Supreme Audit Office
Czech Republic

EU REPORT 2013

REPORT ON THE EU FINANCIAL MANAGEMENT IN THE CZECH REPUBLIC

JULY 2013

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

Content

List of abbreviations

BRH	Bundesrechnungshof, the supreme audit institution of the Federal Republic of Germany
CAP	Common Agriculture Policy
CF	*Cohesion Fund*
CFP	Common Fisheries Policy
CMO	Common Market Organisation
Commission	European Commission
Council	Council of European Union
CR	Czech Republic
DAS	Déclaration d’assurance (Statement of Assurance)
DG Empl	Directorate-General for Employment, Social Affairs and Inclusion
DG Regio	Directorate-General for Regional Policy
EAGGF	*European Agricultural Guidance and Guarantee Fund*
EC	European Communities
ECA	European Court of Auditors
EFF	*European Fisheries Fund*
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*
FTT	Financial Transaction Tax
GNI	Gross National Income
IMS	*Irregularity Management System*
IOP	*Integrated Operational Programme*
IPA	*Instrument for Pre-accession Assistance*
ISPA	*Instrument for Structural Policies for Pre-accession*
LPIS	*Land Parcel Identification System*
MFF	Multiannual Financial Framework
MoA	Ministry of Agriculture
MoRD	Ministry for Regional Development
MoC	Ministry of Culture
MoEYS	Ministry of Education, Youth and Sports
MoF	Ministry of Finance

NCB	National Coordinating Body
NIK	Najwyższa Izba Kontroli, supreme audit institution of the Republic of Poland
OLAF	Office européen de lutte anti-fraude (European Anti-Fraud Office)
OP	Operational Programme
OPPA	OP *Prague–Adaptability*
OPRDMA	OP *Rural Development and Multi-functional Agriculture*
RC	Regional Council of a Cohesion Region
RDP	*Rural Development Programme, the Czech Republic 2007-2013*
ROP	Regional Operational Programme of a Cohesion Region
SAI	Supreme audit institution
SAIF	State Agricultural Intervention Fund
SAO	Supreme Audit Office
SAPS	Single Area Payment Scheme
SF	Structural Funds
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

Summary

The data and information presented in *the Report on the EU Financial Management in the CR* (*EU Report 2013*) mainly concern the period up to the end of the financial year 2012. If the 2012 figures were not available by the editorial deadline the official figures from 2011 have been used. That mainly applies to numerical data and summary information taken from annual reports and statistical overviews published by EU institutions. In terms of structure and degree of detail, this edition of the *EU Report 2013* is a continuation of the previous *EU Report*.

General information

In the area of the protection of the EU's financial interests, the Commission went ahead with its efforts to reduce Member States' budget deficits and debt levels in 2012. In line with the *Europe 2020* strategy, it sought to push through pro-growth priorities, which Member States incorporated into their convergence programmes and national reform programmes. For more effective management, the *Common Strategic Framework* defining the key areas for support in line with the goals of EU policies was approved.

At a meeting of the European Council **the proposal for the multiannual financial framework 2014-2020** prepared by the Commission was modified into a compromise form, with commitments reduced to 1% of the European Union's GNI. In March 2013, however, the European Parliament did not approve the proposal, citing its low flexibility and the restriction of expenditure on investments fostering economic growth and employment.

In 2011 the EU budget comprised budget revenues totalling €129.9 billion, with the CR's contribution amounting to €1.68 billion. The EU's total expenditure was €126.5 billion, with €3.03 billion of that amount channelled into the CR. The CR's net position in 2011 was €1.35 billion, a year-on-year fall of over €0.570 billion caused by the suspension of financing of several OPs, among other things. According to MoF figures published in February 2013, the CR's net position in 2012 hit a record high of €2.94 billion. This radical growth was caused mainly by the resumption of financial drawdown, most notably in OP *Transport* and OP *Environment.* Over the duration of the CR's membership of the EU, the cumulative net position has thus attained a value of more than €7 billion.

