion.**

The share of the EU budget spent on agriculture has been steadily declining for many years. Whereas in the early 1980s the CAP accounted for up to 66% of the EU budget, in PP14+ it was only 37.8% and for PP21+ it is just 31%.

The Czech Republic is expected to receive €7.73 billion (almost CZK 190 billion[183]) under the CAP in PP21+, €5.9 billion of which is for direct payments and €1.8 billion for rural development. However, this is a decrease compared to the 2014–2020 programming period, when the CR had €8.2 billion available for CAP.

The CAP has ten main objectives for the 2023–2027 period. These social, environmental and economic objectives will form the basis for each Member State's strategic plans for the CAP.

The Commission's proposals for 2023–2027 aim to **promote sustainable and competitive agriculture that can make a significant contribution to the objectives of the Green Deal, in particular the farm-to-fork and biodiversity strategies.** The Commission actively seeks to influence the development of national strategic plans through recommendations.[184] The CAP strategic plans are programming documents of the individual Member States, on whose basis support will be paid from both the first and second pillar of the CAP. **Thus, the two European agricultural funds** (*European Agricultural Guarantee Fund* (EAGF) and EAFRD) will now be **"under one roof".**

182 Regulation (EU) 2020/2220 of the European Parliament and of the Council of 23 December 2020 laying down certain transitional provisions for support from the European Agricultural Fund for Rural Development (EAFRD) and from the European Agricultural Guarantee Fund (EAGF) in the years 2021 and 2022 and amending Regulations (EU) No 1305/2013, (EU) No 1306/2013 and (EU) No 1307/2013 as regards resources and application in the years 2021 and 2022 and Regulation (EU) No 1308/2013 as regards resources and the distribution of such support in respect of the years 2021 and 2022.

183 The exchange rate used for the conversion was the March 2022 rate of 24.66 CZK/€.

184 This recommendation emphasises in particular the issue of incorporating the objectives of the Green Deal.

After long and complex discussions, the EU legislation was only officially promulgated on 6 December 2021. **The fixed deadline for Member States to send their CAP strategic plans to the Commission is 1 January 2022.** Given the delays in the negotiation of EU legislation and the need to discuss the necessary elements of the new CAP arrangements in individual Member States, this deadline was **not met not only by the Czech Republic but also by another eight Member States.** The CR submitted its CAP Strategic Plan for 2023–2027 to the European Commission on 28 January 2022 and received the Commission's comments on 25 April 2022. **The Commission's basic general observation is a better design for green architecture, i.e. more attention should be paid to environmental and climate protection.** The CR should focus its support more on renewable energy, ecosystems, afforestation, biodiversity, measures to address the impacts of drought and measures to ensure high-quality and safe food.

The main change compared to the original version of the CAP strategic plan is the **redistributive payment parameter, which will increase from the originally planned 10% to 23% of the total amount of direct payments. Support will be granted to all farms, regardless of their size, for the first 150 hectares,** which will give relatively more money to smaller and medium-sized farmers. One significant change in the new CAP is the higher level of co-financing of the RDP from public budgets. **This will be set at 65%,** which was requested by almost all agricultural organisations. The support will thus be comparable with other Member States and will enable Czech farmers to remain competitive at the European level. The co-financing rate in the 2014–2020 programming period from the state budget was 35%.

The Czech Republic holds the Council presidency for six months from 1 July 2022. In the area of agriculture, it wants to focus on making progress on the following priorities:

1. **Sustainable food production issues** include the sustainable use of pesticides, new genomic techniques in plant breeding and protective measures against plant pests.
2. With regard to **carbon farming,** it is important to meet the goals of the Green Deal, which envisages achieving carbon neutrality by 2050.
3. In the area of veterinary issues, this includes **animal welfare,** reducing the consumption of antimicrobials and revising the regulation on additives used in animal nutrition.
4. In the area of **food,** the main objective is to harmonise food labelling across the EU and to revise EU rules on the quality of agricultural products and food.
5. **In forestry,** the issue of deforestation and forest degradation will be the topic.

The Czech presidency's objectives are in line with the Commission's general objectives, which are:

- ensuring fair conditions and a stable economic future for farmers;
- higher environmental and climate ambition;
- preserving the role of agriculture as a fundamental component of European society.

These general objectives have been developed by the Commission into nine specific objectives of the CAP for 2023–2027185 (the strategic objectives focus on social, environmental and economic areas) and one cross-cutting objective on knowledge transfer. These specific objectives form the basis for each MS' CAP strategic plans.

185 See also *EU Report 2021*, F.3.1.

D.3.2 STATE OF CAP DRAWDOWN IN THE CZECH REPUBLIC IN 2021

In 2021, according to SAIF data[186], **nearly CZK 39.00 billion was paid out under the CAP in the Czech Republic.** More detailed data are given in Table 20.

