Czech Republic
Supreme Audit Office

EU REPORT 2017

REPORT ON THE EU FINANCIAL MANAGEMENT IN THE CZECH REPUBLIC

SECTION II.

DECEMBER 2017

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

CONTENTS

Editor's note:

In May 2017 the Supreme Audit Office (SAO) published Section I of *EU Report 2017 – Reports on the Financial Management of European Union Finances in the CR.* Chapters A to C of Section I deal with the implementation of support from the budget of the European Union (EU) in the 2014–2020 programming period.

In chapters D to F, this Section II of *EU Report 2017* folows the May Report and seeks to provide key information describing the previous programming period 2007–2013 (PP7+), with one part devoted to the EU and one devoted to the Czech Republic (CR). The information concerning the CR comes from materials provided to the Supreme Audit Office by entities involved in the EU funds support implementation process. A significant portion of this report comprises information about outputs from the SAO's audit work identifying shortcomings and weaknesses in the implementation process. The subsections of SAO audits that concerned EU budget finances in PP7+ feature findings based on audit conclusions approved in the period from the start of 2008 to June 2017 (see Annex 1).

Section II also contains the views of the Audit Body (AB) and the European Parliament's Budgetary Control Committee on the course of PP7+ in the Czech Republic.

The editorial deadline for Section II of *EU Report 2017* was 31 July 2017. Given the timing of the publication of this section of *EU Report 2017,* some of the presented data might not be final.

Update:

On 20 October 2017, i.e. after the editorial deadline, the Ministry for Regional Development (MfRD) informed, with regard to the issue covered in subsection D.3, that the European Commission ("the Commission") had sent its comments on the closing documents for all operational programmes in the CR by the defined deadline.

Opening message from the president of the Supreme Audit Office

Dear readers,

We are presenting you with the second part of the EU Report on behalf of the financial management of EU funds in the Czech Republic for the year 2017. It is this EU Report which the SAO has been publishing for ten years. While the first part which was published this year in the spring dealt with European topics falling into the 2014–2020 programming period, this publication will provide readers with aggregate and clear information about how the Czech Republic performed in the 2007–2013 programming period. We have enough data and information for this assessment. European funds and further topics related to the previous programming period fell below the SAO radar in approximately ninety audits.

In this respect, I usually write here about which mistakes the Czech Republic has made in the drawdown of EU funds; what didn´t go very well and what we should improve in the drawdown and usage of EU funds. Therefore, let's leave it aside for now and look at our activities in the EU from a slightly different perspective.

European funds are a topic that were often given important attention which is not surprising. The distribution of EU funds, in many cases, provoked strong criticism, and it needs to be said that often even justified criticism. This criticism by citizens is not surprising, as in their surroundings hotels were constructed which nobody uses, watchtowers were built from which you can see nothing, and paths were made which lead nowhere. Media often and inevitably informed the public – from the SAO as well – that the distributed money in many cases, to put it mildly, hasn´t improved the lives of citizens much. In the worst case scenario, a wave of outrage caused stories about "evil Brussels" and its perceived campaign against Czech products and Czech conventions.

Yet, sometimes the stories might by sad, other times even absurd, but they shouldn´t make us overlook the good things which our EU membership has brought us. And I think it´s a pity because, generally speaking, it was a lot done at the time. However, the benefits of the past programming period looked at the end of 2014 in numbers approximately like this: for the distributed funds thanks to the Cohesion Fund and European fund for regional development created nearly 27,000 jobs – these results were achieved, for example with the support of more than 1,400 projects of technical and scientific progress, or with the support of approximately 8,000 projects helping small and medium-sized enterprises. Let´s mention also half a million people whose households got connected to the waste water treatment plants or the nearly 400 kilometres of railways that have been reconstructed. Finally, let´s remember insulated houses, repaired cultural monuments or hundreds of square kilometres of renewed landscape – impacts that we can see everywhere around us. It is just part of the benefits and many of these numbers grew further in the consecutive years.

It didn´t always go smoothly or without any problems, mainly because of the way we distributed and used the funds, which was shown in our audits. The situation hasn´t improved even after some criminal cases surrounding the EU funds which are still unravelling to this day and are one of the reasons why the rehabilitation of EU funds in the eyes of Czech citizens is such an immense challenge.

Yet, let´s be fair and rational. Wherever you are, it is enough to walk around on the streets and you cannot in principle overlook the impacts of EU funds. And let´s be happy for it. It won´t last forever and we may remember this time in good light. In spite of everything.

Miloslav Kala
Prezident of SAO CR

List of abbreviations

AB	Audit Body
CAP	Common Agricultural Policy
CEF	*Connecting Europe Facility*
CF	*Cohesion Fund*
CMO	Common Market Organisation
CFP	Common Fisheries Policy
CNB	Czech National Bank
Cohesion policy	Economic, territorial and social Cohesion Policy
Commission	European Commission
Council	Council of the European Union
CR	Czech Republic
EAFRD	*European Agricultural Fund for Rural Development*
EAGF	*European Agricultural Guarantee Fund*
ECA	European Court of Auditors
ECB	European Central Bank
EFSD	*European Fund for Sustainable Development*
EFSI	*European Fund for Strategic Investments*
EMFF	*European Maritime and Fisheries Fund*
EP	European Parliament
ERDF	*European Regional Development Fund*
ESIF	European Structural and Investment Funds
ESF	*European Social Fund*
EU	European Union
EU28	28 EU Member States
EUSF	EU Solidarity Fund
FES	Fire Emergency Service
GDP	gross domestic product
IB	*Intermediate Body*
LEADER	initiative to improve the rural situation through development activities (*Liaison entre actions de développement de l'économie rurale*)
MA	OP Managing Authority
MCS	management and control system
MoT	Ministry of Transport
MoF	Ministry of Finance
MfRD	Ministry for Regional Development
MfRD-NCA	National Coordinating Authority of the MfRDE
MoIT	Ministry of Industry and Trade
MoLSA	Ministry of Labour and Social Affairs
MS2014+	Monitoring system
SME	small and medium-sized enterprise
MoA	Ministry of Agriculture
MoE	Ministry of Environment
NIS IES	*National Information System of the Integrated Emergency System*
SAO	Supreme Audit Office
SAI	supreme audit institution
OLAF	European Anti-fraud Office
OP	Operational programme
OP EC	OP *Education for Competitiveness*
OP EIC	OP *Enterprise and Innovation for Competitiveness*
OPEm	OP *Employment 2014–2020*
OPEn	OP *Environment 2014–2020*
OPF7+	OP *Fisheries 2007–2013*
OP HRE	OP *Human Resources and Employment*
OP RDE	OP *Research, Development and Education*
OP PA	OP *Prague–Adaptability*
OPT	OP *Transport 2007–2013*
OPTA	OP *Technical Assistance*
PCA	Paying and Certifying Authority
R&D	research and development
RC	Regional Council
RDP7+	*Rural Development Programme of the CR for 2007–2013*
ROP NW	*Regional Operational Programme NUTS II North-West*
ROP SW	*Regional Operational Programme NUTS II Southwest*
ROP MS	*Regional Operational Programme NUTS II Moravia Silesia*
ROP CB	*Regional Operational Programme NUTS II Central Bohemia*

ROP NE	*Regional Operational Programme NUTS II Northeast*
TFEU	*Treaty on the Functioning of the European Union*
SAIF	State Agricultural Intervention Fund
SAPS	Single Area Payment Scheme
SCP	*Single Collection Point for State Budget Revenues*
SF	Structural Funds
TORs	traditional own resources
VAT	value added tax

EU Member States (EU-28) (abbreviations are used in chart legends)

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

Section II

D. The European Union and the 2007–2013 programming period

D.1 Policies and objectives of the 2007–2013 programming period

The policies and objectives of PP7+ reflect the EU's economic and social development since the establishment of the European Economic Committee on the basis of the Treaties of Rome in 1957. The formulation of the Lisbon Strategy in the year 2000 and its revision in 2005 were important milestones of qualitative change and had the biggest impact on the design of PP7+.

The Lisbon Strategy presents a programme that seeks *"to make the European Union the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion"*. It was thus supposed to be a roadmap for all aspects of economic, social and environmental development. The revision of the Lisbon Strategy shifted the focus onto the EU's economic development.

The basic tenets the EU is founded on are expressed in the aforesaid treaties. Another significant piece of legislation is the *Lisbon Treaty on the European Union* signed on 13 December 2007 that took force on 1 December 2009, after ratification by all Member States (MS). This Treaty states in Article 2: *"The Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail."*

The following Article 3 states:

"1. The Union's aim is to promote peace, its values and the well-being of its peoples.

2. The Union shall offer its citizens an area of freedom, security and justice without internal frontiers, in which the free movement of persons is ensured in conjunction with appropriate measures with respect to external border controls, asylum, immigration and the prevention and combating of crime.

3. The Union shall establish an internal market. It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. It shall promote scientific and technological advance.

It shall combat social exclusion and discrimination, and shall promote social justice and protection, equality between women and men, solidarity between generations and protection of the rights of the child. It shall promote economic, social and territorial cohesion, and solidarity among Member States.

It shall respect its rich cultural and linguistic diversity, and shall ensure that Europe's cultural heritage is safeguarded and enhanced.

4. The Union shall establish an economic and monetary union whose currency is the euro.

5. In its relations with the wider world, the Union shall uphold and promote its values and interests and contribute to the protection of its citizens. It shall contribute to peace, security, the sustainable development of the Earth, solidarity and mutual respect among peoples, free and fair trade, eradication of poverty and the protection of human rights, in particular the rights of the child, as well as to the strict observance and the development of international law, including respect for the principles of the United Nations Charter."

The principles, objectives and policies underpinning the EU are also implemented through its budget. To make it easier to maintain budgetary discipline and to check budget expenditure and generally to ensure greater stability of EU funding, the budget is couched in multiannual financial frameworks (MFFs). The first was designed for the 1988–1992 period; subsequent MFFs were drew up for seven-year periods.

The EU's financial perspective for 2007–2013 was approved at the European Council summit on 16 December 2005, with the total commitment appropriation set at €862,363 million in 2004 prices. The final form of the EU budget MFF, amounting to **€864,316 million** in fixed 2004 prices, was enshrined in the *Interinstitutional Agreement on Budgetary Discipline and Sound Financial Management* between the European Parliament (EP), the Council of the European Union ("the Council") and the Commission of 17 May 2006[1]. The aim of the agreement was to introduce budgetary discipline, to improve the working of the budget process and cooperation between the authorities in budgetary matters and to ensure sound financial management. Budget expenditure was divided into five expenditure headings:

- ***Sustainable growth*** *(Competitiveness for economic growth and employment and Cohesion for economic growth and employment);*
- ***Preservation and management of natural resources*** (Agriculture, rural development, fisheries and the environment);
- ***Citizenship, freedom, security and justice*** *(Freedom, Security and Justice, Citizenship);*
- ***EU as a global player*** (EU cross-border activities, bilateral relations, humanitarian aid and development assistance);
- ***Administration.***

After certain technical adjustments and addenda approved during PP7+, total commitments in the form of allocations to the individual headings amounted to **€864,989 million**[2], i.e. **€975,777 million expressed in current prices**[3].

The first two budget headings of the MFF accounted in total for almost 90% of the entire MFF 2007–2013.

D.2 Legal and financial framework, financing funds, forms of support

Sustainable growth

With a view to achieving the Lisbon Strategy goals in the policy of economic, social and territorial cohesion (cohesion policy), the Council issued a decision[4] laying down Community strategic

1 *Official Journal of the European Union*, C 139, 14 June 2006.
2 Compensations to new EU members totalling €836 million were also paid out in 2007–2009 and in 2013.
3 http://ec.europa.eu/budget/figures/fin_fwk0713/fwk0713_en.cfm#revision. Current prices are based on the update of 28 July 2015.
4 Council Decision 2006/702/EC of 6 October 2006 on Community strategic guidelines on cohesion.

guidelines for defining an indicative framework for support from the Structural Funds[5] (SF) and *Cohesion Fund* (CF) for PP7+. To achieve the maximum benefits of support under the renewed Lisbon agenda, the Council defined priorities and principles and proposed ways in which the European regions could proceed over the coming seven years. The programmes supported by cohesion policy should seek to target finantial resources on the following priorities:

- improving the attractiveness of MS, regions and cities by improving accessibility, ensuring adequate quality and level of services, and protecting the environment;
- encouraging innovations, entrepreneurship and the growth of the knowledge economy by research and innovation capacities, including new information and communication technologies;
- creating more and better jobs by attracting more people into employment or entrepreneurial activity, improving the adaptability of workers and enterprises and increasing investment in human capital.

Governments of the MS used the priorities and principles as a basis for formulating their national strategic priorities and plans for 2007–2013 as part of "national strategic reference frameworks". That was the prerequisite for using over **€382,139 million (in fixed 2004 prices)** earmarked for structural policy projects; after addenda and technical adjustments this was increased to **€388,953 million (in fixed 2004 prices)**. In current prices that amounts to **€439,115 million**, which was gradually released under cohesion policy for national and regional programmes. **The dominant portion (approximately 80%) of that comprised spending on projects in the fields of cohesion and growth for employment.**

Assisted by the SF and CF, cohesion policy pursued three fundamental objectives:

- *Objective 1 – Convergence;*
- *Objective 2 – Regional competitiveness and employment;*
- *Objective 3 – European territorial cooperation.*

The SF and CF were the basic instruments for implementing cohesion policy. Finances earmarked for closing the social and economic gaps between MS and their regions were distributed through these funds.

Articles 158–162 of the *Treaty Establishing the European Community* provided that the Community should promote its overall harmonious development and strengthen its economic and social cohesion by reducing disparities between the levels of development of the various regions. For PP7+, the instruments for achieving these goals had their legal foundation in a package of regulations approved by the Council and EP in July 2006.

The principal regulations were: following:

- **Regulation on the *European Regional Development Fund* (ERDF)**
  - Regulation (EC) No 1080/2006 of the European Parliament and of the Council of 5 July 2006 on the European Regional Development Fund and repealing Regulation (EC) No 1783/1999, which provided that the Fund would focus its assistance on thematic priorities (in particular on modernising and strengthening the economy);
  - it defined its purpose and scope, which included support for public and private investments to help redress regional imbalances throughout the Community; the Fund supported programmes targeting regional development, improved competitiveness and territorial cooperation throughout the Community;
  - it mainly funded investment ("hard") projects.

5 In the 2007–2013 programming period there were two Structural Funds: the *European Regional Development Fund and European Social Fund*.

- **Regulation on the *European Social Fund* (ESF)**
  - Regulation (EC) No 1081/2006 of the European Parliament and of the Council of 5 July 2006 on the European Social Fund and repealing Regulation (EC) No 1784/1999, which provided that the Fund should contribute to the Community's priorities as regards strengthening economic and social cohesion by improving employment and job opportunities;
  - the regulation was formulated in accordance with the *European Employment Strategy* and targeted four fundamental areas: improving the adaptability of workers and enterprises; better access to employment and participation in the labour market; improved social inclusion by combating discrimination and enhancing the access of disadvantaged people to the labour market; and promoting partnerships for reform in the areas of employment and inclusion;
  - non-investment ("soft") projects were mainly funded.
- **Regulation on the *Cohesion Fund***
  - Council Regulation (EC) No 1084/2006 of 11 July 2006 establishing a Cohesion Fund and repealing Regulation (EC) No 1164/94, which provided that the principal purpose of the Fund was to contribute to the strengthening of economic and social cohesion in the Community in the interests of promoting sustainable development;
  - the Fund was mainly designed to support the development of poorer countries, not regions, which differentiated it from the ESF and ERDF;
  - as a priority, the CF was involved in activities linked to trans-European transport networks and the environment.
- **General regulation on the SF and CF**
  - Council (EC) Regulation No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999 (also reffered to hereafter as General Regulation) defined the principal objectives the SF and CF were to contribute to:
  - the General Regulation defined the context for cohesion policy, as well as common principles and rules for the implementation of the three cohesion policy instruments (ERDF, ESF and CF); the regulation was based on the principle of shared management between the Community, MS and regions.
- **Implementing regulation for the General Regulation**
  - Commission Regulation (EC) No 1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund;
  - the implementing regulation presented a set of detailed rules for managing the financial instruments of cohesion policy for the SF and CF regulation.

The specific **forms of the provided financial support** were defined in strategic documents approved for individual operational programmes (OPs). The fundamental strategic documents for the operational programmes (in particular the programming documents) specified priority areas (thematic areas of support) which were to be supported under the OP and for which financing could be drawn down from EU funds. Based on the thus defined thematic areas, the specific form of support, the system for its utilisation and its amount were defined. The support amount was calculated as a percentage of an implemented project's total eligible expenditure and differed depending on the specific OP and, in some cases, depending on the applicant (e.g. small and medium-sized enterprises (SMEs), non-profit organisations or municipalities).

The most common form of support for joint projects of the MS and EU that was used when providing financing out of the SF and CF was non-refundable financial aid or refundable financial aid, i.e. **subsidies.** The provision of subsidies from the SF and CF was subject to the rules of the EU's legal regulations (most notably the regulations for the individual structural funds and *Cohesion Fund*) and the internal rules put in place by MS.

In most OPs financed out of the SF and CF, the financing utilisation system was based on the principle of pre-financing out of national budgets. That means that a certain proportion (as much as 85% of the finances) earmarked for co-financing a project being implemented was first pre-financed out the Member State's budget and only subsequently was the EU's share refunded by the Commission. In certain OPs the EU funds co-financing share was, or in some cases specific rules were set for project financing; these were set out in the given OP's basic documents.

Preservation and management of natural resources

The dominant portion of this budget heading comprised the Common Agricultural Policy (CAP) and Common Fisheries Policy (CFP).

The fundamental objectives of the CAP were declared in the *Treaty Establishing the European Community*. The CAP as such was launched in 1962 and has been reformed multiple times. The CAP is a common policy for all MS and is financed out of the EU budget.

The main objectives of the CAP are:

- to increase agricultural productivity so that consumers are guaranteed a constant supply of food products at reasonable prices;
- to ensure sufficient income and a fair standard of living for farmers;
- to enhance care for the countryside, respond to climate change and ensure sustainable management of natural resources.

The CAP has three mutually complementary dimensions:

- **market support** – a wide variety of instruments (e.g. financial subsidies, export subsidies, intervention purchasing and selling, the issuance of import licences and production quotas) are used to regulate the market in selected agricultural commodities with a view to restricting fluctuations in buy-up prices, stabilising the market and ensuring incomes for farmers;
- **support for farmers' incomes** – this mainly involves "direct payments", which are entitlement-based subsidies and guarantee farmers a secure source of funds, almost entirely irrespective of what they produce;
- **rural development** – the rural development programme responds to rural areas' requirements and problems, targeting environmental improvement, the quality and safety of food products and improving the standard of living of rural communities.

The goal of the CFP is to preserve fish stocks, protect the marine environment, ensure the economic viability of the European fishing fleet, supply consumers with high-quality produce and create and sustainably exploit living aquatic resources from the environmental, economic and social perspectives. The CFP enables European fishermen to compete on the basis of the provided financial support and common rules.

The MFF 2007–2013 originally earmarked a total of **€371,344 million** to the *Preservation and management of natural resources* budget heading, with **€78,239 million** going to the rural development programme and fisheries and **€293,105 million** for expenditure linked to the market and direct payments. After changes and technical adjustments, the total amount was **€366,229 million** (all in fixed 2004 prices), which represents **€412,611 million** in current prices; spending on direct payments to farmers and market support subsidies accounted for 80% of this budget heading.

In the 2007–2013 programming period the CAP was financed from two basic EU funds regulated by **Council Regulation (EC) No 1290/2005** of 21 June 2005 on the financing of the common agricultural policy:

- the ***European Agricultural Guarantee Fund*** was intended to finance:
  - refunds on exports of agricultural produce to third countries;
  - intervention measures designed to regulate agricultural markets;
  - direct payments defined within the framework the CAP;
  - the Community's financial contribution to information and promotion measures (done through MS on the basis of programmes selected by the Commission) for agricultural produce in the Community's internal market and in third countries.
- the ***European Agricultural Fund for Rural Development*** (EAFRD) was intended to finance:
  - Community contributions to rural development programmes under shared management between MS and the Community.

The most frequently used form of support in the EU Common Agricultural Policy has been **direct payments**, which also accounted for the largest share of finances paid out in the agriculture sector. The provision of direct payments was subject to the CAP rules in place. In the case of project-based operations under rural development programmes, the form and procedure for financing under the EAFRD were equivalent to project financing under the SF and CF.

The source of financing for implementing the CFP in the fisheries sector, fisheries areas and inland fishing was established by **Council Regulation (EC) No 1198/2006** on the European Fisheries Fund with the following objectives:

- ***European Fisheries Fund*** (EFF)
  - to finance programmes to ensure exploitation of living aquatic resources;
  - to support aquaculture in order to provide sustainability in economic, environmental and social terms;
  - to promote a sustainable balance between resources and fishing capacity; to strengthen the competitiveness of operating structures;
  - to foster the protection and the enhancement of the environment and natural resources related to the fisheries sector, and to encourage sustainable development and the improvement of the quality of life in areas with activities in the fisheries sector.

D.3 Actual drawdown under cohesion policy

In this report the SAO assesses the course of the drawdown of SF and CF finances in the 2007–2013 programming period from its start until the moment when the MS sent the Commission their final reports on the implementation of OPs and payment applications for the final balances in accordance with Article 89 of the General Regulation[6], i.e. until 31 March 2017. The moment when the Commission receives these documents marks the start of a five-month period within which it must issue its opinion on them (if it issues no opinion, the documents are deemed to be approved). The Commission had not published the final drawdown figures on its website by the editorial deadline and the Commission's website presented the same

6 Council (EC) Regulation No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999.

data as on 7 July 2017 (the time of the last update by the Commission)[7]. For that reason, the reported drawdown value amounts to 95% of the allocation (maximum possible rate of utilisation) for the majority of MS in accordance with Article 79 of the General Regulation.

The figures given below therefore do not represent the final drawdown values, as the programme closure process is still ongoing. Experiences from preceding programming cycles make it reasonable to assume that in some cases the final results will be adjusted slightly in view of certain contentious expenditure, so they will not be available for several months or even years. The results of audit work performed by the responsible authorities and ongoing court disputes whose outcomes and duration cannot be realistically predicted have and will have an impact.

The course of drawdown by the CR is explored in greater detail in subsection E.1. For the sake of completeness, we mention that the rate of drawdown from the SF and CF in the CR had been quantified in total as 94.55% on the Commission's website (see above) as of the editorial deadline, with only drawdown from the ERDF below the drawdown rate ceiling as of that date (94.15%). From that point of view, the CR remained in 23rd place, close behind the majority of Member States that reached the maximum ceiling. Eight Member States, including four "original" Member States (Germany 94.73%, Belgium 94.67%, Spain 93.25% and Italy 91.89 %), and also the EU28 average (94.45%) remained below this threshold. Of the "new" Member States, Hungary and Romania (94.03% and 90.44% respectively) lagged behind the CR. In terms of the percentage of the used allocation, Croatia was a long way behind the rest (80.68%), but Croatia's accession to the EU as recently as on 1 July 2013 had a negative impact on this metric.

The above figures notwithstanding, fundamental conclusions cannot be drawn from the reported rate of utilisation by the CR in the context of the EU28, as the figures are not final. Additionally, given the minimal differences in drawdown relative to allocations, further changes in Member States' rankings can be expected.

Analysis of drawdown in the individual years of the programming period offers a somewhat different perspective on this issue. The Commission did not devise any "optimal drawdown model", so the following considerations are to some extent speculative, albeit with a rational basis. That is clear from the example of the CR, which was long troubled by slow drawdown and to a large extent only redressed the unsatisfactory situation at the very end of PP7+: in 2015, the final year of expenditure eligibility, the CR utilised 20.7% of its total allocation from the SF and CF. Roughly a third of Member States were in the same situation. Examples are Slovakia (which used up 25.2% of its allocation in 2015), Bulgaria (19.0%), Italy (16.0%), France (15.9%), Denmark (14.2%), Romania (13.8%) etc.

In this context it needs to be said that the markedly increased, almost frantic, drawdown at the end of the programming period brings considerable risks associated, for example, with limited personnel capacity, both on the side of the implementation structure authorities and on the side of potential support beneficiaries. These risks can lead to ineligible expenditure (ineligible as regards purpose and time) being claimed and reimbursed as a result of ineffective control before payment.

Eight Member States applied for reimbursement of more than 40% of their allocations from the SF and CF for the years 2014 to 2016. On the other hand, the Member States with the fastest drawdown sent the Commission payment applications for amounts representing less than 20% of their allocations in the last three years.

7 Source: https://cohesiondata.ec.europa.eu/dataset/2007-2013-Funds-Absoption-Rate/kk86-ceun/data.

Table 1: Drawdown of SF and CF allocations by Member States in total in the last three years of PP7+ (%)

MS	EE	LT	PT	FI	…	DK	IT	CZ	SK	MT	BG	RO	HR
2014–2016	13,7	16,2	16,3	19,3		40,6	41,8	**42,0**	42,3	44,7	45,0	52,1	62,4

Source: Commission, data as of 29 May 2017.

The staffing capacities and time the implementation authorities of the Member States with the fastest drawdown "saved" on the administration of PP7+ activities (for example, they avoided the need for reallocation between the axes of programmes and between the programmes as a whole; they did not have to take steps to forestall automatic de-commitment or to prevent a commitment from being cancelled; they were not compelled to hold final calls and speed up project selection in these calls etc.) could then be devoted to preparations for the new programming period. That was also reflected in the speed at which programming documents for the 2014–2020 programming period were approved and in the swifter start of utilisation of allocations under partnership agreements.

It is clear that the performance and effectiveness of the work of Member States' implementation structures cannot be judged solely in terms of the speed at which their allocation was drawn down, because that neglects such fundamental factors as the meaningfulness, quality and sustainability of the supported projects or the scale of shortcomings identified by the European audit authorities. Even so, this indicator remains highly significant.