Audit of the implementation of the EU budget is conducted by the ECA; in the statement of assurance in its annual report for 2011 the ECA again issued an adverse statement regarding the legality and regularity of payments. Regarding payments as a whole it declared a year-on-year increase in the most likely error rate from 3.7% in 2010 to 3.9% in 2011; it rated the supervisory and control systems as partially effective.

Sector matters

The own resources system in its current form is regarded by both the European Parliament and the Commission as excessively complex, opaque and in conflict with the solidarity principle. For that reason the Commission proposed a set of legislative changes, effective from 2014, including the introduction of a new VAT-based resource, the introduction of an FTT and the replacement of the existing system of correction mechanisms with a system of annual lump-sum payments. The approval of the proposals is the subject of a number of debates on the fundamental set-up of the proposed system.

To eliminate VAT fraud, the concept of a one-stop-shop was adopted at EU level; a platform for closer cooperation called the *EU VAT Forum* was created; and a *Quick Reaction Mechanism* was introduced to give Member States a legal basis for adopting emergency measures.

Steps taken in the CR included the adoption of an amendment of the VAT act which brought a number of new measures to combat tax evasion (among other in line with the SAO´s recommendations), e.g. the introduction of the tax administrator's securing order; liability for unpaid tax assumed by the beneficiary of taxable performance; and the wider use of electronic systems for issuing, transferring and storing tax documents.

The CAP and CFP are funded out of the *Preservation and Management of Natural Resources* budget heading, which accounted for more than 37% of the expenditure channelled from the EU budget into the CR in 2011. In total, CZK 29.28 billion was paid out of the EU budget for the two policies in 2011 and CZK 31.27 billion in 2012 (according to SAIF figures).

In 2012 the SAO approved the audit conclusion of an audit[1] targeting measures designed to improve the quality of life in rural areas, which are part of axis 3 of the Rural Development Programme. The SAO quantified irregularities at 2.8% of the audited volume and rated the implementation system as functional and effective, despite the partial shortcomings in management and control mechanisms. The main irregularities identified among beneficiaries were in public procurement and the claiming of ineligible expenditure.

From the long-term point of view, the results of SAO audits have drawn attention to recurring shortcomings in the assessment of projects, principally in terms of effectiveness, efficiency and economy, and problems in the monitoring of the achievement of goals and the progress made in the implementation of programmes and projects. There are also persisting shortcomings in the control and supervisory system, mainly with regard to their effectiveness and reliability.

Cohesion policy is funded from the *Sustainable Growth* budget heading, which accounted for 61% of the expenditure channelled from the EU budget into the CR in 2011. In total, CZK 43.5 billion was paid out of the EU budget for Cohesion Policy programmes in 2011 and CZK 81.3 billion in 2012 (according to MoF figures). During 2011 and at the start of 2012 the drawdown of the allocation was negatively affected by errors identified both by the Certifying Authority and, above all, the Commission. The shortcomings concerned the quality of management control, the system of reporting and investigating irregularities and recovery of wrongfully paid sums, administrative capacity, the work of the Audit Authority and the independence of assigned auditors. Delays in the implementation of major projects and problems with securing sufficient co-funding from national sources also had an impact on the level of drawdown. In order to eliminate the shortcomings, an *Action Plan*[2] was adopted at the start of 2012; after it had been implemented in the middle of 2012, there was no longer any reason for the Commission to suspend the disbursement of payments.

In 2012 the SAO Board approved a total of nine audits[3] dealing with EU budget finances spent on Cohesion Policy measures. Five of these targeted thematic OPs and four ROPs. The audit results showed shortcomings affecting both the implementing authorities and the support beneficiaries. In terms of frequency of incidence, the largest group of errors was the claiming of ineligible costs (approx. 29%), followed by control and supervisory system shortcomings (approx. 24%) and breaches of the public procurement rules (approx. 14%). The conclusions of the long-term analysis of the shortcomings identified by the SAO match the ECA's audit outputs, even though the two audit institutions use different approaches to assessing the identified shortcomings.