Table 18: Overview of funds paid in the main areas of the CAP for 2021. (CZK million)

Expenditure area	EU´s contribution	CR´s contribution	Total
Direct payments	22,654	541	23,195
Common Market Organisation (CMO)*	440	463	903
RDP**	9,514	5,385	14,899
Celkem	**32,608**	**6,389**	**38,997**

Source: SAIF, April 2022.
Note: * The CMO includes the repayment of a CZK 21 million loan for intervention purchases.
**This is the sum of funds paid from RDP14+ (CZK 14,827 million), the Rural Development Programme of the Czech Republic for the period 2007-2013 (CZK 57 million) and the Horizontal Rural Development Plan of the Czech Republic for the period 2004-2006 (CZK 15 million).

D.3.2.1 DIRECT PAYMENTS

Direct payments make up **the largest part of subsidies paid in agriculture** and have been provided to Czech farmers since the Czech Republic joined the European Union in 2004. They are part of the first pillar of the CAP financed from the EAGF. These are **entitlement payments paid by the Agricultural Fund for Agriculture and Rural Development (EAFRD) to farmers depending on compliance with the conditions set for farming.** They are a secure source of money for farmers, almost regardless of their agricultural production. The Czech Republic provides transitional national support from the national budget. Applicants in the CR use a single application to apply for subsidies under direct payments and at the same time for subsidies from non-project measures of the RDP.

The last reform (2013) significantly changed the structure of direct payments for the 2015–2022 period, primarily by moving to a multi-component payment system that includes both mandatory and voluntary payments, greater emphasis on environmental friendliness, generational renewal in rural areas and support for sensitive commodities.

In view of the situation caused by the Covid-19 pandemic, the Commission adopted two measures to help the agri-food sector. The measures were aimed at **increasing cash flow towards farmers and reducing the administrative burden for national authorities and farmers.** The first measure was the decision to increase advance payments, in the case of the single area payment (SAPS)[187] from 50% to 70%, and to accelerate advance payments for SAPS (paid as early as mid-October 2021 and top-ups from December 2021). The second measure was a reduction in the number of physical on-the-spot checks to monitor compliance with eligibility conditions; for direct payments, the number of checks on beneficiaries was reduced from 5% to 3%.

In 2021, the SAIF paid out **a total of CZK 23.20 billion in direct payments.** This amount includes a financial discipline adjustment paid on the basis of Regulation 2018/1848[188] (the total amount to be reimbursed was CZK 315 million; the transfer of the forfeited share of subsidy refunds was another almost CZK 2 million). A significant part of direct payments comprised CZK 22.65 billion in funds paid from the EU budget. Half a billion koruna more was paid compared to 2020.

186 The source of the data is a material of the State Agricultural Intervention Fund (Common Agricultural Policy and Marketing Budget for 2021 and its Implementation as of 31 December 2021).
187 Single Area Payment Scheme.
188 Commission Implementing Regulation (EU) 2018/1848 of 26 November 2018 on the reimbursement, in accordance with Article 26(5) of Regulation (EU) No 1306/2013 of the European Parliament and of the Council, of the appropriations carried over from financial year 2018.

The SAPS is the **basic direct payment** to ensure a stable income for farmers. This payment is paid to farmers per hectare of cultivated agricultural land as recorded in the LPIS[189]. public land register. **The SAPS makes up at least 50% of what is known as the annual envelope**[190] and **is fully funded by the EU.** In 2021, 30,252 applications for a total area of 3,538,241 ha of agricultural land were submitted, which is 90 more applications than in 2020. The subsidy rate was fixed at CZK 3,331.68/ha of agricultural land and **a total of CZK 11.55 billion was disbursed for SAPS in 2021.**

The second most important component of direct payments is the payment for farmers who follow climate-friendly and environment-friendly agricultural practices, known as **greening. Only farmers who have been granted SAPS** and who have met all the conditions set out on their land, i.e. crop rotation, maintaining permanent grassland and using part of the area in an ecological interest, are eligible for this payment. Farmers who farm less than 10 ha of agricultural land or 15 ha of arable land and/or are registered as organic farmers are not subject to the greening conditions. This payment accounts for **30% of the direct payment envelope** and a **total of CZK 6.89 billion was paid in 2021.** The subsidy rate was CZK 1,833.32/ha of agricultural land. There were 30,252 applications for this payment, i.e. the same as for SAPS.

