Supreme Audit Office
Czech Republic

EU REPORT 2012

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Report on the EU Financial Management in the CR

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Contents

Introduction 5

List of Abbreviations 7

Summary 9

A. General information 11

A.1 Current developments in EU budget implementation and audit 11

A.1.1 Steps towards greater budgetary discipline, integration and convergence.... 11

A.1.2 Measures adopted by the EU and Czech Republic to protect the EU's financial interests 12

A.1.3 Summary of audits and declarations....15

A.1.4 Annual report of the European Court of Auditors concerning the financial year 2010 15

A.1.5 Current developments in the protection of the EU's financial interests....17

A.2 EU budget structure and its relation to the Czech Republic 18

A.2.1 EU budget revenues 18

A.2.2 EU budget expenditure 19

A.2.3 The EU budget in relation to the Czech Republic 21

B. Sector matters....25

B.1 EU revenues....25

B.1.1 Current developments in the EU's own resources system 25

B.1.2 Measures to improve the fight against VAT fraud in the EU – current developments....26

B.1.3 Measures to improve the fight against VAT fraud in the Czech Republic – current developments....27

B.1.4 SAO's audit work in the field of VAT collection and administration 28

B.1.5 ECA's audit work in the field of VAT 29

B.1.6 Protection of the EU's financial interests 30

B.2 EU Common Agricultural Policy....30

B.2.1 Current developments in the CAP and common fisheries policy in the Czech Republic....30

B.2.2 SAO's audit work in the field of the CAP and common fisheries policy 33

B.2.3 EU´s audit work in the Czech Republic....35

B.2.4 Protection of the EU's financial interests 36

B.2.5 Reform of the CAP after 2013....37

B.3 EU Cohesion Policy 37

B.3.1 Current developments in Cohesion Policy in the Czech Republic....37

B.3.2 SAO´s audit work....42

B.3.3 EU´s audit work in the Czech Republic....44

B.3.4 Protection of the EU's financial interests 46

B.4 Other EU expenditure ... 47

B.4.1 Other EU financial instruments in the Czech Republic ... 48

B.4.2 Financial management and audit in relation to other EU financial instruments ... 49

B.4.3 Protection of the EU's financial interests ... 49

C. Other SAO activities related to the EU's financial management ... 51

C.1 Legal matters ... 51

C.1.1 Suggestions for legal amendments ... 51

C.1.2 Amendments of regulations in line with the SAO's recommendations ... 52

C.1.3 SAO recommended changes to the law that have not yet been adopted ... 52

C.2 International activities of the SAO ... 53

C.2.1 Audit work ... 53

C.2.2 Exchange of experience and other international cooperation ... 54

D. Literature and sources ... 57

E. Appendices ... 63

Introduction

In this *Report on the EU Financial Management in the Czech Republic* for 2011 (hereinafter the “Report” or “EU Report 2012”) the Supreme Audit Office (“SAO”) seeks to provide objective and comprehensive information about European Union (“EU”) budget expenditure and revenues in the Czech Republic (“CR”) from the point of view of the authority performing external audit in the scope defined by its legal empowerment[1]. As this is the fifth annual EU Report, our ambition is to analyse and assess the SAO’s audit findings over an extended period of time. In the context of the findings of other external control bodies the Report seeks to draw the attention of the relevant executive bodies to the need to eliminate persisting shortcomings.

Objectivity and comprehensiveness

For the sake of objectivity, audit findings and the assessment of the findings formulated in audit conclusions are analysed by the SAO and subsequently confronted with the outputs of other audit bodies. These are, on the one hand, the national audit body accredited by the government to the area of the Structural Funds, migration funds and fisheries fund (Ministry of Finance) and the accredited paying agency accredited by the government to the area of agriculture (State Agricultural Intervention Fund), which, among other things and within the meaning of the financial regulation[2], publish annual summaries of audits and statements containing assessments of the relevant supervisory and control systems in the CR. On the other hand there is the European Court of Auditors (“ECA”), which carries out external audit during audit missions in the CR and other Member States within the meaning of the *Treaty on the Functioning of the European Union* (“TFEU”) and according to the financial regulation. The effort to make the information in this Report as objective as possible is also supported by the fact that the SAO’s audit findings in the area of Cohesion Policy and the Common Agricultural Policy are compared not just with the audit findings of the ECA or the European Commission (“the Commission”) made in the CR but with audit findings concerning other Member States as set out in the ECA annual report. This does not only give the relevant bodies in the Czech Republic’s implementation structure a better overview of the system’s weak points, it allows a framework comparison of the CR and other EU Member States to be made.

To ensure comprehensiveness the Report mentions up-to-date information about the Commission‘s initiatives to improve financial management in the given financial year, including the fundamental steps taken in the EU and at national level to tackle the impacts of the continuing economic and financial crisis. To give a more exact picture of financial flows and the relevant trends, the Report also includes information about EU budget revenues and expenditure with a link to the CR.

Structure of the Report

The Report is composed of three separate chapters, which are preceded by a brief summary intended to draw the reader’s attention to the key data and simultaneously to emphasise the fundamental information concerning the financial year 2010 or, in some cases, 2011[3]. The first chapter looks at developments in the financial management of the EU budget. It mentions the EU’s strategic goals for the future and the legal and economic measures adopted to improve the implementation and audit of the budget. It also informs about the EU budget and its links to the CR. The second chapter focuses on sector-specific matters. It provides information about the activities of the Czech Republic’s responsible authorities under shared management with the Commission and assesses the shortcomings identified by the SAO in the area of EU budget revenues and expenditure. The SAO’s systematic approach to audit of the Common Agricultural Policy and Cohesion Policy allows it to comment on the drawdown of the allocated resources in the context of the entire programming period.

The third chapter deals with the SAO’s recommendations regarding legislative developments in the CR and the SAO’s international work linked to the EU authorities and the audit institutions of EU Member States.

1 Act No. 166/1993, on the Supreme Audit Office, as amended.

2 Council Regulation (EC, Euratom) No. 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities.

3 Some data concerning 2011 was not available at the time of official publication of the Report.

Sources of information

The data and information contained in the Report apply to the financial years 2010 and 2011. The official EU institutions´ data were taken from their annual reports and statistics for 2010, as the data for 2011 have not yet been published. The same applies to national data concerning the Common Agricultural Policy. Other data provided by the relevant cooperating departments of the Ministry of Finance and the Ministry for Regional Development, as well as the SAO audit findings, mainly apply to 2011.

Recipients of the Report

The Report is primarily intended for the Czech government and the relevant committees of the Chamber of Deputies and Senate of the Parliament of the CR. It is also intended for institutions responsible for financial management of EU budget funds in the CR. It is sent to foreign recipients as well, most notably EU Member States’ audit institutions and the European Court of Auditors.

List of Abbreviations

AA	*Accredited Authority*
ABAC	*Accrual Based Accounting*
AC	Audit Conclusion
AEM	Agri-environmental Measures
BRH	Bundesrechnungshof
CAP	Common Agriculture Policy
CEF	*Connecting Europe Facility*
CMO	Common Market Organisation
Commission	European Commission
Council	The Council of European Union
CR	The Czech Republic
DAS	*Déclaration d´assurance* (Statement of Assurance)
DG Agri	*Directorate-General for Agriculture and Rural Development*
DG Empl	*Directorate-General for Employment, Social Affairs and Inclusion*
DG Justice	*Directorate-General for Justice*
DG Regio	*Directorate-General for Regional Policy*
EAFRD	*European Agricultural Fund for Rural Development*
EAGF	*European Agricultural Guarantee Fund*
EAGGF	*European Agricultural Guidance and Guarantee Fund*
EC	European Communities
ECA	European Court of Auditors
EMC	*Excise Movement and Control System*
EMFF	*European Maritime and Fisheries Fund*
ERDF	*European Regional Development Fund*
ESF	*European Social Fund*
EU	European Union
EU-15	15 original states of the EU
EUROFISC	Network for the swift exchange of information in the fight against VAT fraud
FIFG	*Financial Instrument for Fisheries Guidance*
FRG	Federal Republic of Germany
GAEC	*Good Agricultural and Environmental Condition*
GDP	Gross Domestic Product
GNI	Gross National Income

IACS	*Integrated Administration and Control System*
IB	Intermediate Body
IMS	*Irregularity Management System*
IPA	*Instrument for Pre-accession Assistance*
IS	Information System
ISPA	*Instrument for Structural Policies for Pre-accession*
LFA	*Less Favoured Areas*
MMR	Monthly Monitoring Report
MoA	Ministry of Agriculture
MoE	Ministry of Environment
MoEYS	Ministry of Education, Youth and Sports
MoF	Ministry of Finance
MfRD	Ministry for Regional Development
OLAF	*Office européen de lutte anti-fraude* (European Anti-Fraud Office)
OP	Operational Programme
OP RDMA	Rural Development and Multifunctional Agriculture Operational Programme
OWNRES	*Own Resources Database*
RDP	*Rural Development Programme*
Report	*Report on the EU Financial Management in the CR*
ROP	Regional Operational Programme of the Cohesion Region
SAI	Supreme Audit Institution(s)
SAIF	State Agricultural Intervention Fund
SAO	Supreme Audit Office
SAPS	*Single Area Payment Scheme*
SEF	State Environmental Fund
SGAFF	Subsidiary and Guarantee Agricultural and Forestry Fund
SPD	*Single Programming Document for the Prague Cohesion Region*
TFEU	*Treaty on the Functioning of the European Union*
Top-Up	National top-up payments in agriculture
VAT	Value Added Tax
WG	Working Group

Summary

Measures to make expenditure more effective included, among other things, the Commission's proposals for improving the quality of mandatory audits in the EU and restoring confidence in audited financial statements. For the 2014–2020 financial framework the Commission put forward draft legislation designed to lead to a greater concentration of expenditure in Cohesion Policy and closer linkage to the *Europe 2020* strategy. One example of this is the support for the development of energy infrastructure through the establishment of the *Connecting Europe Facility*.

Measures to protect the EU's and Czech Republic's financial interests included the creation of a *European semester of economic governance at EU level*, as part of which priorities are based on an annual analysis of growth and the Commission submits recommendations for Member States' stability programmes and convergence programmes. The Commission drew up proposals for two regulations to tighten economic and budgetary supervision in the euro area and published a Green Paper on the feasibility of introducing Stability Bonds.

The Czech government approved the convergence plan and national reform programme and modified the rules for co-financing EU resources from national sources. The CR has not yet adopted the *Convention on the Protection of the European Communities' Financial Interests*, despite having been repeatedly urged to do so.

The EU budget for 2010 and its relation to the Czech Republic are not very different from the previous year. Revenues amounted to €127.8 billion. The Czech Republic's contribution to the EU budget was approximately €1.5 billion, a slight increase over 2009. Expenditure was €122.2 billion. Expenditure heading into the CR was put at €3.4 billion. 68% of total expenditure in the CR was used in the area of sustainable growth (primarily Cohesion Policy) and 31% in the area of protection and management of natural resources (primarily the CAP). The Czech Republic's net position was €1.9 billion in 2010. The trend of the net position's stable year-on-year growth was not stopped until 2011, when expenditure from the EU budget to the CR was reduced and the net position amounted to €1.25 billion. This year-on-year reduction was caused mainly by the suspension of certification of Cohesion Policy expenditure, which was brought about primarily by shortcomings in the supervisory and control system.

EU revenues from own resources based on VAT should now be created in line with the changes laid down in the TFEU. The previous system, complicated by a number of corrective mechanisms, did not prevent extensive tax losses, running to tens of billion euros a year, effectively enough, and moreover VAT fraud was a significant obstacle to the efficient working of the internal market.

In response to the shortcomings detected by two joint audits by the SAO and BRH focusing on the collection and administration of VAT, recommendations were presented to the responsible authorities; some of these recommendations have already been worked into the Czech and EU legislation. The findings and recommendations concerning the standard of cooperation between the responsible authorities when collecting and administering VAT were consistent with the findings of the Commission and the ECA.

SAO audits from 2008 to 2010 found that the reported tax base in tax returns for the CR as a whole was more than CZK 445 billion less than the total value of imports as per the single administrative documents. The SAO made a qualified estimate that, if the concrete measures listed in Section B.1.4 are implemented, the annual revenues of the state budget of the CR could be increased by more than CZK 10 billion.

In the SAO's opinion, making it compulsory for VAT payers to file tax returns in electronic form would make the work of the tax authorities more efficient.

The Common Agricultural Policy is evolving in a way that the financing of this policy's old instruments (direct payments, common market organisation) is being reduced in favour of measures undertaken under the *Rural Development Programme*.

In line with the trend of strengthening RDP instruments, from 2004 to 2011 the SAO conducted six audits concerning rural development out of a total of nine audits targeting the CAP or common fisheries policy.

The SAO conducted one joint audit with the ECA as a pilot project. The results of this audit formed part of the basis for issuing the DAS, and the ECA also mentioned them in its annual report for 2010. One of the outputs of the audit was an assessment of the management and control system for non-project measures under Axis II of the RDP. The SAO assessed this system as being only partially effective, stating that there is room for improvement in the individual control mechanisms. In its audits the SAO found similar problems with rural development project measures as with projects financed out of the Structural Funds, i.e. shortcomings in project selection, supervision and control.

Cohesion Policy is gradually taking on priority status as the EU enlarges and the differences in the economic standards of its regions widen. It is the biggest item in terms of share of EU budget expenditure, accounting for more than one third of all expenditure in 2010. In the CR sustainable development, encompassing Cohesion Policy measures, took an even bigger share of expenditure, almost two thirds of the total. This development essentially continued in 2011, but drawdown of the allocation slowed during the year when certification for seven OPs was suspended. Payments were resumed for four OPs at the beginning of 2012, but after an audit the Commission stopped payments for a further OP.

The SAO devotes systematic attention to audit of programme measures under Cohesion Policy, and audits focusing on this area make up around 15% of the audit plan every year. In the period from 2004 to 2011 the SAO conducted 30 audits concerning programmes and projects financed out of the Structural Funds and *Cohesion Fund*; in 2011 there were four such audits. The details of the audit findings are given in Section B.3.2.

The SAO analysed the results of Cohesion Policy audits conducted from 2004 to 2011 and described the shortcomings at the various implementation levels (see Section B.3.2.5). The analysis also showed that a number of the SAO's audit findings tallied with the conclusions of audits conducted by the ECA on a sample of projects from the CR and other Member States. When certain shortcomings were assessed, a similarity with the outputs of audit missions undertaken by the Commission in the CR was also found.

Other expenditure comprises financial instruments with allocations according to individual programmes that are mostly administered directly by the Commission. Applicants from the CR received a total of €104.7 million in 2010. This figure has been growing year-on-year, but its ratio to total funds paid out remains unchanged at approx. 1% of the expenditure channelled into all EU Member States.

In 2011 the SAO submitted **suggestions for changes to the legislative environment** in the form of recommendations contained in the audit conclusions of conducted audits or as part of the interdepartmental consultation process on draft legislation.

The SAO has for long drawn attention to the fact that the legislative developments lag behind the requirements of proper implementation of programmes and projects financed out of EU funds.

In connection with the enactment of lump sum expenditure in the amendment of the act on the budgetary rules the SAO regards the fact that there was not simultaneously an equivalent amendment of the act on the budgetary rules for territorial budgets as a serious shortcoming.

The SAO's international activities in 2011 mainly consisted in the performance of joint audits with foreign SAIs, either on the basis of bilateral agreements or as part of the activities of Contact Committee working groups. A pilot project of a joint audit with the ECA was successfully undertaken.

A. General information

A.1 Current developments in EU budget implementation and audit

This chapter deals with current developments in the implementation and audit of the EU budget, mainly with regard to the continuing global economic and financial crisis.

A.1.1 Steps towards greater budgetary discipline, integration and convergence

A.1.1.1 Making expenditure management more effective

In June 2011 the Commission adopted the proposal for the next multiannual financial framework for 2014–2020[4]. Compared to the 2007–2013 programming period, total expenditure will grow by approx. 5%, with the priority destinations for this spending being support for education, building trans-European networks and a special infrastructure fund for transport, energy and telecommunications. In the proposal €376 billion is earmarked for Cohesion Policy, which is roughly a third of the budget; by contrast, spending on the Common Agricultural Policy should stagnate.

Regarding the form of Cohesion Policy for the years 2014 to 2020, in October 2011 the Commission presented a draft legislative package including proposed regulations of the European Parliament and of the Council on the *Cohesion Fund*[5], on the ERDF[6], on the ESF[7], and on common provisions with regard to the Structural Funds, the *Cohesion Fund*, the EAFRD and the EMFF[8]. In all these legislative proposals there is a clear emphasis on making the use of money from the EU budget more efficient, especially money heading to less developed countries and regions. One consequence of this pressure is the concentration of expenditure on a limited number of regional policy, social policy and employment policy priorities and their alignment with the European economic strategy *Europe 2020* and the national reform programmes based on this strategy. In its proposals the Commission assumes supervision of how successfully states and regions will implement the national targets for employment, research and development, climate change and energy, education, and reducing poverty and social exclusion with the help of the relevant funds. In this regard it wants to place greater emphasis on the attainment of concrete and measurable results than in the past.

Following up these proposals, in March 2012 the Commission presented a Common Strategic Framework[9] to help Member States and their administrative units steer a course for financial planning for the years 2014 to 2020 in line with the goals defined in the TFEU. Member States will base the preparation of partnership contracts with the Commission on the Common Strategic Framework; in these partnership contracts they will commit themselves to achieving the European goals for economic growth and job creation by 2020.

A.1.1.2 Restoring confidence in financial reporting

The financial crisis highlighted the considerable deficiencies in the European audit system. Audits of some major financial institutions in previous years were signed off “without reservations”, even though their financial health revealed grave internal weaknesses.

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4 Proposal for a Council Regulation laying down the multi-annual financial framework for the years 2014–2020, COM(2011) 398 of 29 June 2011.

5 Proposal for a Regulation of the European Parliament and of the Council on the Cohesion Fund and repealing Council Regulation (EC) No. 1084/2006, COM(2011) 612 of 6 October 2011.

6 Proposal for a Regulation of the European Parliament and of the Council on specific provisions for the support from the European Regional Development Fund to the European territorial cooperation goal, COM(2011) 611 of 6 October 2011, and Proposal for a Regulation of the European Parliament and of the Council on specific provisions concerning the European Regional Development Fund and the Investment for growth and jobs goal and repealing Regulation (EC) No. 1080/2006, COM(2011) 614 of 6 October 2011.

7 Proposal for a Regulation of the European Parliament and of the Council on the European Social Fund and repealing Council Regulation (EC) No. 1081/2006, COM(2011) 607 of 6 October 2011.

8 Proposal for a Regulation of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund covered by the Common Strategic Framework and laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No. 1083/2006, COM(2011) 615 of 6 October 2011.

9 Staff working document on the Common Strategic Framework, Part I and Part II, SWD(2012) 61 of 14 March 2012.

A proposal for a Regulation[10] of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities and a proposal for a directive[11] amending Directive 2006/43/EC, on statutory audits of annual accounts and consolidated accounts, are supposed to change this. The role of auditors will be clarified and stricter rules will be introduced, above all to strengthen auditors' independence. These measures should raise the standard of statutory audits in the EU and simultaneously restore confidence in audited financial statements, especially those of banks, insurance companies and major companies listed on the stock market.

A.1.1.3 Connecting Europe Facility

In mid-October 2011 the Commission presented a proposal for the establishment of an innovative new financial instrument called the *Connecting Europe Facility* (CEF)[12]. With a budget of €50 billion it is intended to support major projects of common European interest in the fields of energy infrastructure, digital networks and European cross-border transport. All EU Member States will compete for CEF financing, with the winning projects to be chosen by the Commission itself.

The level of the CR co-financing for building works funded out of the CEF may reach as much as 60-80%, while national co-financing for Cohesion Policy projects is around 15%.

A.1.2 Measures adopted by the EU and Czech Republic to protect the EU's financial interests

A.1.2.1 Commission initiatives to improve financial management

In response to manifestations of budgetary imbalances and the debt crisis in certain Member States, and also to meet the *Europe 2020* targets, the Council approved the creation of a *European semester for economic governance at EU level*. The first round of the European semester, which is an annual procedure, began in January 2011 with a debate on the annual growth survey[13], which contains the Commission's priorities and strategic recommendations for strengthening the coordination of national economic and budgetary policies. Through the stability and convergence programmes the Member States submitted their medium-term budgetary strategies and their plans in areas such as employment, research, innovation, energy and social inclusion (national reform programmes). By the end of April these two documents should then be sent to the Commission for assessment. In June 2011 the Commission adopted a total of 27 recommendations for Member States and one for the euro area as a whole – the goal was to achieve the growth, employment and public finances goals. Regarding the *National Reform Programme of the Czech Republic for 2011* and for the purpose of the Council's issuing of an opinion on the updated *Convergence Programme of the Czech Republic for the Period 2011-2014*[14], the Commission makes recommendations including not reducing expenditure on pro-growth items; making use of the room available for increasing revenues from indirect taxes; launching comprehensive pension reform focusing on changes in the public pillar; removing the obstacles to parents with small children returning to the labour market; speeding up the implementation of anti-corruption strategy; passing a civil service act to promote stability and efficiency in public administration; revising the commercial code to abolish anonymous shareholding; and setting up a transparent system for assessing the standard of academic institutions and linking it to the financing system.