Table 2: Ranking of EU Member States based on the sum of their rankings in the individual years of PP7+ in terms of the cumulative percentage utilisation of their allocation

Final ranking	Member state	Ranking by cumulated drawdown of allocation										Total
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
1.	**LT**	**3.**	**8.**	**2.**	**3.**	**2.**	**1.**	**2.**	**1.**	**2.**	**3.**	**27**
2.	**EE**	**3.**	**8.**	**3.**	**2.**	**4.**	**2.**	**1.**	**3.**	**2.**	**3.**	**31**
3.	IE	14.	1.	1.	1.	1.	3.	6.	17.	18.	3.	65
4.	FI	14.	20.	7.	9.	6.	5.	4.	5.	8.	3.	81
5.	SE	14.	20.	8.	7.	3.	8.	10.	4.	11.	3.	88
6.–7.	LV	3.	8.	10.	11.	16.	10.	13.	13.	2.	3.	89
6.–7.	AT	12.	15.	4.	4.	8.	7.	8.	16.	12.	3.	89
8.	PT	21.	16.	16.	10.	11.	4.	3.	2.	8.	2.	93
9.	SI	3.	6.	13.	12.	14.	14.	16.	12.	2.	3.	95
10.	DE	14.	14.	6.	5.	5.	6.	5.	10.	14.	21.	100
11.	CY	3.	6.	9.	8.	12.	19.	17.	8.	16.	3.	101
12.	PL	11.	13.	15.	14.	13.	9.	11.	7.	10.	3.	106
13.	EL	22.	27.	20.	17.	18.	15.	7.	6.	1.	1.	134
14.	UK	14.	18.	12.	6.	9.	13.	20.	21.	20.	3.	136
15.	LU	27.	20.	22.	24.	7.	12.	12.	9.	2.	3.	138
16.	DK	14.	20.	18.	20.	10.	18.	21.	14.	2.	3.	140
17.	BE	23.	18.	5.	15.	21.	16.	9.	11.	13.	22.	153
18.	HU	3.	5.	14.	18.	17.	20.	19.	19.	19.	24.	158
19.–20.	FR	25.	27.	11.	13.	19.	21.	18.	18.	15.	3.	170
19.–20.	NL	14.	20.	27.	23.	20.	17.	14.	15.	17.	3.	170
21.	ES	13.	16.	19.	16.	15.	11.	15.	22.	24.	25.	176

Final ranking	Member state	Ranking by cumulated drawdown of allocation										Total
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
22.	MT	3.	8.	25.	22.	23.	24.	24.	20.	25.	3.	177
23.	BG	2.	4.	26.	25.	25.	25.	26.	23.	22.	3.	181
24.	SK	10.	12.	23.	21.	22.	22.	22.	26.	21.	3.	182
25.	**CZ**	**26.**	**3.**	**17.**	**19.**	**24.**	**23.**	**23.**	**24.**	**23.**	**23.**	**205**
26.	RO	1.	2.	21.	27.	27.	27.	27.	27.	27.	27.	213
27.	IT	24.	20.	24.	26.	26.	26.	25.	25.	26.	26.	248
28.	HR	28.	26.	28.	28.	28.	28.	28.	28.	28.	28.	278

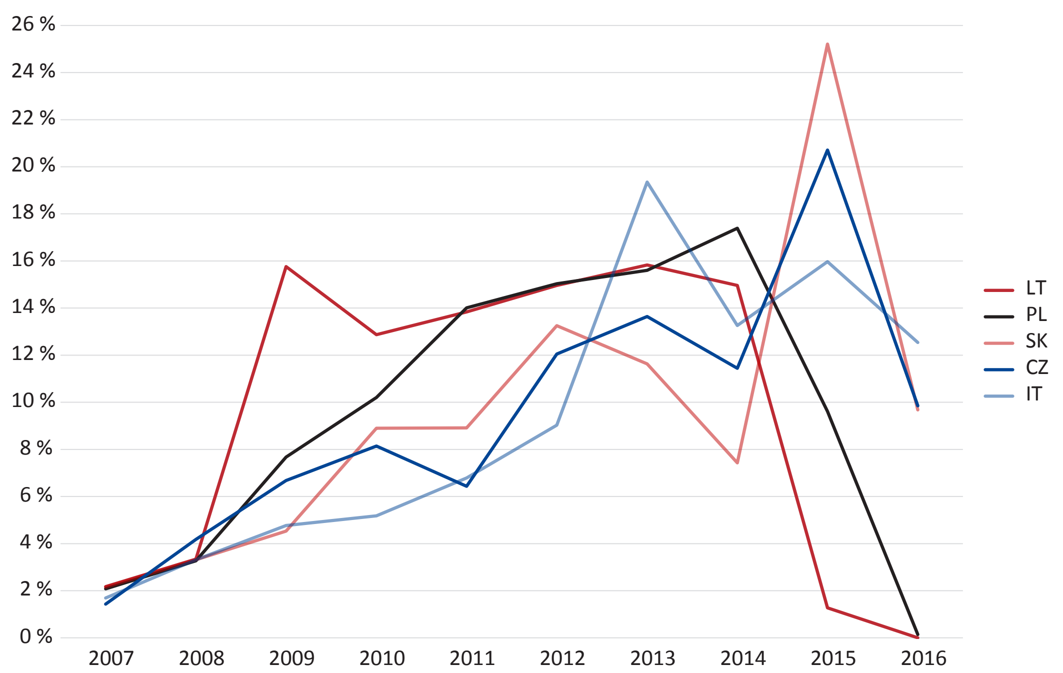
Source: Commission, 29 May 2017.

Table 2 shows clearly that Lithuania and Estonia were most successful in terms of speed of drawdown. The CR was down in 25th place out of the EU28 in this comparison, with a significant gap between it and Bulgaria and Slovakia in 23rd and 24th place respectively.

It is worth noting that six Member States[8] used up the maximum drawdown limit as early as in 2015 and did not send a single payment application to the Commission in 2016[9].

To illustrate this point, below we compare drawdown progress in the CR and in selected Member States (top-ranking Lithuania; "mid-table" Poland; Slovakia coming in one place above the CR; and Italy, which finished 27th, i.e. last out of the "original" Member States).

Chart 1: Allocation drawdown progress in selected Member States (%)



Source: Commission, 29 May 2017.

8 Denmark, Estonia, Lithuania, Latvia, Luxembourg and Slovenia.

9 The deadline for sending the final application for an interim payment to the Commission was 31 August 2016, while the last summary payment application had to be submitted to the PCAs of the relevant Member States by 31 March 2016, or in exceptional cases 30 June 2016.

The chart highlights the difference in the course of drawdown between Lithuania and Poland on the one hand and the CR and Slovakia on the other. While there was a sharp fall in the rate of drawdown as early as in 2014 for the faster countries (Lithuania and Poland), this only occurred a year later in the CR and Slovakia. In 2016, when both the latter countries still had approx. 10% of their allocations to utilise, Lithuania's drawdown was complete and Poland was applying for reimbursement of just 0.14% of its national allocation. Italy's uneven progress curve is also worth noting, however: although Italy's peak drawdown came as early as in 2013, it still had 12.54% of its allocation to utilise in 2016.

D.4 Audit work by the ECA and the Commission for the completed programming period 2007–2013

The European Court of Auditors (ECA) examined the EU's accounts in line with the *Treaty on the Functioning of the European Union*[10] (TFEU).

The ECA's principal, annually published audit outputs are its annual reports on the EU budget and on European development funds. These reports mainly contain statements of assurance, but they also deal with performance issues. Other outputs are specific annual reports on financial audits of agencies, joint ventures and other decentralised EU entities. ECA special reports, around 30 of which are published annually, inform about the results of selected performance audits and legality audits targeting specific areas of the budget or management and governance issues. In addition to audit reports, the ECA publishes around ten opinions per year on draft legislation that impacts on the EU's financial management. One relatively new type of document drawn up by the ECA comprises situation reports, in which it comments on matters linked to the EU's financial management and public accountability.

ECA annual reports

In every year of PP7+ the ECA published annual reports, including the replies of the concerned authorities. The ECA submitted its comments on the replies to the Council for issuing recommendations and to the EP for approval confirming that the Commission discharged its duties properly when implementing the budget.

Annual reports on the implementation of the budget for the budgetary year in question contain the ECA's statement of assurance concerning the reliability of the annual financial statements of the EU and the legality and regularity of operations.

The ECA tested samples of operations to gain statistically founded estimates of the rate at which revenues and individual spending areas are affected by error.

In the period under scrutiny (from 2007 to 2015[11]), the financial statements were compiled in line with international standards and gave, in all material respects, a true and fair view. The ECA thus issued **statements without reservations** on their reliability. The revenues and expenditure underpinning the financial statements were legal and regular in all material respects in the period under scrutiny and **were not materially affected by error**.

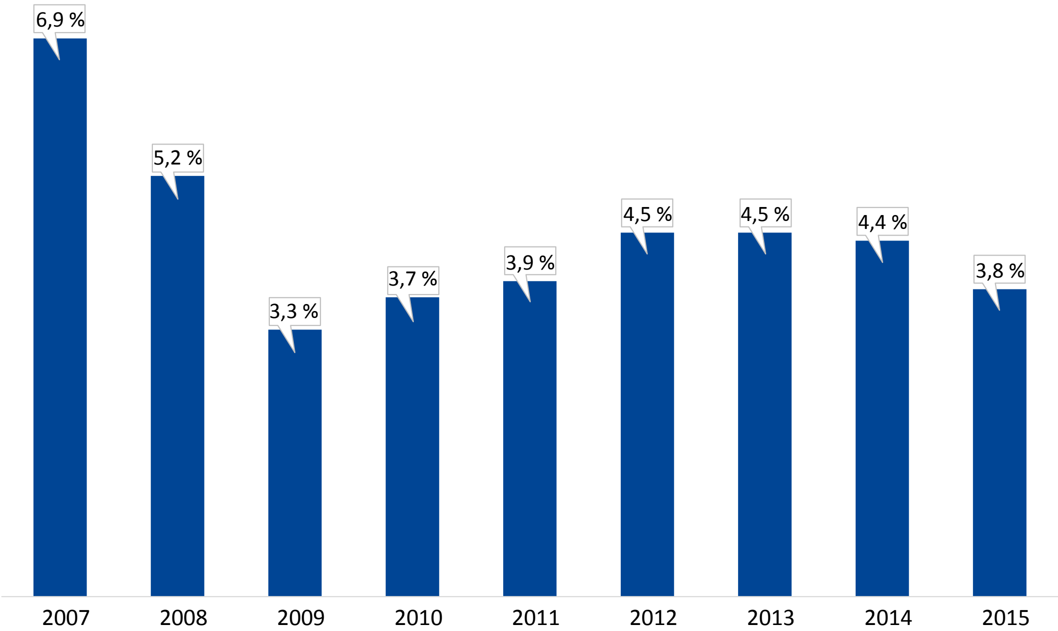
Given the fact that spending areas in the EU budget were re-categorised in various ways between 2007 and 2015, the evolution of their error rates cannot be compared precisely. All that can be compared over that time period are the regularity or error rate of the EU

10 Articles 285 and 287 of the consolidated wording of the Treaty on the Functioning of the European Union, *Official Journal of the European Union*, C 115, 9 May 2008.

11 Applying the n+2 rule.

financial statements, EU budget revenues and payments as a whole. Whereas no material errors were detected in revenues, in the case of payments as a whole, the estimated error rate in the individual years of the reference period exceeded the materiality reference. Where the estimated error rate[12] in the various years exceeded the materiality threshold, which is 2%.

Chart 2: Total estimated error rate in EU budget payments from 2007 to 2015



Source: EU audit in brief 2013, EU audit in brief 2015, ECA.

Even though the total estimated error rate fell in the last of the years under scrutiny, even the bottom limit of errors each year significantly exceeded the materiality threshold[13].

As regards the statement on the legality and regularity of payments underpinning the EU financial statements, the ECA repeatedly stated that spending on programme implementation in the various groups of policies was, in the vast majority of cases, materially **affected by error**. For that reason, **negative statements** on their legality and regularity were issued in the period under scrutiny. Control of and oversight over operational expenditure were assessed as being only partially effective in the vast majority of cases.

The only spending area whose error rate was below the materiality threshold in the entire period was administrative and other expenditure. Control of and oversight over this expenditure was rated effective.

In addition, control and oversight were assessed as effective in the case of EU budget revenues in the period under scrutiny.

12 Based on the errors it quantified, the ECA estimates **the most likely error rate** both as part of every special assessment and for budgetary expenditure as a whole. This rate is a statistical estimate of the most likely percentage error rate (i.e. quantifiable violations of the regulations, rules and conditions for concluding a contract or providing a subsidy) in the basic sample. The ECA also estimates the lower error limit and upper error limit. When planning audits, it takes care to ensure that the procedures employed make it possible to compare the estimated error rate in the basic sample with the **materiality** rate of 2%. When evaluating audit results for the purpose of issuing its statement, the ECA proceeds on the basis of this materiality threshold and takes into account the nature, magnitude and context of errors.

13 The estimated error rate defined by the ECA is not a rate of fraud, inefficiency or waste. It is an estimate of the amount of money that should not have been paid out because they were not used in accordance with the relevant legislation. Typical errors include reimbursement of expenditure that was ineligible or for purchases where the public procurement rules were not properly followed.

ECA special reports

Between 2007 and 2015 the ECA issued 153 special reports presenting outputs from performance audits and spotlighting selected areas of EU budget management. The number of special reports issued every year doubled during the course of that period. Entities in the CR featured in the audit samples of 17 special reports during that time.

Audit work by the Commission

In line with Article 325 of the TFEU, Member States coordinate their activities to protect the EU's financial interests with a view to combating fraud more effectively and to this end cooperate closely and regularly with the Commission. Working with Member States, the Commission submits to the Council and EP annual reports on measures to protect the EU's financial interests and combat fraud. The purpose of the annual reports is to analyse the degree to which European Union funds are at risk of irregularities, or fraud, on the side of both EU budget expenditure and revenues.

When protecting the EU's financial interests, the Member States mainly cooperate with the European Anti-fraud Agency (OLAF), which is responsible for exercising the Commission's investigative powers to protect its financial interests and for developing the anti-fraud strategy.

Protection of the EU's financial interests in Member States takes place through a number of activities linked to preventing, detecting, correcting and reporting irregularities[14] and suspicions of fraud. Within the meaning of Community legislation[15], irregularity means *"any infringement of a provision of Community 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 Communities or budgets managed by them, either by reducing or losing revenue accruing from own resources collected directly on behalf of the Communities, or by an unjustified item of expenditure".* Fraud means a deliberate irregularity meeting the criteria of any of the conduct described in the *Convention on the Protection of the European Communities' Financial Interests*.[16]

Due to changes in the structure of EU budget spending areas for which irregularities or suspicions of fraud have been reported, it has not been possible to make a precise comparison of their development throughout the period 2007-2015. What can be said, however, is that cohesion policy displayed the highest volume of reported irregularities (fraudulent and non-fraudulent) practically throughout the period under scrutiny.

The number of reported irregularities (both fraudulent and non-fraudulent) had a growing trend in PP7+, almost tripling between 2007 and 2015. This growth was driven by EU budget expenditure, and within that chiefly by cohesion policy. In revenues, i.e. traditional own resources collected by Member States, the number of reported irregularities essentially remained constant.

The total estimated financial impact of irregularities more than doubled between 2007 and 2015. The greatest increase again came in expenditure, while the financial impact in traditional own resources was more or less constant.

The EU reports give annual overviews of audit missions done in the CR by the Commission, or its responsible directorates-general, starting in 2009. A total of 45 Commission audit missions took place in the CR between 2009 and 2015, where audits of the management and control systems (MCSs) and often audits of operations were carried out. Some audits and their final reports resulted in individual or blanket corrections; in some cases, a global plan was adopted.

14 Member States are obliged to notify the Commission of every suspicion of fraud and all irregularities involving in excess of €10,000 of EU finances.

15 Article 1 (2) of Council Regulation (EC, Euratom) No 2988/95 of 18 December 1995, on the protection of the European Communities financial interests; sector-based EC regulations contain their own specific definitions of irregularities.

16 Article 1 (1) of the *Convention on the Protection of the European Communities' Financial Interests* of 26 July 1995.

E. The Czech Republic and the 2007–2013 programming period

E.1 Summary of the implementation of the 2007–2013 programming period in the CR

E.1.1 Strategic documents of the CR for EU policies

The Czech authorities were already working to prepare PP7+ during the programming period 2004–2006. In March 2005 the Czech government[17] approved five priority areas of cohesion policy for the 2007–2013 period[18] and a timetable for the preparation of programming documents for PP7+. In the CAP, the work focused on preparing the *National Strategic Plan for Rural Development of the CR for 2007–2013* (NSPRD).

Under Act No. 248/2000 Coll., on support for regional development, in 2001 the MfRD had established the Management and Coordination Committee (MCC) to coordinate aid provided by the European Communities at state level and the Czech government had approved[19] its statute and rules of business. These documents were amended in 2005[20], 2007[21] and again in 2016[22] for the purposes of PP7+. From the start of the preparations for the new period, the MCC coordinated the activities of the authorities involved in implementation (ministries and other managing authorities) and the activities of economic and social partners (e.g. the Chamber of Commerce of the CR, Czech-Moravian Chamber of Trade Unions, representatives of universities).

At European level, the Council issued a decision on the *Community Strategic Guidelines for Rural Development (programming period 2007 to 2013)*[23] at the beginning of 2006. This document became the basic legislation for rural development policy in PP7+. In autumn that year, the Council issued a decision on the *Community Strategic Guidelines for Cohesion*[24] (CSGC), which determined the direction of the EU's cohesion policy strategy in PP7+ and laid down guidelines for the utilisation of SF and CF resources, specifically the ERDF, ESF and CF. These pieces of legislation set out both policies' basic tasks for PP7+.

As in other Member States, at national level a strategic document entitled *National Development Plan of the Czech Republic for the Years 2007 to 2013* (NDP) was adopted[25], describing the main problems impeding the country's development and proposing the structure of the focus of PP7+ programmes.

17 Czech government resolution no. 245 of 2 March 2005 *on the procedure for preparing the Czech Republic for drawing down finances from the structural funds and Cohesion Fund in 2007–2013*.

18 1) *Enterprise, 2) Human Resources and Universities, 3) Innovation and Knowledge Economy,4) Accessibility and Infrastructure, and 5) Tackling Regional Disparities*.

19 Czech government resolution no. 273 of 21 March 2001, *on the Statute of the Management and Coordination Committee for the purposes of coordinating aid provided by the European Communities at state level and on the rules of business of the Committee*.

20 Czech government resolution no. 245 of 2 March 2005, *on the procedure for preparing the Czech Republic for drawing down finances from the structural funds and Cohesion Fund in 2007–2013*.

21 Czech government resolution no. 1180 of 22 October 2007, *on the Statute of the Management and Coordination Committee for the purposes of coordinating aid provided by the European Communities at state level and on the rules of business of the Committee*.

22 Czech government resolution no. 624 of 7 July 2016, *on the Statute of the Management and Coordination Committee for the purposes of coordinating aid provided by the European Communities at state level and on the rules of business of the Committee*.

23 Council Decision of 20 February 2006 on Community strategic guidelines for rural development (2007–2013 programming period) (2006/144/EC).

24 Council Decision of 6 October 2006 on Community strategic guidelines on cohesion (2006/702/EC).

25 Czech government resolution no. 175 of 22 February 2006 č. 175, on the Draft National Development Plan of the Czech Republic for 2007 to 2013.

Diagram 1: NDP objectives and priorities

Global goal:

Transformation of the socio-economic environment in the Czech Republic in line with sustainable development principles

Strategic objectives:

Competitive Czech economy	Open, flexible and cohesive society	Attractive environment	Balanced territorial development

Priority axes:

Boosting the competitiveness of the Czech economy	Developing a modern and competitive society	Environment and accessibility	Balanced and harmonious territ. development

NDP priorities:

Competitive enterprise sector	Education	Protecting and enhancing the quality of the environment	Balanced regional development
Support for R&D and innovation	Increasing employment and employability	Improving transport access	Development of urban areas
Development of sustainable tourism	Strengthening social cohesion		Development of rural areas
	Development of information society		Regional competitiveness and employment – Prague
	Smart administration		European territ. cooperation

It is clear that the development priorities of a Member State need not always be identical to the EU's priorities. That was also the case with the CR, and the endeavour to bring the CSGC into alignment with the NDP led to the *National Strategic Reference Framework of the CR 2007–2013* (NSRF), which was approved by the Commission on 27 July 2007. Drawing up a strategic reference framework was an obligation imposed on Member States by the General Regulation.

The NSRF is the fundamental programming document of the CR governing the use of the SF and CF in the 2007–2013 programming period. In addition to an analytical section and assessment of the 2004–2006 programming period, it contains the complete system of OPs that were implemented during PP7+[26].

26 The NSRF also mentions OP *Fisheries 2007–2013* and the *Rural Development Plan of the CR 2007–2013*, which were not included in cohesion policy and were not financed out of the SF or CF.

The NSRF was based on four strategic objectives defined in the NDP (see Diagram 1 above), for which it designed the OP system for cohesion policy, while respecting the division of OPs according to the EU's three priority objectives: (c*onvergence, regional competitiveness and employment*, *European territorial cooperation*[27]).

At the NSRF level, the function of the monitoring committee was carried out by the aforesaid MCC, which could approve changes in the NSRF, in the design of the implementation structure, revisions in OPs etc.

The NSRF also dealt with the management of cohesion policy in the CR and its links to rural development and fisheries policy and described the financial flows system of the SF and CF.

The general goals of European rural development were legally enshrined in Council Regulation (EC) No 1698/2005[28]. At national level it was the *National Strategic Plan for Rural Development Programme of the CR for 2007–2013* [29] that set out links between the goals of European rural development and Czech rural development. These goals had to correspond to the "European strategic guidelines" (strategic development axes):

- competitiveness;
- preservation of nature, environment and landscape;
- development and diversification of rural life.

The NSPRD was implemented through the *Rural Development Programme of the CR for 2007–2013* (RDP7+). The NSPRD provided for cooperation and coordination PP7+ with other instruments of Czech and EU policy (cohesion policy, preservation of the environment and natural resources, fisheries policy) in order to efficiently use individual instruments, create synergy effects and prevent overlaps of used tools.

E.1.2 Structure of programmes co-financed by the EU and their allocation; direct payments

In addition to a detailed description of OPs and their priority axes, the NSRF and NSPRD also contained their allocations (see Table 3). The **total allocation** for all programmes managed by Czech authorities **was €29,364.68 million.**

Programme allocations changed several times during PP7+, however. The reasons were transfers of finances between OPs (reallocations) or additional allocations for the years 2011–2013 under the Interinstitutional Agreement. In the final years of PP7+ there was also partial decommitment[30] of the EU allocation on the grounds of failure to comply with the n+3/n+2 rule[31]. Reallocations, decommitment and non-utilisation of the full allocation are covered in detail in subsection E.1.3.

It is also worth mentioning that while the Czech authorities managed nine programmes in the 2004–2006 programming period, for PP7+ their number increased to 20. The number of intermediate bodies also increased markedly, but these were not defined until the programming documents for the various OPs were drawn up.

27 Although the NSF listed all the programmes under Objective 3 from which entities in the CR were authorised to utilise support, only in the case of Operational Programme Cross-border Cooperation Czech Republic – Poland 2007–2013 was a Czech entity the managing authority (specifically the MfRD). For that reason, other "foreign" programmes of Objective 3 are not included in the aggregate allocation amounts given below.

28 Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development from the European Agricultural Fund for Rural Development (EAFRD).

29 The NSPRD was approved by Czech government resolution no. 499/2006 of 10 May 2006.

30 See Section 7 (Articles 93 et seq.) of Council Regulation (EC) No 1083/2006.

31 The n+3/n+2 rule is an administrative tool for ensuring smooth drawdown of EU finances. Under this rule, the support allocation for the nth year of the programming period must be utilised in the following three/two years. The n+3 rule applied to the allocations for 2008, 2009 and 2010, with the n+2 rule applying to the subsequent years.

Table 3: System of programmes co-financed out of the EU budget in PP7+ and their original allocations as per the NSRF and NSPRD

Area of support		Programme title	Abr.	Managing authority	Financed from	Original allocation (€ million)
Cohesion policy	Thematic operational programmes /OP/	OP *Transport*	OPT7+	MoT	ERDF	1,170.44
					CF	4,603.64
		OP *Environment*	OPEn7+	MoE	ERDF	702.48
					CF	4,215.38
		OP *Enterprise and Innovation*	OP EIC	MoIT	ERDF	3,041.31
		OP *Human resources and Employment*	OP HRE	MoLSA	ESF	1,837.42
		OP *Research and Development for Innovation*	OP RDI	MoEYS	ERDF	2,070.68
		Integrated operational programme	IOP	MfRD	ERDF	1,582.39
		OP *Education for Competitiveness*	OPEC	MoEYS	ESF	1,828.71
		OP *Technical assistance*	OPTA7+	MfRD	ERDF	247.78
	Regional operational programmes NUTS II /ROP/	ROP *North – West*	ROP NW	RC NW	ERDF	745.91
		ROP *Moravia – Silesia*	ROP MS	RC MS	ERDF	716.09
		ROP South – East	ROP SE	RC SE	ERDF	704.45
		ROP *Central Moravia*	ROP CM	RC CM	ERDF	657.39
		ROP *North – East*	ROP NE	RC NE	ERDF	656.46
		ROP *South –West*	ROP SW	RC SW	ERDF	619.65
		ROP *Central Bohemia*	ROP CB	RC CB	ERDF	559.08
	Operational programmes Prague	OP *Prague – Competitiveness*	OPPC	Prague City Hall	ERDF	234.94
		OP *Prague – Adaptability*	OPPA	Prague City Hall	ESF	108.39
	Programme of Cross-border cooperation	OP *Cross-border cooperation CR–PR*	INTERREG CR – PR	MfRD	ERDF	219.46
Common Agricultural Policy		Rural Development Programme of the CR for 2007–2013	RDP7+	MoA	EAFRD	2,815.51
Common Fisheries Policy		OP *Fisheries 2007–2013*	OPF7+	MoA	ERDF	27.11
Totals		ERDF (včetně INTERREG CR–PR)				13,928.52
		ESF				3,774.52
		CF				8,819.02
		Objective 1 – Convergence				25,883.51
		Objective 2 – Competitiveness				419.09
		Cohesion (without Cross-border cooperation)				26,302.60
		Objective 3 – European territorial cooperation				219.46
		Total cohesion				26,522.06
		EAFRD				2,815.51
		EDF				27.11
		Total for all programmes				**29,364.68**

Source: NSRF, NSPRD.