Bar a few exceptions, **other EU financial instruments** are allocated via the EU budget directly to applicants in order to increase cooperation between entities from different Member States seeking effective solutions to common problems. The supported programmes thus have a supranational nature and are supposed to deliver "European added value". Other financial instruments, consisting mainly in Community programmes, are funded primarily from the budget headings *Sustainable Growth, Citizenship, Freedom, Security and Justice*; and *External Aid, Development and Enlargement.* Entities from the CR were not particularly successful in direct competition with other applicants when seeking support for the presented projects; in 2011 and 2012 they drew down practically the same amount from the EU budget, the equivalent of approx. just CZK 2.6 billion.

In 2012 the SAO scrutinised the achievement of the goals of the EU Common Migration and Asylum Policy implemented via the *Solidarity and Management of Migration Flows*[4] programme. During the audit it qualified the deficiencies of the management and control system, especially in project assessment and selection. It also specified shortcomings in the setting of measurable indicators for monitoring purposes and in the performance of checks prior to payment.

---

1 Audit no. 11/15, the *SAO Bulletin* 2/2012.

2 Based on the audit reports, the Commission's Director General for Regional Policy sent a letter of 20 March 2012 to the CR informing about serious shortcomings in the working of the management and control systems of OPs co-financed from the ERDF and highlighting five problem areas: independence of assigned auditors, work of the Audit Authority, system of irregularities, management control and matters linked to administrative capacity. The Commission's letter included an *Action Plan for Improving the SF and CF Management and Control System in the CR* (referred to in the text as the '*Action Plan*'), which contained an overview of remedial measures that need to be implemented by the set deadlines.

3 Audit no. 11/16–20, audit no. 11/35, audit no. 12/02, audit no. 12/06 and audit no. 12/10 – for more details see Appendix 4.

4 Audit no. 11/27, the *SAO Bulletin* 2/2012.

Other activities

The SAO **presented suggestions for changes to the legal environment** during 2012 mainly as part of the interdepartmental consultation process on draft legislation tabled by the executive authorities and, to a lesser degree, in its approved audit conclusions. Recommendations to make the act on budgetary rules more precise were accepted, whereas recommendations regarding the amendment of the budgetary rules for territorial budgets were not. The two chambers of the Parliament of the CR were unable to reach consensus on the long-discussed widening of the SAO's audit mandate.

The SAO's international activities in 2012 consisted in, among other things, bilateral cooperation as part of joint audits with the SAIs of EU Member States. Public procurement and the prevention of corruption in transport infrastructure construction is the subject of a joint audit with the BRH. OP *Cross-border Cooperation Czech Republic – Poland 2007-2013* is the subject of a coordinated audit with the NIK, with a joint report scheduled for publication at the beginning of 2014. In addition, the SAO was involved in the work of a number of Contact Committee working groups and took part in the ECA's audit missions in the CR.

A. General information

A.1 Current developments in EU budget implementation and audit

A.1.1 Measures adopted by the EU and the CR to protect the EU's financial instruments

Starting in 2011, the *Europe 2020* strategy, which set the goal of creating a smart, sustainable and inclusive economy in the EU, has been implemented annually through the *European semester for economic governance*. That started with the adoption of the *Annual Growth Survey*, which includes a Commission communication on the progress made towards fulfilling the previous semester's priorities and, above all, recommendations for the coming period. In the *Annual Growth Survey 2012*[5] the Commission called on the authorities of the EU and Member States to concentrate their efforts, both at national level and within the EU, on the following five priorities:

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

To conclude, the Commission called on Member States to incorporate these recommendations into their Stability and Convergence Programmes and National Reform Programmes.