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10 Proposal for a Regulation of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities, COM(2011) 779 of 30 November 2011.

11 Proposal for a Directive of the European Parliament and of the Council amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, COM(2011) 778 of 30 November 2011.

12 Proposal for a Regulation of the European Parliament and of the Council establishing the Connecting Europe Facility, COM(2011) 665 of 19 October 2011.

13 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Annual Growth Survey: advancing the EU's comprehensive response to the crisis, COM(2011) 11 of 12 January 2011.

14 Recommendation for a Council Recommendation on the National Reform Programme 2011 of the Czech Republic and delivering a Council opinion on the updated Convergence Programme of the Czech Republic, 2011-2014, SEC(2011) 819 of 7 June 2011.

Then, in October 2011, the Commission presented a detailed plan for stability and growth[15], setting out five interrelated steps that must be implemented jointly and as swiftly as possible: The plan entails the following:

- a decisive response to the problems of Greece;
- enhancing the euro area's backstops against the crisis;
- a coordinated approach to strengthening European banks;
- frontloading stability and growth enhancing policies;
- building a more robust and integrated economic governance for the future.

In November 2011 the Commission adopted a package of four measures comprising an annual growth analysis for 2012, two proposals for tightening economic and budgetary surveillance in the euro area and a green paper on the stability of bonds.

The *Annual Growth Survey 2012*[16] contains the key message that the deteriorating economic and social situation makes it necessary to put greater effort into ensuring the EU returns to sustainable development as regards growth and employment. The analysis calls on the EU authorities and Member States to focus on five priorities:

- pursuing differentiated growth-friendly fiscal consolidation;
- restoring normal lending to the economy;
- promoting growth and competitiveness;
- tackling unemployment and the social consequences of the crisis;
- modernising public administration.

The proposal for a Regulation of the European Parliament and of the Council on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area[17] requires Member States to submit to the Commission their draft budget plans at the same time every year and gives the Commission the right to assess and, if necessary, adopt an opinion on the plan. If budgets are grossly inconsistent with the political commitments laid down in the *Stability and Growth Pact*, the Commission may demand that they are reworked. The Regulation also proposes more detailed monitoring and stricter requirements for reporting by Eurozone countries in the event of excessive deficits. These requirements should be implemented constantly throughout the budgetary cycle.

The proposal for a Regulation of the European Parliament and of the Council on the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability in the euro area[18] is intended to ensure that surveillance of these Member States is governed by clear rules and is enshrined in EU law. The Commission will be able to decide whether a Member State facing serious difficulties with respect to their financial stability should be subject to enhanced surveillance. For such Member States the Council would be able to recommend that they seek financial assistance.

The Commission also launched a public consultation on whether the euro area should jointly issue bonds to obtain money for indebted countries. These revenues would strengthen the euro area´s rescue fund.

The *Green Paper on the Feasibility of Introducing Stability Bonds*[19] analyses the potential benefits and challenges of three different approaches to the common issuance of bonds in the euro area. The Green Paper lists the probable effects of each of these three options on Member States' funding costs, European financial integration, financial market stability and the global attractiveness of EU financial markets.

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15 Communication from the Commission: *A Roadmap to Stability and Growth*, COM(2011) 669 of 12 October 2011.

16 Communication from the Commission: *Annual Growth Survey 2012*, COM(2011) 815 of 23 November 2011.

17 Proposal for a Regulation of the European Parliament and of the Council on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area, COM(2011) 821 of 23 November 2011.

18 Proposal for a Regulation of the European Parliament and of the Council on the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability in the euro area, COM(2011) 819 of 23 November 2011.

19 *Green Paper on the Feasibility of Introducing Stability Bonds*, COM(2011) 818 of 23 November 2011.

A.1.2.2 European Fiscal Compact

At the European Council session of 8 and 9 December 2011 the EU Member States, with the exception of the United Kingdom, adopted important decisions in response to the current crisis, thus paving the way for an intergovernmental treaty ushering in integration, fiscal discipline and convergence. The new treaty should ensure that stricter rules for the creation of budget deficits are complied with in the EU. The leading representatives of the EU also agreed to accelerate the implementation of already proposed measures to strengthen fiscal discipline and stability and other measures to boost employment and growth. Implementation of the European Fiscal Compact should start in June 2012.

The treaty tightening the fiscal conditions for euro area states, i.e. the *Treaty on Stability, Coordination and Governance in the European and Monetary Union* (known as the Fiscal Compact), was signed on 2 March 2012 by twenty-five Member States; it was not signed by the United Kingdom and the CR. Under this treaty states should comply with strict budgetary rules. They should transpose into national law a rule whereby their structural budget should be balanced or in surplus.

A.1.2.3 Measures adopted in the Czech Republic

In 2011 an act[20] was passed in response to the recent crisis in financial institutions. Based on the recommendations of the Commission, it brings additional, more precise provisions on the capital adequacy of credit institutions and significant changes in the arrangement of relations between the bodies that oversee the activities of transnational banking groups and credit institutions doing business in another Member State through its branches.

The government abolished the rules for co-financing EU resources from national public sources and approved new rules governing the change in the proportion of state budget co-funding for ROP and OP Prague projects approved prior to 22 September 2010[21]. The new rules stipulate that the state budget share of 7.5% will only be provided to projects approved for support by the aforesaid date at the latest.

In May 2011 the government approved the *Convergence Programme of the Czech Republic*[22]. Regarding the sustainability of public finances the Convergence Programme outlines reform measures affecting the pension system and healthcare system. Consolidation of public finances should be assisted by a modification of the fiscal framework with special emphasis on the importance of the act on fiscal discipline and responsibility, the creation of a National Fiscal Council and the implementation of other measures. The government also approved the *National Reform Programme of the Czech Republic 2011*[23] and tasked the prime minister with submitting this programme to the Commission. The national programme is the Czech Republic's contribution towards implementing the *Europe 2020* strategy in which EU Member States signed up to voluntary coordination of economic policies over and above Union competences. The following will be required in the CR in future:

- consolidation of public finances;
- a functioning labour market and social system as a precondition of competitiveness;
- education as the basis for greater competitiveness and improved work productivity;
- support for enterprise, digitalisation and development of the digital market;
- support for growth founded on research and innovations;
- support for environmentally-friendly, low-carbon competitiveness of the economy;
- support for competitiveness by improving the transport infrastructure.

The national programme will be updated annually as required, approved and submitted to the Commission by the end of April for the purpose of assessing macroeconomic and structural measures.

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20 Act No. 41/2011 Coll., amending certain acts in connection with the stipulation of capital requirements and supervision procedures over banks, savings banks and credit cooperatives and securities traders.

21 Resolution of the Government of the Czech Republic of 19 January 2011 No. 64, *on the Rules for Co-funding Resources of the European Union from National Public Sources*.

22 Resolution of the Government of the Czech Republic of 4 May 2011 No. 320, *regarding the Convergence Programme of the Czech Republic*.

23 Resolution of the Government of the Czech Republic of 27 April 2011 No. 314, *on the National Reform Programme of the Czech Republic 2011*.

A.1.3 Summary of audits and declarations

Under the financial regulation[24] Member States are obliged every year to submit a summary of the available results of audits and declarations in connection with finances subject to shared management. This obligation applies to expenditure under Cohesion Policy and the CAP. The annual summary of audits and declarations for the past year is sent to the Commission by the body responsible by 15 February of the following year.

In the CR it is the Ministry of Finance[25] that draws up the annual audit report containing a summary of audits and declarations on the effective working of the management and control system for the Structural Funds and *Cohesion Fund*. For 2010[26] the MoF issued annual audit reports and declarations (annual declaration of assurance) for 19 operational programmes; for five OPs it issued a qualified opinion, as it found shortcomings in the effectiveness of the working of the established management and control systems. In the opinion of the MoF the management and control systems did not provide adequate assurance that the statements of expenditure submitted to the Commission are accurate and that the related transactions are legal and regular. According to the annual report on the work of DG Regio[27] for 2010, the CR was one of 11 Member States that declared reservations regarding the national control systems applying to shared management with the Commission. DG Regio found grounds for the reservations in the insufficient independence of the assigned auditors, insufficient oversight over them and inadequate coverage of systems audits.

In 2011 the number of OPs in respect of whose management and control systems the audit body stated reservations grew to 50%. Qualified opinions were issued for ten OPs[28] out of the 19 for which opinions were issued. In five cases[29] the reason for the qualified opinions was the overstepping of the total error rate limit set at 2%; in the other cases it was the need for certain improvements in the management and control systems. The audit body put the estimated financial impact associated with these reservations at approx. €33.5 million.

In the CR it is the accredited paying agency, the State Agricultural Intervention Fund ("SAIF") that draws up a statement of assurance as to whether the system in place for the CAP provides adequate assurance of the legality and regularity of transactions. In addition to the declaration, the opinion of the certification body, whose role is performed by the company BDO CA s.r.o., is sent to the Commission. The opinion issued for 2010 contains no reservations concerning the working of the management and control systems in place. The DG Agri annual report[30] showed that the submitted opinion was accepted by the Commission. The CR receives no mention in the report.

A.1.4 Annual report of the European Court of Auditors concerning the financial year 2010

As an external auditor of the EU's general budget revenues and expenditure the ECA issued an annual report on implementation of the budget for the financial year 2010[31]. The ECA's annual reports, i.e. the report on implementation of the budget, report on European development funds and special ECA reports, are the basis for giving the discharge to the Commission, whereby the European Parliament assesses whether the Commission has duly complied with its obligations in implementing the budget.

The opening and key part of the annual report is the ECA's statement of assurance (DAS) including a statement on the reliability of the EU's financial statements, composed of the consolidated financial statements and consolidated reports on implementation of the budget, and statements on the legality and regularity of the operations underlying the financial statements. The ECA is of the opinion that in all material respects the EU's annual financial statements gave a fair and true view of the EU's financial position as at 31 December 2010

24 Council Regulation (EC, Euratom) No. 1605/2002 of 25 June 2002 on the Financial Regulation applicable to the general budget of the European Communities.

25 Audit Body – Central Harmonisation Unit department.

26 Within the meaning of Article 62 (1) (d) (i) of Council Regulation (EC)No. 1083/2006 this is a period of twelve months ending on 30 June of the given year.

27 *Annual Activity Report for the year 2010*. Directorate General for Regional Policy, 2010.

28 OP *Transport*, *Integrated OP*, OP *Environment*, OP *Enterprise and Innovation* and OP *Education for Competitiveness,* OP *Prague Competitiveness* ROP *North-West,* ROP *South-West,* ROP *North-East,* OP *Cross-border Cooperation.*

29 OP *Transport*, *Integrated OP*, OP *Education for Competitiveness,* ROP *North-East* and OP *Cross-border Cooperation.*

30 *Annual Activity Report 2010*. Directorate General for Agriculture and Rural Development 2011.

31 ECA Annual Report concerning the financial year 2010. European Court of Auditors, 10 November 2011.

and that the results of its operations and cash flow for the given year are consistent with the provisions of the financial regulation and the accounting rules adopted by the Commission. With regard to the reliability of the financial statements the ECA drew attention to the change in the Commission's accounting policy for pre-financing payments, which have not yet been used in the form of loans, guarantees or equity investments. As a result of this change the Commission had to restate the EU's annual accounts for 2009.

Regarding the legality and regularity of the operations underlying the financial statements for 2010, the ECA issued statements on revenues and commitments declaring that both revenues and commitments were legal and regular in all material respects. By contrast, as in the previous year the ECA issued an adverse statement regarding the legality and regularity of payments, holding that the payments underlying the accounts for the year 2010 were materially affected by error. From the point of view of the legality and regularity of payments it came to the conclusion that the supervisory and control systems are partially effective and the most likely error[32] rate is 3.7%. The policy groups materially affected by error are *"cohesion, transport and energy"* with a most likely error rate of 7.7% and *"agriculture and natural resources"* with a most likely error rate of 2.3%. The *"external aid, development and enlargement"* and *"research and other internal policies"* policy groups were not as a whole materially affected by error, whereas interim and final payments were.

The following table gives a summary of the overall assessment of the supervisory and control systems for the different areas of the budget.

Table 1: Summary of findings on the regularity of transactions in 2010

Area of assesment	Payments (€ million)	Most likely error rate (%)	Functioning of supervisory and control systems
Agriculture and natural resources	55 990	2.3	Partially effective
Cohesion, energy and transport	37 556	7.7	Partially effective
External aid, development and enlargement	6 543	1.7	Partially effective
Research and other internal politics	8 953	1.4	Partially effective
Administrative and other expenditure	9 264	0.4	Effective
Total audited expenditure	**118 306**	**3.7**	**Partially effective**
Revenues	**127 795**	**0**	**Effective**

Source: ECA annual report on implementation of the budget for the financial year 2010; selected data were taken from Table 1.2.

A year-on-year comparison of the results of audits conducted by the ECA shows clearly that the estimate of the most likely error rate increased in the case of payments in the *"cohesion, energy and transport"* policy group (compared to the estimate for 2009). The estimate of the most likely error rate made for other policy groups remained relatively stable. Overall the ECA estimated that the most likely error rate for payments had risen from 3.3% in 2009 to 3.7% in 2010. Nevertheless, the comparison with the values found in 2006-2008 was relatively favourable, in the Commission's opinion.

Total payments in the *"agriculture and natural resources"* policy group were put at €57,215 million, with interim/final payments amounting to €55,990 million. The results of testing 238 payments showed errors in 37% of operations. The supervisory and control systems are rated partially effective, with the exception of direct payments covered by the integrated administrative and control system (IACS), which were free from material error.

Total payments in the *"cohesion, energy and transport"* policy group for 2010 were €40,963 million, with interim/final payments amounting to €37,556 million. The results of testing 243 payments in 229 projects showed errors in 49% of operations. The supervisory and control systems were rated partially effective by the ECA.

32 The most likely error rate is a weighted average of percentage error rates found in a sample. The ECA is of the opinion (with 95% certainty) that the error rate in the sample is between the lower and upper limit of the permitted (acceptable) error rate.

A.1.5 Current developments in the protection of the EU's financial interests

In line with Article 325 of the TFEU, Member States coordinate their action aimed at protecting the financial interests of the Union against fraud and to this end they, together with the Commission, organise close and regular cooperation. In cooperation with Member States, every year the Commission submits to the Council and European Parliament an annual report on the protection of the EU's financial interests and actions to counter fraud. The purpose of the annual report is to assess to what extent the EU's finances are at risk of irregularities, or fraud, on both the expenditure and revenues sides.

Member States are obliged to report any suspicion of fraud, or other irregularities, that have an adverse impact on the EU's financial interests. All irregularities valued at more than €10,000 of EU funds must be reported to the Commission. On the revenues side of the budget it is traditional own resources (customs duty, levies on agricultural products imported from third countries, on sugar and isoglucose under the CAP) where irregularities are most widespread; on the expenditure side it is mainly the CAP and Cohesion Policy.

Two electronic systems were put in place for reporting irregularities. The first is the OWNRES database, which applies to budget revenues from traditional own resources; the other is the irregularities management system (IMS), which deals with the expenditure side of the budget in cases of shared management by the Commission and Member States.

In total 15,076 irregularities were reported, according to the Commission's annual report for 2010[33]. The following table gives the specific numbers and total amounts of the irregularities reported in individual expenditure areas and in revenues.

Table 2: Number and amounts of reported irregularities within the EU in 2010 **(€ million)**

Area of expenditure	Number	Total estimated financial impact (part of resources)	Suspicions of fraud (part of resources)	Recovered amounts
Agriculture	1 825	131 (approx. 0.23 %)	69 (approx. 0.12 %)	175
Cohesion Policy	7 062	1 550 (approx. 3.15 %)	364 (approx. 0.74 %)	611
Pre-accession funds	424	83 (approx. 5.26 %)	41 (approx. 2.6 %)	14
Direct expenditure	1 021	43 (approx. 0.27 %)	4 (approx. 0.02 %)	25
Total expenditure	**10 332**	**1 807** (approx. 1.27 %)	**478** (approx. 0.34 %)	**825**
Total revenue (Traditional own resources)	**4 744**	**393** (approx. 1.88 %)	**139** (approx. 0.67 %)	**180**

Source: Report from the Commission to the European Parliament and to the Council: *Protection of the European Union's Financial Interests – Fight against Fraud – Annual Report 2010*, COM(2011) 595 of 29 September 2011.

A year-on-year comparison reveals that the total number of reported irregularities and suspicions is lower, but the total amount increased. The share of cases qualified by Member States as suspicion of fraud remained stable.

In expenditure on the CAP the number of reported cases of irregularities and suspicion of fraud increased over 2009, as did their financial volume. Expenditure on Cohesion Policy accounted for the dominant share of reported irregularities and suspicions of fraud in 2010, with the reported amounts making up an even bigger share.

33 Report from the Commission to the European Parliament and the Council: *Protection of the European Union's financial interests – Fight against Fraud – Annual Report 2010*, COM(2011) 595 of 29 September 2011.

The number of reported irregularities grew by approx. 50% compared to 2009, with a similar trend registered in the reported amounts. This fact is put down primarily to improvements in reporting via the IMS.

According to data published by the Commission in its statistical evaluation of irregularities[34] for 2010, the CR reported a total of 323 irregularities amounting to a total of €348,770,002. Of that total, there were 72 cases of irregularities amounting to €9,538,150 in traditional own resources; 38 cases amounting to €1,177,815 in agriculture; and 213 cases amounting to €338,054,037 in Cohesion Policy. In connection with the recovery of wrongfully disbursed amounts under Cohesion Policy the CR was one of the Member States urged to step up its efforts in this area.

The Commission adopted a number of measures to counter fraud in 2011. For example, it presented an amendment of Regulation (EC) No. 1073/1999 concerning investigations conducted by the European Anti-Fraud Office (OLAF) with a view to reforming the Office. The Commission also adopted a multiannual strategy for the fight against fraud[35], focusing mainly on fraud prevention and detection. Other initiatives include the creation of a new mechanism[36] in line with the Council's *Stockholm Programme*, which will monitor Member States' efforts to combat corruption in the form of an EU report. In addition, an integrated policy to protect taxpayers' money[37] was adopted and a public consultation (green paper)[38] was launched with a view to modernising and improving public procurement policy. An evaluation report[39] was drawn up in respect of this initiative.

The Czech Republic has not yet signed up to the *Convention on the Protection of the European Communities' Financial Interests*, despite having been repeatedly urged to do so by the Commission.[40]

A.2 EU budget structure and its relation to the Czech Republic

A.2.1 EU budget revenues

The revenue side of the budget consists primarily of own resources. These are resources which are collected by Member States themselves and then transferred to the EU budget. Other revenues are another source of budget revenues.

EU budget revenues comprise:

- **Traditional own resources** – duties collected on the import of products from third countries, agricultural and sugar levies. Member States pay only 75% of the finances collected from these sources into the EU budget, keeping the rest as compensation for the cost of collecting them.
- **Resource based on VAT** – a single percentage rate for all Member States applied to the harmonised value added tax assessment base. The total volume of the harmonised base is limited to 50% of the Member State's GNI.
- **Resource based on GNI** – a variable resource used to make up the difference between budget revenues and expenditure. A single percentage rate is applied to all Member States.
- **Other revenues** – e.g. budget surpluses from previous years, fines imposed for breach of economic competition rules or other regulations, tax on the income of EU employees, and contributions by third countries to EU programmes.

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34 Accompanying document to the Report from the Commission to the European Parliament and the Council: *Protection of the European Union's financial interests – Fight against Fraud – Annual Report 2010*, SEC(2011) 1108 of 29 September 2011.

35 Communication from the Commission on the Commission Anti-fraud Strategy, COM(2011) 376 of 24 June 2011.

36 Communication from the Commission on Fighting Corruption in the EU, COM(2011) 308 of 6 June 2011.

37 Communication from the Commission on the protection of the financial interests of the European Union by criminal law and by administrative investigations – *An integrated policy to safeguard taxpayers' money*, COM(2011) 293 of 26 May 2011.

38 *Green Paper on the modernisation of EU public procurement policy – Towards a more efficient European Procurement Market*, COM(2011) 15 of 27 January 2011.