EU finances did not only arrive in the CR in the form of finances allocated to individual programmes (see above), however: some came in the form of direct payments and support provided for measures under common market organisation. Both these categories fall under the CAP.

Direct payments are entitlement-based payments disbursed on the condition of compliance with the defined conditions (mainly farming conditions) by farmers. The support paid out under direct payments is mainly based on Council Regulation (EC) No 73/2009[32], Commission Regulation No 1122/2009[33] and regulations issued by the Czech government. The Commission defines an annual financial framework for each Member State as the total amount of money available for a given calendar year for the provision of direct payments in that Member State.[34] The funding for direct payments is not budgeted for a multiannual period (which is why they were not allocated for PP7+). Direct payments are provided from the EAGF. The biggest category of direct payments is the Single Area Payment Scheme, which is paid out according to the area of land farmed, as registered in the LPIS[35]. As part of direct payments, farmers also received decoupled payments for sugar and tomatoes and special support for selected plant or animal production commodities (e.g. hops, potatoes for starch production, fruit, goats, dairy cows, meat calves). From January 2009 on, the provision of direct payments (and some support from axis II of RDP7+) was predicated on compliance with selected legal regulations under the *cross-compliance* system. *Cross-compliance* comprised three parts: *Good Agricultural and Environmental Condition* (GAEC) standards; *Statutory Management Requirements* (SMR); and *Minimum Requirements for Fertiliser and Plant Protection Product Use as part of Agri-environmental Measures* (AEM). In the case of the CR, direct payments accounted for roughly two thirds of all finances obtained under the CAP. The volume of disbursed direct payments ranged from CZK 17 billion to CZK 25 billion per annum, with a total of approx. **CZK 140 billion** paid out to farmers from 2007 to 2013. The number of farmers receiving direct payments in the years 2007 to 2013 ranged from 22,000 to 28,000.

The EU applies **common market organisation** (CMO) for selected agricultural commodities, for which it sets certain binding production and trade conditions or which it supports through various interventions, subsidies, licensing policy for imports and exports of agricultural commodities from and to third countries, by setting trade conditions etc. The aim of CMO is to minimise fluctuations in the supply of various commodities and thus also in the prices paid to farmers and to stabilise prices for end consumers. The funding of CMO measures is governed by Council Regulation No 1234/2007[36]. This support is financed out of the EAGF. Member States also help finance CMO. CMO is characterised by extensive legislation, even though it takes the smallest share of money under the CAP. **CZK 2.2 billion per annum** was paid out on average in the CR during PP7+.

32 Council Regulation (EC) No 73/2009 of 19 January 2009 establishing common rules for direct support schemes for farmers under the common agricultural policy and establishing certain support schemes for farmers, amending Regulations (EC) No 1290/2005, (EC) No 247/2006, (EC) No 378/2007 and repealing Regulation (EC) No 1782/2003.

33 Commission Regulation (EC) No 1122/2009 of 30 November 2009 laying down detailed rules for the implementation of Council Regulation (EC) No 73/2009 as regards cross-compliance, modulation and the integrated administration and control system, under the direct support schemes for farmers provided for that Regulation, as well as for the implementation of Council Regulation (EC) No 1234/2007 as regards cross-compliance for the support scheme provided for the wine sector.

34 The conditions negotiated before the accession of ten new Member States to the EU in 2004 disadvantaged their farmers compared to farmers in the "old" Member States. In the first year of membership, farmers in the "new" Member States received just 25% of direct payments compared to their colleagues in the "old" Member States. The subsidy amount was gradually increased. The new Member States could top up direct payments through "national top-up payments". They could be increased by at most 30% over the value for the given year but could not exceed 100% of direct payments paid out in the "old" Member States. Payments only reached parity in 2013.

35 *Land Parcel Identification System*.

36 Council Regulation (EC) No 1234/2007 of 22 October 2007 establishing a common organisation of agricultural markets and on specific provisions for certain agricultural products ("Single Common Market Organisation Regulation").

E.1.3 Overviews of actual drawdown by policy

The original allocations to all programmes managed by Czech entities are shown in Table 3. During PP7+ allocations were gradually modified at the level of programme priority axes and moved between programmes. All these reallocations were performed only after prior Commission approval and were transposed into programming documents by the managing authorities.

Another factor that could influence the magnitude of allocations to programmes and the allocation to a Member State as a whole was corrections, which are action taken in response to errors detected during audits by the AB, ECA, Commission or possibly other audit entities. Corrections are divided into individual corrections, which is action taken in response to irregularities detected in individual projects, and flat-rate corrections. The flat-rate form of financial correction is generally applied to irregularities of a systemic nature. If a systemic irregularity is identified by a Commission audit, the Commission sets the level of the imposed flat-rate correction and proposes that the Member State apply it. If the Member State does not agree with the proposed correction and does not implement at its level, the Commission performs the correction by decision. In that case this is a "net correction" by which the allocation to the given OP is reduced. Finances affected by a net correction cannot be reallocated in the Member State, so the Member State's total allocation is reduced by that amount.

According to data provided by the Ministry of Finance, from 2011 to 2016 the PCA performed flat-rate or individual corrections in 20 cases, with a total financial impact of **€726.3 million**, based on the results of Commission audits and recommendations. **No net correction was imposed on the Czech Republic, however.** The corrections proposed by the Commission were only applied after they had been accepted by the Czech authorities and were imposed by the affected programme's managing authority (MA). **Money thus freed up could be reused for the purposes of the given programme.**

As the data in Annex 2 shows, the biggest correction was imposed on the managing authority of OPT7+, which was the Ministry of Transport (MoT). In the years 2012 and 2013 a flat-rate correction of 10% of the expenditure paid out to beneficiaries up to 31 August 2012 was imposed on it for shortcomings in the operational programme's management and control system. That corresponds to a sum of €355.4 million.

Annex 3 provides an overview of corrections done under the CAP, or money recovered to the EU budget.

The third way in which the allocation was changed, and the way involving the greatest amount of money, was decommitment on the grounds of a Member State's failure to comply with the n+3/n+2 rule. The Czech Republic was first hit with decommitment in 2013, when the n+3 rule and n+2 rule overlapped, so in one year it was necessary to utilise finances allocated for two years.

The National Coordinating Authority forming part of the MfRD (MfRD-NCA) assessed the risk level of various OPs and cooperated closely with some of them under the "enhanced risk management" system. The main aim of this cooperation was to minimise the risk of failure to utilise the full allocation; to this end, crisis plans were drawn up and approved by the Czech government.

Despite all the efforts, the CR was unable to avoid a further decommitment in 2014 and failure to utilise the entire allocation at the very end of the programming period, even though the resulting amounts were lower than had been estimated. In this context, however, it is not possible to overlook the impact that the Czech National Bank (CNB) had on the total rate of non-utilisation[37] through its Czech currency interventions. From November 2013 to April 2017 the CNB kept the koruna/€ exchange rate above 27 CZK/€, i.e. approx. CZK 2 above the koruna rate before the start of intervention.

Table 4: Overview of allocations, decommitmens and non-utilisation of the allocation for individual programmes in PP7+ (€ million)

Programme	Allocation before 1st decommitmen	1st decommitment (2013)	2nd decommitment (2014)	Expected non-utilized allocation (2016)	Expected loss of allocation in total	
					(€ million)	(in % from total allocation)
OPEn7+	4,917.87	274.66			**274.66**	5.58 %
OP HRE	1,901.19	4.35			4.35	0.23 %
OP RD	2,070.68		242.53	67.33	**309.86**	**14.96 %**
IOP	1,619.02	1.56	2.31	41.30	45.16	2.79 %
OP EC	1,771.81	110.34		63.86	**174.19**	9.83 %
OPTA7+	175.90	20.46	9.70	15.60	45.75	**26.01 %**
ROP NW	762.77		54.64	38.78	93.42	**12.25 %**
ROP SW	633.65			4.25	4.25	0.67 %
OP PA	114.80		0.28	12.72	13.00	11.32 %
INTERREG CR–PR	219.46			8.38	8.38	3.82 %
OPF7+	27.11			2.69	2.69	9.91 %
RDP7+	2,857.51			4.46	4.46	0.16 %
Other OP	12,571.96				0.00	0.00 %
Total	**29,643.72**	**411.37**	**309.44**	**259.36**	**980.17**	**3.31 %**

Source: Ministry of Finance, July 2017;

NB: The three highest values in the lest two columns are in red.

The values given in the column Allocation before 1st decommitment show the allocations of the individual programmes after the changes made between 2007 and 2013, therefore they differ from the values in the table the NSRF and NSPRD (see Table 3).

It is wrong to speak of decommitment in the case of RDP7+, as this programme was not governed by the General Regulation. This is therefore a case of non-utilisation of the entire allocation.

As the PP7+ coordinator of cohesion policy in the Czech Republic, the MfRD submitted written information to the Czech government in May 2017 on the state of closure of the programming period[38].

In this document the MfRD stated that 96.4% of the allocation of approx. CZK 700 billion had been utilised. Over 70,000 projects[39] were supported. It should be noted, however, that these are preliminary figures, in other words the total value the CR claimed from the Commission. The MfRD went on to state that it expected that the total allocation drawdown shortfall for OPs would be CZK 26.8 billion.

However, these figures do not include the results of RDP7+, i.e. the CAP. According to the Ministry of Agriculture (MoA) and State Agricultural Intervention Fund (SAIF), as at 31 December 2015

37 The allocation for individual OPs was set in €. The weakening of the Czech koruna thus led to increased available funding capacity in the national currency.

38 *Information on the state of closure of the 2007–2013 programming period*, MfRD-NCA, 31 May 2017.

39 The quarterly monitoring report on drawdown from the SF and CF for the 2nd quarter of 2016 published by the MfRD in August 2016 stated that a total of 70,756 projects had been supported and CZK 707.7 billion had been paid out to beneficiaries.

almost 37,000 projects had been supported out of RDP7+, with a total financial volume of around CZK 43 billion. In addition, subsidies of approx. CZK 54 billion were paid out of RDP7+ under flat-rate measures. The total drawdown shortfall for RDP7+ was almost €4.46 million[40].

In total, 1,180 projects were supported under Operational Programme Fisheries (OPF7+), with a total of over €32.5 million paid out to beneficiaries, the equivalent of roughly CZK 878 million (using an exchange rate of 27 CZK/€).

Consequently, the Czech Republic had a drawdown shortfall of, or was unable to utilise, €980.17 million in total under the CAP, CFP and cohesion policy.

The MfRD and MoA identify the reasons for the failure to make full use of the 2007–2013 allocation as follows:

- late approval of changes in European regulations;
- delays in the implementation of individual programmes (caused, among other things, by the complexity of the EU funds drawdown system, insufficient capacities in implementation structure authorities, persisting problems in the area of public procurements, as well as unexpected savings associated with contracts or the long-term suspension of projects implementation as a result of ongoing court and administrative proceedings);
- in the case of RDP7+, failure to use finances for project implementation in Prague;
- the consequence of the administration process (corrections and penalties were set against the Czech Republic at the end of the programming period, when the freed-up amount cannot be allocated to further calls);
- the existence of unforeseen external influences.

In this context, however, the SAO states that the European regulations were the same for all Member States and the same external influences (e.g. the economic crisis) impacted on the economies of all Member States (that does not apply to the consequences of the CNB interventions, however, which were specific to the Czech Republic). Even so, most Member States did not lose such a high percentage of the original allocation in decommitment as the CR. However, the SAO essentially agrees with the opinion of MfRD-NCA that: *"With regard to the quality and benefit of individual projects it must be noted, however, that some non-utilisation of the full amount of finances does not necessary signify a general loss for the Czech Republic."*[41] The SAO pointed out several times that, conversely, that kind of loss can be caused by the frantic drawdown of the allocation at the end of the programming period for nonsensical and unnecessary projects solely in order to utilise the full allocation.

Table 5 shows the allocation to individual programmes before decommitment by the Commission for failure to comply with the n+2 and n+3 rules in 2013. The table also shows the overall drawdown under programmes expressed in both absolute money terms and as a percentage. The data used for cohesion policy and OPF7+ are taken from the Paying and Certifying Authority (PCA), while the data for RDP7+ originate from the MoA, or SAIF, and from the programmes' final reports. Compared to the data presented by the MfRD in information for the Czech government, the table contains some additions, mainly because of the inclusion of the INTERREG V-A, Czech Republic - Poland, RPD7+ and OPF7+ programmes.

40 See the *Ex-Post Evaluation of the Rural Development Programme 2007–2013*. In the case of RDP7+ the figure is final.

41 Source: MfRD-NCA from July 2017

Table 5: Absolute (€ million) and relative (%) drawdown for individual programmes and in total for PP7+

Programme	Allocation before decommitment in 2013 (€million)	Total drawdown (€million)	Total drawdown (%)
OPT7+	5,821.49	5,821.49	100.00 %
OPEIC	3,120.69	3,120.69	100.00 %
ROP MS	750.98	750.98	100.00 %
ROP SE	720.36	720.36	100.00 %
ROP CM	672.24	672.24	100.00 %
ROP NE	671.29	671.29	100.00 %
ROP CB	571.72	571.72	100.00 %
OPPC	243.18	243.18	100.00 %
RDP7+	2,857.51	2,853.05	99.84 %
OPHRE	1,901.19	1,896.83	99.77 %
ROP SW	633.65	629.40	99.33 %
IOP	1,619.02	1,573.86	97.21 %
INTERREG CR–PR	219.46	211.08	96.18 %
OPEn7+	4,917.87	4,643.21	94.42 %
OPEC	1,771.81	1,597.62	90.17 %
OPF7+	27.11	24.42	90.09 %
OPPA	114.80	101.80	88.68 %
ROP NW	762.77	669.35	87.75 %
OPRDI	2,070.68	1,760.82	85.04 %
OPTA7+	175.90	130.15	73.99 %
Total	**29,643.72**	**28,663.55**	**96.69 %**

Source: Information from PCA, MoA and SAIF, July 2017.
NB: It is wrong to speak of decommitment in the case of RDP7+, as this programme was not governed by the General Regulation.

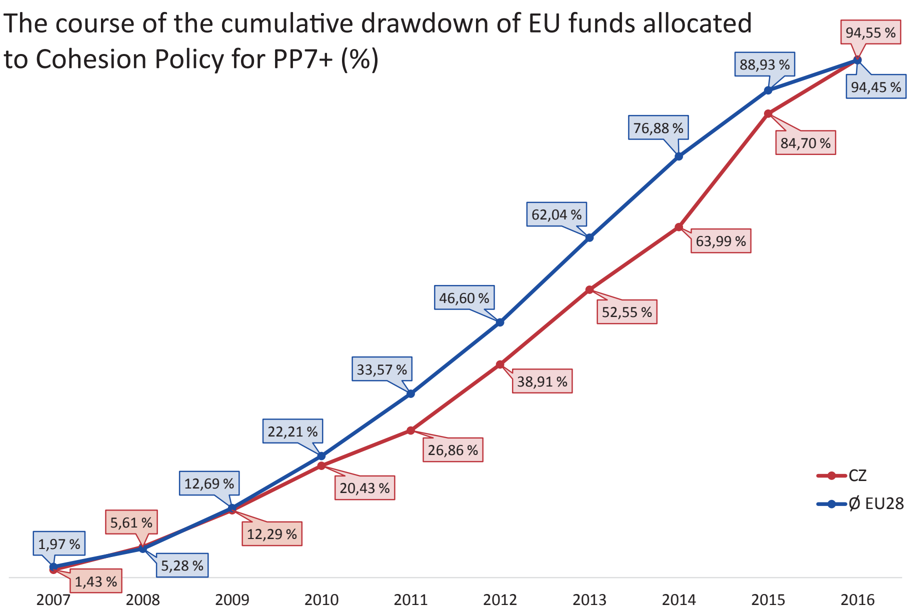
The actual level of utilisation or non-utilisation of the allocation will only be known, however, once the Commission officially approves the closure of all OPs (see also subsection D.3). Before that, all “open areas” of the closure, i.e. risk areas as regards the actual level of utilisation of the allocation, have to be resolved. These “open areas” include:

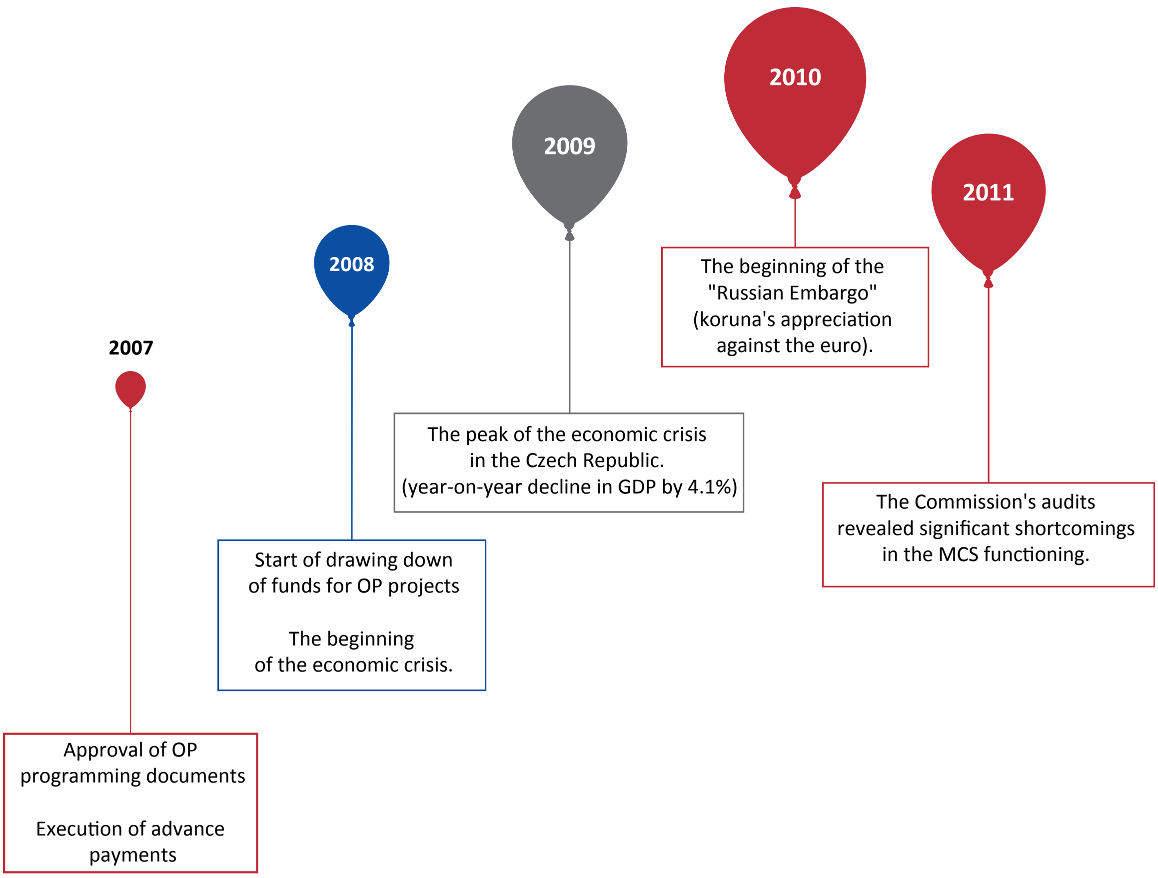
- non-functioning projects (i.e. projects not completed by 31 December 2016 which have to be completed by 31 March 2019 at the latest);
- phased projects (i.e. projects whose funding was spread between two programming periods);
- open irregularities (i.e. primarily projects in connection with which criminal proceedings are taking place, projects with unfinished audits and potentially irrecoverable receivables).

By the editorial deadline of *Section II of EU Report 2017* it was not possible to make an exact estimate of the extent to which “open areas” would reduce the total level of utilisation.[42] What can be stated, however, is that more than CZK 4 billion is potentially at risk[43].

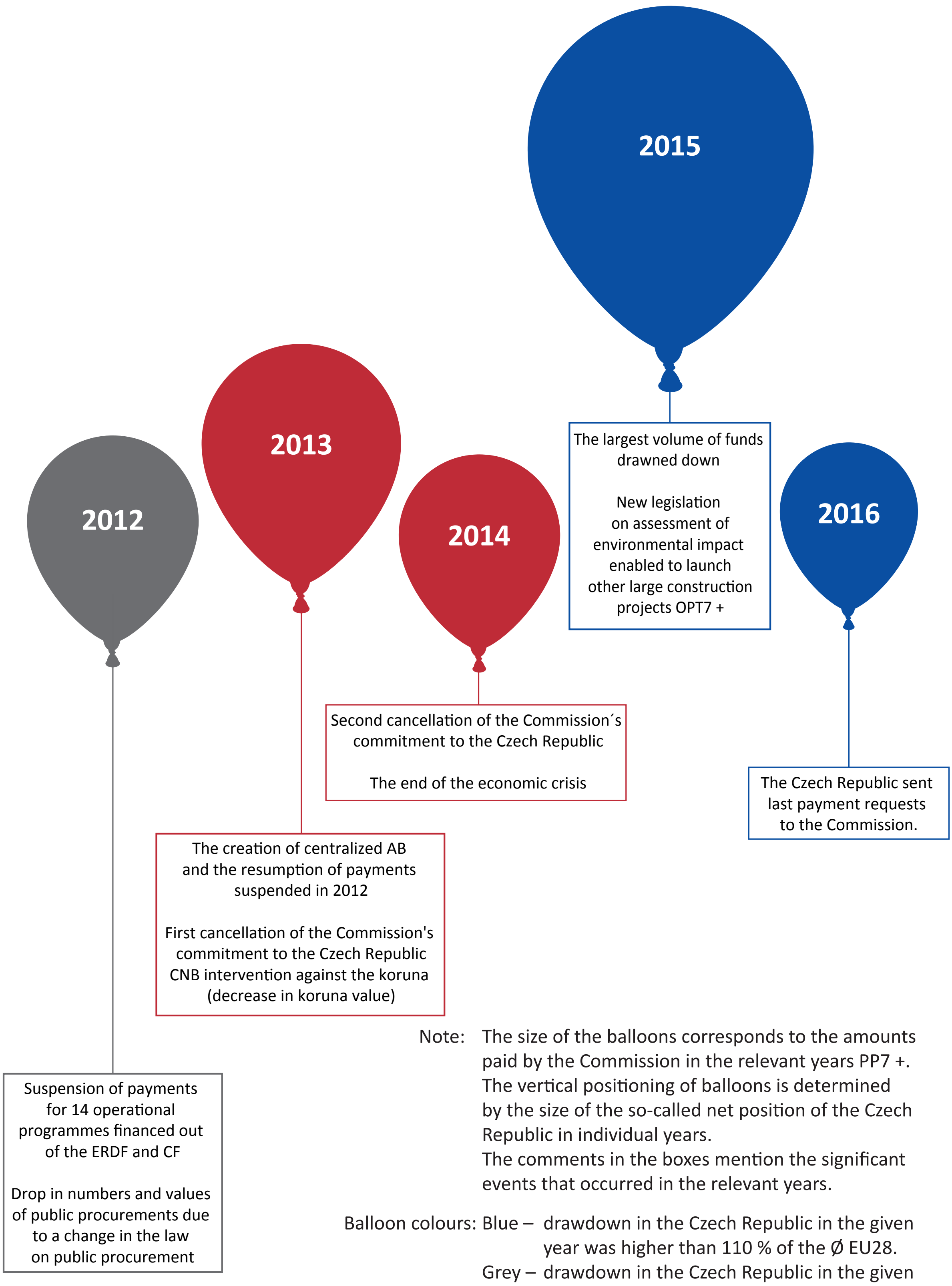
42 To illustrate, the final 2004–2006 programming period OPs were only closed more than six years after the final documents had been submitted to the Commission.
43 *Information on the state of closure of the 2007–2013 programming period*, MfRD-NCA, 31 May 2017.

Diagram 2: The course of the drawdown of EU funds allocated to Cohesion Policy in the Czech Republic during PP7 +





Source: Commission, data of 29 May 2017.



Note: The size of the balloons corresponds to the amounts paid by the Commission in the relevant years PP7 +. The vertical positioning of balloons is determined by the size of the so-called net position of the Czech Republic in individual years. The comments in the boxes mention the significant events that occurred in the relevant years.