Another component of the direct payments is **the young farmers payment,** which is designed to persuade people under the age of 40 to farm, motivate new farmers to get started and boost their incomes. The payment for young farmers is granted in the form of a contribution to the SAPS payment for a maximum area of 90 ha of agricultural land. A total of 2,823 applications were submitted in 2021. From 2018, EU rules allow up to twice as much to be paid to young farmers compared to previous years, when the supplement to the SAPS payment was 25%. **In 2021, the Czech Republic disbursed a 50% supplement to the SAPS payment** and the subsidy rate was CZK 1,665.84/ha. In total, **more than CZK 0.12 billion was paid.**

A voluntary component of direct payments, also fully funded by the EU, is **aid linked to the production of selected commodities** that face certain difficulties. It aims to maintain current production levels in selected sectors of crop and livestock production. **It is up to each Member State to decide which commodities will be supported.** In the Czech Republic, **the sectors supported are fruit, vegetables, potatoes, hops, sugar beet, protein crops and cattle, sheep and goat farming.** The supported sectors seeing an increase in areas for 2021 are protein crops, vegetables, sugar beet and, slightly, hops. On the other hand, aid for starch potatoes, ware potatoes and fruit show a slight decrease in areas. Under livestock support, the number of animals declared decreased for most of the payments granted, except for the number of calves of the meat-producing type. The decrease is particularly marked for cows, sheep and goats. In 2021, **almost CZK 3.78 billion** was made available from the EU budget for these payments (production-related support). Compared to 2020, there was an increase of CZK 0.39 billion in the payment of this voluntary support.

Transitional national support is paid exclusively from the national budget to farmers as a direct successor to the national top-up payment paid between 2007 and 2012. This payment serves **to compensate for the support of selected commodities** that are disadvantaged for the Czech Republic in the SAPS. **In 2021, CZK 0.54 billion was paid** in transitional national support. This payment has been on a steady downward trend since 2016, when almost CZK 0.88 billion was paid.

189 *Land-parcel identification system.*
190 Annual indicative allocation for direct payments.

D.3.2.2 COMMON MARKET ORGANISATION

The Common Market Organisation (CMO) also belongs to the first pillar of the CAP. **The European Union applies the CMO to selected agricultural commodities for which it sets certain production and trade conditions in a binding manner.** It supports them by means of certain intervention purchases/ sales, subsidies, a licensing policy for imports and exports of agricultural commodities from and to third countries, rules on trading conditions etc. **The aim of CMOs is to minimise fluctuations in the supply of commodities and thus also in the prices paid to farmers, as well as to stabilise prices for the final consumer.** It is a form of aid financed by the EAGF.

In 2021, a total of **CZK 903.48 million was paid out under the CMO,** of which CZK 463.68 million was paid out of the state budget and CZK 439.80 million from the EU budget. The total amount includes the repayment of the loan for intervention purchases worth CZK 21 million. The disbursed funds increased slightly compared to 2020 (by approximately CZK 66 million). Generally speaking, the CMO is a minor area within the CAP expenditure budget. In the Czech Republic, there has been a steady decline in CMO expenditure since 2016, when almost CZK 1.99 billion was paid out.

Financial support accounted for the largest share of the CMO area in 2021, reaching a total of CZK 751.20 million. These funds were mainly paid to support school programmes, namely the Fruit and vegetables for **schools programme** (CZK 309.09 million) and the Milk for schools programme (CZK 275.62 million). In addition, the programmes entitled Improved production and marketing of apiarian products (almost CZK 57.35 million) and Support for fruit and vegetable producer organisations (CZK 109.09 million) were financed. Other funds disbursed under the CMO took the form of subsidies and were used to support restructuring and conversion of vineyards and to support the wine market, totalling CZK 126.73 million. Promotional programmes were also implemented in 2021 to promote agriculture as a whole, targeting selected commodities such as milk, meat, fruit and vegetables, oils and wine. A total of CZK 4.54 million was paid out for promotion.

D.3.2.3 RURAL DEVELOPMENT PROGRAMME

Support for rural development is part of the second pillar of the CAP and is financed by the EAFRD.

Rural Development Programme of the Czech Republic for 2007–2013

A total of CZK 57.23 million was paid for the Rural Development Programme 2007-2013 (RDP7+) in 2021, of which more than CZK 23.15 million came from the state budget and CZK 34.07 million from the national budget. These are continuing payments to beneficiaries or commitments from previous years under non-project measures of axes I and II of RDP7+. Under axis I, entitlement payments for early termination of agricultural activity totalling CZK 34.69 million were paid to farmers. Under axis II, a total of CZK 22.53 million was paid to farmers in entitlement payments for afforestation of agricultural land, payments for forestry-environmental measures, Natura 2000 payments in forests, payments for disadvantaged areas (LFA[191]) and agri-environmental measures.

RDP7+ has been used very successfully. For the whole programme, the Czech Republic drew down €2.85 billion from the EAFRD, i.e. 99.84% of the funds allocated from the EU budget.