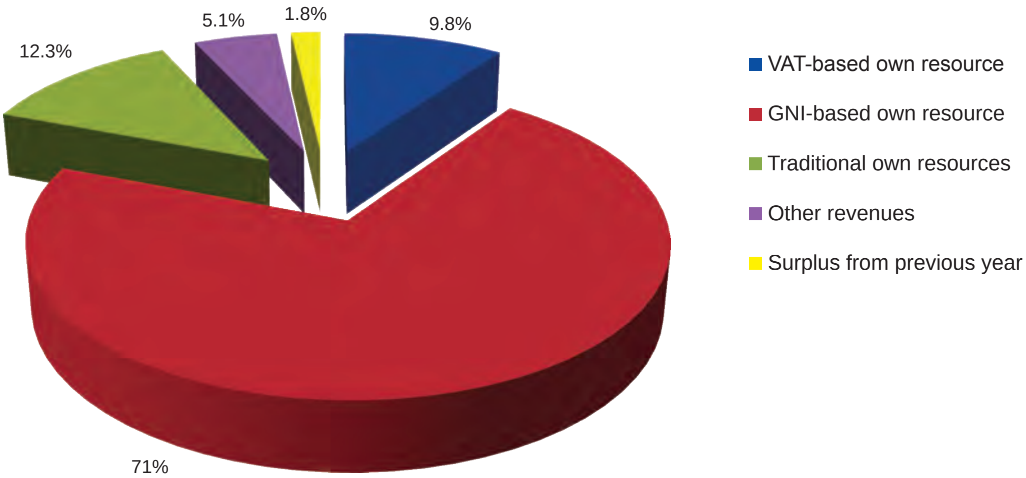
39 *Commission Staff Working Paper: Evaluation Report – Impact and Effectiveness of EU Public Procurement Legislation*, SEC(2011) 853 of 27 June 2011.

40 Section 4.1.3. of Report from the Commission to the European Parliament and the Council: *Protection of the European Union's financial interests – Fight against Fraud – Annual Report 2010*, COM(2011) 595 of 29 September 2011.

The final amount of the contributions is affected by **correction mechanisms** under which part of some Member States' contributions are returned to them. The most significant adjustment is the UK correction mechanism, which was adopted to correct the imbalance in the UK's contributions and receipts. The costs of this mechanism are borne by other Member States[41]. A gross reduction of annual contributions based on GNI was also adopted for the Netherlands and Sweden – the resulting revenue shortfall is funded by all Member States according to their share of the Community's GNI.[42] In addition, a reduction in payments was adopted for Denmark, Ireland and the UK in connection with their refusal to participate in certain areas of legal and police cooperation.

Graph 1 shows the individual resources' share of total EU budget revenues, which amounted to €127.8 billion in 2010:

Graph 1: Structure of EU budget financing in 2010



Source: European Commission – *EU budget 2010 – Financial Report*.

A.2.2 EU budget expenditure

The 2010 budget was based on the financial framework for 2007–2013. The expenditure side of the budget is divided into the following six headings:

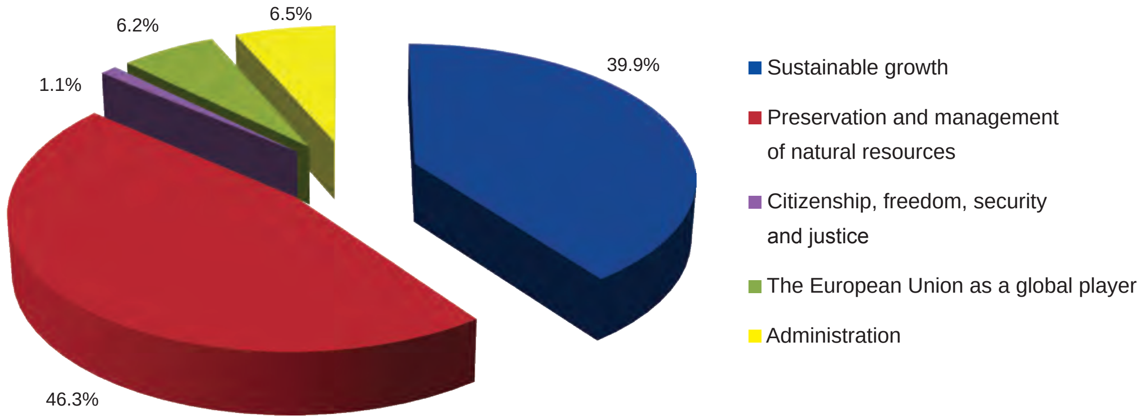
- ***Sustainable growth*** – composed of two subheadings. The first, *Competitiveness for Growth and Employment*, comprises activities such as education, science and research, and the development of trans-European networks. The second subheading, *Cohesion for Growth and Employment*, comprises finances earmarked for enhancing economic, social and territorial cohesion.
- ***Preservation and management of natural resources*** – covers resources earmarked for agriculture, rural development, fisheries and environmental protection.
- ***Citizenship, freedom, security and justice*** – also divided into two subheadings: 1) *Freedom, security and justice*; 2) *Citizenship.* The first subheading covers spending on e.g. migration management, the fight against terrorism, protection of fundamental human rights and judicial cooperation. The second subheading covers spending to promote European culture, protect consumers and safeguard public health.
- ***The EU as a global player*** – this heading finances spending on the EU's cross-border activities, enlargement, bilateral relations, humanitarian aid and development aid.
- The remaining two headings cover administrative expenditure and compensation expenditure (compensation was zero in 2010, however).

The following graph (No. 2) shows the structure EU budget expenditure in the 2010 financial year broken down by headings. Expenditure in 2010 amounted to €122.2 billion, with the first two headings accounting for over 85% of all budget expenditure.

41 Austria, Germany, the Netherlands and Sweden cover just a quarter of their share of costs; the remaining three quarters are covered by other Member States.

42 Council Decision 2007/436/EC, Euratom, on the system of the European Communities' own resources.

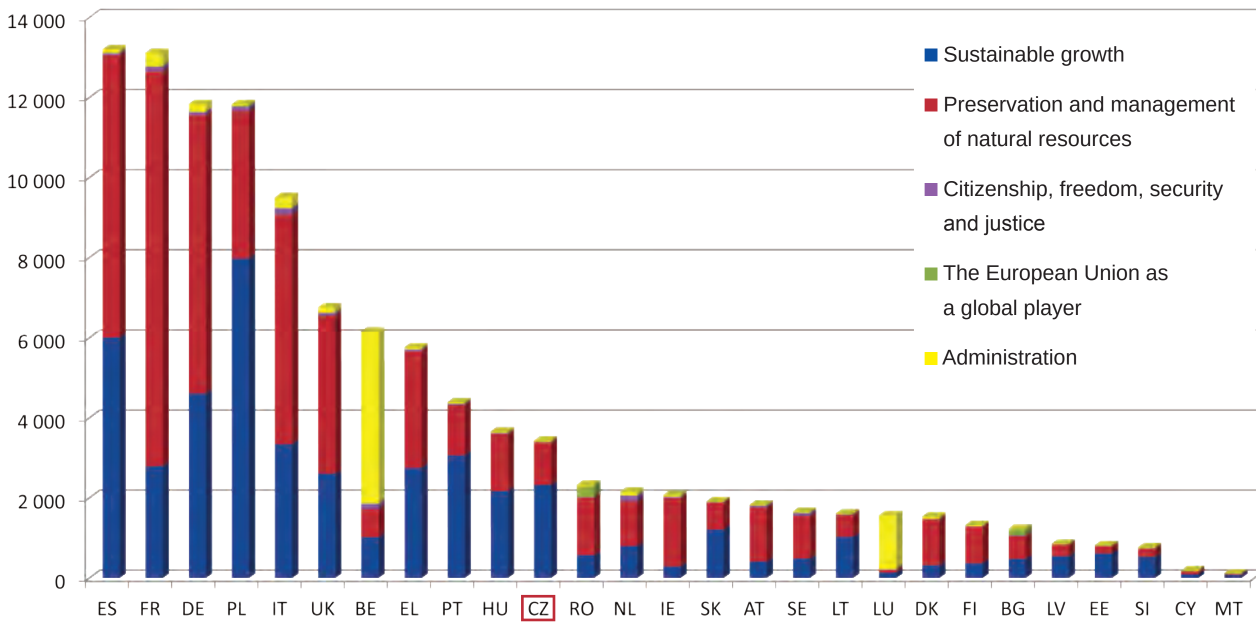
Graph 2: Share of expenditure headings in the EU budget in 2010



Source: European Commission – *EU budget 2010 – Financial Report.*

The following graph (No. 3) illustrates the level and structure of drawdown from the EU budget in individual Member States. It makes it clear that the predominant expenditure in countries that acceded in 2004 and later is Cohesion Policy spending, whereas agricultural policy spending is the dominant expenditure in the original EU-15 states.

Graph 3: Drawdown from the EU budget by individual Member States in 2010 **(€ million)**



Source: European Commission – *EU budget 2010 – Financial Report.*

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

A.2.3 The EU budget in relation to the Czech Republic

EU membership gives the CR the opportunity to draw finances from European funds, e.g. under Cohesion Policy or the Common Agricultural Policy, but also the obligation to contribute to the EU budget.

A.2.3.1 Contributions of the Czech Republic to the EU budget

The following table shows the contributions the CR provided to the EU budget in the years 2004 to 2010. In total the CR has contributed more than €8 billion to the EU budget.

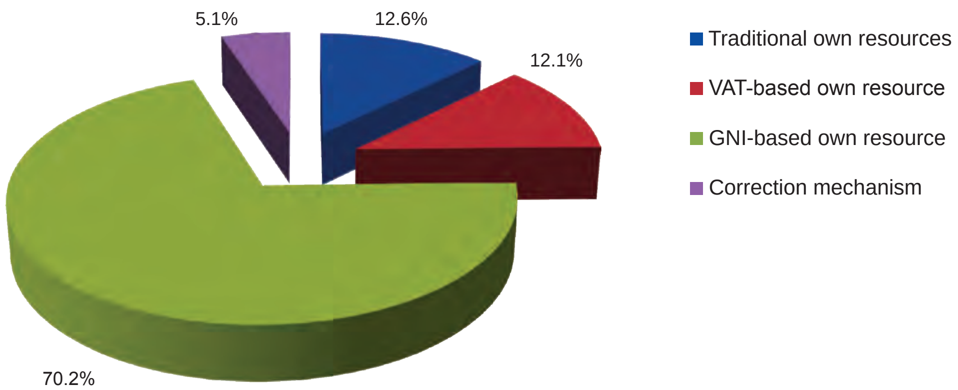
Table 3: Overview of Czech contributions to the EU budget in 2004–2010 **(€ million)**

	2004	2005	2006	2007	2008	2009	2010
Traditional own resources	60.4	146.1	149.0	178.8	206.9	166.8	189.4
VAT based own resource	80.1	150.6	173.7	199.9	221.4	170.0	180.9
GNI based own resource	373.0	614.6	632.5	703.8	843.8	860.3	1 050.9
Correction mechanism	51.7	78.9	80.1	84.5	123.9	177.0	76.5
Total	**565.2**	**990.2**	**1 035.3**	**1 167.0**	**1 396.0**	**1 374.1**	**1 497.7**
Year-on-year growth (%)	x	+ 75.2	+ 4.6	+ 12.7	+ 19.6	- 1.6	+ 9.0

Source: European Commission – *EU budget 2010 – Financial Report*.

The Czech Republic’s contribution to the EU budget has increased every year; the only decline came in 2009 as a result of the financial and economic crisis. In 2010 this contribution grew again to more than €1,497 million, almost 9% more than in 2009. Graph 4 details the structure of the Czech Republic’s contribution in 2010.

Graph 4: Share of Czech contributions to the EU budget in 2010



Source: European Commission – *EU budget 2010 – Financial Report*.

A.2.3.2 EU budget expenditure for the Czech Republic

In 2010 drawdown from the EU budget was again affected by the slowdown in the rate of growth, but growth continued nevertheless. The CR obtained its biggest sum yet from the EU budget in 2010, specifically €3,415.6 million. The CR received a total of €13.7 billion from the EU budget in the 2004–2010 period. The following table (No. 4) shows the drawdown levels in the individual years.

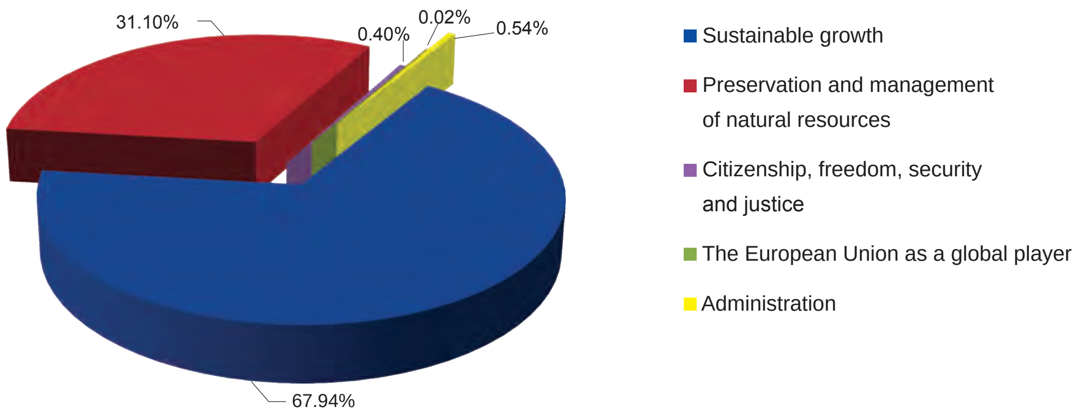
Table 4: EU budget expenditure for the Czech Republic in 2004–2010 **(€ million)**

	2004	2005	2006	2007	2008	2009	2010
Total (€ million)	815.7	1 074.9	1 330.0	1 721.0	2 441.1	2 948.6	3 415.6
Annual growth (%)	x	31.8	23.7	29.4	41.8	20.8	15.8

Source: European Commission – *EU budget 2010 – Financial Report.*

The following graph shows that the largest volume of finances is accounted for by *Sustainable Growth*, which encompasses Cohesion Policy that takes almost 68% of all expenditure. It is followed by the CAP, which receives more than 31% of all expenditure heading into the Czech Republic. Payments made under these policies constitute more than 99% of EU budget expenditure flowing into the Czech Republic.

Graph 5: Share of EU budget expenditure in the Czech Republic in 2010

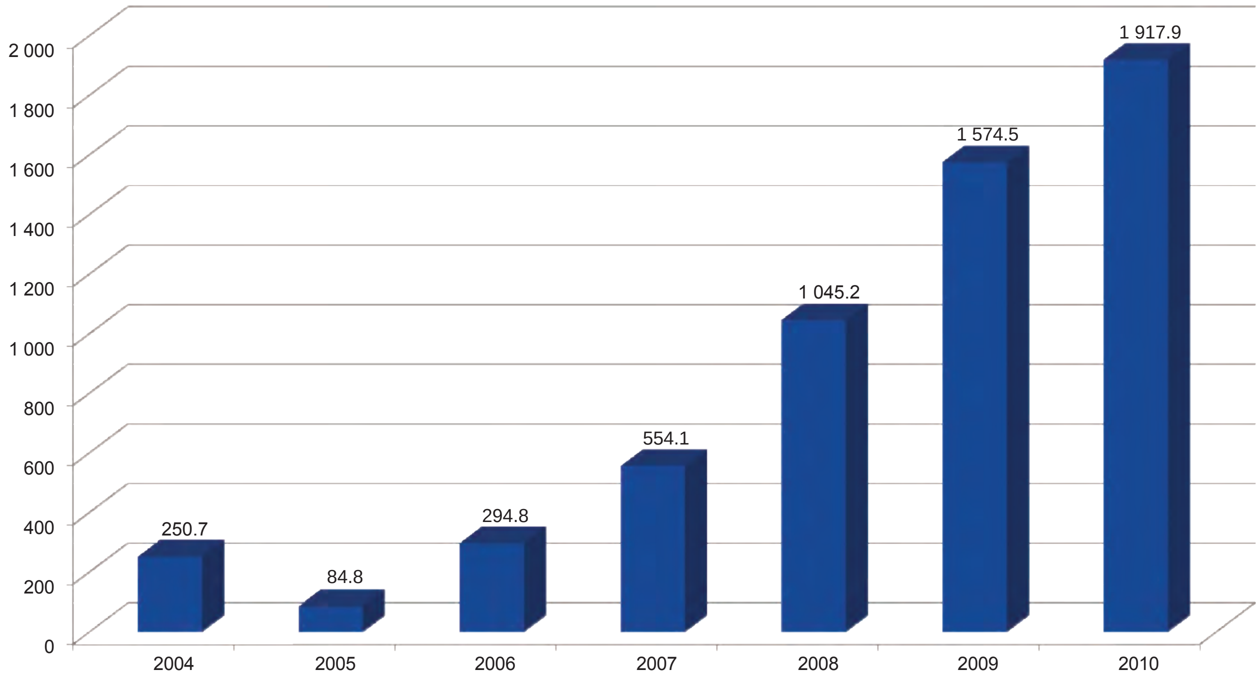


Source: European Commission – *EU budget 2010 – Financial Report.*

A.2.3.3 Net position of the Czech Republic in the EU

The CR is one of the Member States whose revenues from the EU budget exceed its contributions; it is therefore a net beneficiary. The following graph (No. 6) is based on official EU sources and shows the development of the Czech Republic's net position in the years 2004–2010. Despite the impacts of the financial and economic crisis the Czech Republic's net position increased again in 2010.

Graph 6: Net position of the Czech Republic in 2004–2010 **(€ million)**



Source: European Commission – *EU budget 2010 – Financial Report.*

The Czech Republic's overall net position aggregated for the years 2004-2010 reached €5,722 million, i.e. CZK 144,703.3 million[43]. According to MoF data published in January 2012, the net position for 2011 was €1,250 million, a sharp fall from 2010. This was mainly the result of the following circumstances:

- a review of the national accounts conducted by the Czech Statistical Office, as a result of which the CR had to pay a further almost CZK 5 billion into the EU budget;
- the suspension of certification as a result of problems affecting selected operational programmes[44].

The details of the suspension of certification are given in Section B.3.1.2.

43 The Czech National Bank's average exchange rate for 2010 was used: 25.289 CZK/€.

44 OP *Transport*, OP *Environment*, ROP *North-West*.

B. Sector matters

B.1 EU revenues

B.1.1 Current developments in the EU's own resources system

In June 2011 the Commission drew up a proposal for a Council decision on the system of own resources of the European Union[45]. It proposed adjusting the EU financing system in response to economic development and the difficulties faced by EU Member States in connection with the global economic and financial crisis. As a follow-up to the changes contained in the TFEU as regards the manner of financing the EU budget, the Commission recommends abolishing own resource based on VAT and creating new own resources. At the same time it proposes a new organisation of implementing measures for the own resources system.

Eliminating the use of VAT-based own resources will make it necessary to perform a number of measures (e.g. corrections and harmonising accounts etc.); its definitive abolition will take several years.

Based on the analysis carried out the Commission proposes introducing two new own resources:

- own resources based on a financial transactions tax from 1 January 2018 at the latest; and
- a new VAT-based own resource from 1 January 2018 at the latest.

Taxing financial transactions should create a new source of revenues that could reduce Member States' current contributions and contribute to the drive for budgetary consolidation. In autumn 2011 the Commission presented a proposal for introducing an EU tax on financial transactions, which should be the first step towards the implementation of a tax on financial transactions on a global level.

The newly designed VAT-based resource should create a new impulse for the development of the internal market, thanks to increased harmonisation of national VAT systems. The new VAT-based resource would be an important part of a substantially overhauled VAT system in the EU following up the *Green Paper on the Future of VAT* [46].

The following table (No. 5) summarises the proposed changes' expected impact on the structure of the EU budget. The new own resources would finance approx. 40% of the budget; traditional own resources would make up approx. 20%; and own resource based on GNI the remaining 40%.

Table 5: Estimated development of the financing structure EU (2012 and 2020)

	Draft Budget 2012		2020	
	€ billion	% own resources	€ billion	% own resources
Traditional own resources	19.3	14.7	30.7	18.9
State contribution	111.8	85.3	65.6	40.3
from which: - VAT based own resource	14.5	11.1	0	0
- GNI based own resource	97.3	74.2	65.6	40.3
New own resources	0	0	66.3	40.8
from which: - VAT based new resource	0	0	29.4	18.1
- Tax from financial transactions	0	0	37.0	22.7
Total own resources	**131.1**	**100.0**	**162.7**	**100.0**

Source: Proposal for a Council Decision on the system of own resources of the European Union, COM(2011) 510 of 29 June 2011.

45 Proposal for a Council Decision on the system of own resources of the European Union, COM(2011) 510 of 29 June 2011.
46 *Green Paper on the future of VAT: Towards a simpler, more robust and efficient VAT system*, COM(2010) 695 of 1 December 2010.