Balloon colours: Blue – drawdown in the Czech Republic in the given year was higher than 110 % of the Ø EU28.
Grey – drawdown in the Czech Republic in the given year was between 90 and 110 % of the Ø EU28.
Red – drawdown in the Czech Republic in the given year was lower than 90 % of the Ø EU28

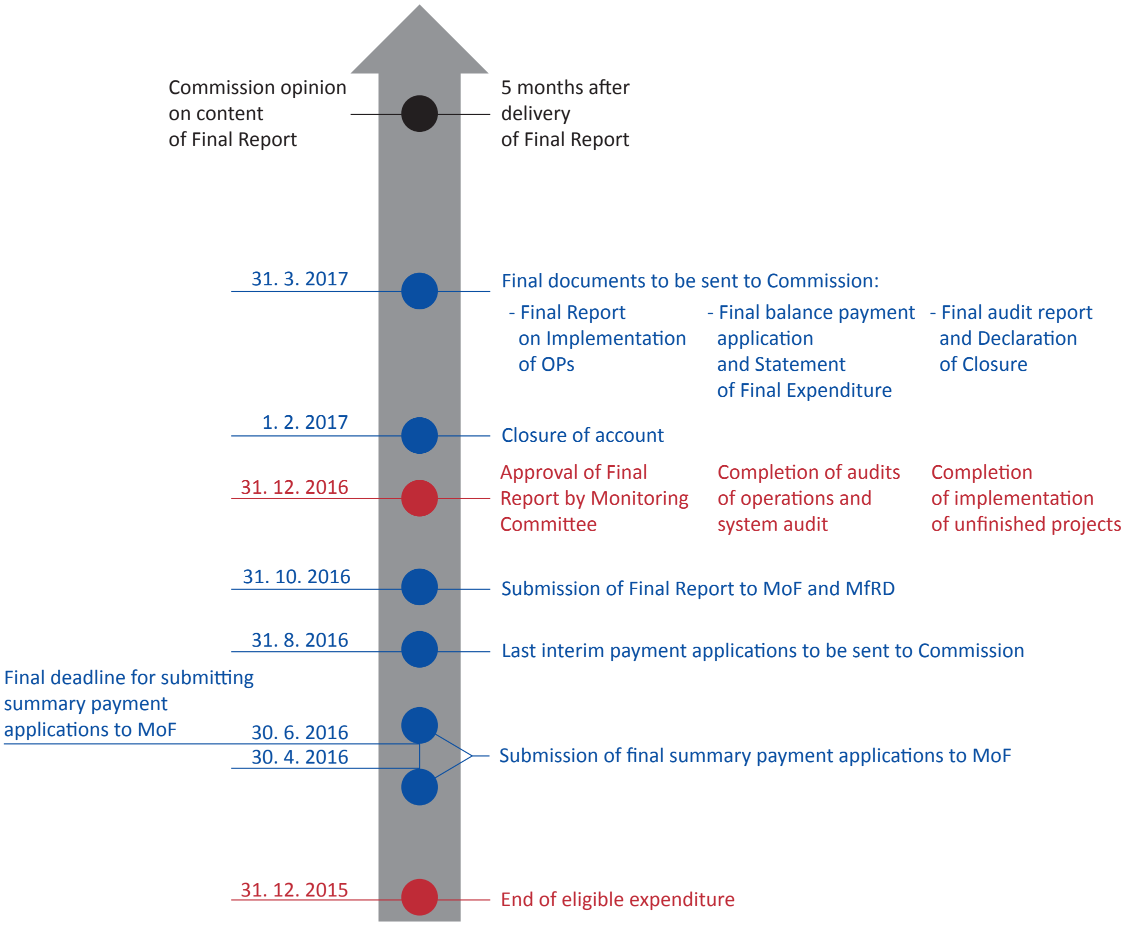
E.1.4 Course of the closure of the 2007–2013 programming period

E.1.4.1 Cohesion policy and OPF7+

The PP7+ closure procedure was launched in 2013, when the Commission published its *Guidelines on the closure of operational programmes adopted for assistance from the European Regional Development Fund, the European Social and the Cohesion Fund*. In 2014 a working group on the closure of the 2007–2013 programming period was established in the Czech Republic, composed of representatives of the MAs, AB, PCA and MfRD-NCA. This working group's principal duty was to prepare the implementation structure authorities as well as possible for the closure of the programming period, including ensuring the necessary methodologies for this process[44].

In September 2016, the Commission carried out an audit mission to the CR focused on assessing the design of processes and measures for the successful closure of OPs co-financed out of the ESF. The audit report states that the national authorities of the CR were well prepared for the closure of PP7+.

Diagram 3: PP7+ closure timetable



Source: Information on the state of closure of the 2007–2013 programming period, MfRD-NCA, 31 May 2017.

44 *Methodological Recommendation regarding the Closure of the 2007–2013 Programming Period*, MfRD-NCA, July 2015 (updated in June 2016), and *Methodological Recommendation for the Creation of a Final Report on the Implementation of an Operational Programme in the 2007–2013 Period*, MfRD-NCA, November 2015.

E.1.4.2 Common Agricultural Policy (RDP7+)

The RDP7+ closure process was different from that of OPs and was not governed by the MfRD-NCA methodological documents owing to the different legislation[45].

Council Regulation (EC) No 1290/2005 provided that the annual accounts for RDP7+ compiled as at 31 December 2015 had to be submitted to the Commission by 30 June 2016, the same deadline as for submission of the final annual execution report (for 2015). The Commission had five months to give its opinion. The MoA, as MA, provided an ex-post evaluation and sent it to the Commission by the end of 2016.

The total shortfall in this programme's allocation drawdown was €4.46 million, as mentioned above in subsection E.1.3.

E.1.5 Quantifiable benefits for the 2007–2013 programming period

E.1.5.1 Cohesion policy

In 2016 the Commission, through the Directorate-General for Regional and Urban Policy, published an assessment report[46] based on the outputs and results of ex-post evaluation of PP7+ programmes financed out of the ERDF and CF. The report assessed both outputs for the EU as a whole and for individual Member States.

In relation to the CR the report assesses economic activity in the Czech economy throughout PP7+, among other things. It states that the global recession in 2008 and 2009 resulted in a fall in economic activity in the CR owing to a decline in direct foreign investments and demand from Germany. The fall was less pronounced than in many other Member States, however. After something of a recovery in 2009–2011, another slowdown in the CR's economic growth was registered in 2011–2013. A gradual economic revival was only evident from 2014, with more marked acceleration in 2015. Regional differences in the generation of gross domestic product (GDP) per capita also decreased slightly during the period.

The economic downturn caused the rate of **employment** to fall between 2007 and 2009, but this fall was smaller than in many other Member States. Employment subsequently increased again, with the rate of employment in 2015 exceeding that in 2007.

The **public sector deficit** increased by 5% of GDP in the same period as a result of the recession and measures adopted to tackle it. This deficit was gradually brought down, however, through fiscal consolidation measures, including reductions in government investments.

The report goes on to say that total support from the ERDF and CF[47] **during PP7+ amounted to around €22 billion in the CR**, which is **2% of GDP and 34% of government capital expenditure.** The assistance mainly targeted regions supported under the *convergence* objective, whose funding amounted to **€335** per capita. In the region of Prague, which received support under the objective of competitiveness and employment, support reached only € 52 per capita.

The EU funding was mainly used to support investments in transport and environmental infrastructure, and also into research, technological development and innovation. Investments in Prague were channelled into enterprise, whereas in the convergence regions they went

45 Council Regulation (EC) No 1290/2005 of 21 June 2005 on the financing of the Common Agricultural Policy and Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD).

46 Ex-post assessment of Cohesion Policy Programmes 2007-2013, focusing on the European Regional Development Fund and the Cohesion Fund, Commission, September 2016.

47 These were mainly hard projects, i.e. investment projects. Much more jobs were created with ESF support under so-called soft projects.

mainly into infrastructure projects of various kinds. **The report estimates that in 2015 the assistance provided under cohesion policy and rural development increased the CR's GDP by almost 4% over the amount it would have attained without this funding.**

According to the report, measures co-financed out of the ERDF and CF during this period led to the creation of more than **26,900 jobs** in total, with more than **3,900** created in **research** and **1,792 in tourism**. These results were achieved partly through support for **1,423 scientific and technological development projects, 8,047 projects to help enterprises fund investments** and **636 projects promoting cooperation between SMEs and research centres.** Other values of basic indicators are given in the following table.

Table 6: Values of selected basic indicators of programmes co-financed out of the ERDF and CF in the Czech Republic in PP7+ and expressed as a proportion relative to the EU as a whole (as at the end of 2014)

Indicator number	Basic indicator	Value attained in the CR	Value attained in the EU	CR/EU as a %
0	*Aggregated number of jobs*	26,911	940,000	2.9
4	*Number of research and technological development projects*	1,423	95,000	1.5
5	*Number of projects for cooperation between enterprises and research institutions*	636	33,600	1.9
6	*Number of jobs created in research*	3,908	41,600	9.4
7	*Number of projects to support direct investments in SMEs*	8,047	400,000	2.0
8	*Number of supported start–ups*	36	121,400	0.0
9	*Number of jobs created in SMEs (converted to full time)*	241	322,100	0.1
14	*Km of new roads*	312	4,900	6.4
15	*Km of new TEN-T roads*[48]	111	2,400	4.6
16	*Km of repaired roads*	2,018	28,600	7.1
18	*Km TEN-T railways*	294	2,600	11.3
19	*Km of repaired railways*	369	3,900	9.5
24	*Increase in renewable energy output capacity (megawatts)*	226	3,900	5.8
25	*Increase in number of inhabitants supplied from water-management projects*	371,321	5,900,000	6.3
26	*Increase in number of inhabitants connected to improved wastewater treatment facilities*	490,266	6,900,000	7.1
29	*Area of revitalised territory (km^2)*	147	1,100	13.4
35	*Number of jobs created in tourism*	1,792	16,200	11.1

Source: Ex-post evaluation of 2007–2013 cohesion policy programmes, focusing on the European Regional Development Fund and Cohesion Fund, Commission, September 2016.

NB: The numerical data in the table were based on the values reported by the managing authorities of each Member State in the annual implementation reports. The aggregated jobs indicator is based on a review by the Commission of all created gross jobs reported to the Commision for each priority axis and is regarded as the most accurate figure for the total number of gross jobs directly created in consequence of the EU funding.

Detailed mapping and evaluation of the benefits by Czech implementation authorities will not take place until the ex-post evaluation of the *National Strategic Reference Framework 2007–2013* at the end of 2017.

48 Trans-European Transport Networks

Partial available data were presented to the government by the regional development minister on 21 March 2017 in *Information for the government of the CR on the benefits of cohesion policy and starting points for its future form after 2020*. This material, which was co-authored by the Ministry of Finance (MoF), provides a quantitative and qualitative view of what cohesion policy has delivered in the CR. Monitoring of data concerning the course of PP7+ project and programme implementation threw up the following quantifiable data[49]:

- **more than 94,000 jobs created;**
- **8,500 SMEs supported;**
- **8 centres of excellence and 40 regional science and research centres supported;**
- **263 km of new motorways, high-speed roads and 1st class roads built;**
- **603 km of railway track built;**
- **more than 3,000 kilometres of 2nd and 3rd class roads repaired;**
- **153 new wastewater treatment plants built;**
- **254 km^2 of land revitalised;**
- **environmental hotspots covering an area of 1,735 km^2 cleared up;**
- **307 heritage sites renovated.**

In line with the Commission's ex-post evaluation from 2016, the material states that finances from European funds in PP7+ contributed 2% of the Czech Republic's GDP and accounted for 34% of all government capital investments.

The SAO drew attention to the fact that some of the basic indicators data it examined were not entirely accurate and truthful. One example is the indicator tracking the number of new jobs created, as demonstrated by the result of SAO audit no. 16/01. The SAO analysed the source set of monitoring indicator values. This analysis proved that there had been multiple reporting of jobs created in several projects simultaneously and incorrect reporting of jobs in consequence of a failure to respect the methodology of the MA, the Ministry of Industry and Trade (MoIT).

Equivalent findings were presented in the SAO's outputs from audit no. 15/06: in the case of the indicator targeting the number of new jobs created the final figure included employees who transferred to a research centre from the original parent institution and who, in many cases, had previously been working on the same research project. The MoEYS did not monitor the extent to which new research centres demonstrably delivered new jobs.

Additionally, in audit no. 12/19 the SAO stated that the Ministry of Labour and Social Affairs (MoLSA) designed the terms of one call in a way that wage support could even be drawn down for persons who were employed or carrying on a business. Yet the goal of the support was to improve the employability of unemployed persons or at-risk persons on the labour market. Although the indicator for the number of new jobs was exceeded, 95% of the jobs created were only temporary.

49 Unlike in the report to the Commission, the values of the indicators presented in the MfRD-NCA material are summarised as of the actual end of the eligibility of PP7+ expenditure and also include values arising from ESF-financed projects.

E.1.5.2 RDP7+ project measures

As the RDP7+ managing authority, the MoA formulated the following benefits in its ex-post evaluation of this programme:

1. Growth of the entire rural economy and employment growth

In general terms, the impact of RDP7+ should not be overestimated, as a whole series of other interventions and external factors influenced the rural economy and rural actors during PP7+. These included sector and regional OPs, as well as national support schemes. It is very hard to filter out the influence of the various interventions or to attribute different weights to them. That makes it appropriate to see the impact of RDP7+ as an indisputable addition to the other interventions targeting the development of rural areas and their stakeholders.

RDP7+ helped create job opportunities in both agricultural and non-agricultural activities. In total, RDP7+ was intended to support 2,700 gross new jobs; as at 31 December 2015 **4,126 jobs** (i.e. 150% of the target value) had been created in all the relevant measures. The starting of businesses and tourism were also supported. The expected diversification of production was delivered, with new machinery and technologies making it possible to make new products that could not be made with the original equipment. In these cases there was also a significant increase in the revenues of the relevant micro-enterprises. A second very frequent benefit was increased work productivity and the associated increased production volume. New technologies often enabled faster and more efficient production and improved the conditions of the work process.

2. Preservation and enhancement of natural resources and landscape

The RDP7+ goal concerning the balance of nutrients in the soil was delivered. As regards protection of the soil, the programme mainly participated in the setting of rules for farming practices designed to prevent soil loss and soil erosion caused by water. In consequence of a change in the use of soil (conversion of arable land into grassland or afforestation), agri-environmental measures and the afforestation of farmland are estimated to have reduced CO_2 emissions significantly. Another effect of RDP7+ is a marked increase in the area of land that is farmed in a manner designed to preserve biodiversity and the landscape. Nevertheless, the decline in birdlife in farming country was not fully reversed. Overall, it is fair to say that within the context of the scope of RDP7+ a very significant contribution to the preservation of the aforementioned natural resources was made.

3. Renewable energy generation

Measures in axis III of RDP7+ contributed most to increased renewable energy generation and the hitting of the ambitious targets of both the EU and the CR in terms of increasing the proportion of energy generated from renewables by 2020 (EU 20%, CR 14%). Thanks to this support, 169 biogas stations with a total installed heat capacity of 102,258 kW and electricity output of 107,947 kW were built or modernised during PP7+. In total, 4,150 GWh of electricity was generated in these biogas stations in PP7+. The main long-term impact of these activities is a reduction in harmful emissions from the use of fossil fuels to heat households.

4. Enhancing competitiveness in agriculture and forestry

RDP7+ played a major role in the modernisation and restructuring of Czech agriculture and forestry. Enterprises strengthened their medium and long-term competitiveness on the market thanks to the specialization of agricultural production and new technologies. Own investment activities were declining in food processing and forestry. Without RDP7+ funding, the decline in investment activity would have been even greater both in agriculture and in food production and forestry. Work productivity in the sector grew by around 50% during RDP7+, however (i.e. up to 2015, but mainly between 2007 and 2012).

5. Improving the quality of life and diversification in the countryside

Measures contributed effectively to diversification of the activities of the supported beneficiaries and thus also a considerable part of the agricultural and non-agricultural sector and, indirectly, supported rural development. The supported projects concerned a wide variety of non-farming activities and contributed to a widening of the range of products and services on offer in rural areas: e.g. crafts and repairs businesses were founded (carpentry, woodworking, metalworking, regional products etc.), which are a very effective supplement to principal farming activities. Existing micro-enterprises expanded or entirely new economic entities were formed in rural areas. Axis III measures supported investments in municipalities' basic water-management infrastructure and other technical infrastructure. The building and repair of local roads, the improved appearance of municipalities, improved civic amenities and tourism were also supported. All this contributed to a better living situation for local inhabitants and to the expansion of tourism.

E.2 Closure of the 2007–2013 programming period from the perspective of the Audit Authority

All the information presented in this subchapter is taken from the documents prepared for the SAO by the Audit Authority, whose function is performed by the Ministry of Finance (Department 52 - Audit Authority).

E.2.1 Legislative basis for the closure of the programming period 2007–2013

The legislative basis for the closure of operational programmes financed out of the ESF, ERDF and CF is the General Regulation. As regards the tasks of the Audit Authority, Article 62 (1) (e) provides that the audit authority must submit to the Commission by 31 March 2017 a closure declaration assessing the validity of the application for the payment of the final balance and the legality and regularity of the underlying transactions covered by the final statement of expenditure, which shall be supported by a final control report.[50]

The Audit Authority of the Ministry of Finance carried out the role of audit authority for other EU-funded programmes as well, specifically those financed out of the European Fund for the Integration of Third-country Nationals, the European Return Fund, the European Refugee Fund and the External Borders Fund, and also still carries out the role of audit authority for EEA/Norway financial mechanisms 2009–2014. Given the diversity of these funds and the concerned procedures, these will not be mentioned further in this text and are not covered by the statistics presented below.

E.2.2 Status and independence of the Audit Authority in the 2007–2013 period

2007–2012 period

One of the main activities of the AA in the 2007–2013 programming period was auditing the systems of MAs and their IBs, which were responsible for the proper management of OPs and scrutinising finances at the beneficiary level. From 2007 on, the performance of these audits was placed in the hands of authorised audit bodies (AABs), which were part of the internal audit divisions of ministries and the Regional Councils at which MAs also operated. At that time the Audit Authority at the MoF mainly performed methodological coordination and supervision over these authorised audit bodies. The system thus designed passed a compliance audit performed by PricewaterhouseCoopers in 2007–2008 and the Commission accepted this decentralised audit system in all OPs.

50 An equivalent provision applies to the EFF, where the duties of the Audit Authority are defined in Article 61 (1) (f) of Council Regulation (EC) No 1198/2006 on the European Fisheries Fund.

2012–2017 period ("Action Plan")

The AA's activity is supervised by the Commission, which began to carry out the first audits of systems in MAs and the AA in in 2010 and 2011. Its audits detected insufficiencies in the working of MCSs, most notably shortcomings in preliminary checks and project selection. In response to its findings, it suspended payments and imposed financial corrections. In its audit reports the Commission and the ECA stated that authorised audit bodies were insufficiently independent from MAs (subsidy providers) and there was insufficient supervision and coordination in respect of authorised audit bodies by the central AA.

At the start of 2012 the Commission, with reference to the aforesaid shortcomings, suspended payments for 14 OPs financed out of the ERDF and CF. In March 2012, the Czech side drew up the so-called Action Plan for Improving the Management and Control System within the Structural Funds frameworks in the Czech Republic[51], which the Commission subsequently approved. One of the five points of this plan was the integration of authorised audit bodies from ministries and the Regional Council into the structure of the Audit Authority at the MoF. The centralisation, which took place as of 1 January 2013[52], ensured that the Audit Authority was entirely independent from MAs and IBs. In addition, the AA's methodology and approach were unified at all levels of its hierarchy and personnel capacities were used more efficiently. Cooperation and the coordination of the work of the AA and the Commission's auditors, who now have a single partner for all matters concerning audit of the SF and CF, also improved.

E.2.3 Work of the AA in the 2007–2013 programming period

The Audit Authority performed during PP7+ both systems audits and operations audits. In total, it performed 444 systems audits for 19 operational programmes managed by MAs in the CR and 4,270 audits of operations. All these audits underpinned the final control report of each OP. Audits of operations took place from 2010 to 2017 and the AA performed them on projects whose total value exceeded CZK 249.63 billion, identifying shortcomings with a financial impact of CZK 7.61 billion (3.05%). In 65.76% of the operations audits no findings with a financial impact were made.

Evaluation of the results of the AA's work in the 2007–2013 programming period

Along with the reported projected error rate for 2016, the AA sent the Commission the residual risk for the entire programming period, which expresses the possible error rate. The following table compares the reported projected error rate in 2016 with the residual risk. The table shows that the AA issued a statement with reservations in its closure declaration only for OPPI (owing to unresolved irregularities and findings from the most recent operations audit) and ROP NW (owing to a police investigation into a suspicion of systematic fraud).

In the case of OPF7+ a statement without reservations could only be issued thanks to the financial correction that reduced the residual risk for the entire programming period below 2%.

51 According to the MfRD press release of 28 March 2012, the action plan was discussed by the Czech government on the same day.

52 Based on Czech government resolution no. 671/2012 of 12 September 2012 on the centralisation of audits at the Ministry of Finance – change in the design of the audit system for finances drawn down from the structural funds, *Cohesion Fund* and *European Fisheries Fund*.

Table 7: Summary of the results of AA audits

Abbreviation	Annual overall projected error rate 2016	Residual risk for the entire period.	Statement
ROP NW	3.71 %	1.85 %	With reservations
OPEIC	1.39 %	0.21 %	With reservations
OPF7+	12.11 %	2.00 %	Without reservations
OPEn7+	2.11 %	1.34 %	Without reservations
INTERREG CR–PR	0.70 %	0.83 %	Without reservations
OPTA7+	3.39 %	0.66 %	Without reservations
OPEC	3.05 %	0.45 %	Without reservations
OPHRE	1.00 %	0.33 %	Without reservations
ROP CM	1.45 %	0.30 %	Without reservations
ROP CB	1.21 %	0.24 %	Without reservations
OPPA	0.49 %	0.05 %	Without reservations
ROP SW	0.93 %	0.00 %	Without reservations
IOP	0.85 %	0.00 %	Without reservations
ROP MS	0.57 %	0.00 %	Without reservations
OPT7+	0.50 %	0.00 %	Without reservations
OPRDI	0.39 %	0.00 %	Without reservations
OPPC	0.31 %	0.00 %	Without reservations
ROP SE	0.13 %	0.00 %	Without reservations
ROP NE	0.00 %	0.00 %	Without reservations

Source: Materials drawn up by the AA, July 2017.

The following table shows the areas in which beneficiaries most frequently committed errors. If some findings could be listed in more than one category, they were included in the most appropriate category.

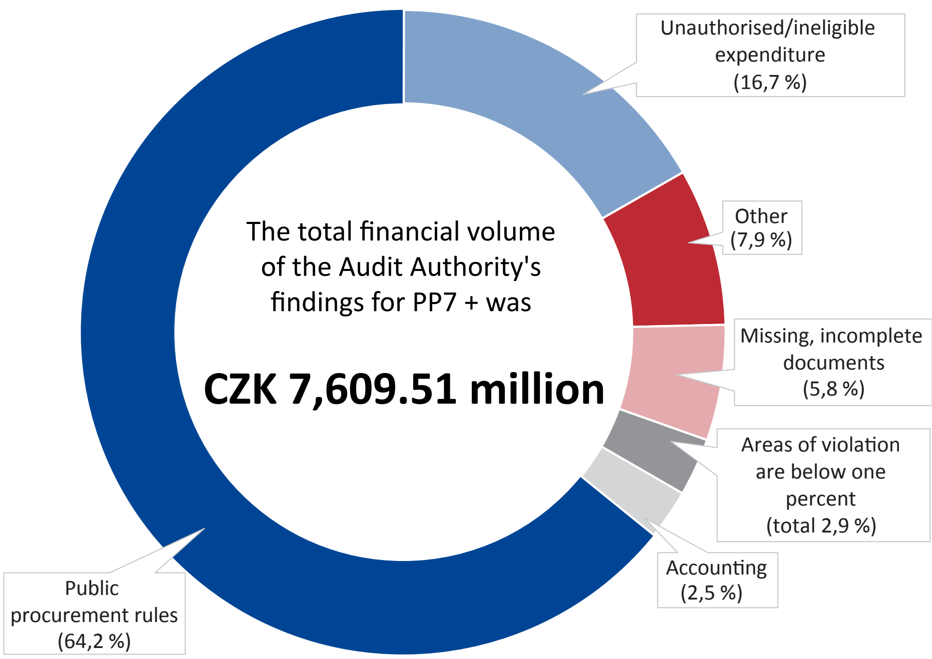
Table 8: Financial impact and numbers of findings in PP7+

Infringement area	Financial impact in CZK million	Number of findings
Public procurement rules	4,881.50	3,405
Unauthorised/ineligible expenditure	1,267.08	769
Other	602.31	151
Missing, incomplete documents	442.79	612
Accounting	192.30	347
Suspicion of fraud	56.88	8
Archiving (fulfilling the obligation to keep documents linked to project implementation)	39.67	235
Work contracts, work statements, wages, pay	38.77	484
3E rules	26.59	107
Control work (e.g. insufficient control work)	20.07	203
Failure to achieve monitoring indicators	19.78	68
Rules for revenue-generating projects	11.77	40
Missing deadlines (e.g. calls)	4.17	110
Other legislation	3.20	146
State aid rules	2.49	51
Publicity	0.14	121
Total	**7,609.51**	**6,857**

Source: Materials drawn up by the AA, July 2017.

The following chart shows areas of infringements by financial impact, i.e. the level of ineligible expenditure.

Chart 3: Areas of infringements for the entire 2007–2013 programming period



Source: Materials drawn up by the AA, July 2017.

Final steps

The last documents concerning the closure of OPs were sent to the Commission on 30 March 2017, meaning that the CR met the defined deadline.

The Commission's questions and comments on the sent documents are currently being responded to. The Commission is supposed to issue comments within a time limit of five months, i.e. by 31 August 2017. The closure declaration will be accepted once any comments issued by the Commission are resolved. Should the Commission conclude that the closure declaration did not correctly assess the validity, legality and regularity of transactions featured in the final statements of expenditure, that could lead to the opening of the procedure for financial corrections, as laid down by Articles 99 and 100 of the General Regulation (respectively by Articles 97 and 98 of Regulation No 1198/2006).

After the 2007–2013 programming period was closed, the AA compiled of list of the following open areas (future risks):

- Sustainability of certain projects (e.g. under OP RDI) owing to the CR's approach in the question of the ratio between institutional and project financing of science and research.
- State aid – use of subsidised apparatus in OP RDI for economic activity exceeding the defined limits.
- Phased, unfinished and non-functioning projects – if non-functioning projects are not completed using the beneficiary's own resources by 31 March 2019 the CR will have to return the already disbursed funds to the EU budget. An equivalent procedure will occur if the second phase of a project is not successfully completed. The CR will have to return finances for the first phase of the phased project as well.
- Open irregularities:
    - projects with ongoing criminal proceedings – if these are not resolved and MAs continue to insist on their payment, it will not be possible to successfully close the affected OP;
    - irrecoverable receivables – these are sums owed by beneficiaries that were wound up/ are being wound up (insolvency, bankruptcy) and where the Commission will decide whether the CR will have to return these sums.
- Possible future workforce fluctuations and thus the loss of know-how in the various implementation structure bodies and loss of historic memory.