Rural Development Programme 2014–2020

In 2021, a total of almost CZK 14.83 billion was paid out for RDP14+, with the EU share being CZK 9.47 billion and the national share CZK 5.36 billion. This is a lower amount than in 2020, when the SAIF paid out a total of CZK 16.32 billion under RDP14+. **The largest portion of the subsidies was spent on area/ non-project measures,** with CZK 10.13 billion spent on them, which is almost 69% of the total subsidies paid out under RDP14+ in 2021. CZK 4.70 billion was paid out for project measures under RDP14+, with most of the subsidies going towards investments in tangible assets: specifically, the amount was CZK 2.28 billion, which is almost half of the funds earmarked for project measures.

191 Less Favoured Areas.

The two-year transition period extends the RDP14+ implementation period until 2025. In 2021, the 12th and 13th rounds of receipt of subsidy applications was launched, and the continuous receipt of applications for technical assistance under RDP14+ and the receipt of applications for operations 19.2.1 and 19.3.1 as part of Support for local development under the Leader initiative continued. In 2021, 8,457 applications for subsidies for a total amount of almost CZK 13.48 billion were registered. The administration of applications submitted in 2019 and 2020 continued at the SAIF.

The rules for rural development expenditure in 2021–2022 are laid down in Regulation 2020/2220. This Regulation largely extends the validity of the existing rules (originally intended to apply only for the 2014–2020 period). Some additional elements are intended to ensure a smooth transition to the new CAP, which will apply from 2023.

Table 19: Overview of the volumes of funds paid out from RDP14+ for 2021 (in thousands of CZK)

Non-project measures RDP14+		Funds disbursed		
		EU contribution	CR contribution	Total
M8.1	*Forest investments*	3,255	1,085	4,340
M10	*Agri-environmental climate measures*	2,346,278	782,094	3,128,372
M11	*Organic farming*	1,042,065	347,356	1,389,421
M12	*Natura 2000*	23,794	7,931	31,725
M13	*Payment for areas facing natural or other constrains*	3,578,591	1,192,864	4,771,455
M14	*Animal welfare*	80,524	665,170	745,694
M15	*Forest-environmental and climate-friendly forestry and forest protection*	44,125	14,708	58,833
Non-project measures in total		**7,118,632**	**3,011,208**	**10,129 840**
Project measures RDP14+		Funds disbursed		
		EU contribution	CR contribution	Total
M1	*Knowledge transfer and information actions*	917	935	1,852
M4	*Investments in physical assets*	1,052,147	1,225,523	2,277,670
M6	*Farm and business development*	284,122	289,862	573,984
M8	*Investments in forest area development and improvement of the viability of forest (without M8.1)*	204,401	211,609	416,010
M16	*Cooperation*	319,668	326,126	645,794
M19	*Rural Development Programme LEADER*	455,795	256,386	712,181
M20	*Technical assistance*	34,490	35,186	69,676
Project measures in total		**2,351,540**	**2,345,627**	**4,697,167**
Total for RDP14+		**9,470,172**	**5,356,835**	**14,827,007**

Source: SAIF, April 2022.

From the beginning of the programming period until 31 December 2021, a total of CZK 78.26 billion was paid out to beneficiaries under RDP14+, of which CZK 25.20 billion was for project measures and CZK 53.06 billion for area/non-project measures. Compared to 2020, this was a significant increase in the volume of subsidies paid, which was up by approximately CZK 15 billion.

D.4 EXPENDITURE ON THE COMMON FISHERIES POLICY

The main objective of the Common Fisheries Policy is to ensure sustainable fisheries and competitive aquaculture and guarantee income and stable employment for fishermen. Currently, the CFP is implemented in the Czech Republic through OP Fisheries, which focuses on developing sustainable fish farming and ensuring a steady supply of the required range of freshwater fish throughout the year to the domestic market, including diversification of aquaculture.

OP Fisheries 2014–2020

OP Fisheries, which is funded by the EMFF, was approved by the Commission in June 2015. **The Czech Republic's priority is to support freshwater aquaculture and boost its competitiveness.** The allocation for the entire PP14+ amounts to €41.16 million (approx. CZK 1.06 billion[192]), of which €31.11 million is the EU contribution (approx. €803 million) and €10.05 million the national contribution (approx. CZK 259 million).

According to SAIF data, **a total of CZK 211.88 million was paid out under OP F in 2021,** of which EU funding amounted to CZK 159.66 million and national funding CZK 52.22 million. In 2021, applications for support were received in two rounds of calls for proposals and, at the same time, applications for support were received on a continuous basis, e.g. for technical assistance projects and promotional campaign projects. In total, 162 subsidy applications were registered in 2021, 229 subsidy decisions were issued and 207 payment requests were paid.

Furthermore, the SAIF data shows that a total of 753 applications/projects worth a total of **CZK 716.57 million** had been reimbursed from **OP F as of 31 December 2021.** The share of EU funding was CZK 538.46 million, with national funds providing the remaining CZK 178.11 million. CZK. As in previous years, the largest amount of funds was drawn down under priority 2, which has the highest allocation.