The Czech Republic submitted its National Reform Programme for 2012[6], called *Investment for European Competitiveness*, to the Commission on 13 April 2012 and the *Convergence Programme of the Czech Republic*[7] for the 2012-2015 Period on 25 April of that year. The two programmes were assessed jointly by the Commission. Based on this assessment, the Council recommended[8] that the CR undertake concrete measures in six specified areas in the years 2012 and 2013:

- ensuring planned progress towards the timely correction of excessive deficit (e.g. by avoiding across-the-board cuts, safeguarding pro-growth expenditure and stepping up efforts to improve the efficiency of public spending);
- introducing further changes to the public pension scheme to ensure its long-term sustainability;
- taking additional measures to significantly increase the availability of affordable and quality pre-school childcare;
- strengthening public employment services by increasing the quality and effectiveness of training;
- adopting and implementing a public servants act to promote stability and effectiveness of the public administration and prevent breaches of the law (e.g. ensuring adequate implementation of the public procurement act, addressing the issue of anonymous share holding and stepping up the fight against corruption);
- adopting the necessary legislation to establish a transparent and clearly defined system for quality evaluation of higher education and research institutions.

In the *Annual Growth Survey 2013*[9] the Commission formulated the economic and social priorities for coordinating individual policies for 2013, i.e. for the period of the third *European semester.* It retained the five priorities set for 2012, citing their broad scope and the positive impacts of their implementation.

A.1.2 Making expenditure management more effective

Following the adoption of a package of legislation concerning six regulations[10] (called the 'Six-Pack') on the SF and the CF, which the European Parliament passed on 28 September 2011 and which entered into force on

5 Communication from the Commission *Annual Growth Survey 2012*, COM(2011) 815, final, 23 November 2011.
6 Approved by Resolution of the Government of the Czech Republic no. 271 of 11 April 2012.
7 Approved by Resolution of the Government of the Czech Republic no. 309 of 25 April 2012.
8 Council recommendation no. 11248/12 of 6 July 2012.
9 Communication from the Commission *Annual Growth Survey 2013*, COM(2012) 750, final, 28 November 2012.
10 Detailed information about the legislative proposals of the 'Six-Pack' are given in the *EU Report 2012*, p. 11, including the relevant footnotes nos. 5–8.

13 December 2012, the Commission submitted a proposal for a 'Two-Pack'[11] strengthening fiscal surveillance over euro area states and remedying budget deficits. These regulations are expected to enter into force in the first half of 2013.

As a further step to make expenditure management more effective the Commission proposed setting a clear strategic direction for the programming process at the level of Member States and regions. To this end it submitted a proposal for a *Common Strategic Framework* in March 2012. Its principal purpose is to define key areas for support in line with the goals of EU policies and to concretise territorial problems and priority areas for cooperation. Other objectives include addressing coordination mechanisms and mechanisms for ensuring cohesion and compliance between the economic policies of Member States and the EU. The *Common Strategic Framework* was approved[12] in September 2012.

A.1.3 Multiannual financial framework 2014-2020

In the middle of 2011 the Commission presented its MFF[13] proposal for the 2014-2020 period. Its form was the subject of intensive discussions and the final compromise proposal was adopted at a meeting of the European Council on 7 and 8 February 2013.[14] Compared to the original proposal, the commitment ceiling was lowered to a total of €959.988 billion (1% of the European Union's GNI) and the ceiling for payments to €908.400 billion. To strengthen growth and employment, spending on research, innovation and education was increased, while spending on economic, social and territorial cohesion was reduced. However, at its session of 13 March 2013 the European Parliament refused to approve this final proposal by a large majority of votes, citing the budget's low flexibility. Above all, the MEPs did not agree with the reduced spending on investments to boost growth and employment.

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, which are collected by Member States on behalf of the EU and subsequently transferred to the EU budget. *Other revenues* are another source of budget revenues.

EU budget revenues comprise:

- **Traditional own resources** – duties collected on imports of products from third countries, and agricultural and sugar levies. Member States only pay 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 VAT 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.

The proportion of the individual resources in the EU budget's total revenues, which amounted to almost €129.9 billion in 2011, is shown in Graph 1.