E.2.4 Challenges for the future

The results of audits already performed as part of the 2014–2020 programming period show that old errors are being repeated when the MCSs of OPs are put in place. Typical recurring findings include poorly designed MCSs for checking the ownership structure of subsidy beneficiaries and contracting entities or poor methodology for assessing state aid and subsequent insufficient control, or the vulnerability of systems to fraud.

The AA therefore specified the following preventive measures for the next programming period (starting in 2021):

- a transparent and comprehensive methodology to be drawn up at both external and internal level;
- audits to be selected and planned according to transparent and reviewable procedures and parameters;
- experience sharing between expert authorities tasked with the implementation and control of programmes supported out of EU funds;

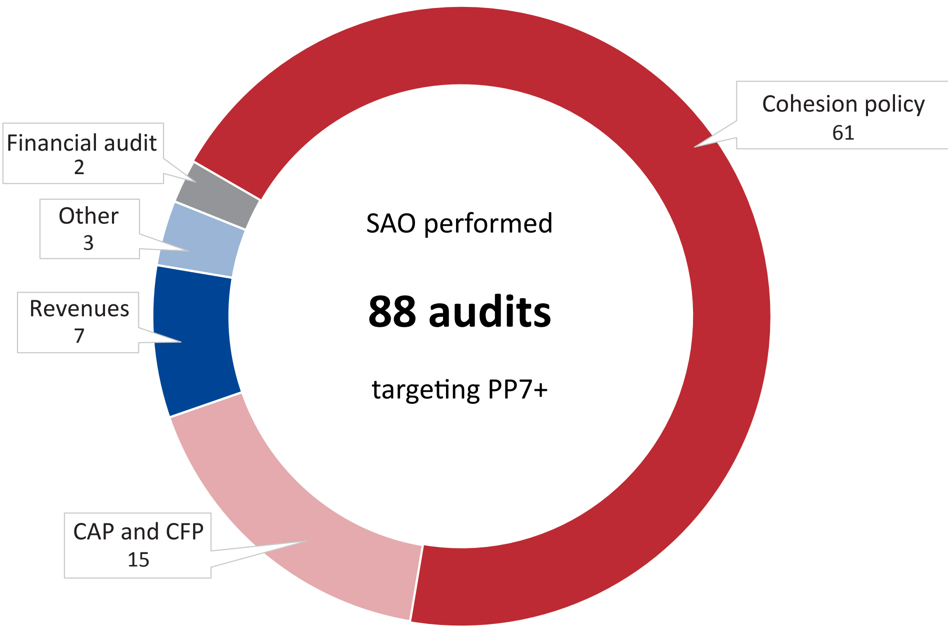
- MA of a given OP to be involved in audit preparation (cooperation);
- audited entities to be informed sufficiently in advance of the documents required for the audit, of the specified duration of the audit and of the audit procedure, of the course of the audit during on-the-spot verifications and of the length of the "contradictory proceedings" (i.e. resolution of contentious issues);
- relationships to be maintained with all entities involved in the implementation and audit of finances provided from abroad (seminars, workshops, consultations, training, experience sharing to share good practice).

The AA's statement reveals that the aim of its audits is not to find as many errors as possible by beneficiaries, but to scrutinise everything properly and come to a categorical conclusion. This conclusion should answer the question whether the reported expenditure was regular and legal as per the legislation of the CR and EU. The preventive function of the AA's audits should help reduce the number of errors committed by entities in the CR and thus maximise the achieved benefits while ensuring proper use is made of EU finances.

E.3 Audit work by the SAO in the 2007–2013 programming period

Up to the end of July 2017[53] the SAO performed 88 audits that were entirely or at least partly focused on EU finances in PP7+.

Chart 4: Number and focus of audits focused on EU finances in PP7+



Source: SAO bulletins

A list of audits is presented in Annex 1, broken down into tax audits, audits of natural resources, cohesion policy, other financial instruments and financial audits.

Seven audits out of the total of **88** concerned the revenue side of the EU budget, in particular audits of the administration and collection of VAT (three audits) and excise duties (two audits). One audit targeted the administration of payments into the budget for breaches of budgetary discipline, including the imposition of penalties for breaches of the subsidy rules in line

53 Given the slow start of drawdown under the individual OPs, the first audits concerning finances from the 2007–2013 programming period were included in the SAO audit plan for 2008; the end of the period under scrutiny is determined by the editorial deadline.

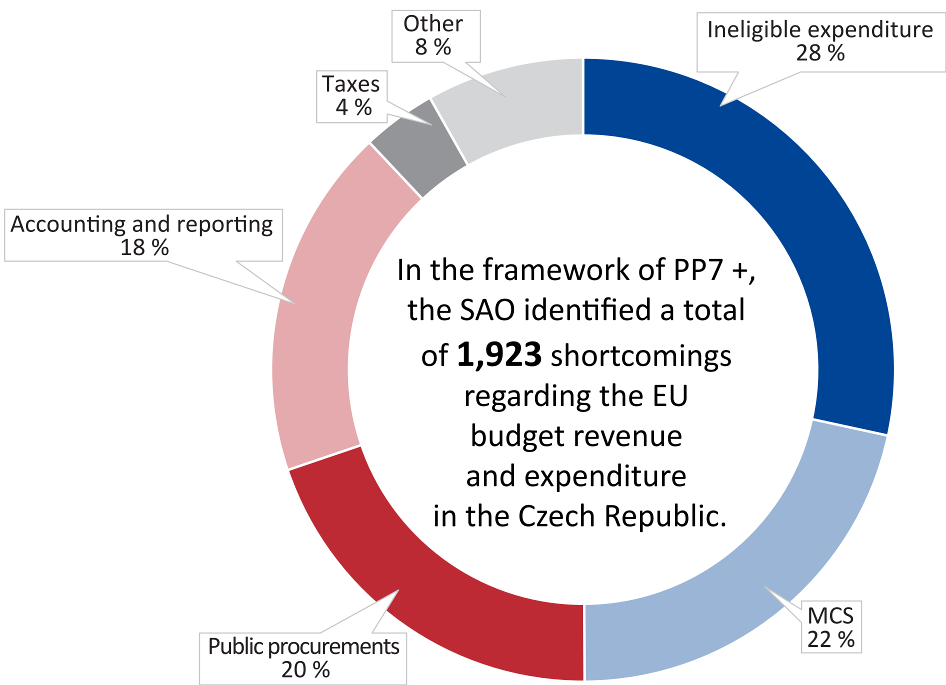
with instructions issued by the Commission[54]; one audit dealt with the issue of unpaid tax administered by the financial offices.

A total of 79 audits scrutinised the expenditure side of the EU budget, i.e. support provided from the EU budget to the CR. 15 of these audits targeted finances channelled into the CAP and CFP and 61 concerned finances provided for cohesion policy measures. The total number of audits looking at expenditure includes two audits of finances provided to the CR through migration and asylum funds and one audit scrutinising the use of EU Solidarity Fund finances for dealing with the consequences of catastrophic flooding in the CR. Of that total, in 22 audits the SAO assessed the effectiveness of programme MCSs combined with an audit of a sample of operations; in a further 29 audits the SAO assessed the design of MCSs and scrutinised operations; and 28 audits were confined to scrutinising operations alone.

The last **two audits** included in the total number of performed audits were financial audits and dealt with the question of the financial clearance of transfers according to the Czech accounting standard applicable at the time, i.e. accounting for the transfer of finances (recoveries) from an external finances account of organisational components of the state (OCSs) to the income (clearance) account of the Ministry of Finance.

Shortcomings identified by the audits are recorded by the SAO in its audit information system (AIS). For each shortcoming, the essence of the shortcoming is described and the legal regulation violated is specified (particularly for legality audits); if the shortcomings are quantifiable, the amount involved is stated, particularly any amounts that should be returned to the source of funding. The AIS contains data on a total of **1,923** shortcomings concerning EU budget revenues and expenditure in the CR during the 2007–2013 programming period, broken down as follows:

Chart 5: Shares of individual types of shortcomings in the total amount of errors identified by SAO controls focused on EU finances in PP7+ (%)



Source: SAO Audit Information System, July 2017.

54 Guidelines for determining financial corrections to be made to expenditure co-financed by the Structural Funds of the Cohesion Fund for non-compliance with the rules on public procurement, COCOF 07/0037/03.

The analysis of the shortcomings registered in the AIS revealed that the SAO‘s in its audits most frequently identifies ineligible expenditure included in the cost statements (in terms of purpose and time) as well as ineligible projects or ineligible beneficiaries (ineligible due to purpose or time). The second biggest group comprises errors in the design and effectiveness of programmes' management and control systems, including errors in project selection and assessment, closely followed by public procurement errors. Findings related to incorrect accounting for provided subsidies are also relatively frequent.

The identified shortcomings' total financial impact of **CZK 8,034 million** is derived from the quantifiable amounts reported to the appropriate tax administrators (financial offices) by the SAO in 226 cases. In addition, the SAO reported a further 42 cases to the tax administrators in which a financial amount was not quantified. These unquantified cases are therefore not counted in the total financial impact.

E.3.1 Audit of revenues

In its audit work dealing with revenues the SAO focused mainly on the administration of value added tax. The SAO published the following information:

- In the years 2007 to 2010 the supreme audit institutions of the CR and Germany performed two joint audits targeting the collection and administration of value added tax (VAT). The findings concerning cooperation in the collection and administration of VAT were consistent with the findings of the Commission or the ECA[55]. Based on the results of the first parallel audit completed in 2007 (audit no. 06/27[56]), both supreme audit institutions recommended in the joint final report several measures to strengthen the effectiveness of the fight against VAT fraud and the joint report from the second parallel report (SAO audit no. 09/11 on the Czech side) assessed these recommendations. By 2011, monthly submission of summary reports was launched and a common network for exchange of information on high-risk tax entities was set up. The submission of VAT returns in electronic form was launched in the CR with effect from 1 January 2014.
- In 2012 the SAO completed audit no. 11/07, in which it checked whether VAT payers declared tax on the import of goods in their tax returns. The SAO audit for the entire CR found that for the period from 2008 to 2010 the tax base as reported in tax returns was CZK 445,227 million lower than the total value of imports according to single administrative documents. In the case of taxpayers not declaring the acquisition of goods preceded by the release of the goods into customs procedure 42[57] in another Member State, the financial authorities did not know the extent of the imported goods and did not even try to find out.

  This customs procedure was also audited by the ECA[58] in 2011. The ECA found that the way customs procedure 42 is applied led to significant losses in national budgets. Based on the results of the testing of a sample of Member States, a loss of approx. €2.2 billion was extrapolated for the year 2009 alone.

  In audit no. 13/15 the SAO found that the administration of payments into the budget was not performed effectively as the whole system was burdened with redundant administrative acts linked to the waiving of penalties for breaches of budgetary discipline, which burdened both the affected administrative authorities and the recipient of funding from the state budget or the EU. The lack of transparency in the waiving of these levies was also criticised

55 ECA Special Report No. 8/2007 concerning administrative cooperation in the field of VAT.
56 This audit did not concern PP7+.
57 Tax exemption upon the importation of goods from a third country and where the destination of these goods is in another Member State; the supply of these goods to the other Member State is exempted from tax.
58 ECA Special Report No. 13/2011 – *Does the control of customs procedure 42 prevent and detect VAT evasion?*

by the Commission[59]. In the CR, the Commission's instructions regarding the imposition of financial corrections were taken into account in the instructions of the General Financial Directorate for the purpose of remitting levies. However, the Commission's instructions concern the assessment of the amount to be levied and not the waiving of levies, i.e. the rates stated should be taken into account when a levy is being imposed. In line with Act No. 218/2000 Coll., however, these instructions could only be used when assessing a levy if this instruction and the magnitude of the corrections are taken into account by the provider in its subsidy provision decision.

- In its audit of the administration of value added tax (audit no. 14/17), the SAO scrutinised new mechanisms, among them:
  - the publishing of bank accounts used for economic activity;
  - the reverse charge mechanism[60];
  - decision on unreliability of a payer;
  - warranty of the recipient of taxable supply;
  - special method for securing tax; and
  - securing of a payment for tax not due or not yet specified.

  The SAO found that the new mechanisms incorporated into the Act on VAT with a view to reducing tax evasion were not effective enough in the years 2011–2013 to reduce the VAT gap. In these years the rate of possible tax evasion was around CZK 100 billion and grew from 2011 on.
- Regarding traditional own resources, in 2007 the SAO scrutinised the procedure followed by customs authorities when collecting customs duty, focusing on the portion that is a state budget revenue of the CR (audit no. 07/07). The SAO drew attention to shortcomings in the payment of advances on the portion of customs duty due to the state budget of the CR and in the reporting of balances of the off-budget customs duty account, from which monthly advances paid into the state budget were not charged. Based on the detected irregularities, the General Directorate of Customs, after consultation with the Ministry of Finance, drew up a procedure in 2008 that stopped the growth of the balance on the off-budget top-level account.
- In an audit of the administration of excise duties (audit no. 14/28), the SAO focused on excise duty on liquor and on tobacco and tobacco products. The SAO found that, up to the year 2013, tax evasion for excise duties on liquor and tobacco products was made possible by deficiencies in the legislation, in the control work of the customs authorities, in the customs administration's internal control work and in the methodological and supervisory work of the General Directorate of Customs. According to the SAO's calculations, the resulting annual shortfall in the collection of excise duties on liquor was approx. CZK 1–2 billion.

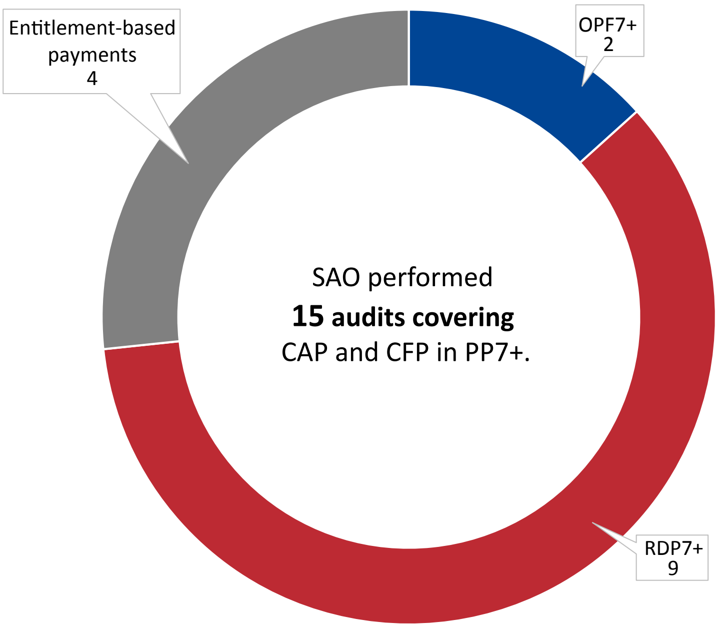
E.3.2 Audit of expenditure in the field of the preservation and management of natural resources

In connection with the funds allocated to PP7+, the SAO completed 15 audits targeting the farming sector, rural development and fisheries. The SAO based its audit plans on findings gained from its own monitoring work and findings gained as part of its participation in ECA audit missions. It therefore paid greater attention to programme-based operations than the less problematic entitlement-based payments, which can also be seen from the following chart.

59 *Action Plan for Improving the Functioning of Management and Control Systems for the Structural Funds in the Czech Republic* of 20 March 2012; reasoned statement for a draft amendment of Act No. 218/2000 Coll. of 22 August 2013.

60 A specific regime, where the beneficiary of the provision of selected taxable supplies is obliged to declare tax.

Chart 6: SAO audits concerning the preservation and management of natural resources



Source: SAO Audit Information System, July 2017.

Entitlement-based payments

The SAO dealt with the issue of entitlement-based payments in four audits. In audits nos. 08/05 and 10/01 it focused on the provision of financial support, support for market interventions and support for export subsidies under CMO. The results of the audits showed that the CMO funding system was functional, but shortcomings were identified in administration, the performance of ex ante administrative controls and on-the-spot verifications and in the adoption of measures in response to the results of internal audit. In addition, there was no systematic evaluation of the measures adopted in response to audit missions by foreign audit authorities.

In collaboration with the ECA the SAO performed a coordinated audit focusing on entitlement-based payments disbursed under non-project measures in axis II of the RDP07+ to enhance the environment and landscape (audit no. 10/29). This audit revealed shortcomings of a systemic nature consisting in the failure to respect certain requirements of the EU and Czech legislation that could have impacted on the correctness of payments provided to beneficiaries. Audit no. 13/03 scrutinised selected direct payments (9 titles in total). In the audit conclusion of this audit the SAO rated the direct payments implementation and administration system as functional and effective, but it recommended improving the records of the use of agricultural land in the LPIS to prevent discrepancies between registered area and actual area and to bring the records of landscape features into line with the European legislation.

Based on an analysis of the performed audits of entitlement-based payments the SAO formulated the following systemic and generalised shortcomings:

- Non-compliance with requirements and standards in the conditionality system and violation of eligibility rules by subsidy beneficiaries.
- Shortcomings in the design and performance of conditionality checks with the subsequent risk that support will be disbursed for ineligible areas or to ineligible beneficiaries.

- Insufficient and functionally unreliable *Integrated Administration and Control System* (IACS), which is the key tool for ensuring that direct payments are correct.
- Penalty systems for breaches of the cross-compliance rules are not entirely compliant with the European legislation.

Programme-based measures (RDP7+ and OPF7+)

- The SAO audited programme-base measures from PP7+ in a total of 11 cases, mainly in the form of legality audits. In 9 audits the SAO focused on the CAP, in all cases scrutinising selected RDP7+ measures plus, for example, assessing the effectiveness of MCSs (audits nos. 10/28, 10/29, 14/26, 15/09 and 16/14) or, in another case, checking the costs associated with the performance of land consolidation (audit no. 14/40). Two other audits targeted support for fisheries in the CR under OPF7+ (audits nos. 9/12 and 13/28). From these audits we here present the following examples of SAO audit findings, divided into groups according to individual types of deficiencies; see Chart 5.

Ineligible expenditure

- Audit no. 10/28 – certain beneficiaries claimed ineligible expenditure contrary to the rules setting the conditions for the provision of subsidies for projects of the Rural Development Programme of the Czech Republic for the period 2007-2013 / rules RDP7 + / ineligible expenditures. The SAIF approved spending on the construction of warehousing silos and related technologies claimed above the defined maximum expenditure ceiling, and as a result, wrongfully paid out a subsidy totalling CZK 7.4 million to the beneficiary. The SAIF also wrongly decided on the acceptability of seven projects, under which three applicants, self-servingly and contrary to the RDP7+ Rules, divided construction works into multiple lots that were not separate functional units, thus acquiring a larger subsidy.
- Audit no. 11/15 – according to the RDP7+ Rules VAT was ineligible expenditure if the applicant paid VAT. Even though one beneficiary became a VAT payer during the implementation of a project, prior to signing a legal act to grant a subsidy, the SAIF (paying authority) recognised VAT as eligible expenditure. It subsequently allowed the applicant to utilise this amount on other expenditure instead of VAT, e.g. extra work. Under two projects of one applicant the SAIF thus wrongfully paid out more than CZK 3.5 million. The SAO filed one notification concerning a sum of CZK 8.3 million to the tax administrator.
- Audit no. 13/28 – under the Czech Fish (Ryba domácí) project the MoA accepted and reimbursed work to one contractor without any proof of any work done. This involved activities which the contractor documented in each phase with a mere written declaration that the work had been performed. This expenditure was moreover paid on a flat-rate basis, even though the contract did not provide for this form of payment. The MoA reimbursed expenditure worth as much as CZK 1.5 million out of OPF7+ in this way. The SAO filed three notifications involving more than CZK 2 million in total to the tax administrators.
- Audit no. 14/26 – the MoA financed the construction of buildings for animal production without checking whether the applicants´ demands corresponded to their needs. The applicants did not even have to be involved in animal production. In addition, the size of the buildings did not have to correspond to the number of animals kept. In projects for the construction of buildings for animal production the MoA allowed expenditure limits to be obviated. The beneficiaries exploited the poor wording of the RDP7+ rules and got higher eligible expenditure reimbursed than was the actual expenditure on the construction work or technologies. The SAO filed one criminal complaint and one notification concerning a sum of almost CZK 8.6 million to the tax administrator.

Design and effectiveness of MCSs

- Audit no. 13/28 – the MoA, as the OPF7+ managing authority with the overall responsibility for the correct and effective management of OPF, failed to put in place a project selection system that conformed to the principle of sound financial management. The SAO regards this fact as a serious shortcoming in the OPF subsidy provision system, a comment the SAO had already made as part of audit no. 09/12. The MoA did not adopt suitable corrective measures in this regard. In most cases in the assessment process, the submitted projects are not evaluated in terms of economy, efficiency and effectiveness. The system that was put in place also made it possible for projects that did not score any points during assessment to be selected or for the approval of projects to depend solely on the time when the subsidy application was submitted.
- Audit no. 14/26 – the SAIF's control system was only partially effective with regard to the audited sample of projects. The SAO reported a suspicion of a breach of budgetary discipline involving a sum of almost CZK 8.6 million to the tax administrator. The error rate in the SAIF's control work represented 2.28% of the audited volume. Contrary to the RDP7+ rules, for example, the SAIF approved an ineligible project, failed to stop the administration of projects not completed by the deadline and, in several cases, reimbursed expenditure even though project changes had not been approved. Errors were also identified in the project selection and assessment process, where the selection criteria did not take into account applicants' actual needs or the quality and subsequent benefit of projects.
- Audit no. 15/09 – the RDP7+ subsidy provision system was found to be functional: there were clear rules and procedures governing how the MoA and SAIF distributed and disbursed funding. Problematic was the targeting of the support, where the educational and advisory activities that could be reimbursed out of the RDP7+ are defined too broadly and generally. There were shortcomings in the calculation of result and output indicators, in the verification of service providers' quality and in the acquisition of the necessary information on the results and impacts of the provided support. The SAO filed one notification concerning a sum of CZK 0.3 million to the tax administrator.
- Audit no. 16/14 – the MoA did not define the output and result monitoring indicators for LEADER projects in a way making it possible to assess what was actually achieved with the provided funding. The MoA had no qualitative information about the specific benefits of projects worth approx. CZK 4 billion.

Public procurement

- Audit no. 09/12 – when judging and assessing proposals for the project entitled Implementation of a Long-term Communication Strategy to Support the Consumption of Freshwater Fish the MoA failed to take into account the fundamental tender conditions and did not perform a proper assessment according to predefined assessment criteria. The MoA thus failed to properly discharge its obligation as laid down in the Act on Public Procurement. Furthermore, the MoA did not define the tender conditions clearly. It informed candidates that certain requirements were obligatory but then failed to demand that these requirements were met during the tender. The SAO filed one notification concerning a sum of CZK 24,9 thousand to the tax administrator.
- Audit no. 10/28 – the SAIF failed to check whether the candidates for a contract were connected in personnel terms. During the audited period, neither the RDP7+ rules nor the subsidy provision agreement dealt with the issue of personnel links between a beneficiary and a candidate or between various candidates for a contract. The issue of personnel links between beneficiary and candidate was not dealt with in the RDP7+ rules until the 13th round of receipt of subsidy applications, but the issue of personnel links between candidates was left unaddressed.

- Audit no. 14/07 – in the case of four projects designed to train employees in communication in difficult situations the SAIF set unsuitable assessment selection criteria for a bid and did not discard incomplete bids from candidates. In this way the SAIF failed to uphold the principles laid down in the Act on Public Procurement while drawing down subsidies totalling CZK 1.7 million for these projects. Based on the results of this audit, the SAO filed one criminal complaint and two notifications to the tax administrator concerning a total sum of CZK 8 million.

Checks of the specification and achievement of programme goals

In the final years of PP7+ the SAO paid increased attention to the issue of the achievement of the global objectives of programmes, examining whether and to what extent the benefits and effectiveness of programmes can be evaluated.

- Audit no. 13/28 – the audit found that two of the three overall objectives of OPF7+, specifically "support for the preservation and enhancement of the environment and natural resources" and "strengthening equal rights between women and men", had not been achieved by the end of 2012 and it was reasonable to assume, given the developments in OPF7+, that they would not be achieved in the originally defined values.
- Audit no. 14/26 – the audit found that some of the defined long-term objectives, e.g. "preventing the decline of biodiversity", would not be achieved through RDP7+. During the implementation of RDP7+ the MoA significantly changed the target values of the output and result indicators through which the declared objectives were supposed to be achieved. The values of certain indicators were set too low at the start of the programming period, because they had already been exceeded by over 15% at the end of 2013. On the contrary, two of the targets defined by the MoA were overambitious and were lowered during programme implementation: e.g. the value of *"job creation"* was reduced from 22,000 to 2,020, i.e. to a tenth of the original value from the start of the programming period.
- Audit no. 16/14 – in axis IV of RDP7+ the value of the monitoring indicator "total number of jobs created (using the LEADER method)" was 400 for the programming period as a whole; this target was not achieved. The MoA reported a total of 267 new jobs for the entire programming period, i.e. 67% of the target.

The SAO analysed the shortcomings identified in audits of the farming sector, rural development and fisheries and formulated the following systemic shortcomings:

- Shortcomings in the subsidy provision rules that had an adverse impact on project administration and implementation and, by extension, on funding drawdown. This is mainly a question of imprecisely and inadequately defined eligible expenditure and its maximum limits.
- Control systems were insufficient and not entirely effective: they were not always able to verify the proportionateness of approved expenditure.
- When performing verifications, the implementation authorities mainly focused on the fulfilment of formal requirements and less on whether a projects' results were delivered in a cost-effective manner and on the actual benefits of projects.
- The criteria for assessing and selecting projects for funding took no account of the projects' quality and benefits and the applicants' actual needs; they took only insufficient account of the principles of sound financial management, i.e. economy, efficiency and effectiveness.
- The eligibility of projects was incorrectly assessed: applicants self-servingly and contrary to the rules split projects into multiple lots in order to acquire larger subsidies.
- Progress in project and programme implementation was monitored using unsuitably

defined indicators. The target values for RDP7+ output and result indicators were often unrealistic. In some cases, moreover, beneficiaries were not bound to comply with the monitoring indicators throughout the sustainability period.