The Commission also proposes a new system of lump sums to replace all pre-existing correction mechanisms as of 1 January 2014. This would, for example, eliminate the hidden correction consisting in the retention of 25% of the amounts collected by Member States for traditional own resources. These corrections constitute the refunding of the collection costs. Given the proposal to incorporate the corrections into lump sums, the retention should be restricted to 10%, in line with the system in place until 2000.

B.1.2 Measures to improve the fight against VAT fraud in the EU – current developments

Tax fraud is a serious obstacle to the effective working of the internal market and has a negative impact on EU own resources. In the area of taxation fraud gives an advantage to entrepreneurs participating in the "missing trader" system. This kind of fraud has traditionally consisted in a taxable person acquiring goods from another Member State and selling them in his home country. He charges VAT to the customer, but then disappears without having paid VAT into the state budget.

A number of measures were taken against VAT fraud in the period before 2011, e.g. monthly time limits for taxable persons supplying goods within the EU to file recapitulative statements; rules were set for the sending of electronic invoices; and a legal basis was founded for the EUROFISC network, a common operational structure enabling Member States to take rapid measures in the fight against cross-border VAT fraud.

Combating fraud remains one of the EU's fundamental priorities. In 2011 Council Implementing Regulation (EU) No. 282/2011 laying down implementing measures for Directive 2006/112/EC on the common system of value added tax was adopted. This regulation aims to ensure uniform use of the existing VAT system by setting implementing rules in respect of taxable persons, the supply of goods and services and the place of taxable transactions.

In April 2011 the Commission presented a communication[47] stating that the EU tax regulations are out of touch with the reality of the 21st century internal market in that they do not provide a level playing field for end-users within the internal market and do not sufficiently support energy saving or environmentally friendly consumption. In this context a need to modify the VAT system was expressed with a view to establishing the definitive system applicable to cross-border transactions in particular and defining the ways in which they are taxed. The aim is to cut red tape and place the entire commercial chain on a secure footing, especially for small and medium-sized enterprises. The Commission committed to identifying the elements of the VAT strategy by the end of 2011 as a springboard for legislative initiatives.

In December 2011 another Commission communication[48] was published. It states that there is a need to pay greater attention to the structure of taxation systems so that they are more effective, more efficient and fairer – this particularly applies to the VAT system.

The aim of the communication is to set out the basic elements of the future VAT system in the EU and to identify priority areas for further action in the coming period with a view to moving in the direction of these objectives.

The new VAT system should have the following attributes:

- simple – a taxable person active across the EU should be faced with a single set of VAT rules – an EU VAT Code;
- efficient and neutral – introducing a broader tax base and equal rules governing the right of VAT deduction throughout the EU;
- robust and fraud-proof – VAT collection methods should be optimised to ensure maximum revenues and limit fraud as far as possible. Tax authorities should ultimately act collectively as a European VAT authority. An intensified, automated and rapid exchange of information between national tax administrators will be vital in achieving this goal.

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47 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: *Single Market Act – Twelve levers to boost growth and strengthen confidence – "Working together to create new growth",* COM(2011) 206 of 13 April 2011.

48 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee on the future of VAT: *Towards a simpler, more robust and efficient VAT system tailored to the single market*, COM(2011) 851 of 6 December 2011.

The Commission will promote and implement the following tools to achieve these objectives:

- introducing a simplified one-stop-shop system in 2015;
- setting up a web portal for VAT;
- in 2012 publishing guidelines agreed by the VAT Committee on EU legislation; setting up a tripartite EU VAT forum (comprising the Commission, Member States and stakeholders);
- proposing a standardised VAT declaration for the entire EU, and possibly proposing other documentation, e.g. for registration;
- proposing a simplified VAT framework for passenger transport activities;
- restrictions on the use of reduced VAT rates;
- considering the option of creating an EU cross-border audit team to facilitate and improve multilateral audits;
- initiating and facilitating initiatives for stronger cooperation between tax and customs authorities;
- in 2014 presenting a legislative proposal laying down the definitive regime of taxation of intra-EU trade.

B.1.3 Measures to improve the fight against VAT fraud in the Czech Republic – current developments

Council Directive 2006/112/EC[49] (hereinafter the “VAT directive”) enables Member States to introduce certain measures to combat VAT evasion. Member States are not obliged to implement these measures, so the measures are used in various modifications. The CR has not yet introduced these measures, with the exception of the measure transferring the tax obligation for supplies of gold. In 2011, however, it moved to introduce certain other legislative measures. Act No. 47/2011, amending Act No. 235/2004, on value added tax, implemented two effective instruments from 1.4.2011, namely:

a) suretyship for tax;
b) the transfer of tax obligations to the recipient of performance in the case of selected types of performance.

The first instrument implements Article 205 of the VAT directive – this article enables Member States to stipulate that a person other than the person liable for the payment of VAT is to be held jointly and severally liable for the payment of VAT. This means the customer is liable for the tax on chargeable transactions done in this country between two taxable persons, which in practice means that the customer must pay VAT if the supplier deliberately did not pay it.

Article 199 of the VAT directive enables Member States to provide that the person liable for payment of VAT is the taxable person to whom certain listed supplies are made – i.e. the customer. From 1.4.2011 the use of this option was broadened to tradable scrap and waste supplies, including processing thereof, tradable greenhouse gas emissions credits and, with effect from 1.1.2012, the supply of construction or assembly work.

The principal aim of introducing this measure was to prevent situations where the supplier does not pay VAT on chargeable transactions and yet the customer claims a full VAT deduction. This measure was introduced to apply to the aforementioned commodities not only because of pre-existing tax fraud, but because other Member States have already introduced the tax liability transfer or are about to introduce it and the CR would be at risk of an extreme influx of fraud in these commodities.

The amendment referred to above also added to the VAT act the customs authorities’ powers to demand proof of certain facts in customs procedure when exemption from tax is claimed on the grounds of intra-Community supplies of goods.

49 Council Directive 2006/112/EC, on the common system of value added tax.

B.1.4 SAO's audit work in the field of VAT collection and administration

The SAO judged the issue of VAT collection and administration to be one of the highest-risk areas of budget revenues. For that reason audit of VAT was made one of the priorities of its audit plan and a suitable topic for joint audits conducted in cooperation with the supreme audit institutions of neighbouring states. In line with these conclusions, in the years 2006–2010 the SAO and BRH conducted two parallel audits focusing on VAT collection and administration.

Based on the shortcomings identified by these audits, recommendations were presented to the responsible authorities; some of these have already been worked into Czech and EU legislation. The findings and recommendations of both SAO and BRH joint audits concerning the standard of cooperation between the responsible authorities when collecting and administering VAT were consistent with the findings and opinions of the Commission and the ECA.

Based on the results of the first audit, the joint report[50] contained a recommendation to introduce measures to make the fight against VAT fraud more effective. The joint report[51] from the second audit assessed the implementation of these recommendations. Monthly submission of recapitulative statements and the creation of a common network of high-risk tax entities were implemented prior to 2011. Successful criteria, elements and approaches in risk systems may be shared at EU level within the EUROFISC system.

In 2011 the SAO conducted an audit[52] focusing on VAT administration in the import of goods from third countries. In this audit the SAO concentrated on the sharing of information between the customs and tax authorities, the accuracy of this information, the extent to which the shared information was put to use and the use of statutory powers in the administration of VAT. The audit also checked whether VAT payers declared the tax on the import of goods in their tax declarations.

SAO audit work found that the reported tax base in tax returns for the CR as a whole from 2008 to 2010 was more than CZK 445 billion lower than the total value of imports as per the single administrative documents. Yet the value of imports of goods is a key indicator of the value of the related taxable transactions and the expected tax liability.

The SAO made a qualified estimate that Czech state budget revenues could be increased by more than CZK 10 billion if

- databases were interconnected and VAT declarations were automatically compared with the central register of single administrative documents;
- the quarterly tax period for taxable importers was abolished; and
- VAT upon import was secured.

The SAO verified that exchange of information about imports of goods in the CR had been introduced, making it possible to identify taxable persons not declaring VAT in connection with imports of goods. This exchange of information only had a limited impact on the actual collection of VAT, however.

In the SAO's opinion, making it compulsory for VAT payers to file tax returns in electronic form would make the work of the tax authorities more effective.

In the case of taxable persons not declaring acquisitions preceded by the release of goods into customs procedure 42[53] in another Member State, the tax organs did not know the extent of imports and did not actively try to find out either. Effective supervision of VAT declaration after imports of goods would be aided by the introduction of a common record of single administrative documents (equivalent to a central register) at EU level, so that the tax administrators would be able to perform online enquiries into the extent of a particular taxpayer's imports in all EU Member States.

50 *Report on the results of parallel audit of the administration of value added tax conducted in the Czech Republic and the Federal Republic of Germany*, available at www.nku.cz.

51 *Report on the results of follow-up audit – Administration of value added tax in the Czech Republic and the Federal Republic of Germany*. Supreme Audit Office, February 2011.

52 Audit No. 11/07, issue 1/2012 of the *SAO Bulletin*.

53 Customs procedure 42 is the mechanism used by economic entities in the EU for the purposes of exemption from VAT on imported goods.

The VAT administration system in the event of imports of goods and subsequent taxable transactions was not able to prevent non-declaration of VAT; in reality it merely sought to sanction ex post entities that had long gone missing. The process as a whole was protracted and foundered on the legislation that did not enable the adoption of rapid and effective measures to prevent imports of goods by fraudsters. Goods were imported into the EU market from third countries without VAT and income tax being paid on them, which distorted economic competition and significantly reduced state budget revenues.

The amendment of Act No. 235/2004[54] effective since 1 January 2005 eliminated what is known as "state subsidies of value added tax" which taxpayers paid to the customs authorities when importing goods and then charged to the state in their tax declarations. This created space for tax evasion when untaxed goods were put on the market.

B.1.5 ECA's audit work in the field of VAT

In December 2011 the ECA published a special report[55] intended to identify whether the audit of customs procedure 42 prevented tax evasion. Customs procedure 42 is used in cases where goods imported into a particular Member State are subsequently transported to another Member State. In that case the VAT is payable in the Member State of destination. There is a risk, however, that the imported goods remain in the Member State of importation without VAT being paid on them. It can also occur that the VAT is also not paid in the Member State of destination in which the goods were consumed.

The ECA sought to assess whether customs procedure 42 has a proper regulatory framework for the fight against VAT evasion. It drew up an audit model it used to check whether adequate administration of cases exempted from VAT was in place in seven selected Member States (Belgium, Denmark, Spain, France, Austria, Slovenia and Sweden). The ECA also sought to identify whether VAT was actually charged in eleven Member States of destination into which the goods in the audit sample had been transported.

The ECA found that the way in which customs procedure 42 was applied resulted in considerable losses in national budgets. The size of the loss extrapolated from the test results was approx. €2.2 billion in 2009. This sum represented approx. 29% of the value of the VAT theoretically applicable on the taxable amount of all imports made under customs procedure 42 in the selected seven EU Member States. Of this loss, €1.8 billion comes under the seven audited Member States of importation and €400 million under the 21 Member State of destination into which the goods in the audit sample were imported.

Although the Commission proposed certain improvements to the EU regulatory framework, in the ECA's opinion this framework does not ensure the uniform management of this VAT exemption by Member States' customs authorities. Equally, it does not ensure that the information concerning transactions exempted from VAT is always made available to the tax authorities in the Member State of destination. All these shortcomings can create space for fraud.

Control is also deficient, according to the ECA's findings. Member States do not ensure that the VAT exemption conditions are fulfilled. Essential information for VAT payment is not made available to the tax authorities. And what is more, the tax authorities do not make use of all the available information to prevent and detect tax evasion. Last but not least, joint and several liabilities for not reporting information relating to intra-Community transactions have not yet been approved.

The ECA recommends adopting the following measures:

- amend the customs code implementing provisions to implement the uniform communication of complete data (for VAT collection purposes) about every planned transportation of goods;
- introduce the rule that the importer and the customer are jointly and severally liable for VAT losses in the Member State of destination where a complete and timely VAT recapitulative statement is not submitted;
- ensure that Member States' electronic clearance systems automatically check the validity of VAT ID numbers;
- create an EU risk profile for these imports;
- amend the legislation to improve the exchange of information necessary for correct assessment of VAT in Member States of destination.

54 Act No. 235/2004 Coll., on value added tax.

55 Special Report No. 13/2011: *Does the Control of Customs Procedure 42 Prevent and Detect Tax Evasion?* European Court of Auditors, 2011.

B.1.6 Protection of the EU's financial interests

In September 2011 the Commission published a report on the protection of the EU's financial interests and the fight against fraud in 2010[56]. The purpose of this report was to assess the extent to which EU revenues and expenditure are at risk through irregularities and fraud. The introduction of a modernised reporting system in the majority of Member States has given the Commission access to better-quality data on irregularities, suspicions of fraud and the recovery of funds. In own resources, the number of reported irregularities has fallen to 4,744 from 5,204 cases reported in 2009. The estimated financial impact of the irregularities in traditional own resources has, however, grown to 1.88% from 1.84% in 2009. The proportion of funds recovered out of the amount of the reported irregularities was 46% at the time of publication and continues to increase, as this is an on-going process.

Rapid and effective exchange of information has facilitated the fight against excise duty fraud. In November 2011 the Commission presented a proposal for a Council Regulation on administrative cooperation in the field of excise duties[57]. To improve effectiveness and speed it proposes strengthening the role of electronic means for information exchange. The proposed regulation also regulates the use of standard formats to enable quicker processing of requests for information. It therefore recommends that Member States make intensive use of the electronic system pursuant to Decision of the European Parliament and of the Council No. 1152/2003/EC of 16 June 2003 on computerising the movement and surveillance of excisable products (EMCS).

The EMCS has been operational in the CR since 1.4.2010. The basis of the EMCS system is that it replaces paper accompanying documents with electronic accompanying documents, allowing for better monitoring and management of the transportation of excisable goods in the intra-Community duty suspension system.

The EMCS connects more than 80,000 tax entities with 27 Member States' national tax authorities throughout the EU. Implementation of the EMCS improves the working of the internal market:

- by simplifying the movement of excisable goods in the duty suspension system thanks to electronic transmission of accompanying documents;
- by securing the movement of excisable goods in the duty suspension system because the data on the tax entities are checked before the goods are sent and confirmations of the receipt of goods at the place of destination are sent more safely;
- by monitoring the movement of excisable goods in the duty suspension system in real time and by performing checks throughout the transportation period.

B.2 EU Common Agricultural Policy

The CAP, with the common fisheries policy, continues to be a very important EU policy. For that reason, the significant portion of EU budget expenditure earmarked for agriculture and rural development makes it necessary to ensure that funds are used effectively, efficiently and economically and that operations comply with the CAP rules[58].

B.2.1 Current developments in the CAP and common fisheries policy in the Czech Republic

Implementation of the CAP takes place through the accredited paying agency (SAIF) and the Ministry of Agriculture as the managing authority. Almost CZK 37,519 million was disbursed under the CAP in the CR in 2010, with the national share amounting to approx. CZK 8,480 million and EU co-funding approx. CZK 29.039 million. The following table shows spending in individual areas of the CAP.

56 Report from the Commission to the European Parliament and the Council: *Protection of the European Union's financial interests – Fight against Fraud – Annual Report 2010*, COM(2011) 595 of 29 September 2011.

57 Proposal for a Council Regulation on administrative cooperation in the field of excise duties, COM(2011) 730 of 14 November 2011.

58 The details can be found on the Ministry of Agriculture and SAIF web sites; information is also available in the previous years' *EU Reports*.

Table 6: Overview of SAIF funds paid out for the main areas of the CAP in the CR in 2010 (CZK thousand)

Expenditure area	Paid out funds		
	Czech Republic	EU	Total
Direct payments	2 755 976	15 402 258	18 158 234
Common Market Organisation	2 077 569	828 061	2 905 630
Rural Development Programme	3 537 283	12 409 215	15 946 498
Horizontal Rural Development Plan	105 959	396 988	502 947
OP *RDMA*	117	471	588
Promotion of honey consumption	239	599	838
Promotion of organic farming	2 487	1 776	4 263
Total	**8 479 630**	**29 039 368**	**37 518 998**

Source: SAIF annual report for 2010, Section 4.1-4.4.

Compared to 2009 there was a fall in the amount of money spent on direct payments, on common market organisation and the *Horizontal Rural Development Plan*. Conversely, an increased amount was paid out under the *Rural Development Programme*. That is in line with the general trend for phasing out old CAP instruments and giving precedence to rural development measures. The total amount spent fell slightly year-on-year.

B.2.1.1 Direct payments

The Czech Republic continues to use the simplified direct payments system, i.e. the Single Area Payment Scheme. The amount of money provided to support beneficiaries form EU sources is still topped up from national sources to the level of direct payments in EU states that joined before 2004 (Top-Ups).

Table 7 shows a breakdown of the funds paid out in 2010 in this budget heading, the largest by volume. Top-Ups were significantly reduced compared to 2009 (by approx. 73%), which is linked to the growth in direct support from the EU budgets in new Member States and to approximation to the level of payments in EU-15 countries.

Table 7: Overview of SAIF funds paid out for direct payments in the CR in 2010 (CZK thousand)

Direct payments	Paid out funds		
	Czech Republic	EU	Total
SAPS	0	14 059 387	14 059 387
Top-Up	2 755 976	0	2 755 976
Separate Sugar Payment	0	1 286 397	1 286 397
Energy crops cultivation payment	0	44 126	44 126
Separate Tomato Payment	0	12 348	12 348
Total	**2 755 976**	**15 402 258**	**18 158 234**

Source: SAIF annual report for 2010, Section 4.1.

As well as the payments shown in the table, another direct payment was added: support composed of payments for cows kept in a system with market production of milk. In total 2,122 applications were submitted in 2010, but the provision of these payments has not started yet.

B.2.1.2 Common market organisation

Table 8 gives a breakdown of the funds paid out in 2010 on common market organisation measures[59]. There was a significant fall in export subventions and also in subsidies and levies compared to 2009. Conversely, financial support and spending on market interventions increased considerably. In total approx. 32% less was paid out under the common market organisation in 2010 than in 2009.

Table 8: Overview of SAIF funds paid out for CMO in the Czech Republic in 2010 (CZK thousand)

Type of measure	Paid out funds		
	Czech Republic	EU	Total
Financial Support	94 446	286 402	380 848
Export Subvention	363	50 203	50 566
Subsidies and Levies	166 816	143 444	310 260
Intervention	1 785 705	347 722	2 133 427
Other expenditure	30 239	290	30 529
CMO in total	**2 077 569**	**828 061**	**2 905 630**

Source: SAIF annual report for 2010.

B.2.1.3 Rural Development Programme

Table 9 gives a picture of funds paid out for the RDP in 2010. There was a marked increase, approx. 180%, in spending under Axis 2. As in 2009, the largest amount of funds was paid out for LFA and AEO (Axis 2), *Modernisation of Agricultural Holdings* and *Land Consolidation* (Axis 1) and *Renewal and Development of Villages, Public Amenities and Services* (Axis 3).

Table 9: Overview of funds paid out for RDP in 2010 (CZK thousand)

Description			Czech Republic	EU	Total
Axis of the RDP	I	Improving competitiveness of agriculture and forestry	926 656	2 779 970	3 706 626
	II	Improving environment and landscape	1 655 471	6 621 705	8 277 176
	III	Quality of life in rural areas and diversification of rural economy	804 535	2 413 604	3 218 139
	IV	Leader	142 080	568 315	710 395
	V	Technical assistance	8 541	25 621	34 162
Total			**3 537 283**	**12 409 215**	**15 946 498**

Source: SAIF annual report for 2010.

B.2.1.4 Other measures

The last payments of multi-year commitments took place under the *Horizontal Rural Development Plan*.

Payment for projects under OP *Rural Development and Multifunctional Agriculture* was completed as of 31 December 2008. As it had not been possible to pay all the phases of projects (one forestry phase and five cases of follow-up care for established green cover), the remaining phases were paid in 2010 as well.

As in the previous year, funds were also paid in 2010 on agriculture product promotion (promotion of organic farming and products thereof and promotion of honey consumption), EU co-financed, with a view to improving the marketing and sales of agricultural and food products.

59 One of the principal and oldest mechanisms of the Common Agricultural Policy is CMO, which concerns primary products and first-stage processing products. The CMO's role is to regulate the supply of products in a way ensuring that the supply does not fluctuate, which would lead to fluctuations in the prices paid to agricultural products, and that the prices paid by the processor or end consumer for these products do not fluctuate. Various production quotas, for example, intervention purchasing, support for warehousing, intervention sales, export subventions, financial support and subsidies, guarantees are other payments are used to this end.

Financing from other sources took place through credit financing (credit for intervention purchasing) and SGAFF (Subsidiary and Guarantee Agricultural and Forestry Fund) loans (for direct payment Top-Ups and the RDP).