---

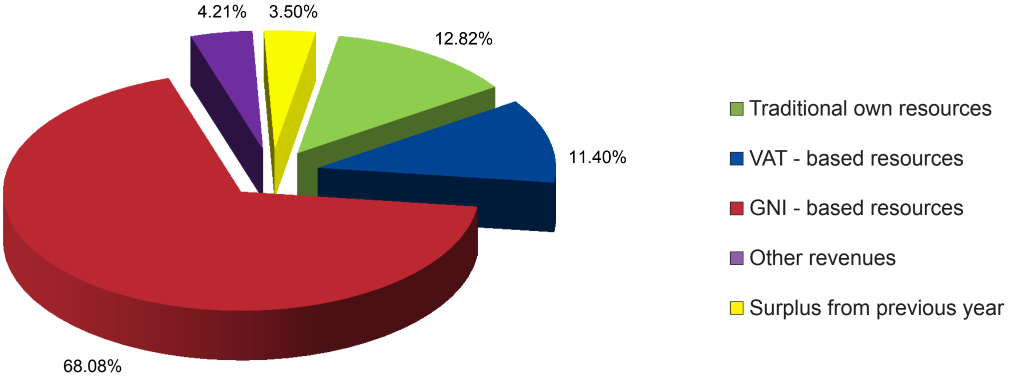
11 Proposal for a Regulation of the European Parliament and of the Council on the strengthening of economic and fiscal surveillance of Member States with serious difficulties with respect to their financial stability in the euro area, COM(2011) 819, final, of 23 November 2011; Proposal for a Regulation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

12 *The Common Strategic Framework* forms an annex to the 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 Council Regulation (EC) No 1083/2006. Amended proposal for a Regulation COM(2012) 496, final, was approved on 11 September 2012.