The uptake of OP F funds improved significantly year-on-year. As of 31 March, 2022[193], the share of funds paid out from EU sources amounted to 73.4% of the total OP F allocation (approximately CZK 563 million).

2021–2027 programming period[194]

OP F21+, which contributes to the objectives of the CFP and the Multiannual National Strategic Plan for Aquaculture 2021-2030[195], was approved by the Government on 2 February 2022. It was then sent to the Commission. OP F21+ is the disbursement instrument for EMFAF, which replaced the expiring EMFF for the new programming period. The EMFAF budget as proposed by the Commission amounts to €6.14 billion. **The allocation for the Czech Republic is €0.03 billion. The total amount allocated to PPR21+ is approximately €1 billion, with national resources contributing around 30%.**

192 Converted at the rate of 25.82 CZK/€
193 See https://www.dotaceeu.cz/getmedia/6c3e0aae-ffc4-4ead-9a7e-13be1289a6cf/Ctvrtletni-zprava-o-implementaci-DoP-2014-2020_el-verze_15.pdf.aspx?ext=.pdf.
194 Source: http://eagri.cz/public/web/mze/dotace/operacni-program-rybarstvi-na-obdobi-2021-2027.
195 Approved by Government Resolution No 799 of 13 September 2021.

OP F21+ is targeted at the freshwater aquaculture sector, with the main objective being competitive, resilient and sustainable aquaculture. This is also the main objective for aquaculture as defined in the Green Deal and in the Commission's follow-up "fork-to-farm" strategy[196].

OP F21+ builds on OP F, but with **a greater emphasis on ecology, biodiversity and healthy food systems in the new period.** Priority will be given to projects for climate change adaptation, including mitigation measures, and projects aimed at the efficient use of renewable energy sources. **The programme will now pay allowances for fulfilling non-productive functions of ponds that should help the environment.** These functions include, for example, water retention in the landscape, retention during droughts and floods, the provision of suitable habitats for various species of animals and plants, and the use of ponds for sport and recreation.

196 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: A Farm to Fork Strategy for a fair, healthy and environmentally-friendly food system, COM/2020/381 final of 20 May 2020.

E. LEGAL MATTERS

E.1 SAO RECOMMENDATIONS ON CHANGES TO THE LEGAL ENVIRONMENT IN 2021

Section 6 of Act No. 166/1993 Coll., provides that the SAO shall, at the request of the Chamber of Deputies or the Senate and their bodies and within an agreed time limit, present its opinion on draft legislation in the areas of budgetary management, accounting, state statistics and the performance of audit, supervisory and inspection activities. In 2021, neither the Chamber of Deputies nor the Senate made use of this power. The SAO's findings in relation to the necessary legislative amendments were presented in the context of the discussion of the SAO's audit reports at the meetings of the Control Committee of the Chamber of Deputies of the Parliament of the Czech Republic.[197]

In the inter-ministerial consulting procedure according to the *Government Legislative Rules,* the SAO commented on draft legal regulations related to its competence or concerning it as an organisational unit of the state. **In 2021, the SAO received a total of 104 legislative proposals** and other non-legislative materials for assessment. The SAO made **specific comments on 33 proposals,** based mainly on its audit findings.

Within the framework of the inter-ministerial consultation procedure, the SAO applied the recommendations based on the reports of individual audits to materials of the MoRD *(Strategy for the Computerisation of Public Procurement for the 2021–2030 Period)*[198], the MoE *(Draft Programme Document of the Operational Programme Environment 2021–2027)*[199] and the MoI *(Updated Timetable and Technical Methods for the Implementation of Digitisation of Public Administration Services for the 2021–2025 Period)*[200].

Among the more significant legislative proposals, in 2021 **the SAO commented on a draft act on cooperation between the CR and OLAF** and the related draft amendment. The aim of the proposed amendment is to bring Czech legislation into line with Regulation (EU, Euratom) No 883/2013[201] and its amendment adopted by Regulation (EU, Euratom) No 2020/2223[202]. The proposed adaptation of the EU Regulation is to ensure the Czech Republic's cooperation with OLAF in order to protect the financial interests of the EU. Another reason is the need to legally establish the competent authority with the power to receive and transmit information requested by OLAF in the context of its investigations in the Czech Republic. This authority is to be the MoF unit exercising the powers of the anti-fraud coordination service in the Czech Republic under Regulation (EU, Euratom) 883/2013, referred to as Central Contact Point AFCOS (Anti-Fraud Coordination Service). Data from the central accounts register and transactions records are to be provided if absolutely necessary for the purpose of the investigation. The issue of cooperation with OLAF has so far only been covered by a government resolution in the Czech Republic.