B.2.1.5 OP *Fisheries 2007–2013*

The implementation of selected priority axes of OP *Fisheries 2007–2013* in the CR went ahead in 2010[60]. According to data from the OP *Fisheries 2007–2013* annual report, total project pre-financing up to the end of 2010 amounted to €7,490,000; €3,292,000 of the EU share was refunded; and a total of €4,389,000 was certified. The paying and certifying authority received two payments from the Commission totalling €3,292,000.

B.2.2 SAO's audit work in the field of the CAP and common fisheries policy

From 2004 to 2011 the SAO performed a total of nine audits targeting the CAP or common fisheries policy. One of these audits focused on direct payments, two on the common market organisation and six on rural development measures.

B.2.2.1 Coordinated audit of *Finances earmarked for improving the environment and landscape under the Rural Development Programme* (RDP Axis 2)

In 2011 the SAO completed a pilot coordinated audit[61] intended to check whether state budget and EU funds earmarked for improving the environment and landscape (RDP Axis 2 for 2007–2013) were provided and used in line with the defined conditions. In line with the memorandum of understanding[62], the objective was to obtain unqualified assurance regarding the area under scrutiny, so that a report on the legality and regularity of the performed operations and on the effectiveness of management and control systems in terms of prevention, detection and correction of errors could be submitted. The ECA used the results of the coordinated audit to support its overall conclusions on expenditure on the CAP and were mentioned in the ECA's annual report for 2010.

In this audit the SAO worked together with the ECA to check the effectiveness of the management and control system intended for spending on non-project measures under RDP Axis 2. This audit found several systemic shortcomings meaning that certain requirements of the EU and Czech legislation were not complied with. These shortcomings affected or could have affected the regularity of payments provided to beneficiaries. The principal shortcomings were:

- wrongly designed sanctions systems related to compliance and cross-compliance;
- incorrect approach to including dimensions of landscape elements in land block areas;
- incorrect definition of the size of subsidies provided for land blocks located in certain protected territories and in vulnerable areas.

The SAO also found that the SAIF did not proceed entirely consistently with the act on state control and the act on financial control when performing some audits at subsidy beneficiaries (i.e. rapid field visits).

In view of these circumstances, the SAO rated the management and control system for non-project measures of RDP Axis 2 as merely partially effective and stated that there was room for improvement in the individual control mechanisms.

As part of the audit the SAO and ECA also checked the legality and regularity of 30 selected operations. For these operations, the compliance criteria, the satisfaction of good agricultural and environmental conditions (GAEC) and the area of several hundred land blocks were scrutinised. Based on the audit the SAO stated that no serious circumstances were identified that would indicate the payments provided to farmers in 2009 under RDP Axis 2 were not in all material respects consistent with the legislation.

The MoA and SAIF cast doubt on the majority of shortcomings and took no steps to eliminate them. The SAO draws attention to the risk that the system may be repeatedly assessed by external audits as partially effective, which can lead to the audit work being expanded, placing an additional burden on the audited entities.

60 In terms of the implementation system OP *Fisheries* is similar to OPs financed out of the Structural Funds.
61 Audit No. 10/29, issue 4/2011 of the *SAO Bulletin.*
62 The memorandum of understanding was concluded between the SAO and ECA on 14 July 2010.

In Chapter B of its special report No. 7/2011 the ECA also dealt with the audit of support for agri-environmental measures that are part of RDP Axis 2.2.3.2.

B.2.2.2 Funds earmarked for enhancing the competitiveness of agriculture and forestry under the *Rural Development Programme* (RDP Axis 1)

In 2011 the SAO also completed an audit[63] intended to check whether state budget and EU funds earmarked for improving the competitiveness of agriculture and forestry in the CR (RDP Axis 1) were provided and used in line with the defined conditions.

Up to the end of 2010 beneficiaries of subsidies under RDP Axis 1 received a total of over CZK 7.1 billion. A sum of over CZK 4.6 billion was paid out for projects being implemented under the audited measures (*Modernisation of Agricultural Holdings, Investments in Forests* and *Adding Value to Agricultural and Food Products*). Of that amount the SAO audited 66 projects at 36 applicants where the total amount paid out was CZK 337.1 million, i.e. 7.3%.

The audit identified certain shortcomings that mainly concerned the work done by the managing authority (MoA) and the accredited paying agency (SAIF):

- the point-scoring criteria for selecting projects put in place by the MoA were too general, lacking a link to specific projects and almost unconnected to the project results and gave no indication of the quality of projects;
- from the seventh round of acceptance of applications the MoA scrapped the assessment of applicants' financial health, which was an indicator of their creditworthiness and thus a way of safeguarding Czech and EU funds;
- the SAIF committed errors in the administrative audit of projects, especially in the award of contracts; the audit of the commensurateness of expenditure was not sufficient and not capable of ensuring that the claimed project expenditure was consistent with the principles of effectiveness, efficiency and economy;
- shortcomings were also found in the audit of expenditure eligibility, whereby in two projects the SAIF approved eligible expenditure that exceeded the maximum values defined in the RDP rules;
- the monitoring indicators put in place by the MoA did not make it possible to assess the quality and result of project implementation, and thus also the programme as a whole, in terms of the defined goals; output and outcome indicators were defined rather as economic or statistical indicators and did not make it possible to verify the effectiveness and efficiency of the money spent;
- the MoA's control mechanisms were not set up correctly; the MoA did not perform public-administration audit of SAIF; the MoA has long failed to deal with shortcomings in the internal control system, most notably the methodology and performance of ex-ante audits, and also shortcomings in reports on the results of financial audits.

The SAIF incorrectly assessed the acceptability of seven projects. Three applicants, for self-serving purposes and in contravention of the RDP rules, divided up construction works (the subject of the subsidy) into several smaller projects that did not form a discrete functional part, thus obtaining a greater subsidy than they would have obtained if implementing just one project. Even though they did not meet the conditions for obtaining subsidies as listed in the RDP rules, the SAIF did not end the administration of these projects and paid the demanded expenditure, thus committing a breach of budgetary discipline. Scrutiny of the subsidy beneficiaries found the following:

- when taking part in the procurement proceedings certain beneficiaries broke the RDP rules, e.g. the contracting authority accepted offers that did not meet the conditions of the tender documentation, the contracting authority did not conclude a contract for work in accordance with the tender documentation and the winning tender; and did not exclude applicants that did not satisfy the basic qualification requirements and subsequently concluded a contract for work with them;
- certain beneficiaries claimed ineligible expenditure in contravention of the RDP rules;
- in certain cases the beneficiaries' accounting for assets acquired from the subsidy contravened the act on accounting.

63 Audit No. 10/28, issue 4/2011 of the *SAO Bulletin*.

With payments for rural development project measures the SAO detected similar problems as with projects financed out of the Structural Funds, i.e. shortcomings in the selection, supervision and control of projects.

B.2.3 EU´s audit work in the Czech Republic

B.2.3.1 ECA annual report

The ECA regarded the surveillance and control system for the CAP in the years 2007 to 2010 as merely partially effective. There is a lower risk of errors and irregular expenditure with payments falling under the integrated administration and control system (IACS).

The ECA annual report concerning the financial year 2010 contains the following key statements regarding agriculture and natural resources:

- testing of 238 payments (146 for EAGF, 80 for EAFRD and 12 in the environment field) identified errors in 37% of operations, with the most likely error rate being 2.3%;
- the supervisory and control systems are rated merely partially effective; by contrast, direct payments covered by the IACS were not materially affected by error;
- the CR is mentioned in Section 3.16, *Audit scope and approach*, of the *Agriculture and Natural Resources* chapter in connection with the performance of the SAO and ECA coordinated audit targeting *Rural Development Programme* measures. The results of this audit were factored into the error rate calculation.

The results of this audit are also mentioned in Example 3.4, which concerns the review measurement of parcels carried out by national inspectors. In the Czech Republic the reported eligible areas were found to be incorrect in the case of 35 out of 67 parcels, which was the highest proportion of all the Member States mentioned. The financial impact was qualified as limited in all the audited cases, however. The final information arising from the coordinated audit concerns the assessment of the supervisory and control systems in rural development (Annex 3.2.2). Scrutiny of administrative procedures and monitoring for ensuring correct payment, database quality, on-the-spot inspection methodology, including execution and reporting, and control of cross-compliance led to the system in the CR being assessed as partially effective. At the same time, only one national system out of the nine audited Member States was assessed as effective; in two cases the system was assessed as ineffective.

Annex 6 contains an overview of audit missions undertaken in the CR in 2010 and 2011.

B.2.3.2 ECA special reports

In 2011 the ECA also published six special reports focusing on agriculture and natural resources. Two reports were relevant for the CR. In its special report on agri-environmental measures[64], which receive approx. €2.5 billion in EU funding per annum, the ECA highlights the following shortcomings:

- Member States set many objectives, but these objectives are not specific enough for assessing whether or not they were achieved;
- although environmental pressures are mentioned in rural development programmes, they cannot easily be used to provide a clear justification of agri-environmental payments;
- considerable problems exist as regards the relevance and reliability of management information from monitoring systems; in particular, very little information was available on the environmental benefits of agri-environmental payments;
- considerable problems were identified concerning the paid out amounts, ranging from shortcomings in their calculation to a lack of differentiation according to regional or local site conditions.

In its next special report[65] the ECA scrutinised the procedures for recovering undue payments made under the CAP, and in particular the recovery of amounts done by authorities of the Member States. OLAF is responsible for follow-up financial measures.

64 Special Report No. 7/2011: *Is agri-environment support well designed and managed?* European Court of Auditors, 2011.

65 Special Report No. 8/2011: *Recovery of undue payments made under the Common Agricultural Policy.* European Court of Auditors, 2011.

In this report the ECA sets out the following findings:

- Thanks to the arrangements introduced in 2006 (provision of more exact and more detailed information about debts and recoveries at the level of Member States and provision of more information in the annual accounts) the situation improved; the rate of recovery in respect of debts raised from 2006 onwards has also improved, though certain weaknesses persist.
- New procedures, which result in the automatic reimbursement to the Commission of 50% of the amount of old debts, enhance the protection of the EU's financial interests by recovery via the transfer of funds from the Member State to the EU budget; the system has certain shortcomings, however.
- Member States treat debts differently, which means that debts are recognised at different times, reported figures are not comparable, interest is applied inconsistently and the point in time when debts can be written off can vary significantly, leading to a negative financial impact on the EU budget.
- The likelihood of recovery of an undue amount is affected by delays in the Member States' initiation of recovery procedures, shortcomings in their recovery actions, and their limited enforcement possibilities.

In its conclusions the ECA recommended that the Commission improves and unifies the way in which debts in Member States are managed and reported. In the ECA's opinion, the Commission should request Member States to record the irregularities and other debts once they are legally due.

B.2.4 Protection of the EU's financial interests

B.2.4.1 Development trends in agriculture

The number of reported irregularities grew to 1,825 in 2010 from 1,621 in 2009. The estimated financial impact of irregularities in the agriculture sector fell slightly to 0.23% of the total amounts allocated, from 0.24% in 2009. In 2010 €175 million was recovered, with the rate of recovery rising to 42% from the previous 39%.

Table 10: Development of the number of irregularities and amount of financial impact (€)

	2006		2007		2008		2009		2010	
	Financial impact	Number	Financial impact	Number	Financial impact	Number	Financial impact	Number	Financial impact	Number
EU	86 824 768	3 249	154 993 326	1 548	102 259 365	1 133	125 025 951	1 621	130 514 995	1 825
CR	160 915	9	103 168	10	764 680	22	793 364	35	1 177 815	38

Source: Report from the Commission to the European Parliament and the Council: *Protection of the European Union's Financial Interests - Fight against Fraud – Annual Report 2010,* COM(2011) 595 of 29 September 2011.

2.2.4.2 Fulfilment of obligations related to reporting irregularities in the Czech Republic

In the agriculture sector, the number of reported irregularities and the related amounts as a proportion of the total allocated amounts differ both between Member States and from year to year in each Member State. In the Czech Republic the number of reported irregularities and suspicions of fraud increased in 2010, as did the related financial impact. The financial impact of suspicions of fraud grew from €13 million in 2009 to €69 million in 2010.

The number of reported irregularities and the affected amount of funds has been increasing constantly in the CR. 37 of the 38 reported cases concerned irregularities and one case of suspicion of fraud.

According to Commission data, the Czech Republic's rate of fulfilling the data content requirements in reporting irregularities was 100% in terms of identifying the persons, stating the date on which the irregularity occurred, identifying the cause of the irregularity and enumerating the financial impact, as was also the case in 2009. In the other two areas the CR scored 84%, i.e. as regards the timeliness of reporting (2% worse than in 2009, and 98% as regards identifying the affected measure (a 2% improvement over 2009). Overall, the CR fulfilled its obligations to 97% (1% worse than in 2009), placing it above the EU average, which was 90% in 2010 (5% worse than in 2009).

B.2.5 Reform of the CAP after 2013

In October 2011 the Commission unveiled legislative proposals to reform the CAP after 2013. This followed up the consultation process and *The CAP towards 2020*[66] from November 2010. It is clear from the state of talks that reaching agreement about the future of the CAP will not be easy. Talks will take place between individual Member States, the Council of Ministers, the European Parliament and the Commission. The central topics are simplification of the CAP, "greening" direct payments, creating fairer conditions for farmers, stabilising markets, preventing crises and sustainable farming. A requirement to level the playing field for old and new Member States after 2013 is also under discussion.

The presented proposals contain in particular two that are unfavourable for the CR: "capping" direct payments based on farm size and "greening" direct payments:

- the direct payments "capping" proposal envisages a maximum subsidy of €300,000 per farm. Cutting subsidies will thus have a negative impact on farmers on large grassland-based farms (this fact affects the CR in general, but above all farms in the border regions);
- "greening" comprises obligatory designation of 7% of agricultural land set aside, which goes against the efforts to increase the competitiveness of Czech farmers and the growing global demand for food. What is more, this "greening" proposal introduces additional checks and creates more red tape for farmers.

B.3 EU Cohesion Policy

Cohesion Policy is an instrument for fostering harmonious development by strengthening economic, social and territorial cohesion. Its primary objective is to reduce disparities between the levels of development of various regions and to lessen the backwardness of the least favoured regions of the EU. The importance of this policy is growing, as EU enlargement has meant that the economic gap between regions constantly widens. Cohesion Policy's growing importance is matched by its growing share of the EU general budget – it currently accounts for more than a third of expenditure. This policy is financed out of the Structural Funds and the *Cohesion Fund*.

B.3.1 Current developments in Cohesion Policy in the Czech Republic

B.3.1.1 2004–2006 programming period

State of drawdown of the allocation from the Structural Funds

The Structural Funds allocation for the CR was €1,692 million in the 2004–2006 programming period. This money came out of four Structural Funds: ERDF, EAGGF, ESF and FIFG. Annex 1 contains detailed information about drawdown of the allocation, along with the closing dates of certain OPs (financial corrections done by the Commission are also shown).

In total 1684.8 million of the EU allocation was used, i.e. 99.5% of the Czech Republic's Structural Funds allocation for the 2004–2006 programming period. Factoring in the financial corrections done by the Commission to date, the total drawdown is approx. €320,000 lower.

State of drawdown of the allocation from the *Cohesion Fund* and ISPA

The final date for expenditure eligibility in *Cohesion Fund*, or ISPA, projects was set at 31 December 2010. According to the Commission's relevant decisions, six projects had implementation times (i.e. times for eligibility of expenditure) extended until 31.12.2011. €1,102.7 million had been drawn down by the end of 2011, i.e. 89.6% of the total *Cohesion Fund* allocation. Annex 2 contains a breakdown of allocations and drawdown by individual areas.

66 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: *The CAP towards 2020: Meeting the food, natural resources and territorial challenges of the future,* COM(2010) 672 of 18 November 2010.

B.3.1.2 2007–2013 programming period

In May 2011 the Czech government noted the *Report on Progress in Designing Further Changes and New Impulses with a view to simplifying the administration of the EU Structural Funds and Cohesion Fund* [67]*.* The report's purpose was to inform the government about the extent and manner in which already approved proposals for legislative changes had been transposed into the relevant legislation. The measures that have been proposed to date can be divided into two categories: legislative measures and non-legislative measures, which are mostly methodological recommendations.

The proposed legislative changes focus on three basic areas: 1) simplifying approval procedures; 2) financial planning and management; 3) performing audits. In summary it is fair to say that the proposed legislative measures have largely been transposed into the relevant legislation (i.e. into Act No. 250/2000, on the budgetary rules for territorial budgets; Act No. 218/2000, on the budgetary rules and amending certain related acts; and Act No. 248/2000, on support for regional development).

The proposed legislative changes that were worked into methodological documents dealt with the unified system for stipulating corrections when the public procurement rules are broken outside the regime of the act, disposal of surplus assets of regional councils, and strengthening the state's role vis-à-vis regional councils.

In May 2011 the Czech government also discussed *Proposal for Changes to Certain High-risk Operational Programmes*, which was drawn up by the Ministry for Regional Development in cooperation with the Ministry of Finance. The aim of the document was, on the basis of the performed analysis, to propose suitable measures to reduce the risks in the implementation of certain OPs and in relevant cases to define an amount that is regarded as at risk or suitable for reallocation of funds. Based on this analysis, the reallocation of part of the funds from two OPs (OP *Technical Assistance* and OP *Education for Competitiveness*) to other operational programmes was proposed. The document also specified the thematic areas the reallocated funds should be channelled into. The Czech government approved[68] the transfer of funds from OP *Technical Assistance* to ten OPs. In the case of OP *Education for Competitiveness* the Czech government decided that the OP's managing authority would be obliged to submit to it regular (monthly) information about the progress in implementing the OP.

Towards the end of 2011 the Commission approved the revision of selected OPs' programme documents. These revisions (besides changing certain attributes of OP implementation) also included changing the affected OPs' allocations[69].

State of drawdown of the allocation[70]

From the start of the programming period to 4 January 2012, applications for support worth a total of CZK 1,166 billion have been submitted under the *Convergence* and *Regional Competitiveness* objectives, which is 46.2% more than the total allocation. As of the same date, projects worth a total of CZK 562.2 billion had been approved, which represents 70.5% of the allocated funds. Just 17.4% of the total allocation for the 2007–2013 programming period has been used (i.e. certified and submitted to the Commission).

This state of affairs is linked to the fact that the expenditure certification process was suspended by the Paying and Certifying Authority (MoF) during 2011 for the following OPs: OP *Enterprise and Innovation*; OP *Research and Development for Innovation*[71]; ROP *North-West*; OP *Prague – Competitiveness* (support area 3.3); OP *Environment*; and OP *Transport*. Certification for ROP *South-West* had already been suspended in January 2010.

67 Resolution of the Government of the Czech Republic No. 339 of 11 May 2011, *regarding the Report on Progress in Designing Further Changes and New Impulses with a View to Simplifying the Administration of the Structural Funds and the Cohesion Fund of the European Union*.

68 Resolution of the Government of the Czech Republic No. 382 of 18 May 2011, *regarding proposed changes to certain high-risk operational programmes*.

69 In the monthly monitoring report for December 2011 the size of the total OP allocations corresponds to the values before the revisions were approved by the Commission. The new values of the total OP allocations will be reflected by the MMRs from January 2012 onwards.

70 Data only for 17 OPs of the first and second objectives, i.e. not including OPs coming under the third objective of the EU's economic and social Cohesion Policy implemented in the Czech Republic, namely OP *Czech Republic-Poland Cross-border Cooperation.*

71 Certification was resumed in 2011 for OP *Enterprise and Innovation*, OP *Research and Development for Innovation*, OP *Environment* and ROP *South-West.*

The main reasons for suspending certification were problems linked to public procurement[72] and the Commission's reservations concerning the procedures applied when assessing and selecting projects[73]. The SAO has for many years highlighted these shortcomings in its audit conclusions, some of which also applied to other OPs.

In January 2012 payments were suspended by the Commission for OP *Education for Competitiveness*, following the detection of serious shortcomings by an audit done by the Commission in October 2011. It is considering suspending payments for the *Integrated OP* owing to the high error rate referred to in the *Annual Control Report of the Integrated OP for 2011*[74].

The following table shows the state of implementation of the individual OPs.