- The MoA's monitoring and assessment of the impacts and benefits of support under the RDP7+ was inadequate: it did not assess the effectiveness of the provided support in rural areas under the LEADER initiative.
- Projects displaying errors in public procurement, in particular violations of the principles of transparency, equal treatment and non-discrimination, were funded.
- Promotional measures that completely failed to achieve their purpose and were unnecessary were also supported.
- Support was provided for overvalued or ineligible expenditure.

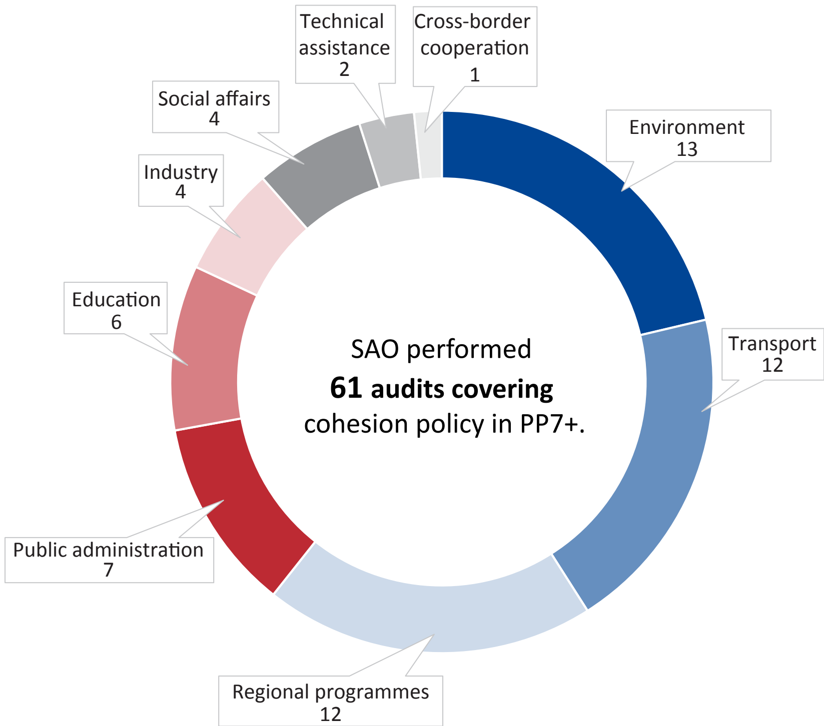
When performing its audits, the SAO found that projects were financed even though they did not meet the eligibility conditions or were not entirely necessary because they did not contribute to an expansion of enterprise, to modernisation of agricultural enterprises or to rural development. Examples of these are:

- Unnecessary tracks and roads – municipalities and towns tarmacked over field and forest tracks that nobody drives on and lead, for example, to land owned by representatives of the municipality, where there is often a plan to convert this land into building land; badly timed projects, where repaired roads are subsequently dug up, e.g. for the construction or repair of technical infrastructure (usually to build a sewer network in municipalities).
- Tourism support – educational trails that are overgrown and non-functional; overpriced arbours; observation towers from which nothing can be seen; museums which nobody visits; new tourist information centres in direct proximity to existing information centres, subsidies channelled into private projects such as guesthouses or golf courses. The benefits and effectiveness of the expenditure are often highly dubious in these projects.
- Improving the quality of public services in municipalities and towns – public sports grounds, or multi-purpose grounds, that are not open to the public at all times were built.
- Wasteful spending on real estate restoration studies – millions of Czech crowns were spent on studies of the possibility of restoring (renovating) cultural monuments even though the monuments were not subsequently renovated, so the investment was a waste of money.
- Modernisation of agricultural enterprises, enterprise support – farming structures (stables, silage and hay troughs, cesspits) whose capacity was inconsistent with actual requirements were built. Biomass boilers were installed in private homes which were used only for private purposes and not for enterprise.
- Purchase of promotional items: sweets, fans, animal figurines, puzzles and other promotional items were acquired even though they gave the public no information about RDP7+ and therefore served no promotional value.

E.3.3 Audit of expenditure on cohesion policy

Expenditure channelled from the EU budget into the CR through the SF and CF accounted for more than 2/3 of all funding earmarked for PP7+ in the CR. For that reason, the measures implemented under cohesion policy were among the priorities for SAO scrutiny. Given the allocated amount, the large number of implementation authorities and the wide spectrum of supported activities, the 61 audits of cohesion policy in PP7+ completed according to the SAO's audit plan made up the majority (almost 70%) of all audits targeting EU funding. The attention on cohesion policy was enhanced by the fact that the results of audits by the SAO and other external audit bodies (AA, ECA) displayed a higher identified error rate than other audited spending areas. That was also the reason that the SAO's audits placed greater emphasis on assessing the effectiveness of the MCSs (11 audits) or at least on the suitability of their design (23 audits).

Chart 7: Audits performed by the SAO in the field of cohesion policy



Source: SAO Audit Information System, July 2017.

Here we present the following examples of the findings from these SAO audits, divided into groups according to areas of deficiencies; see Chart 5:

Ineligible expenditure

- Audit no. 12/02 – in two projects the Ministry of Culture, among others, provided funding for the renovation of buildings that should not have been supported according to the IOP programming document. The Ministry of Culture thus reimbursed ineligible expenditure exceeding CZK 185 million. After completing the audit, the SAO filed three notifications involving a total sum of CZK 203.2 million to the appropriate local tax administrators.
- Audit no. 13/17 – under OP EI one beneficiary was reimbursed for expenditure on building work that was not consistent with the submitted support application or was not proven by appropriate documents. In addition, the support beneficiary was reimbursed for expenditure on the purchase of land which was not located on the site of the building renovation being performed, on which work linked to the execution of the contract did not take place and which did not even adjoin building land. Part of the work was done by the contractor before the tender was even announced. The SAO filed 4 criminal complaints and 5 notifications to the tax administrators involving a total sum of over CZK 113 million.
- Audit no. 14/15 – in the case of seven projects of the Ministry of the Interior and MoIT, money was not spent effectively as it was not used to cover expenditure necessary for

the purpose of the project. In one of the projects, for example, Ministry of the Interior paid invoices for activities which were not demonstrably executed and documented or whose substantive content was not clear. The outputs from these provided services did not correspond to the project's objectives in terms of either content or quality. The SAO quantified breaches of budgetary discipline at a total of CZK 226 million and filed two notifications to the tax administrators. It also filed one criminal complaint in the matter.

- Audit no. 14/24 – the support beneficiary, which was the Further Education Fund, was not established by its founder in accordance with the binding legislation, so the beneficiary may be regarded as ineligible for support under OP EC and all its expenditure to date may be regarded as ineligible. The SAO filed three notifications to the tax administrators involving a total sum of over CZK 16.9 million.
- Audit no. 15/06 – OP RDI support beneficiaries were not sufficiently bound to ensure the sustainability of scientific research centres, even though these are expensive projects and there is a risk that their expected economy, efficiency and effectiveness will not be achieved. More than CZK 36 billion has been spent to date on building 48 research centres under OP RDI. According to the managing authority's estimates, a further CZK 24.4 billion will have to be released from the state budget to fund their operation in the five-year sustainability period. In a total of six cases the SAO notified the tax administrators of breaches of budgetary discipline involving over CZK 8 million in total.
- Audit no. 16/01 – OP EI was supposed to support measures to improve energy efficiency in Czech industry. Support was also provided to non-industrial enterprises, however, for example hotels. The SAO denoted all the projects not involving industrial enterprise as ineligible for support under OP EI and quantified the total subsidy provided to them at CZK 1.6 billion. The SAO notified nine tax administrators of ineligible expenditure totalling CZK 143.4 million.

Design and effectiveness of MCSs

- Audit no. 09/26 – in the case of two Regional Councils of Cohesion Regions (RC), the project assessment system they had put in place displayed significant shortcomings. When assessing projects' acceptability, the Regional Council of the Central Bohemia Cohesion Region did not check whether the submitted projects complied with the legislation on state aid; in addition, up to 2009 it failed to ensure that a substantive assessment was performed using assessment criteria in line with the principle of sound financial management. The RC of the Southwest Cohesion Region did not split functions between entities involved in management and control, as in four calls it failed to ensure that the submitted projects were assessed by two mutually independent assessors. Examination of the design of control systems used before subsidies are paid to beneficiaries found shortcomings consisting in the failure to separate the approval and control functions; it was also found that the internal regulations did not specify audit methods or documents subject to scrutiny, especially in the areas of state aid, public procurement and accounting. The RCs used private-law contracts concluded under the terms of the Commercial Code to provide subsidies. As a result of this legislative shortcoming, situations arose where evidently public-law relations were governed by private-law contracts. The SAO filed three criminal complaints and three notifications to the tax administrator concerning a total sum of almost CZK 91 million.
- Audit no. 11/20 – the pre-payment control system was found to have shortcomings that in many cases led to its failure. Controls done by the Regional Council Moravian-Silesian Region in the field of public procurement and project implementation were ineffective: over CZK 156 million was wrongly reimbursed, including for supplies of equipment whose

parameters differed from those defined by the project documentation. Based on the results of its audit, the SAO filed one criminal complaint and seven notifications to tax administrators involving a sum of CZK 157.8 million.

- Audit no. 14/32 – the MoT defined vague project goals and vague timetables, did not set a method for measuring indicators and paid no attention to the project's economic effectiveness. In this way the MoT failed to put in place the right conditions for objective assessment of the practicality and effectiveness of support provided for the construction of the Prague metro.

Public procurement

- Audit no. 11/16 – violations of the Act on Public Procurement were detected in nine public contracts, mainly in connection with the performance of extra work. Construction of the RI 513 Vestec–Lahovice road, for example, involved extra work worth CZK 4,136 million and amounting to 91% of the contractual price (not including the reserve) as arising from the tender to find the building work contractor. The contractor performed the extra work without any contractual basis. The Roads and Motorways Directorate (the investor) did the same in the case of the R1 514 Lahovice–Slivenec road, where extra work totalling CZK 1,591 million was performed, amounting to 21% of the contractual price and thus overstepping the legally defined limit of 20%. The SAO filed one criminal complaint and one notification to the tax administrator concerning a sum of CZK 5,743.8 million.

Checks of the definition and achievement of programme goals

Towards the end of PP7+ the SAO, when planning its audits, paid increased attention to the issue of the achievement of the global objectives of operational programmes, examining whether and to what extent the benefits and effectiveness of programmes can be evaluated:

- Audit no. 14/24 – it is difficult to evaluate the audited Ministry of Education, Youth and Sports projects' benefit towards delivering objectives at the level of OP EC priority axes 3 and 4, partly because of the poorly defined goals at the axis level and also because of the absence of relevant indicators for measuring the results achieved at project level. Assessment of the achievement of national projects' objectives is only gradually being introduced by the MoEYS. No assessment of the effects and benefits of the Internships in Firms project has been done to date by the MoEYS.
- Audit no. 16/01 – fully utilised allocation of over CZK 84 billion had a positive impact on the supported firms in general terms, but it is not possible to evaluate whether and to what extent the global objective of OP EI has been achieved. That is because neither the global objective or other goals of OP EI were defined sufficiently specifically and in measurable terms, so it was not possible to evaluate the overall benefits and effectiveness of OP EI. Another shortcoming of OP EI was that in most cases the MoIT did not bind beneficiaries to achieving actual results, so there was no focus on maximising the benefits. Achieving results, e.g. in the form of increased revenues or job creation, was not obligatory and was only monitored for assessment purposes. Moreover, the MoIT did not check the accuracy of these data at all.
- Audit no. 16/10 –assessment of the effectiveness of spending under OPE and national subsidy programmes was prevented by the fact that the MoE failed to set specific and measurable goals that were to be achieved through the programmes. The target values for certain indicators were set far too low. Despite the significant amounts spent, there was no major positive development in a number of indicators of the state of nature and the landscape; some even got worse in the period under scrutiny.

The SAO analysed the shortcomings identified by cohesion policy audits and formulated the following typical systemic shortcomings:

- Control systems were not designed properly; controls were often not performed on the necessary scale and did not function properly, as they failed to identify errors.
- The criteria for assessing and selecting projects for funding took no account of the projects' quality and the principles of sound financial management, i.e. economy, efficiency and effectiveness. Project selection was often done according to unapproved criteria and the managing authorities often decided without a sufficient basis. When assessing projects, managing authorities failed to consider the sustainability factor.
- Programme goals were not defined sufficiently specifically: they were only defined in the minimum scope required by the European legislation. The ultimate goals and results of programmes and projects were not achieved in many cases.
- Monitoring indicators did not make it possible to assess progress towards the target values; for some goals there were no indicators at all. In some cases, the actual benefit of projects was not scrutinised.
- Towards the end of the programming period the emphasis was placed on fully utilising the EU funding rather than on effectiveness.
- Projects have been implemented which will require additional increased expenditures from the state budget to ensure their sustainability; these increased expenditures were not calculated when projects were being approved.

In its audit work the SAO found that projects were funded even if they did not meet the eligibility conditions and were not sustainable. In some cases, they were of little use for achieving the objectives of programmes; for example:

- Training in private firms – projects for the training of employees of private firms, internships in firms etc. are regarded as not particularly effective: support was also provided to people not from the target group of long-term unemployed persons or vulnerable persons on the labour market, because they were employed, or carried on a business or were the actual organisers of training courses. There is also doubt about the practicality of re-training courses that were used by elementary school principals, for example, to re-train as welders. These projects did not contribute to reductions in unemployment to the extent claimed.
- Scientific research centres – very expensive projects where there is a risk that the projects´ outputs will not be sustained, particularly with regard to the lack of funding for the operation of these centres during the sustainability period.
- Innovation and development of shared services centres – the objectives were not achieved when a science and technology park and information technologies transfer centre were built: no new jobs were created (even though 35 were meant to have been created); no seminars or conferences were staged; and not one technology transfer or cooperation project between the academic sphere and industrial sphere took place.
- Media campaigns – poorly timed television and radio advertisements to promote OPs: the advertisements were broadcast at the very end of the implementation of the operational programmes. This indicates that most of the MAs were principally concerned with ensuring a satisfactory drawdown rate than promoting the OPs.

E.3.4 Audits of expenditure under other financial instruments

In the period from 2008 to 2016 the SAO performed two audits targeting the implementation the General Programme Solidarity and the Management of Migration Flows in terms of the objectives of migration and asylum policy and one audit scrutinising the use of finances from the EU Solidarity Fund (EUSF).

- Audit no. 11/27 – the SAO examined the quality of ten projects and the standard of control performed by the responsible authority during project implementation and before the payment of the subsidy or collection of recovered sums. In seven projects it was found that these checks did not guarantee that the projects and project expenditure complied with the legislation and the legal document awarding support to the beneficiary. The rate of shortcomings qualified as ineligible expenditure amounted to 6.7% of the audited finances of approx. CZK 43 million provided from the EU's migration and asylum funds and the state budget. Analysis of key elements of the management and control system resulted in this system receiving an overall assessment of only partially effective in the period under scrutiny.
- Audit no. 14/27 – in the case of support provided under the EUSF the SAO examined the system for the administration of finances on a sample of CZK 345.2 million and also verified the eligibility of spending worth CZK 278.3 million. Even though the SAO found that the scrutinised regions took differing approaches to the provision of information on possible support from the EUSF, it rated the control and supervision system as effective on the basis of the facts uncovered by the audit. Audits done at beneficiaries revealed that the EUSF aid was provided and used in line with the defined procedures and rules.
- Audit no. 15/24 – audit of the funding of support in the context of the implementation of the programme Solidarity and the Management of Migration Flows in the CR showed that the value of the identified ineligible expenditure did not exceed the materiality threshold, set at 2% of the audited finances. However, the SAO's audit conclusion as regards the programme's operational objectives stated that there were no measurable monitoring indicator and a limited number of quantifiable data had been defined by the Commission at the start of implementation. At the same time, it also noted that over the programming period, the Commission set additional monitoring requirements for retrospective monitoring of indicators since the start of the programme implementation.

E.3.5 Financial audits

The list of audits categorised as analysis of control work/audit work covering PP7+ ends with two financial audits.

- Audit no. 12/15 and audit no. 14/37 targeted the fulfilment of obligations when keeping accounts of state budget, European Union budget and other finances received from abroad in order to scrutinise how they were reported in financial statements, among other things. The SAO in its audit conclusions drew attention to the fact that the Czech accounting regulations did not define clearly how finances linked to projects co-financed out of the EU budget should be accounted for and reported. Audit no. 14/37 compared the procedures applied when accounting for and reporting state budget finances for pre-financed expenditure according to Czech accounting standard no. 703 – Transfers and stated that the audited government entities, so called organisational components of the state (OSSs), accounted for pre-financed transfers in entirely different roles in the years 2011–2014. If the OSSs had opted for a different role than for which they had decided (i.e. between the role of the provider/beneficiary and the role of the intermediary), they would have reported figures significantly different from those they actually had in their accounts. In the case of certain items, the SAO described the differences as substantial. The fundamental systemic problem making it impossible to compare the accounting data on EU budget finances as reported by the OSSs was remedied by an MoF amendment of the accounting regulations effective from 1 January 2015.

E.3.6 Impacts of the SAO's audit work in the 2007–2013 programming period

In its audit conclusions, annual reports and EU Reports[61], the SAO published findings from audits concerning the financial management of European Union finances in the CR, in which it repeatedly identified significant risks in this field and issued recommendations to eliminate them.

Many of these recommendations were acted on by the implementation authorities, but even so certain significant risks persist in the new programming period 2014–2020.

E.4 Scrutiny of the preparation of a uniform methodological environment for the 2014–2020 programming period

In May 2017 the SAO Board approved the audit conclusion of audit no. 16/12. The aim of this audit was to scrutinise work intended to put in place a uniform methodological environment (UME) for the utilisation of EU support in the 2014-2020 programming period and verify monitoring of these processes in the new information system. Even though this audit did not directly concern PP7+, the audit assessed the qualitative shift in the conditions for improving the effectiveness and economy with which finances are managed and for improving process transparency; it thus essentially assessed the degree to which the systemic shortcomings criticised in the SAO's audit conclusions in the previous programming period had been eliminated. The SAO's audit conclusion contained, among other things, the following findings:

- Common methodological rules are not uniform and their application is unenforceable. The rules for managing the Rural Development Programme for 2014–2020 are an example of the lack of uniformity. The Ministry of Agriculture drew up its own methodological document with the understanding that it is obliged to adhere to the methodological instructions of the UME as far as possible, but not entirely. No oversight over compliance with the binding rules, which is essential if they are to be enforceable, was defined. The Audit Authority can check compliance with the rules, but does not have to. No penalties are associated with violations. This state of affairs does not put in place the right conditions for making processes transparent and for clarifying the rules governing the provision of support from the European Structural and Investment Funds (ESIF).
- Information support had not been prepared sufficiently as laid down in the Partnership Agreement by the full launch date of the MS2014+ monitoring system (MS2014+) in September 2014. The MfRD held the tender for the information system at a time when the final form of all fundamental documents was not yet known. The MfRD defined the requirements for the system's functionalities in merely general terms, which resulted in the cost of developing the system exceeding the costs of acquiring it. Postponing the award of the public contract could have reduced these additional costs, but would have resulted in a more pronounced delay in the start of the implementation of the 2014–2020 programming period.
- Up to August 2016 the MfRD paid a total of CZK 7.31 million for external services linked to the creation of its methodological documents. The investment in acquiring, developing and operating the MS2014+ information system for ESIF monitoring is much larger, however.

61 E.g. *EU Report 2015*, subsection B.4.1, or *EU Report 2016*, subsection B.3.

This investment reached CZK 872.26 million over the course of four years, i.e. from May 2012 to August 2016.

- The MfRD presented the expected benefits of acquiring the new monitoring system, which included a reduction in the financial burden on the state budget as the acquisition and operation of the information system would be co-financed from the EU budget. In consequence of irregularities and subsequent financial corrections, however, the rate of co-financing from the EU budget in these projects fell from the planned 85% to approx. 57%; the difference of CZK 216.39 million is currently being covered solely by the state budget. In addition, the expenditure on operational support for and development of the MS2014+ application and expenditure on operational services from 2016 was fully financed from the state budget. This expenditure totalled CZK 109.28 million at the end of August 2016.
- The existing utilisation of ESIF support at the end of the third year of the 2014–2020 programming period is significantly lower compared to the same time period in PP7+, even taking into account the half-year delay in the approval of programmes by the Commission. One fundamental problem identified by the SAO in the performed audit and influencing the slow rate of drawdown in the current programming period is the process for assessing and approving submitted projects.

F. Assessment of the 2007–2013 programming period from the point of view of EP-CONT[62]

Martina Dlabajová

She graduated in political science, specialising in the EU, from the University of Padua. She then set up her first company in Italy, offering international and project consulting. She spent several years working as the coordinator of the representation of the Zlín and Olomouc regions in Brussels. In 2013 she was elected president of the Regional Chamber of Commerce for the Zlín Region. She was elected to the EP as an independent candidate for the ANO movement and is the vice-chair of the EP Budgetary Control Committee.

Dear readers,

before starting my comments on European finances, I would like to congratulate the Supreme Audit Office for its extraordinary achievement in assuming the presidency of EUROSAI[63] for the 2020–2023 period. For the SAO, this position means more than just organising the next congress for the fifty or so European supreme audit institutions in Prague in 2020: for three years it will manage and coordinate these umbrella organisation's activities. The SAO's candidacy was supported by the ECA, which is testimony to how successfully the SAO has operated both in the CR and in Europe.

F.1 Introduction

Now let's focus on Section II of *EU Report 2017*, which I have written from my perspective as vice-chair of the Budgetary Control Committee of the European Parliament ("the Committee"). It is a great honour for me to be able to share my findings regarding the completed PP7+, the current programming period 2014–2020 and the 2021+ programming period under preparation.

As the Commission's discharge rapporteur[64] for 2014, and also shadow rapporteur for 2013 and 2015, in my control work examining European budget expenditure I have always tried to assess whether the funding respects the formal and legislative rules and whether it contributes to real effects and impacts on the economic, social or environmental development of the EU. In

62 The author is the vice-chair of the EP Budgetary Control Committee.

63 The European Organization of Supreme Audit Institutions is one of seven regional working groups of the International Organization of Supreme Audit Institutions. Currently, EUROSAI brings together 50 members (49 Supreme Audit Institutions and the European Court of Auditors).

64 This is detailed and thorough scrutiny by the EP, or specifically the Committee, of the EU budget and how it is used in EU institutions and agencies. The discharge procedure makes it possible to identify how the EU budget and related financial flows were managed. The EP assesses the implementation of the budget every year. In the case of the Czech Republic the annual State Closing Account is the closest thing to the discharge procedure. There are important differences, however.

my opinion, it is essential to allocate Union (and other) finances to areas where investment will have the greatest effect, and in this context to identify new European priorities.

In my work in the Committee, I always stress maximum transparency, objectivity and a project-based approach respecting the financial interests of the entire EU and its citizens. In this regard, I am vocal in my support for an EU budget oriented towards performance and results, a budget that should be equipped with the kind of control instruments and mechanisms to prevent the misuse of European funds or unnecessary error rates in the coming years.

F.1.1 EP Budgetary Control Committee

The Committee mainly deals with matters concerning:

- scrutiny of the implementation of the EU budget and *European Development Fund* and discharge decisions adopted by the EP, including the internal discharge procedure;
- scrutiny of the financial activities of the European Investment Bank;
- monitoring the costs and benefits of various forms of financing in the implementation of EU policies;
- relations with OLAF; investigating fraud and irregularities concerning the implementation of the EU budget; measures intended to prevent and punish fraud; rigorous protection of the EU's financial interests and the relevant steps of the European public prosecutor in this area;
- relations with the ECA; nominating its members and discussing its reports;
- the Financial Regulation as regards issues linked to the implementation, management and control of the budget.

The discharge procedure for 2015 involved a sum of €145.2 billion, which works out as approx. €285 for every EU citizen. The budget's chief administrator is the Commission, which sees to the distribution of the majority of finances, with roughly 80% going to Member States and approx. 13% to the rest of the world. The remaining 7% covers administrative expenditure. Based on the ECA's annual report on the implementation of the budget for the given budgetary year, which contains a statement of assurance concerning the reliability of the financial statements and the regularity of operations on the part of the Commission, we in the Committee scrutinise whether the finances were used in line with the regulations and whether the set policy objectives were achieved. In this regard the Committee works closely with the Brussels-based OLAF and with the ECA and European Investment Bank, both based in Luxembourg.

We use the ECA's special reports in the Committee as important documents informing our work. Last but not least, Committee members acquire information about the Member State they represent from national audit authorities. In my case, this involves information exchange with the SAO and AA.

Put simply, my job in the Committee is to answer questions whether taxpayers in the Union are truly getting European added value that would be unobtainable through Member States' national policies and whether there is a good balance between the formal side, i.e. compliance with the rules, and real results.

F.1.2 Cooperation between the Committee and implementation authorities in the CR

As mentioned above, approx. 80% of the EU budget is allocated to Member States which then, based on "national strategic reference frameworks" (replaced by "partnership agreements" in the current programming period), distribute the EU finances from the allocated "national envelopes" (in the case of the CR this involved approx. €29.8 billion in PP7+ and approx. €24.2 billion in the 2014–2020 programming period). When implementing this funding, Member States are bound by the EU rules, though they can modify these according to national requirements, either by simplifying conditions or tightening them, known as "gold-plating".

In this regard, I regret to say that the willingness of most Member States, the Czech Republic among them, to share their experiences, new perspectives or "dead ends" with us, is minimal. Article 317 of the TFEU obliges Member States to cooperate with the Commission to ensure that budget funds are used in accordance with the principles of sound financial management. I personally am convinced that Article 59 (1) of Regulation No 966/2012[65] categorically obliges Member States to fulfil their control and audit obligations and to take responsibility for these areas.