The proposal for an accompanying amending act to amend certain laws in connection with the adoption of the Act on the Czech Republic's Cooperation with OLAF should amend the relevant related provisions of Act No 2/1969 Coll.[203] (the Competences Act), Act No 21/1992 Coll.[204], Act No 87/1995 Coll.[205] and Act No 300/2016 Coll.[206]

197 See subsections A.2 and A.3.

198 Findings from audit No 15/10 – Funds spent on the National Infrastructure for Electronic Public Procurement (NIPEZ) and its utilisation for purchase of selected commodities.

199 Findings from audit No 18/27 Measures implemented in agriculture and the environment to mitigate the effects of drought and water scarcity.

200 Findings from audit No 19/14 – Introduction of electronic identification and enabling of electronic access to public administration services.

201 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.

202 Regulation (EU, Euratom) 2020/2223 of the European Parliament and of the Council of 23 December 2020 amending Regulation (EU, Euratom) No 883/2013, as regards cooperation with the European Public Prosecutor's Office and the effectiveness of the European Anti-Fraud Office investigations.

203 Act of the Czech National Council No 2/1969 Coll., on the establishment of ministries and other central bodies of the state administration of the Czech Republic.

204 Act No 21/1992 Coll., on banks.

205 Act No 87/1995 Coll., on savings and credit cooperatives and certain measures related thereto, and supplementing Act No 586/1992 Coll., of the Czech National Council, on income taxes, as amended.

206 Act No 300/2016 Coll., on central registration of accounts.

The legislative process has not yet been completed for either of the aforesaid bills, both of which are currently being debated by the Chamber of Deputies (parliamentary prints 218 and 219).

Other materials commented on by the SAO concerned draft amendments to government regulations submitted by the Ministry of Agriculture. The aim of these amendments is to **ensure that farmers and other beneficiaries continue to receive support from the EAGF and EAFRD** under the conditions set out in the existing Common Agricultural Policy framework for PP14+ during the transition period (introduced due to delays in the approval of new EU legislation).

In April 2021, the SAO also participated in the consultation procedure for a material submitted by the Office of the Government of the Czech Republic entitled National Reform Programme of the Czech Republic 2021. National reform programmes are submitted to the Commission by Member States annually in the framework of the European Semester together with the NRP. All comments submitted by the SAO during this consultation procedure were accepted by the submitter.

In September 2021, **the SAO commented on a draft decree on budget composition,** which implements the newly formulated legal authorisations for its issuance contained in the amendments to Act No 250/2000 Coll.[207] and **the Budgetary Rules** (implemented by Act No 484/2020 Coll.[208]). The legislative process was completed with the issuance of a new Decree on Budget Composition (Decree No 412/2021 Coll.[209]), which entered into force on 1 January 2022.

As part of the consultation procedure in the previous period (from August 2019), the SAO submitted fairly extensive comments on a government draft law amending Act No 248/2000 Coll.[210] The legislative process was completed in June 2021 with the issuance of Act No 251/2021 Coll.[211] This Act increased the number of cities in the role of implementers of territorial strategies (formerly integrated strategies) for catchment area agglomerations and changed their responsibility for project selection in the application of integrated territorial investments. Cities will no longer issue binding opinions to the managing authorities of operational programmes, merely recommendations following their own assessment of the projects' compliance with territorial strategies. The coordination of programmes, funds and instruments will be under the Commission's direct control. There is also a clear definition of the competences related to the coordination role of the MoRD as the NCA. As of 31 December 2021, the amendment also abolished the seven regional councils of cohesion regions transferring their competences, rights and obligations to their legal successor, the MoRD. Following the abolition of the regional councils, 13 other acts were amended in the relevant parts. According to the related amendment to the Budgetary Rules, the non-payment of funds disbursed from the state budget on behalf of the beneficiary of a subsidy on the basis of a directly applicable EU regulation has been added to the definition of "breach of budgetary discipline". The date on which the funds were debited from the state budget account is deemed to be the date on which the breach of budgetary discipline occurred.

A government bill[212] amending the Act on the SAO was approved by the Chamber of Deputies of the Parliament of the Czech Republic in the third reading on 7 July 2021 in the wording of the approved amendments. It was passed on to the Senate of the Parliament of the Czech Republic, which rejected it at its session in August 2021. The Senate also rejected a related draft amendment to the Constitution of the Czech Republic (parliamentary print 229) at its session in October 2021. The proposals rejected by the Senate could no longer discussed by the Chamber of Deputies due to the end of its electoral term. **The SAO's remit was therefore not extended during the eighth term of the Chamber of Deputies.**

207 Act No 250/2000 Coll., on budgetary rules of territorial budgets.

208 Act No 484/2020 Coll., which amends Act No. 218/2000 Coll., on budget rules and on the amendment of some related laws (budget rules), as amended, and other related laws.