Table 11: Spending of the allocation for Convergence and Regional Competitiveness and Employment objectives in the Czech Republic in the programming period 2007–2013 as of 4. 1. 2012

Operational Programme	Allocation (CZK million)	Projects submitted		Projects approved		Funds paid out to beneficiary (CZK million)	Spent = EC request for payment (CZK million)	Spent from allocation
		number	CZK million	number	CZK million			
OP *Transport*	175 446.9	256	209 758.8	139	171 296.3	119 345.6	28 735.4	16.4%
OP *Environment*	149 982.0	12 862	187 068.6	4 216	39 842.0	31 720.7	10 879.5	7.3%
OP *Enterprise and Innovation*	92 077.9	11 872	123 401.9	7 559	67 722.0	25 974.8	18 120.5	19.7%
OP *Human Resources and Employment*	55 383.6	9 913	86 974.1	3 266	42 065.2	17 508.6	12 417.6	22.4%
OP *Research and Development for Innovations*	63 039.9	224	97 673.3	96	52 266.8	13 310.8	1 382.6	2.2%
Integrated OP	47 931.3	8 098	56 729.6	7 252	34 828.8	9 220.6	7 359.7	15.4%
OP *Education and Competitiveness*	55 494.0	17 941	123 615.3	6 635	31 512.0	17 429.8	4 374.2	7.9%
OP *Technical Assistance*	7 510.7	139	7 712.6	110	4 182.5	1 290.6	1 188.7	15.8%
Thematic OP total	**646 866.3**	**61 305**	**892 934.2**	**29 273**	**443 715.6**	**235 801.5**	**84 458.2**	**13.1%**
ROP *North-West*	22 559.2	974	38 357.4	293	17 407.7	10 593.0	5 496.0	24.4%
ROP *Moravia-Silesia*	21 618.7	1 241	29 951.2	564	14 678.8	7 867.1	6 386.6	29.5%
ROP *South-East*	21 229.7	1 289	33 172.9	581	18 374.3	11 853.5	10 650.8	50.2%
ROP *Central Moravia*	19 880.0	1 414	28 695.0	609	12 137.3	9 925.9	8 723.4	43.9%
ROP *North-East*	19 789.1	1 146	36 842.4	552	18 708.5	11 511.4	9 416.1	47.6%
ROP *South-West*	18 744.1	2 541	49 171.5	593	15 336.8	7 722.0	5 949.5	31.7%
ROP *Central Bohemia*	16 876.0	1 442	29 270.9	562	13 439.9	7 018.1	5 515.0	32.7%
ROP total	**140 696.8**	**10 047**	**245 461.3**	**3 754**	**110 083.3**	**66 491.0**	**52 137.4**	**37.1%**
OP *Prague Competitiveness*	7 143.7	679	13 782.6	212	6 211.0	3 878.0	1 064.3	14.9%
OP *Prague Adaptability*	3 265.2	2 793	14 202.1	486	2 209.9	1 877.5	991.2	30.4%
OP Prague total	**10 408.9**	**3 472**	**27 984.7**	**698**	**8 420.9**	**5 755.5**	**2 055.5**	**19.7%**
Total	**797 972.0**	**74 824**	**1 166 380.2**	**33 725**	**562 219.8**	**308 048.0**	**138 651.1**	**17.4%**

Source: Ministry for Regional Development – *Monthly Monitoring Report on Progress in the Drawdown of the Structural Funds, the Cohesion Fund and National Sources in the 2007–2013 Programming Period,* January 2012.

NB: Exchange rate: €1 = CZK 25.91 (monthly course taken from the *MSC2007* monitoring system); the figures in the *"Drawn = application for payment from the Commission (CZK millions)"* column are converted using the exchange rate at the time of entry in IS *Viola*, so the rate is not the same as the current monthly rate.

The data in the *"Drawn = application for payment from the Commission (CZK millions)"* column are only for individual projects and global grants. Grant projects are not included in the table because certification only takes place at the level of individual projects and global grants.

Projects that were selected for implementation by the OP *Environment* steering committee and did not have a signed contract as of 4.1.2012 are not included in the *"Approved projects"* column.

72 OP *Transport*, OP *Environment* and OP *Enterprise and Innovation.*

73 ROP *North-West*.

74 Source: Ministry for Regional Development, *Materials for the 34th Session of the Chamber of Deputies of the Parliament of the Czech Republic*.

The following table (No. 12) provides information about the state of approval of "major projects"[75]. Major projects in the CR apply to three OPs: OP *Transport*, OP *Environment* and OP *Research and Development for Innovation.*

Table 12: State of approval of major projects

Operational programme	Allocation (CZK million)	Submitted to managing authority / IB			Approved by managing authority			Submitted to Commission			Approved by Commission		
		number	CZK million	%	number	CZK million	%	number	CZK million	%	number	CZK million	%
OP *Transport*	175 446.9	36	164 084.6	93.5	34	153 637.2	87.6	25	119 941.4	68.4	13	38 516.8	22.0
OP *Environment*	149 982.0	14	26 783.3	17.9	7	6 781.2	4.5	7	6 781.2	4.5	6	5 418.5	3.6
OP *Research and Development for Innovation*	63 039.9	8	24 623.2	39.1	6	21 020.0	33.3	6	21 019.9	33.3	6	20 990.6	33.3
Total	**388 468.8**	**58**	**215 491.1**	**55.5**	**47**	**181 438.4**	**47.8**	**38**	**147 742.5**	**38.9**	**25**	**64 925.9**	**16.7**

Source: Ministry for Regional Development – Monthly Monitoring Report on the Course of Drawdown from the Structural Funds, the Cohesion Fund and National Sources in the 2007–2013 Programming Period, January 2012.

Of all the major projects approved at national level, 38 projects worth CZK 147.7 billion were submitted to the Commission for approval in December 2011. By the end of 2011 the Commission had approved 25 projects worth CZK 64.9 billion.

The largest shares of major projects approved at national level relative to the total allocation are held by OP *Transport* (87.6%) and OP *Research and Development for Innovation* (33.3%). The successful implementation of major projects in these OPs will have a significant influence on the drawdown of the allocation. The proportion of the total programme allocation accounted for by funds for OP *Environment* projects approved at national level is 4.5%.

Under the third objective of the 2007–2013 programming period, *European Territorial Cooperation*, so far 1,701 projects have been submitted for the all five cross-border OPs; 922 have been approved. The financial value of the approved projects amounts to 84% of the total allocation for the programming period. 25% of the total allocation has so far been certified and submitted to the Commission. The table in Annex 3 shows the state of drawdown of the allocation for *European Territorial Cooperation*.

State of the n+2/n+3 rule

At the end of 2011 the OP managing authorities were confronted for the first time with implementation of the n+3 rule, specifically for the 2008 allocation plus 1/6 of the 2007 allocation in accordance with Regulation of the European Parliament and of the Council (EU) No 539/2010[76]. Under this rule, by the end of 2011 expenditure had to be certified and payment applications sent to the Commission for approx. 15%[77] of the total OP allocation for the entire programming period 2007–2013.

All OPs implemented under the *National Strategic Reference Framework* satisfied this rule and automatic decommitment was not applied to any OP.

The majority of OPs[78] satisfied the n+3 rule for the adjusted 2008 allocation without using pre-payments; the remaining OPs[79] made use of prepayments; and OP *Research and Development for Innovation* made use of the annual commitments of major projects submitted to the Commission for approval and also pre-payments.

75 According to Council Regulation (EC) No. 1083/2006 a major project is a project whose total costs exceed €50 million. These projects are financed out of the *Cohesion Fund*.

76 Regulation of the European Parliament and of the Council (EU) No. 539/2010 approved a change to the general Council Regulation (EC) No. 1083/2006 consisting in the scrapping of the n+3 rule for the year 2007 allocation (amendment of Article 93 of the general regulation). The budgetary commitment for 2007 was also equally divided into the subsequent six years of the programming period.

77 The limits for OPs are slightly different; for some OPs it is 15%, for others 15.1%, and for OP City of Prague 16.0%.

78 OP *Transport* (ERDF), OP *Enterprise and Innovation*; OP *Human Resources and Employment* (objective 1), *Integrated OP* (objective 1), OP *Technical Assistance* (both objectives), ROP *North-West*, ROP *Moravia-Silesia*, ROP *South-East*, ROP *Central Moravia*, ROP *North-West*, ROP *South-West*, ROP *Central Bohemia*, OP *Prague – Adaptability*, OP *Czech Republic-Poland Cross-border Cooperation*.

79 OP *Transport* (Cohesion Fund), OP *Environment* (both funds), OP *Human Resources and Employment* (objective 2), OP *Education for Competitiveness* (both objectives), *Integrated OP* (objective 2), OP *Prague – Competitiveness.*

The national coordinating body (Ministry for Regional Development) regularly monitors and assesses developments in the state of drawdown in respect of the n+2/n+3 rule. In view of the current state of drawdown, the national coordinating body is conducting "enhanced risk management" with certain OPs. The aim of this coordinating activity is to work with the representatives of the OP management authorities to identify risks in the implementation of the OP and put in place measures to eliminate them. The following OPs are currently under enhanced risk management: OP *Environment*; OP *Research and Development for Innovation*; OP *Education for Competitiveness*; and the *Integrated OP*[80].

Enhanced risk management and reports of the risks of OPs identified the following risks in the period under scrutiny:

- non-compliance with the n+3 rule as of 31 December 2012 and, above all, n+2/n+3 as of 31 December 2013;
- instable and insufficient administrative capacity, staff fluctuation;
- addressing irregularities;
- late approval of major projects;
- tenders;
- suspension of payments by the Commission;
- securing co-financing.

B.3.1.3 2014–2020 programming period

In October 2011 the Commission published a package of proposed regulations (see Section A.1.1.1) that should create a framework for Cohesion Policy for the 2014–2020 period. Talks are coordinated on behalf of the CR by the Ministry for Regional Development, which drew up a "framework position" on the proposals and discussed them with the relevant partners in the advisory, working and coordinating groups. The entire set of six framework positions was approved by the Czech government[81].

The Commission's aim is to have the entire set of proposed regulations debated by the Council of the EU and the European Parliament and adopted by the end of 2012 so that it is possible to discuss the form of the EU's Cohesion Policy with Member States in 2013 and subsequently open a new programming period (in 2014).

This will take place in parallel to the talks on the final form of the multi-annual financial framework for the entire EU budget. The Commission has already proposed that €336 billion be earmarked for Cohesion Policy in the 2014–2020 period.

Under Cohesion Policy, support should be differentiated on the basis of the definition of three types of region:

- less developed regions (with GDP per capita lower than 75% of the EU average);
- transition regions (with GDP per capita between 75% and 90% of the EU average);
- more developed regions (with GDP per capita over 90% of the EU average).

Annex 4 presents the proposed budget, divided into areas of support under Cohesion Policy for the 2014–2020 period. In the Commission's view, the next Cohesion Policy should be linked more closely to the *Europe 2020* strategy and should only target a limited number of priorities. Annex 5 shows the timetable for the reworking of Cohesion Policy in the 2014–2020 programming period.

80 Source: Ministry for Regional Development, national coordinating body.

81 Resolution of the Government of the Czech Republic No. 42 of 18 January 2012, *regarding the set of Framework Positions on proposed regulations for the 2014–2020 period concerning the Structural Funds (European Regional Development Fund and European Social Fund), the Cohesion Fund and the European Grouping for Territorial Cooperation.*

B.3.2 SAO´s audit work

In the period between the start of 2011 and the deadline for drawing up the *EU Report 2012* the SAO completed six audits that touched on the EU's Cohesion Policy. Two audits were described in the *EU Report 2012* (audits Nos. 09/26 and 10/12). The following subsections contain the most important information gained from the other four audits.

B.3.2.1 Funds earmarked for measures regarding waste disposal

The aim of the audit[82] was to check the provision, drawdown and use of funds earmarked for measures in the field of waste disposal. The audit primarily targeted the work of the MoE as the OP *Environment* managing authority and the work of the SAIF as the OP *Environment* intermediary body in the provision and drawdown of funds from priority axis 4, specifically support area 4.1. - *Improving waste disposal*. The MoE's work in drawing up and assessing the *Waste Management Plan of the Czech Republic* was also scrutinised, including an assessment of the benefits of the support provided out of state funds and European funds in the years 2003–2007 for improving the state of waste management. The audit found the following:

- The rules for assessing support applications from the economic point of view had not been published since December 2009, as a result of which the assessment of applications was not sufficiently transparent.
- Regarding administration it was found that the rules for support beneficiaries changed during the implementation of the programme and were unclear and confused.
- The final assessment and follow-up audits system put in place ultimately led to the MoE and the SAIF having no information about the operation and use of built facilities after project implementation ended; in two specific cases this state of affairs persisted until the end of the SAO audit (i.e. 2.5 years).
- Shortcomings were found in support beneficiaries, primarily in the area of public procurement and fulfilment of the subsidy provision conditions; Breaches of budgetary discipline in the drawdown of subsidies and violations of the act on accounting were also found. In two cases certain documents and written materials necessary for proper audit were not archived.

The SAO assessed the system of indicators created by the MoE for assessing the benefits of support under OP *Environment* as insufficient. Neither the MoE nor the SAIF kept tracks on the actual use of equipment acquired under this programme for the purpose of improving waste disposal.

B.3.2.2 Funds earmarked for the quality improvement and emissions reduction

The audit[83] focused on scrutiny of the provision, drawdown and use of funds earmarked for improving air quality and reducing emissions under OP *Environment*. Particular scrutiny was devoted to the work of the MoE as the OP *Environment* managing authority and the work of the SAIF as the intermediary body in the provision and drawdown of funds for priority axis 2 – *Improving air quality and reducing emissions*. The scrutiny of the selected beneficiaries focused mainly on compliance with the conditions on which support was provided under OP *Environment*. The audit found the following:

- Priority axis 2 of OP *Environment* displays a very low rate of allocation drawdown. In August 2011 only 8.37% of the total allocation had gone to approved projects; the value of the supported projects amounted to just 2.37%; and the amount of support for definitively closed (paid) projects amounted to just 0.33% of the total allocation.
- The reason for this low drawdown of funds is the existing legal framework (above all the act on air protection), which lacks effective instruments to motivate polluters to make the necessary investment in improving air quality; what is more, the way the public support rules are set up by the Commission means that polluters have to cover the vast majority of the investment out of their own resources, which they are not willing to do without a sufficiently effective act on air protection; only one of the nine projects concerning major polluters (listed in the indicative list of major projects of priority axis 2 of OP *Environment*) is currently being implemented.

82 Audit No. 10/14, issue 2/2011 of the *SAO Bulletin*.
83 Audit No. 11/04, issue 4/2011 of the *SAO Bulletin.*

- Not until 2010 did the MoE and the SAIF take steps to adjust the rules for support under priority axis 2 of OP *Environment* with a view to increasing the number of applications. Even so, there is a real risk that the allocated EU funds will not be drawn in full. To avert this risk the MoE has to make fundamental changes in the design and focus of project support.
- In one case shortcomings were found in public procurement among support beneficiaries and in two cases incorrect accounting for a provided subsidy was identified.

The SAO regards the low drawdown of the money allocated for improving air quality, at a time when the CR does not meet the majority of the emissions limits prescribed by the EU, as a fundamental shortcoming. At the same time, from 2003 to the end of the SAO's audit the impacts of the implemented projects on air quality in the CR have not been assessed.

B.3.2.3 Funds spent on the preparation and realization of the State A-levels

The aim of the audit[84] was to scrutinise the management of state budget and EU budget funds spent on preparing and implementing the State A-levels examination. The MoEYS is the beneficiary of support for a project called *Preparation of the Conditions of the Reformed School-leaving Examination* from ESF funds as part of OP *Education for Competitiveness*. The audit found the following:

- the SAO checked that the goals of the audited part of the project are consistent with the strategic objectives of the reform of the school-leaving examination approved by the Czech government. The MoEYS defined the strategic objectives for introducing the state school-leaving examination, but did not elaborate these objectives further and set no criteria or indicators, with definitions of specific terms, for assessing achievement of the objectives. The MoEYS thus failed to put in place the fundamental preconditions for assessing the achievement of the defined goals of the reform of the school-leaving examination, even failing to set a time frame for the achievement of these objectives. It is fair to say that the implementation of the state school-leaving examination in the 2010/2011 academic year did not achieve these strategic objectives.

B.3.2.4 Funds earmarked for the construction and maintenance of the cycling infrastructure

The audit[85] scrutinised the provision, drawdown and use of Czech and EU funds earmarked for the construction and maintenance of the cycling infrastructure. The SAO audited support provided from EU funds under five ROPs and OP *Prague - Competitiveness.* Preparation and implementation of the OPs was the responsibility of their managing authorities, i.e. regional councils in the case of the ROPs and the City of Prague in the case of OP *Prague – Competitiveness*. The audit found the following:

- eligible expenditure for individual sources of support was defined in different extents and on different conditions. That makes it much more complicated to compare them and monitor them in terms of effectiveness, efficiency and economy;
- no uniform indicators making it possible to measure and compare the outputs, outcomes and impacts of the executed projects were set;
- the regional councils and the City of Prague did not put in place a system for assessing projects that would guarantee that overvalued and uneconomical projects were identified and rejected. As a rule they only dealt with the economy and effectiveness of projects in the form of an expert assessment of the projects during their preparation. Satisfaction of the initial preconditions of the expert assessments and CBAs[86], which were a required adjunct to support applications, was subsequently not systematically monitored or assessed;
- both providers and beneficiaries paid attention to the assessment of the effectiveness and efficiency of projects either only formally or not at all; the need for projects was often justified by socio-economic benefits not backed up with evidence; it was not possible to make an objective comparison of the efficiency of individual projects.

84 Audit No. 11/08, issue 1/2012 of the *SAO Bulletin.*
85 Audit No. 11/14, issue 1/2012 of the *SAO Bulletin*.
86 Cost-Benefit Analysis.

The SAO described the procedure followed by the ROP and OP *Prague - Competitiveness* managing authorities when preparing and implementing OPs for the construction and maintenance of the cycling infrastructure supported out of EU funds as uncoordinated.

B.3.2.5 Analysis and generalisation of the results of the SAO's audit work

At various implementation levels, the following facts are revealed by an analysis of the results of all audits conducted by the SAO under Cohesion Policy for the entire period 2004–2011:

The most common shortcomings identified at the level of the implementing bodies consist in:

- the legal framework of the implementation structure, above all the creation, content and subsequent revisions of programming documents;
- the way the system of monitoring indicators for monitoring the effectiveness of programmes and assessing the attainment of the programmes' quantified objectives is set up (e.g. unsuitability of the chosen indicators as regards their specificity and measurability, absence of indicators for certain objectives etc.);
- the project assessment and selection system (e.g. defining assessment criteria with no regard for the principles of sound financial management, defining insufficient selection criteria that reveal little about the quality of projects etc.);
- the legislation on management and control systems (e.g. insufficient definition of the powers of the various implementation bodies to carry out public-administration audits, insufficient control mechanisms etc.).

The SAO detected the most common shortcomings among support beneficiaries in:

- public procurement (e.g. flaws in the tender documentation; ambiguous tender terms; failure to discard contractors that did not satisfy the tender conditions; incorrect points scoring for tenders; concluding contracts that depart from the tender documentation and winning bid; wrongful assigning of extra work etc.);
- compliance with the conditions defined for project implementation (e.g. claiming payment for ineligible expenditure that was not consistent with the purpose of the funding, or expenditure for work not done; failure to meet the project completion deadlines; failure to report changes to projects; shortcomings in accounting and reporting etc.).

B.3.3 EU´s audit work in the Czech Republic

B.3.3.1 The ECA's audit work

Based on the results of its audit work, in its annual report for 2010 the ECA expressed the opinion that payments in the *"cohesion, energy and transport"* policy group were affected by material error[87]. *Cohesion* continues to be the EU expenditure area most prone to errors. 49% of 243 audited payments were affected by error, while the estimated error rate amounted to 7.7%[88].

The main causes of the errors include:

- ineligible expenditure (e.g. equipment deployed outside an eligible area; use of an incorrect co-financing rate; excessive costs charged to projects; insufficiently documented costs);
- failure to comply with the public procurement rules (e.g. unlawful award of a contract to an offer with an abnormally low price; artificial splitting of works and services in several tenders; absence of tendering for additional works not defined in the initial tender documentation);
- ineligible projects (e.g. project not eligible according to national eligibility rules; revenue-generating project not eligible according to the outcome of a feasibility study; funding of a project where state aid conditions for public co-financing were not fulfilled).

87 Section 4.47 of the ECA annual report concerning the financial year 2010.
88 Section 4.24 of the ECA annual report concerning the financial year 2010.

According to the ECA's pronouncement, audit authorities were partially effective in ensuring the regularity of payments in the cohesion area[89]. Shortcomings identified in the work of audit authorities included delays in the performance of audits of systems and projects; insufficient guidance concerning the scope and depth of checks to be undertaken for the audit of projects; and incorrect application of an agreed sampling methodology.

Although an improvement in the Commission's supervision over the management and control systems was declared, the ECA recommended that where shortcomings are identified the Commission should continue to interrupt or suspend payments to the OP until corrective action has been taken by the Member State.

B.3.3.2 Comparison of the ECA's and SAO's findings

In 2010 the ECA undertook one audit mission in the CR targeting the implementation of ROP *South-East*, which formed part of the basis for the issuance of the DAS. No serious shortcomings were identified by this mission. For that reason the ECA's annual report for 2010 does not mention the CR in connection with the findings concerning the legality and regularity of operations. Furthermore, the CR does not feature in the result of the assessment of supervisory and control systems as it was not included among the six selected Member States with a total of nine audited systems. Annex 6 contains an overview of audit missions undertaken by the ECA in the CR in 2010 and 2011.