It is Member States that are responsible for utilising the lion's share of the EU budget through shared management of EU finances. Consequently, the primary responsibility for sound financial management does not reside in the Commission, but in Member States' managing authorities. Under the subsidiarity, proportionality and loyalty principles, Member States and the EU should respect each other and help each other execute the tasks arising from the EU's fundamental treaties.

I personally understand cooperation in the spending of European taxpayers' money in the broadest possible sense. Information sharing is an essential prerequisite for detecting errors or even fraud. In my opinion, this is also an important way to ensure that the same errors or fraudulent practices are avoided in the future, provided that everyone (including us) learns their lessons. Regrettably, I have to agree with the conclusions of the ECA, which repeats in every annual report that *"in many cases sufficient information was available to prevent, or to detect and correct the error before accepting the expenditure"*.

F.1.3 A general look at the CR from the Committee's perspective

From the purely economic perspective of scrutinising the implementation of the EU budget and monitoring the costs and benefits of various forms of EU financing in the implementation of EU policies, the CR is perceived as average[66]. On the one hand, the appropriate Czech authorities' willingness and efforts to address identified shortcomings, either individually or, if the nature of the shortcoming permits, systemically, is regarded as positive: the CR's standard of communication and activity in this regard is superior[67]. Unfortunately, the other side of the coin, i.e. proper and timely resolution of the given issue, is often lacking. That particularly applies to the timely utilisation of EU funding and public procurement. For EU funding to be utilised economically, efficiently and effectively, it first and foremost needs to be utilised in good time. And not just in terms of broader competition, i.e. the maximum possible added value of the selected projects, but, most importantly, so that there is sufficient time for their proper implementation. Spending EU finances "at the last minute" in order to ensure maximum drawdown is not viewed positively by the Committee. In the case of public procurement, the CR is rated "unsatisfactory" in four out of the six assessment indicators (only four Member States are on the same level or worse), which casts doubt on the effectiveness of the spending of EU finances. In this regard more attention should be paid to the transparency

65 Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002.

66 For more information: http://ec.europa.eu/internal_market/scoreboard/performance_overview/index_en.htm.

67 For more information see the report on the fact-finding mission to the CR on 26 to 27 March 2014 – http://www.europarl.europa.eu/meetdocs/2014_2019/documents/cont/dv/draft_report_czech_/draft_report_czech_en.pdf.

of public procurement: the awarding of public contracts without a tender or the use of criteria undermining economic competition so that only one candidate bids in a tender should be restricted.

F.2 Assessment of the 2007–2013 programming period from the Committee's perspective

As the title indicates, in formal terms we are talking about the programming period for the years 2007 to 2013. In reality, however, the deadline for Member States to implement programmes from the period in question was 31 December 2015 (thanks to the n+2 rule)[68]. Only then can the programmes be closed, i.e. financially cleared by the payment of the final balance to the Member State or by the recovery of any excess amounts paid by the Commission. Member States had 6 months (in the case of rural development programmes) or 15 months to submit closing documents to the Commission (the final payment applications for PP7+ were submitted by 31 March 2017). It should be kept in mind that the actual assessment of the success of the programming period must take into account projects' sustainability, which ranges from 3 to 10 years after their completion. At the same time, i.e. formally from the start of 2014 and actually during 2015, programmes of the new programming period 2014–2020 were already being implemented (in the case of the CR over 8% of the new programming period's allocation had been paid out by 31 May 2017, i.e. approx. CZK 50 billion[69]). That makes it very difficult to assess PP7+ as the real effects and impacts may only be visible some time after a project is completed. As regards assessing outputs, in other words what is directly produced or achieved through the funding awarded to a given project (e.g. training courses for the unemployed, roads built), the results of the programming period can already be assessed now. You just have to look around and see with your own eyes what has been built, renovated or modernised. In some cases, it is already possible to assess the effects of a number of projects: these effects can be expected or unexpected, positive or negative. The record low unemployment in the CR, for example, can be proof in itself of the results of projects funded partly from EU finances. In my opinion, however, we will have to wait a few years before we can assess impacts, i.e. longer-term socio-economic consequences.

F.2.1 Objectives of EU regional policy

Regional policy had three objectives in PP7+:

1. ***Convergence***, i.e. supporting economic and social development at the level of NUTS II[70] regions. This objective is financed out of the ERDF, ESF and CF. In the Czech Republic, all cohesion regions bar Prague come under it. The total allocation for this objective in the CR was **€25.88 billion.**

2. ***Regional competitiveness and employment***, i.e. support for regions at the level of NUTS II or NUTS I[71] which exceed the upper limits for inclusion under *Convergence*. This objective is financed out of the ERDF and ESF and encompasses Prague in the Czech Republic. The total allocation for this objective in the CR was **€419.09 million.**

68 For more information, see ECA Special Report No. 36/2016 – *An assessment of the arrangements for closure of the 2007–2013 cohesion and rural development programmes*.

69 For more information: http://www.strukturalni-fondy.cz/cs/Informace-o-cerpani/Cerpani-v-obdobi-2014-2020.

70 NUTS II (*Nomenclature des Unites Territoriales Statistique*) are territorial statistical units, also known as regions. In the Czech Republic there are eight cohesion regions (including Prague) – i.e. eight NUTS II level territorial units.

71 NUTS I is the entire Czech Republic.

3. ***European territorial cooperation***, i.e. support for cross-border cooperation between NUTS III[72] level regions located along all internal and some external land borders and all NUTS III regions along maritime borders and no more than 150 kilometres apart, including support for interregional and international cooperation between regions. This objective is financed out of the ERDF and all regions in the Czech Republic come under it. The total allocation for this objective in the CR was **€389.05 million.**

From the perspective of the vision of the CR after 2013, which was defined in the *National Strategic Reference Framework of the CR 2007–2013*, the vast majority of the policies' objectives were fulfilled. This particularly applies to improving competitiveness by strengthening traditional and new sectors, education, culture, enterprise and research and development. Although shortcomings exist at the level of individual projects, in general terms the CR's competitiveness was strengthened; in some areas the CR even became the lead country, both within the EU and on a global scale (e.g. ELI Beamlines, the superlaser facility in Dolní Březany at a cost of approx. CZK 7 billion under OP RDI). Other objectives that may be regarded as achieved are improved quality of the environment (in the CR mainly due to investments in water-management infrastructure or the *Green for Savings* programme, increasing employment, improving medical and social care, enhancing sports and cultural activities, or improving transport services. Some objectives require further work, most notably social inclusion and improved effectiveness of public administration at all levels of the system.

In the CR, drawdown of EU finances exceeded 94.55%[73], which is consistent with the EU28 standard. The information in Commission materials makes it possible to form an objective picture of the fulfilment of certain measurable objectives and targets in the CR, particularly in the following areas:

- transport infrastructure
    - almost 2,020 km of existing roads were modernised and 312 km of new roads were built;
    - around 370 km of existing rail track was modernised, 294 km of which are part of TEN-T[74];
- environment
    - over 371,000 more people have access to improved water supplies;
    - more than 490,000 people were connected to improved wastewater treatment facilities;
- research and innovation
    - approx. 640 projects establishing cooperation between businesses and research institutes were supported;
    - 1,420 research projects were supported;
- enterprise support
    - more than 26,900 jobs were created, 3,900 of them in research and 1,790 in tourism;
    - 8,000 direct investment aid projects for SMEs.

From the perspective of European added value, i.e. quantifying effects on the economy of the entire EU, the assessment of PP7+ states that every €1 invested under cohesion policy during the 2007–2013 period will increase GDP by €2.74 up to 2023. Over and above that, in the case

72 In the Czech Republic, *kraje* ("regions") are NUTS III units.

73 For more information: https://cohesiondata.ec.europa.eu/dataset/Total-Percentage-of-Available-Funds-Paid-Out-by-th/w8x7-cqjd [quote from 04. 08. 2017].

74 *Trans-European Transport Networks*.

of effects that are hard to measure financially or assess objectively you just have to ask simple questions that can give an insight into the achievement of objectives:

1. Has the quality of housing improved – insulation, change in heating systems etc.?
2. Has the quality of transport improved – roads, motorways, trains or buses etc.?
3. Has the quality of the environment improved – noise levels, dust levels, water purity etc.?
4. Has the quality of education or healthcare improved?

F.2.2 Assessment of the working of control mechanisms and control institutions

As Special Report No. 04/2017[75] reveals, financial corrections totalling approx. €3.326 billion were imposed on Member States for PP7+ up to the end of 2015. That corresponds to 1.0% of the budget's total financial coverage. In addition, payments worth approx. €28.446 billion (8% of the total allocated financial coverage) were suspended. Preventive measures were used earlier and on a greater scale in the 2007–2013 programming period than in the previous one. This earlier, more comprehensive and more stringent use of preventive measures by the Commission makes it possible to improve a greater number of management and control systems more quickly and also increases Member States' motivation to implement the necessary improvements.

In the context of the indicator of programme risk by Member State[76] I regret to say that the CR is near the bottom of the rankings (higher confirmed corrections were only imposed on Bulgaria, Romania, Ireland and Slovakia), where the rate of confirmed or decided financial corrections/payments came close to at-risk amounts/payments at the level of the materiality threshold of 2%. Generally, the most common causes of error, in the CR and elsewhere, include failing to comply with public procurement rules (EU or national legislation), failing to comply with the state aid and cost eligibility rules, and errors in OP management (at the level of project selection, audit or certification of payments).

In its Annual Report for 2015 the ECA stated that early corrective measures by both Member States and the Commission reduced the overall estimated error rate by 0.5 percentage points year-on-year. As regards an assessment of the functioning of control mechanisms, these were constantly improved during PP7+, as borne out by the fact that all the suspended OPs were re-launched. In absolute terms, the ECA Annual Report for 2015 stated that 37 audit operations were performed in the CR (6.5% of all the ECA's audit operations in the given year), 8 of which revealed significant errors. The incidence of errors thus corresponds to a rate of 21.6% of items affected by errors, which is slightly above the EU average (20.5% in 575 audit operations).

F.2.3 View of the CR in the context of the 28 EU as regards utilisation of the allocation, reporting of irregularities and observance of European legislation

In the first four years of the programming period, i.e. up to the end of 2010, the CR copied the EU28 in the rate of utilisation of the allocation. From 2011 there was a decline when several OPs were suspended, which resulted in the allocation drawdown rate falling to 52.55% at the formal end of the programming period at year end 2013, while the EU average was 62%. Accelerated drawdown in all OPs in the last two years that could be used to utilise funding then put the CR back on the level of the EU average.

---

75 Special Report No. 4/2017 – *Protecting the EU budget from irregular spending: The Commission made increasing use of preventive measures and financial corrections in Cohesion during the 2007–2013 period.*

76 For more information: http://www.eca.europa.eu/Lists/ECADocuments/SR17_4/SR_Financial_Corrections_CS.pdf.

Year	CR	EU28	Difference
2007	1.43 %	1.97 %	−0.54 %
2008	5.61 %	5.28 %	+0.33 %
2009	12.29 %	12.69 %	−0.40 %
2010	20.43 %	22.21 %	−1.78 %
2011	26.86 %	33.57 %	−6.71 %
2012	38.91 %	46.60 %	−7.69 %
2013	52.55 %	62.04 %	−9.49 %
2014	63.99 %	76.88 %	−12.89 %
2015	84.70 %	88.93 %	−4.23 %
2016	94.55 %	94.45 %	+0.10 %

Source: https://cohesiondata.ec.europa.eu/dataset/2007-2013-Funds-Absoption-Rate/kk86-ceun; filter: MS: Czech Republic, EU28; Fund: Total; Absorption; Difference – own calculation.

As the OLAF annual report for 2015 reveals, OLAF received a total of 380 notifications classified as fraud from Member States in the given year, with public sources reporting 65 cases and 315 notifications coming from private sources. 12 cases were reported from the Czech Republic, two of them from the public sector, which ranked the CR at the average for Member States. In 2016, according to the OLAF annual report, 20 notifications of fraud were sent from the CR (one of them from the public sector), even though the total number of cases received by OLAF fell to 367. As far as OLAF investigations taking place in 2016 are concerned, the CR with five[77] investigations ranked at the level of the EU28 average. In 2015 the CR had come second last, with just two active investigations. In its investigations concerning the CR from 2013 to 2016, OLAF assessed more than 3,200 irregularities, which corresponded to approx. 5.5% of performed payments in financial terms. This value was far above the EU28 average (2.10%). Although these figures look very bad for the CR, the opposite is true. In the case of the CR, OLAF's proposed corrections corresponding to the gravity of the findings amounted to just 0.06%, i.e. far below the EU28 average (0.43%).

As regards the observance or transposition of the European legislation on the single market, the CR was slightly above the EU28[78] average at the end of 2016.

F.2.4 The CR's success in utilising finances for projects with European added value (Community programmes)

Unlike programmes financed out of the SF and CF, Community programmes are financed directly from the EU budget and are under the direct management of the Commission or a specialised executive agency. The most important PP7+ programme was the 7th Framework Programme worth around €55 billion (3% of total expenditure on science and innovation in the EU), whose cost-effectiveness I assessed in a report for the EP[79]. Although more than 25,000 projects were supported (mainly those of universities – 44%, research organisations – 27%, and enterprises of all sizes – 24%), this was less than 18% of the total number of funding applications submitted. As the 7th monitoring report of the framework programme[80] states, the CR is around the EU28 average in terms of the success rate of

77 Only one had been concluded with the issuance of a recommendation by the start of August 2017.

78 For more information: http://ec.europa.eu/internal_market/scoreboard/performance_by_governance_tool/transposition/index_en.htm.

79 For more information see the Resolution of the European Parliament of 13 June 2017. http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P8-TA-2017-0246+0+DOC+XML+V0//CS.

80 For more information: http://ec.europa.eu/research/evaluations/pdf/archive/fp7_monitoring_reports/7th_fp7_monitoring_report.pdf.

applications, meaning that it was equally successful as other Member States. The CR may seem unsuccessful in financial terms (14.8% compared to the EU28 average of 19.2%), but that is not the case. The fact that the average requested financial contribution per applicant in the CR was around 60% of the figure for applicants from western Europe should be taken into account. On the other hand, it must be acknowledged that the CR's position in Europe and its past achievements thanks to eminent figures in science, research or business predestine it to belong to the higher ranks in European terms. For that to happen, the CR needs to hold on to its capable people and prevent a brain drain, both by improving the financial terms of their work and, in particular, applying incentives and policies that create suitable places for their work.

F.2.5 Specific features of the CR in terms of the Common Agricultural Policy

The terms negotiated before the CR's accession to the EU in 2004 meant that direct payments were topped up from the national budget throughout almost the entire programming period. The two sources did not hit parity until 2013. For direct payments, the CR opted for SAPS: the single area payment scheme is simpler than the single farm payment system (it is flat rate per hectare). It is already almost certain, however, that this system will be fully replaced after 2020 by a basic payment scheme[81] that will take into account the actual activities taking place on farms and also their ownership structure or geographic location. A change like that will certainly be a challenge for the CR's agricultural policy if the proposed "capping" of direct payments is not changed, because the CR has one of the lowest numbers of farms[82] in the EU28 (0.25% of all farms in the EU are found in the CR, with the EU28 average at 3.5%). It needs stating that this state of affairs did not arise organically: it is the upshot of the past policy of collectivisation in Czechoslovakia (it is therefore no surprise that there is a similar situation in Slovakia). On the other hand, in terms of the average area of land worked by one farm the CR, with 133 hectares per farm, is the clear leader in the EU28, where the average is 16.1 ha). Last but not least, the Europe-wide problem of the ageing farmers' population, which also affects the CR, should not be overlooked. One question that must be asked from the perspective of the effectiveness of spending on the Common Agricultural Policy, however, is whether a larger number of smaller farms is more effective on a Europe-wide scale (in all regards, not just agricultural policy) than a smaller number of larger farms (with the economies of scale that brings).

F.2.6 Assessment of the evolution of the CR's net position, including a look at payments into the EU budget

Despite the renewed convergence of the Czech economy vis-à-vis the EU average, ever since its accession to the EU the Czech Republic has been preordained to have a markedly positive net position in respect of the EU budget. This supposition is being confirmed: in the middle of 2017 the CR's cumulative net position since 2004 reached CZK 655.64 billion. That is a figure that carries genuine macroeconomic significance, as it is the equivalent of almost 14% of the Czech Republic's expected GDP for 2017, for example. Converted to one year, the EU budget thus supported, on a net basis (i.e. after factoring in the CR's contribution to the EU budget), the CR's socio-economic development by approx. 1.1% of its GDP on average. The importance of interventions performed in the CR thanks to the EU budget is even greater in the case of investment activities in the public sector, where approx. 7% of public investment expenditure is done with support from this source. It is clear that EU funds can never be the primary source of prosperity in any Member State. Given its complementary, auxiliary, acceleratory role, its

81 For more information: http://europa.eu/rapid/press-release_MEMO-13-937_en.htm.

82 For more information see Eurostat data for 2013 as at November 2015 http://ec.europa.eu/eurostat/statistics-explained/index.php/Farm_structure_survey_2013_-_main_results#Farm_typology.

quantitative significance is fundamental, and the policy of every Member State receiving major contributions from the EU budget should be driven by an endeavour to maximise synergy with available national funding sources with a view to enhancing the multiplier effect and achieving an appropriate result.

The main factor in the Czech Republic's net position (contributing more than two thirds) is cohesion policy funding (which is also the traditional Czech perception of what the EU funds represent). The net position peaked in relative terms in PP7+ and will fall in proportion with the CR's increasing affluence in the EU context. What is conversely very stable and predictable is drawdown under the CAP, which accounts for just less than one third of the net position. Very little space, by contrast, is given to Community programmes, i.e. a platform of projects announced directly by the EU executive on the basis of EU-wide project competition – these contribute less than five per cent of the net position.

The amount the CR pays into the EU budget (like every other Member State) remains relatively stable. Here it is very important to follow the latest trends in this field (e.g. the endeavour to strengthen EU own resources and the proposals to create an autonomous euro-area budget). Under the current conditions, it is reasonable to expect that the CR can retain the highly positive potential of its net position for the upcoming decade of its EU membership despite the positive convergence trend. However, this decade will evidently throw up new challenges that could fundamentally alter the overall concept of the EU's budgetary policy.

Evolution of the CR's net position since EU accession (CZK billion)[83]

2004	2005	2006	2007	2008
7.3	2.0	6.9	15.2	23.8
2009	**2010**	**2011**	**2012**	**2013**
42.3	47.9	30.8	73.1	84.8
2014	**2015**	**2016**	**2017**[83]	
75.3	150.0	79.6	16.7	

Source: MoF – http://www.mfcr.cz/cs/zahranicni-sektor/hospodareni-eu/pozice-cr-vuci-rozpoctu-eu/2017/cista-pozice-cr-ve-vztahu-k-rozpoctu-eu-29359.

F.2.7 Key risks in the utilisation of cohesion policy and the CAP as indicated by the PP7+ in the CR and as per OLAF's assessment

The key risks in the utilisation of EU finances in the Czech Republic evident in the past programming period and the current one are as follows:

- timely and proper communication by the CR with EU institutions;
- readiness of strategic documents and legislation fulfilling the ex ante conditionalities; highly decentralised implementation structure (large number of OPs that have little chance of generating shared synergic effects);
- complicated management process (complexity of documents at OP level, of methodological guidance, methodological opinions etc.);
- personnel fluctuations and subpar administrative capacity and performance;
- failure of certain institutions (assessment of state aid by the appropriate institutions etc.);
- large scope of support areas (one applicant then applies for support for one project from multiple calls/OPs);
- procedural shortcomings on the part of beneficiaries (overstating prices, unsatisfactory public procurement etc.).

83 As of 30 June 2017

On the other hand, it should be noted that the Commission must share part of the blame, as key documents and legislation for the launch of the new programming period were only issued shortly before it opened. One positive development is the endeavour of the MfRD-NCA to lay down a single definition of minimum standards and rules for the implementation of all OPs, so that setting up one system of activities would ensure the CR is able to draw down the entire allocation from the EU funds effectively. More effective central data sharing should minimise the risk of a EU funds drawdown shortfall.

But it is also the Commission itself that should strive for simpler rules and conditions for drawdown, which beneficiaries would certainly welcome. As the Commission's discharge rapporteur for 2014 I also tried to encourage Member States to get more involved in the discharge award process, which I regard as fundamental to the success of future drawdown. Member States should realise that the overriding goal of the process is to improve drawdown, for them as well. Of course money can always be used better, but the most important thing is to learn from one's mistakes. The Czech Republic has always been willing to act on feedback, which is very positive. The country is constantly improving and taking the necessary steps.

F.3 The Committee's recommendations to the Czech authorities

F.3.1 Closure of the 2014–2020 programming period

Two of the most important aspects of the economic, efficient and effective use of EU finances are timely distribution and the quality of the selected projects. The quantity of funding in legal documents on the provision/transfer of support currently accounts for approx. 32.3% of the total allocation[84], which is not sufficient in the fourth year of the programming period (this is a much lower percentage than at the same point in the previous programming period[85]). What appears critical in this regard is the length of assessment processes at the managing authorities level, as in some cases more than a year passes from the announcement of the call until the appropriate legal document is issued. As in the previous programming period, it is therefore necessary to boost the MAs' administrative capacity, to give applicants the necessary methodological information and to simplify work with the Monitoring System 2014+ (MS2014+).

By 2019 the Commission should have set up an integrated monitoring system for the 2014–2020 period to monitor both preventive measures and financial corrections. This kind of system, however, will have to be connected to Member States' systems for monitoring the utilisation of EU funding, which should also contain the necessary data. The Commission will then make effective use of the significantly tightened rules for the 2014–2020 programming period and will, if necessary, impose net financial corrections based on its own audits and/or ECA audits. That makes it appropriate to strengthen control and audit work at the programme level so that the rate of confirmed or decided financial corrections/payments is reduced substantially. In other words, the target state should be that enough errors are detected at the level of the CR so that the error rate identified by follow-up audits by EU institutions would fall below the materiality threshold. Boosting the administrative capacity of control and audit authorities can prevent the same errors being repeated again and again and can reduce the quantity and magnitude of any financial corrections.

84 For more information, see the *Quarterly Report on the Implementation of European Structural and Investment Funds in the Czech Republic in the 2014–2020 Programming Period*, 2nd quarter 2017, MfRD-NCA, 15 August 2017; http://www.strukturalni-fondy.cz/getmedia/eacd4ee0-c526-4a36-8561-de95315f4c92/Ctvrtletni-zprava-o-implementaci-DoP-2014-2020_2Q2017.pdf?ext=.pdf.

85 Projects worth CZK 327.5 billion which was approximately 50% of the allocation of CZK 654.5 (not including the obligatory 15% national co-financing).

F.3.2 Preparations for the next programming period

Here I would recommend that careful attention is paid to general objectives and policies on the part of EU institutions (especially when drawing up budgetary rules after 2020 and strategic documents for the post–2020 period), and there should active discussion with the relevant stakeholders and end beneficiaries at all levels. If we want to work better for the citizens of Europe, we have to listen to them and ensure their wishes and needs are fulfilled. Strategic documents should therefore be created in a bottom-up manner, giving the utmost consideration to taxpayers' wishes so that the maximum possible European value added is delivered. That is because local needs without any effect on the EU market or the development of a region need to be defined at that level and kept at the national financing level. Conversely, projects and goals with European significance, i.e. generating European added value, should be implemented vertically and effectively into the relevant strategic documents. The same applies to the implementation of synergic effects cutting across operational programmes, where supporting one project via multiple interventions delivers greater effectiveness, especially from the perspective of medium-term and long-term investment planning.

F.4 Outlook for the future

The fundamental decisions about the future of the European budget or MFF will not be taken before 2018. The Commission presented its ideas on the post-2020 future of the EU budget to the Committee on 28 June 2017. It is clear that Great Britain's departure from the EU will impact on the European Union's budget, but nobody can say for certain right now whether the impact will be positive or negative. The same applies to the "new challenges", which are the migration and refugee crisis, protection of Europe's external borders, the fight against terrorism etc. The EU27[86] will have to strike a reasonable compromise between the revenue and expenditure sides of the budget. One possible solution could be to modernise the budget on both revenue and expenditure side so that it is more flexible (and able to respond more swiftly to geopolitical events) and oriented towards results and European added value. As finances are limited and Member States are unwilling to contribute more to the EU budget, there will have to be a new approach to the types of support that will be provided from the EU budget (especially in cohesion policy) or a greater focus on recoverable support, such as financial instruments. This modernisation will only succeed if Member States play an active role in it and have their key priorities ready, including their cross-border and pan-European effects, which will have to be quantified and thus guaranteed. Taking this approach could lead to the simplification of all processes, which would deliver savings for both applicants and management structures, making the system more efficient.

86 Current EU28 after the departure of Great Britain.

Sources and references

1. 2013 EU audit in brief, Introducing and explaining the ECA´s 2013 annual reports, The Publications Office of the European Union, 2014.
2. 2015 EU audit in brief, Introducing and explaining the ECA´s 2015 annual reports, The Publications Office of the European Union, 2016.
3. Action Plan for Improving the Functioning of Management and Control Systems for the Structural Funds in the Czech Republic of 20 March 2012; reasoned statement for a draft amendment of Act No 218/2000 Coll. of 22 August 2013.
4. Action Plan for Improving the Functioning of Management and Control Systems for the Structural Funds in the Czech Republic of 26 March 2012; file No 13511/2012-27.
5. Quarterly Monitoring Report on Drawdown from the Structural Funds and Cohesion Fund in the Programming Period 2007-2013, 2nd quarter of 2016, MfRD, August 2016.
6. Quarterly Report on the Implementation of the ESI Funds in the Czech Republic in the 2014-2020 Programming Period, 2nd quarter of 2017, MfRD/NCA, 15 August 2017.
7. EU reports 2009–2016, SAO 2009–2016.
8. Ex-post Evaluation of the Rural Development Programme 2007-2013, MoA, December 2016.
9. Information on the state of closure of the 2007–2013 programming period, MfRD-NCA, 31 May 2017.
10. Information for the government of the CR on the benefits of cohesion policy and starting points for its future form after 2020, MfRD, March 2017.
11. Interinstitutional Agreement on Budgetary Discipline and Sound Financial Management between the European Parliament (EP), the Council of the European Union and the Commission, Official Journal of the European Union, C 139, 14 June 2006.
12. Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community, Official Journal of the European Union, 13 December 2007.
13. Lisbon Strategy (European Council meeting, Lisbon, 23-24 March 2000) and its revision (European Council meeting, Brussels, 22-23 March 2005).
14. Methodological recommendation regarding the closure of the 2007–2013 programming period, MfRD-NCA, July 2015 (updated in June 2016).
15. Methodological recommendation for the creation of a final report on the implementation of an operational programme in the 2007–2013 programming period, MfRD-NCA, November 2015.
16. National Development Plan of the Czech Republic for the Years 2007 to 2013, MfRD, February 2006.
17. National Strategic Plan for Rural Development of the CR for 2007–2013, MoA, December 2006.
18. National Strategic Reference Framework of the CR 2007–2013, MfRD, July 2007.
19. Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002.