209 Decree No 412/2021 Coll., on the budget composition.

210 Act No 248/2000 Coll., on regional development support.

211 Act No 251/2021 Coll., which amends Act No 248/2000 Coll., on regional development support, as amended, and other related laws.

212 The aim of the proposal was to extend the SAO's remit to cover audit of the management of public funds and funds provided from public budgets, as well as to audit of the management of the property of territorial self-governing units and the property of legal entities in which the state or a territorial self-governing unit holds a majority share in the share capital or in relation to which they are in the position of a controlling person (parliamentary print 360).

E.2 IMPLEMENTATION AND TRANSPOSITION OF EU LAW IN THE CZECH REPUBLIC

E.2.1 TRANSPOSITION DEFICIT

Upon joining the European Union, the Czech Republic assumed the obligation to fulfil all the commitments of a Member State. These include obligations based on Article 4(3) of the Treaty on European Union (TEU), which requires Member States to **take all appropriate measures to fulfil their obligations arising out of the Treaties or legal acts of the EU institutions.** Where its nature so requires, **EU law must be transposed into national law in a proper and timely manner.** Implementation and monitoring thereof are carried out in different ways depending on the type of EU law involved. **In the case of directives, both the transposition thereof by Member States and the subsequent communication of national transposing legislation to the European Commission are assessed.**

Member States' transposition activities are monitored by the Commission. The results are compiled into interim evaluations called Single Market Scoreboard (the Scoreboard), which are published on the Commission's website. Data for the Czech Republic are published in the annual government report on the transposition of legislative obligations arising from the Czech Republic's EU membership213 (Transposition Report).

As of 2020, the European Commission has abandoned the twice-yearly assessment of the transposition of internal market directives by Member States, switching to a single assessment of the results for the given 12-month period (from 30 November to 30 November of the following year). The last official edition of the Scoreboard was published on 20 December 2021 and was based on data as at 30 November, or in some cases 10 December 2020 respectively. It covered internal market directives whose transposition deadline expired on 30 November 2020, while the transposition deficit did not include fully transposed directives for which transposition rules had been communicated by 10 December 2020.

As of the evaluation deadline, **transposition of 15 directives had not been completed.** This represents **a transposition deficit of 1.5% and an increase in the transposition deficit of 0.7 percentage points compared to the previous evaluation period.** This result ranks the Czech Republic between **20th and 21st among Member States.**

The subsequent interim evaluation of the Scoreboard will cover directives with a transposition deadline of 30 November 2021, considering notifications done by 10 December 2021.

As of that date, the Czech Republic had **24 non-transposed directives,** corresponding to **a transposition deficit of 2.4%.** This is another significant increase in the transposition deficit, **well above the 1% threshold agreed between Member States and the Commission as the maximum acceptable level of transposition deficit.** The increase in the transposition deficit occurred in the second half of 2021, mainly due to the end of the Chamber of Deputies' term and elections to the Chamber, when the legislative process for more than 20 draft transposition acts was interrupted.

The Scoreboard also tracks **the number of procedures for failure to communicate transposition regulations or for improper transposition of internal market directives.** Here, the Czech Republic ranked 15th among Member States, **with 31 ongoing procedures in the latest officially published ranking (Scoreboard).**

The increase in the transposition deficit due to non-communication of transposition regulations has also been reflected in an increase in the number of proceedings against the Czech Republic. **As of 30 November 2021, 41 such procedures were ongoing against the Czech Republic.**

213 The data presented below are, apart from the indicated exceptions, taken from the *Government Report on the Transposition of Legislative Obligations arising from the Czech Republic's Membership in the European Union for 2021.*

E.2.2 INFRINGEMENT PROCEDURES

As stated in Section V of the Transposition Report for 2021, **infringement procedure is the mechanism through which the Commission exercises its duty to monitor the application of EU law** (cf. Article 17(1) TEU). If the Commission considers that there is an infringement of EU law by a Member State, the Commission has the possibility under Article 258 TFEU to initiate a procedure (divided into several stages), which may lead to an action being filed with the Court of Justice of the European Union (CJEU).

Infringement procedures may be **initiated for failure to transpose an EU directive or to communicate national transposition legislation** for the directive in question (non-communication procedure); **or they may be initiated for improper transposition of an EU regulation or application of regulations contrary to EU law** (substantive procedure).

If the Commission finds an infringement or if an infringement is reported to the Commission in a complaint, it tries to reach agreement with the Member State through a structured dialogue (EU Pilot). The goal is to find a quick solution in line with EU law and avoid infringement procedure. If the Member State disagrees with the Commission's opinion or fails to take corrective action, the Commission may open formal infringement procedure.