The ECA selects operations for the audit sample using statistical methods for a specific financial year. The SAO does not follow this procedure: as a rule, it uses a multi-criteria method for selection, applying it to an audited period that is usually longer than one financial year. Despite the different approaches, the audit findings may be generalised and compared to an extent.

Analysis of the SAO's audit findings from audits targeting Cohesion Policy projects and their comparison with the conclusions of audits done by the ECA on a sample of projects in other EU Member States reveal clear similarities in certain areas.

The ECA identified ineligible expenditure as accounting for as much as 59% of all quantifiable errors. One example is an ERDF-financed project, where part of the newly acquired equipment was deployed in a non-convergence region[90].

The SAO made a similar finding in the case of an ERDF-financed project where, contrary to the decision on the provision of a subsidy, a mobile recycling line was used for a different purpose and in other areas than those for which the beneficiary received the subsidy[91].

Similarly, in public procurement for ERDF-financed projects the ECA found shortcomings consisting in the unlawful splitting of contracts or the award of additional building work without tendering[92].

In its audit of projects financed out of the ERDF the SAO detected similar irregularities in public procurement that contravened the principles of transparency, equal treatment and the discrimination ban[93].

89 Section 4.48 of the ECA annual report concerning the financial year 2010.
90 Section 4.29 of the ECA annual report concerning the financial year 2010.
91 Audit No. 10/14, issue 2/2011 of the *SAO Bulletin*.
92 Section 4.26 of the ECA annual report concerning the financial year 2010.
93 Audit No. 10/14, issue 2/2011 of the *SAO Bulletin*.

B.3.3.3 The Commission's audit work

In 2010 and 2011 the Commission undertook a total of 20 audit missions linked to Cohesion Policy. Annex 7 contains an overview of audit missions undertaken by the Commission in the CR[94] in 2010 and 2011[95].

Based on the Commission's audit work, the following areas and activities can be regarded as particularly problematic[96]:

- audit work – independence of the audit authority; scrutiny of the work of the accredited audit entity by the audit authority; independence of AA; the execution of checks; shortcomings listed in the annual audit report;
- management and control system – shortcomings in the reliability of verification of management procedures; shortcomings in system audit;
- public procurement – incorrectly performed tenders; discriminatory criteria; contractual penalties; splitting of contracts;
- eligibility of expenditure;
- project selection;
- administrative capacity and training.

B.3.3.4 Comparison of the Commission's and SAO's findings

Comparison of the Commission and SAO's audit findings regarding Cohesion Policy for the years 2010 and 2011 reveal the following similarities:

- project selection systems have shortcomings in the way assessment criteria are set;
- public procurement displays breaches of the defined procedural rules;
- the management and control system's effectiveness was compromised mainly by shortcomings in the performance of preliminary public-administration audits;
- ineligible expenditure (from the point of view of the purpose of financing, among other things) is claimed.

B.3.4 Protection of the EU's financial interests

Cohesion Policy is implemented through shared management of the budget; for that reason individual Member States are responsible for preventing, detecting, reporting and remedying irregularities.

According to data from the Commission[97], reported irregularities in Cohesion Policy account for the biggest share of all reported irregularities related to EU budget expenditure (almost 70% of cases reported in 2010).

In 2010 EU Member States reported a total of 7,062 irregularities in Cohesion Policy with a total value exceeding €1,550 million. The number of irregularities thus increased by 49%, with their financial impact growing by 31% compared to 2009. The main reasons for this increase are more intensive audit work linked to the completion of the 2000–2006 programming period, the full implementation of programmes in the 2007–2013 programming period and the launch of the IMS system for managing irregularities.

The largest number of irregularities in Cohesion Policy in 2010 concerned finances provided out of the ERDF and ESF (53.7% and 25.6% respectively). Although the CR is not among the Member States reporting the most irregularities, it comes first in terms of their financial value.

In 2010 irregularities concerning ineligible expenditure, breaches of the public procurement rules and irregularities in the form of missing or incomplete supporting documentation were the most common. A high percentage of irregularities is still ranked in the "other irregularities" category. It is the fourth most common irregularity code.

94 Ministry of Finance – audit authority – information from 6.3.2012.

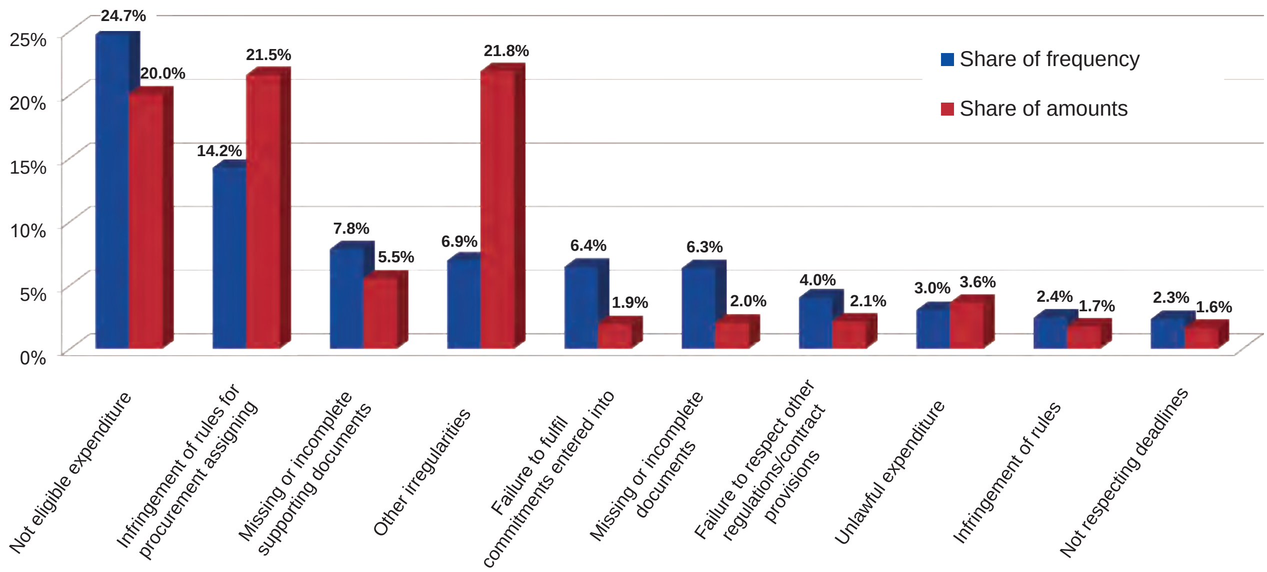
95 The results of the majority of audit missions undertaken in the Czech Republic in 2011 are not known yet.

96 Ministry for Regional Development – *Information for the SAO for preparing the report on the financial management of EU funds in the Czech Republic for the financial year 2011*; Ministry for Regional Development – *Materials for the 34th Session of the Chamber of Deputies of the Parliament of the Czech Republic*.

97 Report from the Commission to the European Parliament and the Council: *Protection of the European Union's Financial Interests – Fight against Fraud – Annual Report 2010*, COM(2011) 595 of 29 September 2011.

The share of the financially expressed value of the irregularities is highest in the case of other irregularities, irregularities consisting in breaches of the public procurement rules and ineligible expenditure. The following graph details the incidence of the most common types of irregularity.

Graph 7: Share of individual irregularities in the total number of irregularities and in financial value of irregularities in 2010



Source: Accompanying document SEC(2011) 1108 to the Report from the Commission to the European Parliament and the Council: *Protection of the European Union's Financial Interests - Fight against Fraud – Annual Report 2010, COM(2011) 595 of 29 September 2011.*

Most irregularities were detected by national administrative and financial audits (27.3%), followed by inspections of documents (14.6%) and on-the-spot audits (12.1%). Most irregularities were identified by Member States before payments were made from European funds. Irregularities are most commonly detected in the implementation phase of the project cycle.

In 2010 the CR sent OLAF 87 new[98] reports of irregularities amounting to a total value of €42,222,959 for the 2004–2006 period in the area of the Structural Funds and *Cohesion Fund*. 77 of these irregularities, with a value of €36,522,347, concerned the Structural Funds and 10, with a value of €5,900,612 concerned the *Cohesion Fund*. In addition, the CR reported 122 new[99] irregularities, with a financial value of €298,835,099[100], for the 2007–2013 period in the area of the Structural Funds, *Cohesion Fund* and *European Fisheries Fund*.

B.4 Other EU expenditure

Other EU expenditure comprises various expenditure designed to support and deepen cooperation between Member States in specific areas directly linked to EU policies. A general rule for obtaining support is the creation of a partnership between entities from various Member States and European added value, which gives the projects transnational significance. This EU expenditure forms just a fraction of spending compared to expenditure on the CAP or Cohesion Policy. In the EU financial perspective for 2007–2013, this spending is mainly found in the *Sustainable Growth* and *Citizenship, Freedom, Security and Justice* headings.

98 Newly reported irregularities that were closed due to an unconfirmed suspicion in 2010 are not included in the total.

99 Newly reported irregularities that were closed due to an unconfirmed suspicion in 2010 are not included in the total.

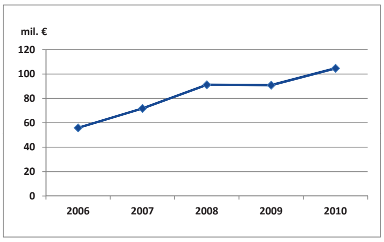
100 *Report on the Results of Financial Controls in Public Administration for 2010*. Ministry of Finance, 2010.

B.4.1 Other EU financial instruments in the Czech Republic

Finances earmarked for other financial instruments are allocated to individual programmes and not to individual Member States, unlike financing from the Structural Funds. For applicants from the CR, this means that beating international competition to gain project funding.

Another difference is that in most cases the financial instruments are administered directly by the appropriate section of the Commission (or by specialised agencies). There are some exceptions, e.g. *Lifelong Learning* and *Youth in Action*, which are implemented directly in the CR through "national agencies". These other financial instruments only have a contact point at the programme coordinators in the CR.

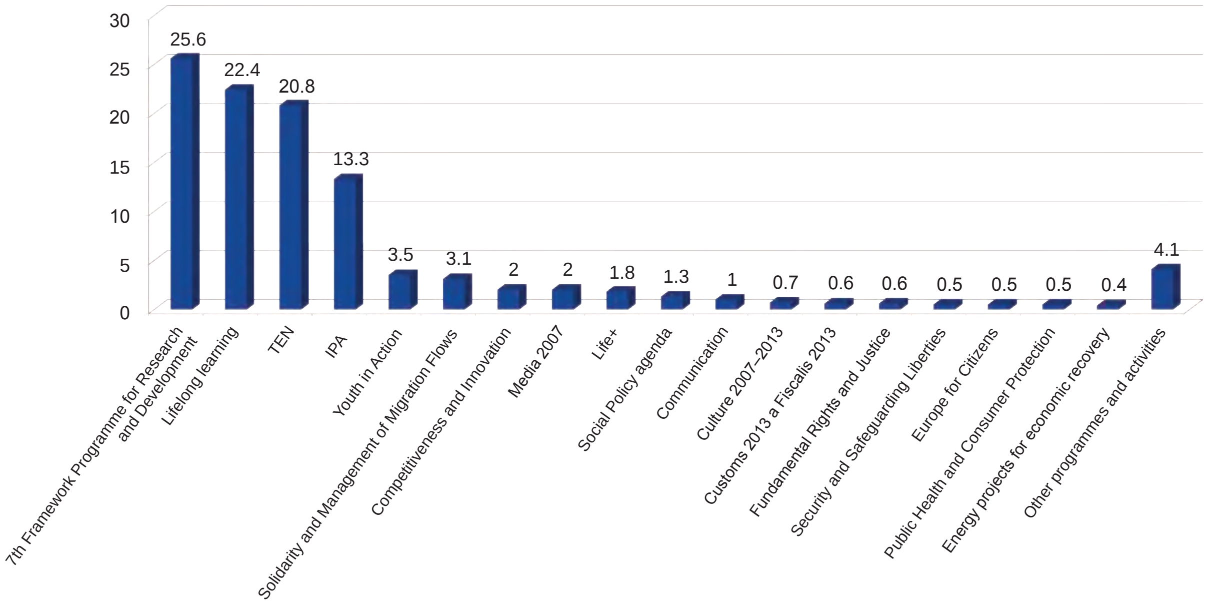
A detailed overview of the use of other financial instruments in Member States in 2010[101] shows that beneficiaries in the CR received approx. €104.7 million under these financial instruments, which is much more than in the previous year (€90.9 million).



The graph shows the development of drawdown of other EU financial instruments in the Czech Republic in 2006–2010. Although the graph reveals a positive trend in gradually increasing expenditure, the proportion remains unchanged and accounts for just 1% of total expenditure paid out under other financial instruments to all EU Member States.

The following graph shows the state of drawdown of other financial instruments in the CR in 2010.

Graph 8: Use of other financial instruments in the Czech Republic in 2010 **(€ million)**



Source: European Commission – *EU budget 2010 – Financial Report.*

101 European Commission – *EU Budget 2010 – Financial Report*.

B.4.2 Financial management and audit in relation to other EU financial instruments

Other EU financial instruments are mostly covered by centralised management, where the Commission or another accredited entity is responsible for the implementation of these resources. Indirect centralised management or shared management, where part of the responsibility is transferred to national authorities, is only used for certain instruments[102]. In principle Member States are not responsible for the management of these resources.

B.4.2.1 The ECA's audit work

The ECA's annual report concerning the financial year 2010 deals with other financial instruments not only in the DAS but also in separate chapters that analyse audit findings in detail. In the case of *"research and other internal policies"* and *"external aid, development and enlargement"* it was found that the payments as a whole were not materially affected by errors. By contrast, interim and final payments were materially affected by errors. For that reason the control systems were rated merely partially effective. The main source of errors lies in the incorrect calculation of personnel and indirect costs, inclusion of ineligible expenditure in applications for payment of costs and failure to provide supporting evidence for expenditure[103].

In 2010 the ECA did not undertake any audit missions in the CR dealing with other financial instruments, so the conclusions set out above are not based on findings applying to the Czech Republic or beneficiaries from the CR.

In 2011 the ECA published two special reports dealing with other financial instruments.

The first report[104] judged the effectiveness of the guarantee mechanism for small and medium-sized enterprises. This mechanism is part of the *Competitiveness and Innovation* framework programme. The audit found that the goals of the SMEs' guarantee mechanism are defined more precisely than the goals of the previous programmes, but are specific, measurable, attainable, realistic and timely ("SMART" objectives) only in relation to certain outputs.

B.4.2.2 The SAO's audit work

In 2011 the SAO did not conduct a single audit targeting other EU financial instruments.

B.4.3 Protection of the EU's financial interests

In the case of financial instruments subject to direct centralised management[105], in 2010 the Commission's ABAC system registered a total of 1,021 recovery orders concerning cases of irregularities (1,000 cases) and suspicions of fraud (21 cases) relating to other EU financial instruments. The total financial impact on the EU budget was put at €43.1 million[106]. The irregularities with the biggest impact on the budget comprised cases where the funded actions did not conform to the rules and missing documents were proven, or expenditure done without any legal basis. These irregularities were most commonly detected by the Commission's administrative audit work.

Among beneficiaries from the CR, 16 irregularities with a total value of approx. €40,000 were detected[107]. None of these irregularities was qualified as a suspicion of fraud.

102 The forms of management and the categorisation of financial instruments by form of management were covered in detail in Chapter II *Sector Matters*, Part D *Internal Policies of the EU* and Annexes 4 and 5 of the *EU Report 2008.*

103 Annual Report for 2010: *Informative Report.* European Court of Auditors, 2011 (see www.eca.eu).

104 Special Report No. 4/2011: *The audit of the SME Guarantee facility*, together with the Commission's replies. European Court of Auditors, 2011.

105 The Commission only monitors irregularities for this type of financial management; it does so using the ABAC system. This system, which contains information dating from 2008, only monitors irregularities for which a request for the return of undue payments, known as recovery orders, has been issued.

106 Report from the Commission to the European Parliament and the Council: *Protection of the European Union's Financial Interests – Fight against Fraud – Annual Report 2010, COM(2011) 595 of 29 September 2011.*

107 Accompanying document SEC(2011) 1108 to the Report from the Commission to the European Parliament and the Council: *Protection of the European Union's Financial Interests – Fight against Fraud – Annual Report 2010, COM(2011) 595 of 29 September 2011.*

C. Other SAO activities related to the EU's financial management

C.1 Legal matters

The SAO has for many years pointed out that the evolution of the legislation in the CR lags behind the requirements of the proper implementation of programmes and execution of projects financed by the EU and the state budget.

The SAO publishes its suggestions for changes to the legal environment in its audit findings or asserts them in the interdepartmental consultation process on new legislation. The following conclusions can be drawn from the experiences gained through audit work:

- Legislation is adopted late, which delays and restricts the opportunity to draw down financing.
- Despite partial amendments, unresolved problems remain in the legislation, above all in the act on financial control and the act on the budgetary rules.
- Certain parameters of the management and control systems are only governed by the internal regulations of implementing bodies and by government resolutions instead of by acts of parliament; the inconsistent approach to the administration of individual operational programmes diminishes the beneficiaries' legal certainty.

C.1.1 Suggestions for legal amendments

In its audit conclusion[108] the SAO highlighted the following legal problems:

- **the system of sanctions for breaches of eligibility in the RDP**

  The provision of AEM subsidies in the CR is governed by the government resolution on the AEMs[109]. Applicants have to satisfy a number of obligations when farming land blocks[110] for which they are applying for a subsidy. If the beneficiary breaches any of these obligations, the EU regulations demand that a penalty be imposed on the beneficiary; the size of the penalty takes into account the seriousness, extent and duration of the breach[111]. The government regulation on AEMs, however, does not take this demand sufficiently into account in certain cases. Breaches of any obligations are punished with the same percentage deduction from the subsidy regardless of how serious or extensive the breach was.

- **shortcomings in the sanctions system in organic farming**

  "Organic farming" is one type of AEM. A support beneficiary is obliged to comply with organic farming rules laid down by a special legal regulation on their entire agricultural land[112]. The AEM sanctions system is tied to the act on organic farming. The size of the penalty depends on the size of the fine awarded under this act. The SAO's audit found that it is not possible to impose a penalty under the act on organic farming if the beneficiary breaches the organic farming rules in the period between the start of the year and the start of the transitional period[113], so the beneficiary cannot be punished with a deduction from the subsidy for the AEM in question, even though he was in breach of the terms of this measure.

Accordingly, the SAO declared that the AEM sanctions system was not consistent with the requirements of the EU legislation.

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108 Audit No. 10/29, issue 4/2011 of the *SAO Bulletin*.

109 Government regulation No. 79/2007, on the implementation conditions for agri-environmental measures.

110 These include rules for mowing and pasturing grasslands, fertilising land blocks, keeping records etc.

111 Article 18 (2) of Commission Regulation (EC)No. 1975/2006 laying down detailed rules for the implementation of Council Regulation (EC) No. 1698/2005, as regards the implementation of control procedures as well as cross-compliance in respect of rural development support measures.

112 Act No. 242/2000, on organic farming and amending Act No. 368/1992, on administrative fees, as amended.

113 The period in which agricultural production is transformed into organic farming.

C.1.2 Amendments of regulations in line with the SAO's recommendations

C.1.2.1 Amendment of the act on the SAO

2011 brought a profound shift in the SAO's powers, enacted by Act No. 465/2011 Coll.[114]. This amendment gave the SAO the legal empowerment to perform audit of the effectiveness of use of finances, including finances provided to the CR from abroad. The amendment entered into effect on 30. 12. 2011.

C.1.2.2 Amendment of the act on the budgetary rules

During 2010 and 2011 there were two amendments of the budgetary rules linked to the drawdown of funds provided to the CR from abroad:

- Act No. 139/2010 Coll. comprised an amendment that, among other things, provides for lump sum expenditure for programmes or projects co-funded by the EU whose size does not have to be proven. The amendment entered into effect on 20. 5. 2010.

The SAO regards it as a serious shortcoming that Act No. 250/2000, on the budgetary rules of territorial budgets, was not simultaneously amended in the equivalent manner. Although this act does not allow it, certain expenditure is provided as a lump sum in programmes or projects co-financed from the EU budget through the budgets of self-governing territorial units[115], and there is a risk that as much as 20% of eligible expenditure may be designated ineligible.

- Act No. 465/2011 Coll. altered, among other things, the authorisation of a subsidy provider to reduce a subsidy if the rules for awarding contracts co-financed from the EU budget are broken, whereby the reduction takes into account the seriousness of the breach and its effect on achieving the goal of the subsidy. Now the provider may change the rights or obligations set out in the subsidy provision decision – the sum provided, the time limit for achieving the defined purpose and other conditions and obligations may be changed. These changes may be implemented solely on the basis of a beneficiary's application.