20. Regulation (EC) No 1080/2006 of the European Parliament and of the Council of 5 July 2006 on the European Regional Development Fund and repealing Regulation (EC) No 1783/1999.

21. Regulation (EC) No 1081/2006 of the European Parliament and of the Council of 5 July 2006 on the European Social Fund and repealing Regulation (EC) No 1784/1999.

22. Commission Regulation (EC) No 1122/2009 of 30 November 2009 laying down detailed rules for the implementation of Council Regulation (EC) No 73/2009 as regards cross-compliance, modulation and the integrated administration and control system, under the direct support schemes for farmers provided for that Regulation, as well as for the implementation of Council Regulation (EC) No 1234/2007 as regards cross-compliance for the support scheme provided for the wine sector.

23. Commission Regulation (EC) No 1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund.

24. Council (EC) Regulation No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999.

25. Council Regulation (EC) No 1084/2006 of 11 July 2006 establishing a Cohesion Fund and repealing Regulation (EC) No 1164/94.

26. Council Regulation (EC) No 1234/2007 of 22 October 2007 establishing a common organisation of agricultural markets and on specific provisions for certain agricultural products ("Single Common Market Organisation Regulation").

27. Council Regulation (EC) No 1290/2005 of 21 June 2005 on the financing of the Common Agricultural Policy

28. Council Regulation (EC) No 1698/2005 of 20 September 2005 on support for rural development from the European Agricultural Fund for Rural Development (EAFRD).

29. Council Regulation (EC) No 73/2009 of 19 January 2009 establishing common rules for direct support schemes for farmers under the common agricultural policy and establishing certain support schemes for farmers, amending Regulations (EC) No 1290/2005, (EC) No 247/2006, (EC) No 378/2007 and repealing Regulation (EC) No 1782/2003.

30. Council Regulation (EC, Euratom) No 2988/95 of 18 December 1995 on the protection of the European Communities financial interests.

31. Council Regulation (EC) No 1198/2006 of 27 July 2006 on the European Fisheries Fund.

32. Guidelines on the closure of operational programmes adopted for assistance from the European Regional Development Fund, the European Social Fund and the Cohesion Fund., Commission Decision C (2013) 1573 of 20 March 2013 on the approval of guidelines on the closure of operational programmes adopted for assistance from the European Regional Development Fund, the European Social Fund and the Cohesion Fund (2007-2013).

33. Guidelines for determining financial corrections to be made to expenditure co-financed by the Structural Funds of the Cohesion Fund for non-compliance with the rules on public procurement, COCOF 07/0037/03.

34. Rules laying down the conditions for granting subsidies for projects of the Czech Republic's Rural Development Programme for the period 2007-2013, MoA.

35. Council Decision 2006/702/EC of 6 October 2006 on Community strategic guidelines on cohesion.
36. Council Decision 2006/144/EC of 20 February 2006 on Community strategic guidelines for rural development (2007–2013 programming period).
37. Treaty on the Functioning of the European Union, Official Journal of the European Union, C 115, 9 May 2008.
38. Treaty on European Union, Official Journal of the European Communities, C 340, 10 November 1997.
39. The OLAF report 2015 (The OLAF annual report for 2015), The Publications Office of the European Union, 2016.
40. The Convention on the Protection of the European Communities' Financial Interests of 26 July 1995, drawn up on the basis of Article K.3 of the Treaty on European Union, Official Journal of the European Union, C 316, 27 November 1995.
41. European Parliament resolution of 13 June 2017 on cost effectiveness of the 7th framework programme for research and innovation (2015/2318(INI)).
42. Czech government resolution No 671/2012 of 12 September 2012 on the centralisation of audits at the Ministry of Finance – change in the design of the audit system for finances drawn down from the Structural Funds, Cohesion Fund and European Fisheries Fund.
43. Czech government resolution No 245 of 2 March 2005 on the procedure for preparing the Czech Republic for drawing down finances from the Structural Funds and Cohesion Fund in 2007–2013.
44. Czech government resolution No 273 of 21 March 2001 on the Statute of the Management and Coordination Committee for the purposes of coordinating aid provided by the European Communities at state level and on the rules of procedure of the Committee.
45. Czech government resolution No 1180 of 22 October 2007 on the Statute of the Management and Coordination Committee for the purposes of coordinating aid provided by the European Communities at the state level and on the rules of procedure of the Committee.
46. Czech government resolution No 175 of 22 February 2006 on the Draft National Development Plan of the Czech Republic for 2007 to 2013.
47. Czech government resolution No 624 of 7 July 2016 on the Statute of the Management and Coordination Committee for the purposes of coordinating aid provided by the European Communities at the state level and on the rules of procedure of the Committee.
48. SAO Bulletin - Part 3 / 2008-3 / 2017.
49. ECA Annual Reports on Implementation of the EU Budget and on European Development Funds for the years 2007 to 2015, ECA 2008-2016.
50. WP1: Synthesis report - Ex post evaluation of Cohesion Policy programmes 2007–2013, focusing on the European Development Fund (ERDF) and the Cohesion Fund (CF), Task 3 Country Report Czech Republic (September 2016), Commission, September 2016.
51. Act No 248/2000 Coll., on Support of Regional Development.
52. ECA Special Report No 4/2017: Protecting the EU budget from irregular spending: The Commission made increasing use of preventive measures and financial corrections in Cohesion during the 2007-2013 period.

53. ECA Special Report No 13/2011: Does the control of customs procedure 42 prevent and detect VAT evasion?

54. ECA Special Report No 36/2016: An assessment of the arrangements for closure of the 2007-2013 cohesion and rural development programmes.

55. ECA Special Report No 8/2007 concerning administrative cooperation in the field of VAT.

Web sites used:

- http://ec.europa.eu/budget/figures/fin_fwk0713/fwk0713_en.cfm#revision.
- http://ec.europa.eu/eurostat/statistics-explained/index.php/Farm_structure_survey_2013_-_main_results#Farm_typology
- http://ec.europa.eu/internal_market/scoreboard/performance_by_governance_tool/transposition/index_en.htm
- http://ec.europa.eu/internal_market/scoreboard/performance_overview/index_en.htm
- http://ec.europa.eu/research/evaluations/pdf/archive/fp7_monitoring_reports/7th_fp7_monitoring_report.pdf
- http://www.eca.europa.eu/Lists/ECADocuments/SR17_4/SR_Financial_Corrections_CS.pdf
- http://www.europarl.europa.eu/meetdocs/2014_2019/documents/cont/dv/draft_report_czech_/draft_report_czech_en.pdf
- http://www.mfcr.cz/cs/zahranicni-sektor/hospodareni-eu/pozice-cr-vuci-rozpoctu-eu/2017/cista-pozice-cr-ve-vztahu-k-rozpoctu-eu-29359
- http://www.strukturalni-fondy.cz/cs/Informace-o-cerpani/Cerpani-v-obdobi-2014-2020
- https://cohesiondata.ec.europa.eu/dataset/2007-2013-Funds-Absoption-Rate/kk86-ceun
- https://cohesiondata.ec.europa.eu/dataset/Total-Percentage-of-Available-Funds-Paid-Out-by-th/w8x7-cqj

Appendix 1: Overview of the SAO audits related to the EU budget allocation for the 2007–2013 programming period

Audit No	Audit title	SAO Bulletin	Revenues/ Expenditures	Area	Audit focus
08/02	Funds provided within the supporting programmes (national and EU programmes).	3/2008	Expenditures	CAP	Management and control system (MCS) design
08/05	Funds allotted for payments within the Common Agriculture Policy – Common Market Organization.	4/2008	Expenditures	CAP	MCS/operation design
08/22	Funds allotted for wastewater treatment.	2/2009	Expenditures	Cohesion policy	Operation
08/25	Funds allotted for LEADER and LEADER+ implementation in the framework of the Common Agriculture Policy.	4/2009	Expenditures	CAP	MCS/operation design
08/27	Funds allotted for mending and maintaining of roads.	2/2009	Expenditures	Cohesion policy	Operation
08/29	Funds allotted for programmes of support for development of industrial zones and regeneration of brownfields.	2/2009	Expenditures	Cohesion policy	MCS design
08/38	Funds allotted for support programmes for energy production from sustainable energy resources and for energy savings support.	3/2009	Expenditures	Cohesion policy	MCS/operation design
09/11	Administration of the Value Added Tax.	2/2010	Revenues	Tax	Tax administration
09/12	Support for fisheries in the Czech Republic in accordance with Operational Programmes in 2004–2008.	1/2010	Expenditures	SRP	MCS design
09/19	Funds earmarked for railway infrastructure development	2/2010	Expenditures	Cohesion policy	Operation
09/26	Funds earmarked for transport infrastructure projects under the regional operational programmes.	1/2011	Expenditures	Cohesion policy	MCS/operation effectiveness
09/27	Funds earmarked for building roads.	4/2010	Expenditures	Cohesion policy	Operation
10/01	Funds earmarked for costs of market interventions and export subventions in the Common Market Organisation.	4/2010	Expenditures	CAP	Operation
10/12	Funds provided for the improvement of nature and landscape.	2/2011	Expenditures	Cohesion policy	MCS/operation design
10/14	Funds earmarked for measures regarding the waste disposal.	2/2011	Expenditures	Cohesion policy	MCS/operation design
10/28	Funds earmarked for improved competitiveness of agriculture and forestry under the Rural Development Programme.	4/2011	Expenditures	CAP	MCS/operation design
10/29	Funds earmarked for improving the environment and landscape under the Rural Development Programme.	4/2011	Expenditures	CAP	MCS/operation effectiveness
11/04	Funds earmarked for the air quality improvement and emissions reduction.	4/2011	Expenditures	Cohesion policy	Operation

Audit No	Audit title	SAO Bulletin	Revenues/ Expenditures	Area	Audit focus
11/07	Value Added Tax administration concerning the import of goods from third countries.	1/2012	Revenues	Taxes	Tax administration
11/08	Funds spent on preparations and realization of State A-levels.	1/2012	Expenditures	Cohesion policy	Operation
11/14	Funds earmarked for the construction and maintenance of the cycling infrastructure.	1/2012	Expenditures	Cohesion policy	MCS/operation design
11/15	Funds earmarked for enhancing the quality of life in the rural areas under the Rural Development Programme.	2/2012	Expenditures	CAP	MCS/operation design
11/16	Funds earmarked for the construction of the ring road around the capital city of Prague.	2/2012	Expenditures	Cohesion policy	Operation
11/17	EU and State funds earmarked for the priority axis Initial Education under the operational programme Education for Competitiveness.	4/2012	Expenditures	Cohesion policy	MCS/operation effectiveness
11/18	Funds earmarked for the development of urban and rural areas under the regional operational programme “North-East” for the period 2007–2013.	3/2012	Expenditures	Cohesion policy	MCS/operation design
11/19	Funds earmarked for the stabilization and development of towns and municipalities under the regional operational programme “South-West” for the period 2007–2013	3/2012	Expenditures	Cohesion policy	MCS/operation effectiveness
11/20	Funds earmarked for the urban development under the regional operational programme “Moravia-Silesia” for the period 2007–2013.	3/2012	Expenditures	Cohesion policy	MCS/operation design
11/27	Funds earmarked for the fulfilment of aims of the EU’s common migration and asylum policy.	2/2012	Expenditures	Other	MCS/operation effectiveness
11/35	Funds from the European Social Fund pre-financed and co-financed by the State budget that were earmarked for projects carried out in the capital city of Prague.	2/2012	Expenditures	Cohesion policy	MCS/operation design
12/02	EU and State budget funds earmarked for the Integrated Operational Programme.	4/2012	Expenditures	Cohesion policy	MCS/operation design
12/06	Funds earmarked for the implementation of projects of priority axis Integrated Territorial Development within the Regional Operational Programme of Cohesion Region the Central Bohemia for the period 2007–2013.	4/2012	Expenditures	Cohesion policy	MCS/operation design
12/10	Funds earmarked for the limitation of industrial pollution and environmental risks.	4/2012	Expenditures	Cohesion policy	MCS/operation design
12/11	Funds earmarked for modernization of important railway junctions.	1/2013	Expenditures	Cohesion policy	Operation
12/13	EU and state funds earmarked for the realization of the operational programme Technical Assistance.	1/2013	Expenditures	Cohesion policy	MCS/operation design

Audit No	Audit title	SAO Bulletin	Revenues/ Expenditures	Area	Audit focus
12/15	Closing account of the state budget chapter Ministry of Agriculture for the year 2011, their financial statements and financial records for 2011.	2/2013	Closing account	Financial audit	Closing account
12/18	Funds earmarked for the construction of motorways and high-speed roads.	3/2013	Expenditures	Cohesion policy	Operation
12/19	Funds earmarked for the implementation of the operational programme Human Resources and Employment.	2/2013	Expenditures	Cohesion policy	MCS/operation effectiveness
12/21	EU and state funds earmarked for the implementation of the operational programme Research and Development for Innovation.	3/2013	Expenditures	Cohesion policy	MCS/operation effectiveness
12/27	Funds earmarked for anti-flood prevention programmes.	3/2013	EIB loans	Cohesion policy	MCS/operation design
12/35	Establishment of the Labour Office of the Czech Republic and management of state budget's and the EU's property and funds related to the establishment and activity of this office and to preparation and implementation of projects in the area of welfare disbursement information systems.	3/2013	Expenditures	Cohesion policy	Operation
12/36	Funds spent on the purchase and operation of the system of data boxes.	3/2013	Expenditures	Cohesion policy	Operation
13/02	Tax arrears administered by tax offices.	1/2014	Revenues	Taxes	Tax administration
13/03	Funds earmarked for direct payments.	4/2013	Expenditures	CAP	MCS/operation effectiveness
13/04	Funds earmarked for the funding of projects implemented within the Operational Programme Cross-Border Cooperation the Czech Republic – Poland 2007–2013.	4/2013	Expenditures	Cohesion policy	MCS/operation effectiveness
13/12	Funds spent on preparations, implementation and operating of information system of basic registers.	4/2013	Expenditures	Cohesion policy	Operation
13/14	Funds earmarked for the modernisation of railway system.	1/2014	Expenditures	Cohesion policy	Operation
13/15	Administration of levies from the breach of budgetary discipline.	4/2013	Revenues	Levies	Tax administration
13/17	EU and state budget funds earmarked for the implementation of the Operational Programme Enterprise and Innovation.	2/2014	Expenditures	Cohesion policy	MCS/operation effectiveness
13/21	Funds of the Operational Programme Environment earmarked for wastewater treatment.	2/2014	Expenditures	Cohesion policy	MCS/operation effectiveness
13/28	Support for fisheries in the Czech Republic in accordance with Operational Programme Fisheries in 2007–2013.	2/2014	Expenditures	CFP	MCS/operation effectiveness
13/32	Funds earmarked for the development of tourism.	3/2014	Expenditures	Cohesion policy	MCS/operation design

Audit No	Audit title	SAO Bulletin	Revenues/ Expenditures	Area	Audit focus
14/03	Funds earmarked for development and modernisation of waterways and harbours, and for the support of multimodal cargo transportation.	4/2014	Expenditures	Cohesion policy	MCS/operation effectiveness
14/06	Management of funds earmarked for the support of energy production from the renewable energy resources.	4/2014	Expenditures	Cohesion policy	MCS design
14/07	EU and state budget funds earmarked for the implementation of the axis V of the Rural Development Programme.	4/2014	Expenditures	CAP	MCS/operation design
14/09	EU and state budget funds earmarked for the implementation of the Operational Programme Prague – Competitiveness.	4/2014	Expenditures	Cohesion policy	MCS/operation effectiveness
14/13	EU and state budget funds earmarked for the implementation of the project „Revitalisation of the pond Jordán in Tábor“	1/2015	Expenditures	Cohesion policy	Operation
14/16	Funds earmarked for the development and reconstruction of regional health-care facilities within the Regional Operational Programme – South-East for the period 2007–2013.	1/2015	Expenditures	Cohesion policy	MCS/operation design
14/17	Value added tax administration and the impacts of legislative amendments for the state budget revenues.	2/2015	Revenues	Taxes	Tax administration
14/39	EU and state budget funds earmarked for financing of projects of regional and supra regional centres for popularisation of science and development within priority axis 3 – Commercialisation and Popularisation of R&D of the Operational Programme Research and Development for Innovation.	1/2015	Expenditures	Cohesion policy	Operation
14/15	Funds spent on the projects and measures for support and fulfilment of efficient public administration including savings of expenditures implementation	2/2015	Expenditures	Cohesion policy	Operation
14/22	Funds earmarked for the infrastructure of university education.	2/2015	Expenditures	Cohesion policy	MCS/operation effectiveness
14/24	EU and state budget funds provided for settlement of expenditures of national projects within the Operational Programme Education for Competitiveness.	3/2015	Expenditures	Cohesion policy	MCS/operation effectiveness
14/26	Funds spent on the projects of the Rural Development Programme.	2/2015	Expenditures	CAP	MCS/operation effectiveness
14/27	Funds of the EU Solidarity Fund provided for the Czech Republic in relation to catastrophic floods.	2/2015	Expenditures	Other	MCS/operation effectiveness
14/28	Spirit and tobacco excise tax administration and administration of revenues from the sales of tobacco duty stamps, including the management of these duty stamps.	3/2015	Revenues	Taxes	Tax administration

Audit No	Audit title	SAO Bulletin	Revenues/ Expenditures	Area	Audit focus
14/32	Funds earmarked for the construction of line A of the Prague underground.	3/2015	Expenditures	Cohesion policy	MCS design
14/37	State budget, EU budget funds and other funds acquired from abroad.	3/2015	Closing account	Financial audit	Closing account
14/40	Funds earmarked for remittance of costs for land area amendments.	2/2015	Expenditures	CAP	MCS design
15/02	State budget funds provided for support of energy savings.	1/2016	Expenditures	Cohesion policy	MCS/operation design
15/03	Funds earmarked for projects related to introduction of electronic public. administration under the supervision of the Ministry of the Interior	1/2016	Expenditures	Cohesion policy	Operation
15/04	Funds earmarked for the infrastructure of the project „Pilsen - European cultural capital 2015" under the Regional Operational Programme of Cohesion Region South-West for period 2007–2013.	1/2016	Expenditures	Cohesion policy	Operation
15/06	State budget funds and EU structural funds earmarked for financing of operational programmes with respect to projects sustainability.	1/2016	Expenditures	Cohesion policy	Operation
15/10	Funds spent on the National Infrastructure for Electronic Public Procurement (NIPEZ) and its utilisation for purchase of selected commodities.	3/2016	Expenditures	Cohesion policy	Operation
15/14	Funds earmarked for modernisation of III. and IV. transit railway corridor.	3/2016	Expenditures	Cohesion policy	Operation
15/18	Funds earmarked for housing support.	3/2016	Expenditures	Cohesion policy	Operation
15/24	Funds earmarked for the implementation of EU asylum and migration policy objectives.	3/2016	Expenditures	Other	MCS/operation effectiveness
15/09	Funds spent on education support, consultation and promotion within the Ministry of Agriculture.	4/2016	Expenditures	CAP	MCS/operation effectiveness
15/17	Funds spent on measures related to streamlining of tax and insurance collection and administration, mainly within the project „Design of single collection point for state budget revenues".	4/2016	Expenditures	Cohesion policy	Operation
15/26	EU and State budget funds spent within technical assistance for the activities related to publicity and promotion of operational programmes and projects implemented in the programming period 2007–2013.	4/2016	Expenditures	Cohesion policy	MCS/operation design
15/33	Excise Duty Administration.	1/2017	Revenues	Taxes	Tax administration

Audit No	Audit title	SAO Bulletin	Revenues/ Expenditures	Area	Audit focus
16/01	EU and state budget funds earmarked for financing of interventions within the Operational Programme Enterprise and Innovation with focus on the fulfilment of objectives.	1/2017	Expenditures	Cohesion policy	MCS/operation effectiveness
16/02	Funds earmarked for ICT and crisis management systems of units of the Integrated Emergency System.	1/2017	Expenditures	Cohesion policy	Operation
16/06	Funds earmarked for modernisation of motorway D1.	1/2017	Expenditures	Cohesion policy	Operation
16/10	Funds provided for the improvement of nature and landscape.	1/2017	Expenditures	Cohesion policy	MCS/operation design
16/11	State budget funds earmarked for creation of equal opportunities for persons with disabilities.	3/2017	Expenditures	Cohesion policy	Operation
16/14	EU and state budget funds earmarked for support of local development within the Leader initiative via the Rural Development Programme.	3/2017	Expenditures	CAP	MCS/operation effectiveness
16/16	Funds earmarked for the interoperability on the current railways.	3/2017	Expenditures	Cohesion policy	Operation
16/23	Funds earmarked for implementation of measures related to waste management.	3/2017	Expenditures	Cohesion policy	MCS/operation design

Source: SAO Bulletin, 2008–2017

Appendix 2: Flat-rate corrections applied by the Czech authorities in the area of Cohesion Policy until 31 December 2016

Operational programme	Level of the imposed correction (€ million)	Period when the correction was applied	Reason for correction
OPT7+	355.4	2012–2013	Insufficient MCS – correction of 10 % of the expenditure paid out to beneficiaries up to 31 August 2012
OPEn7+	65.7	2012–2015	Insufficient MCS – correction of 5 % of the expenditure paid out to beneficiaries up to 31 August 2012
OPEIC	71.5	2013	Specific individual correction to the value of the contract in the form of a guarantee from the Czech-Moravian Guarantee and Development Bank.
	58.6	2014	The untrustworthy annual audit report 2009–2012 and the implementation of the audits under Article 13 (with the assistance of the Czech Chamber of Commerce).
	17.3	2015	Specific individual corrections for the loans from the Czech-Moravian guarantee and development banks.
OP HRE		2012	MA verification – 10 % correction for expenditure under Priority Axis 4 submitted by MoF-PCA by 15 March 2012.
	8.3	2012–2014	Public Procurement – 10 % correction for expenditure under Priority Axis 4 for Public Procurements selected by 15 March 2012.
		2012–2014	Selection of projects – 2 % correction for project expenditure within Priority Axis 4 with a legal act issued by 15 March 2012.
OP RDI	1.4	2014	Specific individual correction in relation to the error rate of the 2013 Annual Audit Report exceeding 2 % and the recalculated multi-year error rate.
OP EC	29.8	2012	Non-functioning MCS – 10 % correction for expenditure submitted by MoF-PCA by July 2, 2012.
	16	2012–2016	Selection of projects – 2 % correction for project expenditure with a legal act issued by 2 July 2012.
		2012–2016	Public Procurement – 10 % correction for public procurement expenditure selected by July 2, 2012.
ROP NW	74.5	2013–2016	Selection of projects and deficiencies in the OP implementation – 10 % correction for expenditure of projects approved until 31 August 2012 + 12.41 % for expenditure paid to beneficiaries until 31 August 2012.
			In 2016, a new correction of 12.41 % was applied to public procurement expenditures valid until 31 August 2012 inclusive but paid after that date.
ROP SW	8.4	2011–2013	5 % correction for selection and evaluation of 2nd and 3rd call projects.
ROP CB	13.3	2014	5 % correction for expenditure paid to beneficiaries by 1 September 2012

Operational programme	Level of the imposed correction (€ million)	Period when the correction was applied	Reason for correction
IOP	2.7	2015	5 % correction for all projects related to the placing of public procurements awarded before 31 January 2011 under Intervention Area 3.2a (purchase of medical equipment).
OP PA	3.4	2015–2016	Selection of projects – 2 % correction for project expenditures selected by October 24, 2011.
		2015–2016	Non-functioning MCS – 5 % correction for expenditure approved by MA by 1 July 2, 2012.
		2015–2016	Public Procurement – 10 % correction for public procurement expenditure covered by a contract concluded by 15 March 2014.
TOTAL	726.3		

Source: MoF-PCA, information from August 2017.

Appendix 3: Overview of corrections and refunds as a result of irregularities in the CAP in the 2007–2013 programming period (CZK)

Financial year	Direct payments	Common Market Organisation	Forfeited guarantees for intervention storage**	RDP7+
2007	5,170,755*		0	0
2008	1,354,493	424,736	8,762,303	396,989
2009	634,242	226,262	425,571	3,005,165
2010	769,366	157,666	8,147,880	6,019,200
2011	882,714	2,107,226	21,955,276	9,340,102
2012	1,286,041	1,612,638	1,081,396	33,585,745
2013	906,089	836,659	0	47,566,340
2014	–	–	–	30,160,484
2015	–	–	–	20,018,435
2016	–	–	–	28,108,939
Total for all years and measures				**234,942,712**

Source: Data from SAIF, i. e. from Paying Authority RDP7+, July 2017.

* The amount also includes discrepancies for the Horizontal Rural Development Plan of the Czech Republic for the period 2004-2006.

** Guarantees ensure the fulfillment of predefined conditions related to a particular measure, which means that in the event of non-fulfillment of the given conditions the guarantee will be forfeited in whole or in part in favor of the Czech budget or the EU budget.

Czech Republic | Supreme Audit Office | EU REPORT 2017