As of 30 November 2021 there were a total of **88 infringement procedures against the Czech Republic, 18 more than in the previous year.** As of the same date, **20 procedures were being conducted against the Czech Republic under the EU Pilot system, a year-on-year increase of four.**

According to updated data as **of 31 March 2022**[214], a total of **94 infringement procedures were ongoing against the Czech Republic, of which 77 were at the formal notice stage and 15 at the reasoned opinion stage; two were brought before the CJEU** (see below).

Case 2012/2115 (action in case C-808/21, responsibility of the Ministry of the Interior) concerns the Czech Republic's failure to comply with its obligations under Article 22 TFEU; the Czech Republic is criticised for denying EU citizens who do not hold Czech citizenship but reside in the Czech Republic the right to join a political party or political movement.

In case 2018/2287 (under the responsibility of the Ministry of Education, Youth and Sports), which concerns the second phase of the compatibility check of the national implementation of Directive 2005/36/EC[215], the Commission decided to file an action against the Czech Republic.

The SAO has repeatedly flagged up **the risks** that the Czech Republic faces due **to the transposition deficit** and the number of infringements. As a result of the lack of or inadequate transposition of EU directives, **the risk of liability for damages caused to natural and legal persons and procedures for breach of the TFEU with possible financial consequences is growing.**

214 *Report on the status of allocation of responsibilities and fulfilment of legislative obligations arising from the Czech Republic's membership in the European Union for the first quarter of 2022.*

215 Directive 2005/36/EC of the European Parliament and of the Council of 6 July 2005 on the recognition of professional qualifications.

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ATTACHMENTS

1. Overview of ECA audit missions carried out in the Czech Republic in 2020 and 2021

2. Overview of Commission audit and verification missions carried out in the Czech Republic in 2020 and 2021

3. Map of projects supported by ESIF (https://infogram.com/1p90k5wm5vkz76t7lgx3ezjmn2i32966w5d?live)

Attachement 1: Overview of ECA audit missions carried out in the Czech Republic in 2020 and 2021

Year		Date	"Audit subject (programme)"	Audite type	Audit form
2020	1	27 Jan. - 5 Feb.	Performance audit related to ERDF financing. Do the Commission and Member States effectively address the challenges of cross-border regions in internal cross-border cooperation programmes? - Audit Task No. 19CH2009.	Performance audit	on-the-spot
	2	15 June - Dec.	AAR 2019/ remote mission	DAS	questionnaire
	3	16 June - 10 Dec.	Verification of the correctness of the EU contribution € 704,068,107.54 according to AAR 2019, the system and a sample of operations are verified.	DAS	questionnaire
2021	1		Performance audit of coal regions in transition.	Performance audit	
	2		Audit of the statement of assurance for the financial year 2021 (AAR and FSs 19/20) (OPEm)	DAS	questionnaire
	3		Audit of the statement of assurance for the financial year 2021 (AAR and FS 19/20) (IROP)	DAS	questionnaire

Source: AA´s information, April 2022.

Note: AAR = Annual Audit Report

Ss = Financial Statements.

Attachement 2: Overview of Commission audit and verification missions to the Czech Republic in 2020 and 2021

Year	DG	Date of the mission	Audited OP	Audit number	Audit subject	State of the contradictory proceedings
2020	"DG REGIO DG EMPL"	June	OP PPA, OP RDE, OPEm	REG/C414CZ10153	Procurement	Finished
	DG REGIO	21 Sept.	IROP	REGC414CZ0157	Review of the work of the audit authority - obtain reasonable assurance that there are no significant deficiencies in the MCS that have remained undetected and uncorrected.	Follow-up in progress
	DG EMPL	23 Nov.	OP RDE	EMPG314CZ0706	Review of the work of the audit authority - obtain reasonable assurance that there are no significant deficiencies in the MCS that have remained undetected and uncorrected.	Follow-up in progress
2021	Commission	25 May -3 Aug.	OPTA	REGC414CZ0233	Review of the work of the audit authority - obtain reasonable assurance that there are no significant deficiencies in the MCS that have remained undetected and uncorrected.	Follow-up in progress
	Commission	4 Oct.-5 Oct.	OPEIC / OPPI	DAC214CZ1022	"Obtain reasonable assurance that management and control systems are operating efficienly in relation to the durability of infrastructure investments. The key requirements that are audited are:: - KE 2: appropriate selection of operations - KE 4: adequate verification of management focusing on the status of the beneficiaries (SMEs or large enterprises) and on the durability of infrastructure investments. + Follow-up Programme 2007CZ161PO004 Enterprise and Innovation (ref. Ares(2021)2130698)"	Follow-up in progress

Source:AA´s information, April 2022.

Note: DG EMPL = Commission Directorate - General for Employment, Social Affairs and Inclusion.

DG MARE = Directorate - General for Maritime Affairs and Fisheries.

DG REGIO = Directorate - General for Regional and Urban Policy..

KE = Key element.

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