C.1.3 SAO recommended changes to the law that have not yet been adopted

In the interdepartmental consultation process for new legislation based on the legislative rules of the government the SAO expresses its opinion on draft legislation. The comments submitted regarding the following drafts have not yet been adopted:

- Regarding the legislative intention for an act amending Act No. 250/2000, on the budgetary rules of territorial budgets, the SAO submitted a comment that, further to findings made in audit No. 09/26[116], drew attention to the issue of the provision of subsidies by regional councils of cohesion regions based on private-law contracts.
- Regarding an amendment of Act No. 320/2001, on financial control, the SAO submitted a comment drawing attention to the fact, among other things, that the draft does not deal with option of delegating the performance of public-administration audit to a lower-level entity as part of the system for the provision of financial support from the EU budget. This shortcoming was repeatedly mentioned in the SAO's approved audit conclusions (audit No. 08/22, audit No. 09/09) and in the *EU Report 2010*.

114 Act No. 465/2011 Coll., amending Act No. 218/2000 Coll., on the budgetary rules and amending certain related acts (the budgetary rules), as amended, and certain other acts.

115 This applies to seven ROPs and OP *Prague – Adaptability* and OP *Prague – Competitiveness.*

116 Audit No. 09/26, issue 1/2011 of the *SAO Bulletin*.

C.2 International activities of the SAO

In 2011 the SAO stepped up its involvement in the joint activities of audit institutions and their international organisations. Among the most important events were the completion of several international audits conducted by the SAO and one or more partner SAI. Measures adopted in connection with the economic and financial crisis and the introduction of the European semester were key topics of discussion at international level.

C.2.1 Audit work

C.2.1.1 Audits conducted in cooperation with national SAIs

In 2011 the SAO and BRH issued a joint report from parallel audits of VAT administration[117]. These audits were completed in 2010 and made it possible to check the state and development of measures adopted by the relevant national authorities following the previous coordinated audits[118]. In addition, the parallel audits focused on selected cases of high-risk intra-Community transactions, where statistics on international assistance when collecting debts were checked and the legal situation surrounding VAT audit in large companies was analysed. The details are given in Section B.1.4.

C.2.1.2 Audits conducted in cooperation with the ECA

In June 2010 the SAO and ECA signed a memorandum of understanding concerning the implementation of a pilot project involving coordinated audits targeting EU budget expenditure earmarked for *Rural Development Programme* measures. This was an entirely new form of cooperation, and its results formed part of the basis for ECA's DAS for the 2010 financial year (the ECA performed similar audits with the SAI of the Netherlands). Both audit institutions' auditors checked the working of the management and control system and the regularity of the use of support by individual beneficiaries, applying the same audit procedures and in part as a joint audit team. The cooperation allows greater exchange of information and experiences, and the coordinated approach means a reduction in the burden of audit work placed on the state institutions. The coordinated audit was included in the SAO audit plan as audit No. 10/29 – *Funds earmarked for improving the environment and landscape under the Rural Development Programme*. (For more information see Section B.2.2.1.)

C.2.1.3 Audits performed in the context of cooperation with the Contact Committee[119]

In 2011, the publication of the final report of the Working Group on Structural Funds IV completed a multilateral parallel audit of the cost of audit of the Structural Funds. The purpose of the audit was to map the current sums spent by EU Member States' internal control authorities on performing this audit, and to assess its efficiency and benefits. The audit revealed different approaches to management of the Structural Funds in different Member States and drew attention to the fact that this influences the implementation audit costs.

In line with the SAO's findings, the final report highlighted the lack of relevant data for calculating costs and also the fact that some Member States outsource audit tasks to third parties, which leads to an increased risk of higher costs and loss of know-how.

The outputs contained in the final report were presented in November 2011 at a meeting with representatives of the relevant directorates general of the Commission (Regional Policy and Employment and Social Affairs). The Commission representatives appreciated the chosen audit model and the defined audit goals and supported the further use of this kind of information and data exchange.

117 In the case of the SAO this was audit No. 09/11 – *Administration of value added tax*.

118 Audit No. 06/27, issue 2/2007 of the *SAO Bulletin*.

119 The Contact Committee is a gathering of the leading representatives of the supreme audit institutions of EU Member States and the ECA.

C.2.1.4 Independent audit missions of European institutions in the Czech Republic

The ECA fulfils the key role in external audit in the EU. Besides the pilot project for a coordinated audit between the SAO and ECA, there were a number of audit missions in the CR, during which the SAO coordinated information exchange and its auditors took part in the mission as observers. In 2011 there were nine ECA audit missions (see Annex 6). In four cases the audit focused on the Structural Funds; in three cases on agriculture and rural development; and in two cases on other financial instruments (refugee funds and the Community programme). Section B contains detailed information comparing the results of the ECA's and SAO's audits in the areas in question.

In selected cases the SAO assists the ECA in acquiring material for studies being drawn up in the context of surveys or when verifying information. The following were the key cases in 2011:

- study regarding biological diversity projects co-financed from the EU Structural Funds;
- survey concerning ESF actions to support active ageing and ageing workers;
- checking duty amounts prescribed by the Czech authorities;
- investigation into projects to improve urban transport management.

SAO auditors also took part in selected audit missions of the Commission. As with ECA audits, SAO auditors may take part as observers. Annex 7 sets out the focus and times of 11 audits of operational programmes conducted in the CR by the Commission in 2011.

C.2.2 Exchange of experience and other international cooperation

The key subjects dealt with by the Contact Commission in 2011 were the impacts of the European semester and other EU economic measures on the work of SAIs and the ECA. The first European semester was opened in January 2011 and added to the measures hitherto adopted greater synchronisation in filing reports and ex-ante coordination of national measures. It is intended to help the European Union and Member States overcome the impacts of the economic and financial crisis and achieve growth in line with the *Europe 2020* goals.

The Contact Committee discussed experiences from the first European semester and outlined possible joint activities in this area. It also attempted to take stock, but that was hindered by the fact that the first six-month cycle of the European semester had not been closed at the time of the discussion.

One of the problem areas proved to be the risk of discontinuity and gaps arising in public control of finances. The discussions resulted in a consensus on a declaration on the principles that need to be complied with in cases involving public funds (the principles of transparency, accountability and public control). The Contact Committee dealt with the provisions of the *Treaty Establishing the European Stabilisation Mechanism*, whose articles concerning external control were not entirely consistent with international good practice. The members of the Contact Committee agreed on taking coordinated action to ensure adequate external public control of the European stabilisation mechanism. The declarations and information about external control of the European stabilisation mechanism were sent by the ECA president to representatives of Member States' parliaments and governments, the European Parliament, the European Council and the Commission. The SAO also informed selected representatives of the Parliament and government of the CR. More information on the European semester can be found in Section A.1.2.1.

At the end of 2011 the Working Group on Structural Funds submitted the final report of the parallel audit of the cost of audit of the Structural Funds (see Section C.2.1.3). The Contact Committee tasked the working group with looking into the question of simplifying the regulations for management of the Structural Funds in the years 2012-2013 and prepared a parallel audit on this topic to detect the difficulties and problems that would be faced when applying the simplified rules (e.g. Council Regulation (EC) No. 1083/2006).

The working group on national SAIs' reporting on financial management of EU funds was transformed into an expert network and began working in thematically arranged subgroups in 2011. The SAO proposed examining the question of improving SAIs' communication with the Commission to ensure that their documents are better used for the purposes of preparing audits and drawing up national report on the financial management of EU funds.

The SAO and the SAI of Romania jointly chair a **joint working group on audit activities**, which is a joint initiative of the Contact Committee and the Presidents' Network[120]. Together with SIGMA[121] the working group played an active role in preparing and organising meetings of the top-level representatives of the Presidents' Network. One upshot of the meeting was a working plan for 2011–2012; the working group is now playing an important part in implementing this plan. For example, the working group organised a workshop of audit of budgetary accounts and consolidated financial statements (Belgrade, December 2011) and staged a workshop in Prague in April 2012 on audit quality management. The working group facilitates and coordinates the transfer of the technical and expert know-how of EU Member States' SAIs to the audit bodies of states seeking to join the EU.

More information about the work of all working groups can be found on the Contact Committee web site (www.contactcommittee.eu, document entitled *Status Outline 2011*).

120 The Presidents' Network brings together the top-level representatives of the SAIs of states with the status of candidate and potential candidate countries for accession to the EU. At present its members are the SAIs of Turkey, Macedonia, Croatia, Albania, Bosnia and Herzegovina, Montenegro, Iceland, Serbia and the European Court of Auditors. The SAO was also a member before the Czech Republic's accession to the EU.

121 SIGMA (Support for Improvement in Governance and Management) is a joint initiative of the EU and OECD (Organisation for Economic Cooperation and Development) funded primarily by the EU with a view to supporting the reform of public administration in candidate and potential candidate countries and in European Neighbourhood Policy countries.

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9) Information of the MfRD of 21. 3. 2011.

10) Consolidated version of the *Treaty on the functioning of the European Union*, 2008/C 115/47.

11) Audit No. 06/27 – *Value added tax administration after the Czech Republic's accession to the EU*.

12) Audit No. 09/26 – *Funds earmarked for transport infrastructure projects under the regional operational programmes*.

13) Audit No. 10/14 – *Funds earmarked for measures regarding the waste disposal*.

14) Audit No. 10/28 – *Funds earmarked for improved competitiveness of agriculture and forestry under the Rural Development Programme*.

15) Audit No. 10/29 – *Funds earmarked for improving the environment and landscape under the Rural Development Programme*.

16) Audit No. 11/04 – *Funds earmarked for the air quality improvement and emissions reduction.*

17) Audit No. 11/08 – *Funds spent on preparations and realization of State A-levels*.

18) Audit No. 11/14 – *Funds earmarked for the construction and maintenance of the cycling infrastructure*.

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28) Regulation (EU) No. 539/2010 of the European Parliament and of the Council of 16 June 2010 amending Council Regulation (EC) No. 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund as regards simplification of certain requirements and as regards certain provisions relating to financial management.

29) Commission Regulation (EC) No. 1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation (EC) 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.

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E. Appendices

Appendix 1

Spending of allocation in the programming period 2004–2006 as of 31. 12. 2011

Operational Programme	Allocation 2004–2006	Statement of expenditure as of account closure day	Spent from allocation after inclusion of 10% flexibility		After Commission´s financial amendments		Final report (date)
	€	€	€	%	€	%	
Joint regional OP	**454 332 571**	**456 115 706.03**	**452 905 428**	**99.69%**	**-**	**-**	**-**
Joint regional OP - ERDF	407 055 051	410 265 329.35	407 055 051	100.00%	-	-	-
Joint regional OP - ESF	47 277 520	45 850 376.68	45 850 377	96.98%	45 819 448	96.92%	4. 10. 2011
OP Rural Development and Multifunctional Agriculture	**173 901 427**	**170 545 978.94**	**169 447 242**	**97.44%**	**169 158 216**	**97.27%**	**-**
OP RDMA - EAGGF	169 790 354	166 783 382.02	165 684 645	97.58%	165 395 619	97.41%	9. 1. 2012
OP RDMA - FIFG	4 111 073	3 762 596.92	3 762 597	91.52%	-	91.52%	17. 2. 2012
OP Industry and Enterprise	260 852 142	258 898 125.92	258 898 126	99.25%	-	-	-
OP Infrastructure	246 360 355	250 802 124.28	246 360 355	100.00%	-	-	-
OP Human Resources Development	318 819 283	332 420 462.63	318 819 283	100.00%	-	100.00%	-
Objective 1 total	**1 454 265 778**	**1 468 782 397.8**	**1 446 430 434**	**99.46%**	**-**	**-**	**-**
SPD for Objective 2	71 295 400	71 576 872.44	71 295 400	100.00%	-	-	-
SPD for Objective 3	58 793 363	59 064 640.75	58 793 363	100.00%	-	100.00%	10. 11. 2011
SPD total	**130 088 763**	**130 641 513.19**	**130 088 763**	**100.00%**	**-**	**-**	**-**
EQUAL	32 100 929	32 742 976.27	32 100 929	100.00%	-	100.00%	30. 11. 2011
*Interreg Poland**	34 502 947	35 925 618.66	34 502 947	100.00%	-	100.00%	10. 1. 2011
*Interreg Saxony***	13 036 240	13 309 944.59	13 036 240	100.00%	-	-	-
Interreg Bavaria	8 600 000	9 003 548.79	8 600 000	100.00%	-	100.00%	20. 1. 2011
Interreg Slovakia	8 999 999	9 470 931.39	8 999 999	100.00%	-	100.00%	27. 4. 2011
Interreg Austria	11 000 000	11 361 209.92	11 000 000	100.00%	-	100.00%	25. 1. 2012
Initiatives total	**108 240 116**	**111 814 229.62**	**108 240 116**	**100.00%**	**-**	**-**	**-**
Total	**1 692 594 657**	**1 711 238 140.61**	**1 684 759 313**	**99.54%**	**-**	**-**	**-**

Source: MoF, *Overview of the drawdown for the programming period 2004–2006 after EC´s financial amendments as of 31. 12. 2011*.

* In the *Interreg IIIA Czech Republic – Poland*, there is also included the Polish part. .
** In the *Interreg IIIA Czech Republic – Saxony*, a part of Saxony allocation was moved to the Czech part of the programme.

Appendix 2

Overview of drawdown from Cohesion Fund as of 31. 12. 2011

	Total allocation	Drawn down	
	€	€	%
Transport	598 877 099	564 872 764.34	94.32%
Environment	596 596 207	504 143 075.71	84.50%
Technical assistance	5 040 891	3 670 086.48	72.81%
Flooding	30 000 000	29 999 999.93	100.00%
Total from *Cohesion Fund*	**1 230 514 197**	**1 102 685 926.46**	**89.61%**

Source: MoF - *Overview of drawdown from Cohesion Fund as of 31. 12. 2011.*

Appendix 3

Overview of drawdown of allocation of Objective 3 in the Czech Republic in 2007–2013 as of 31. 12. 2011

Operational Programme	Allocation (€ million)	Number of submitted projects	Approved projects			Funds paid out to beneficiaries (CZK million)	Spent = request for payment from the EC (€ million)	Spent from allocation
			number	€ million	% of allocation			
OP *Cross Border Cooperation the Czech Republic - Bavaria*	115.5	287	209	108.1	94%	43.3	39.5	34.2%
OP *Cross Border Cooperation the Czech Republic - Poland*	219.5	524	218	208.2	95%	101.8	93.2	42.5%
OP *Cross Border Cooperation the Czech Republic - Austria*	107.4	205	154	95.1	89%	23.9	20.9	19.5%
OP *Cross Border Cooperation the Czech Republic - Saxony*	207.4	295	172	168.8	81%	33.0	24.5	11.8%
OP *Cross Border Cooperation the Czech Republic - Slovakia*	92.7	390	169	71.7	77%	31.2	16.6	17.9%
OP *Interregional cooperation*	0.0	-	-	-	-	0	0	-
OP *Transnational cooperation*	37.5	-	-	-	-	0	0	-
Servis Programme INTERACT II	0.0	-	-	-	-	0	0	-
Programme ESPON 2013	0.0	-	-	-	-	0	0	-
Total	**780.0**	**1701.0**	**922.0**	**651.9**	**83.6%**	**233.2**	**194.7**	**25.0%**

Source: MfRD, *Monthly Monitoring Report on the drawdown of Structural funds, Cohesion Fund, and national sources in the programming period 2007–2013*, January 2012.

Appendix 4

Draft Budget of Cohesion Policy in the period 2014–2020 (€ billion)	
Convergence regions	162.6
Transition regions	38.9
Competetiveness regions	53.1
European Territorial Cooperation	11.7
Cohesion Fund	68.7
Allocation for remote and sparsely populated regions	0.9
Total	**335.9**
Connecting Europe Facility	40.0
Total	**375.9**

Source: http://ec.europa.eu/regional_policy/information/presentations/index_en.cfm.

Appendix 5

Timeline						
March 2010	**November 2010**	**June 2011**	**October 2011**	**March 2012**	**2012–2013**	**2014**
Adoption of *Europe 2020 Strategy*	5th Report on Economic, Social and Territorial Cohesion & public consultation	Proposal by the Commission for a Multiannual Financial Framework (MFF)	Proposals for Cohesion Policy 2014–2020	Common Strategic Framework	Agreement on MFF and adoption of new legislative package	Entry into force and adoption of programmes

Source: http://ec.europa.eu/regional_policy/information/presentations/index_en.cfm.

Appendix 6

Year	Focus of ECA audit missions
2010	ECA audit mission concerning OP *South-East*
	ECA audit mission concerning Commission Regulation 259/2008 and the transparency of CAP
	ECA audit mission concerning *European Agricultural Guarantee Fund* (DAS 2010)
	ECA audit mission concerning *European Agricultural Guarantee Fund* (DAS 2009)
2011	ECA audit mission on expenditure and management of *European Refugee Fund* and *European Integration Fund*
	ECA audit mission on the revitalization of former military and industrial areas
	ECA audit mission on support and development of rural areas from the EAFRD
	ECA audit mission concerning the financing of CAMINEMS project
	ECA audit mission concerning the review of audit body related to OP *Transport* and OP *South-East*
	ECA audit mission concerning the management of funds from Structural funds on energetic effectiveness
	ECA audit mission concerning the audit of EAGF
	ECA audit mission concernig the implementation of EU legal provisions related to hygienic standards at slaughterhouses
	ECA audit mission concerning the OP *Transport*

Source: SAO, Department of international relations.

Appendix 7

Overview of European Commission audit and verification missions in 2010 and 2011				
Year	**EC audit mission**	**Date**	**OP**	**Audit subject**
2010	DG Regio	12. 4. – 16. 4. 2010	ROP *Central Bohemia*, OP *Environment*	Methodology of systems audit and operations audit
	DG Regio	31. 5. – 4. 6. 2010	OP *Enterprise and Innovations*	Audit of operations in selected samples
	DG Empl	31. 5. – 4. 6. 2010	OP *Human Resources and Employment*	Audit of operations in selected samples
	DG Regio	14. 6. – 18. 6. 2010	OP *Transport*	Audit of operations
	DG Empl	21. 6. – 25. 6. 2010	OP *Human Resources and Employment*	Audit of system and operations
	DG Justice	12. 7. – 16. 7. 2010	General Programme *"Solidarity and Management of Migration Flows"*	Audit of system and operations
	DG Regio	12. 7. – 16. 7. 2010	ROP *South-East*, OP *Prague - Competetiveness*	Audit of system and operations
	DG Regio	6. 9. – 10. 9. 2010	ROP *Central Moravia*	Audit of operations
	DG Regio	4. 10. – 8. 10. 2010	OP *Enterprise and Innovations*	Audit of system, selected processes
2011	DG Empl	14. 2. – 18. 2. 2011	OP *Human Resources and Employment*	Audit of system
	DG Empl	28. 2. – 4. 3. 2011 and 8. 3. – 10. 3 .2011	OP *Human Resources and Employment*	Audit of operations
	DG Regio	11. 4. – 15. 4. 2011	OP *Industry and Enterprise*	Winding-up
	DG Empl	14. 6. – 17. 6. 2011	OP *Prague – Adaptability*	Audit of system
	DG Empl	20. 6. – 24. 6. 2011	OP *Prague – Adaptability*	Audit of operations
	DG Regio	20. 6. – 24. 6. 2011	OP *Environment*	Audit of system
	DG Regio	29. 8. – 2. 9. 2011	OP *Industry and Enterprise*	Winding-up
	DG Regio	12. 9. – 16. 9. 2011	*Integrated OP*	Audit of system and operations
	DG Regio	12. 9. – 16. 9. 2011	OP *Transport*	Audit of operations
	DG Empl	3. 10. – 7. 10. 2011	OP *Education for competetiveness*	Audit of system
	DG Empl	10. 10. – 17. 10. 2011	OP *Education for competetiveness*	Audit of operations

Source: MoF 6. 3. 2012.

Appendix 8

Overview of SAO audits carried out in 2010 and 2011 focused partly or completely on EU funds		
Audit No.	**Audit subject**	**Published in *SAO Bulletin* (Issue/Year)**
10/14	Funds earmarked for measures regarding the waste disposal	2/2011
10/28	Funds earmarked for improved competitiveness of agriculture and forestry under the *Rural Development Programme*	4/2011
10/29	Funds earmarked for improving the environment and landscape under the *Rural Development Programme*	4/2011
11/04	Funds earmarked for the air quality improvement and emissions reduction	4/2011
11/07	Value Added Tax administration concerning the import of goods from third countries	1/2012
11/08	Funds spent on preparations and realization of State A-levels	1/2012
11/14	Funds earmarked for the construction and maintenance of the cycling infrastructure	1/2012