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

14 EUCO 37/13 of 8 February 2013.

Graph 1 – Structure of EU budget financing in 2011

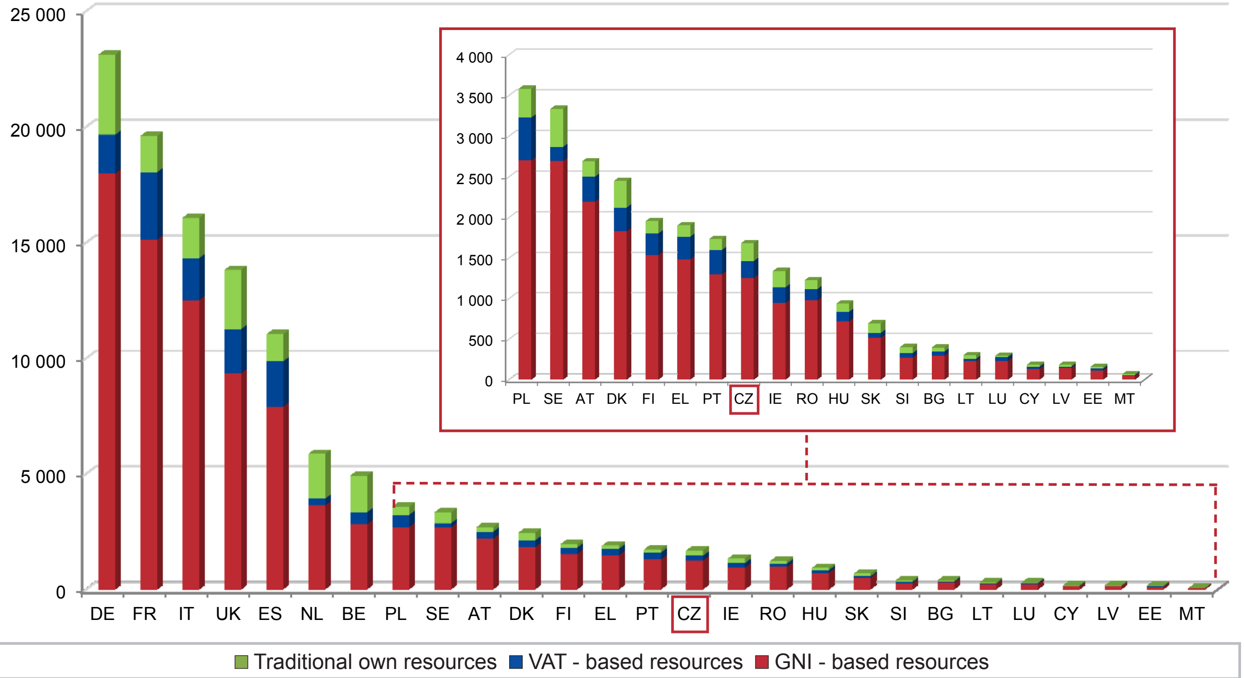


Source: *EU budget 2011 – Financial Report*, European Commission.

One factor influencing the final size of individual Member States' contributions is the **correction mechanisms** under which part of some Member States' contributions are refunded. The most significant correction mechanism financially is Great Britain's (€ 3.60 billion in 2011), which is used to reduce the budgetary imbalance between the country's contributions and drawdown. The cost of this measure is borne by the other Member States[15] (amounting to 0.3% of their VAT based resources). In addition, a significant reduction in the annual contributions based on GNI (for the 2007-2013 period) was awarded to the Netherlands and Sweden, and a reduction in payments for Denmark, Ireland and Great Britain was adopted in connection with their refusal to participate in certain areas of legal and security cooperation. This shortfall in revenues is also financed by the other Member States according to their share in the GNI of the European Union as a whole.[16]

Graph 2 shows the structure of EU budget revenues by Member States after taking into account all correction mechanisms.

Graph 2 – Member States' contributions to the EU budget in 2011 **(€ millions)**



Source: *EU budget 2011 – Financial Report,* European Commission.

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, SI – Slovenia, SK – Slovakia, UK – Great Britain.

15 For the years 2007-2013 the rate applied for the VAT-based resource was set at 0.225% for Austria, 0.15% for Germany and 0.10% for the Netherlands and Sweden.

16 Council Decision No 2007/436/EC, Euratom, on the system of the European Communities' own resources.

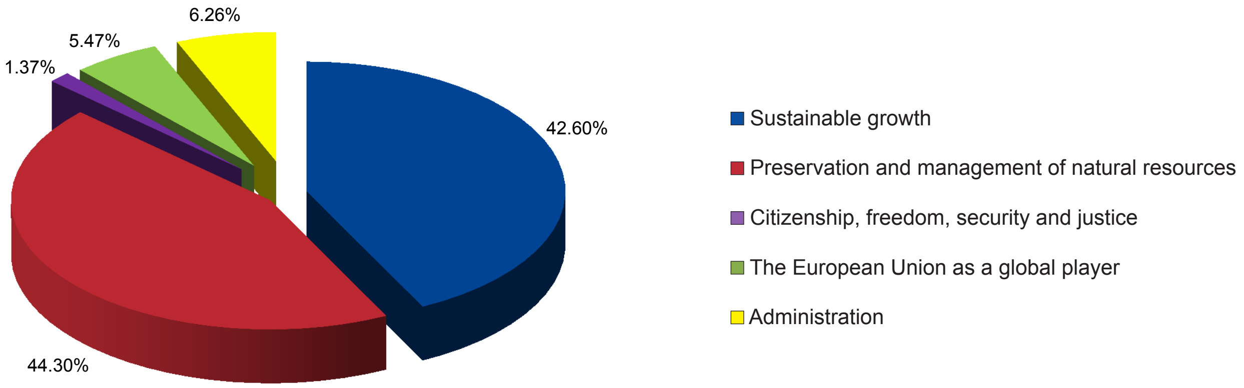
A.2.2 EU budget expenditure

The 2011 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 to 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. The first, *Freedom, Security and Justice*, covers spending on e.g. migration management, the fight against terrorism, protection of fundamental human rights and judicial cooperation. The second, *Citizenship*, 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 2011, however).

The following graph shows the structure of EU budget expenditure in the 2011 financial year broken down by headings. Expenditure in 2011 amounted to €126.50 billion, with the first two headings accounting for almost 86.9% of all budget expenditure.

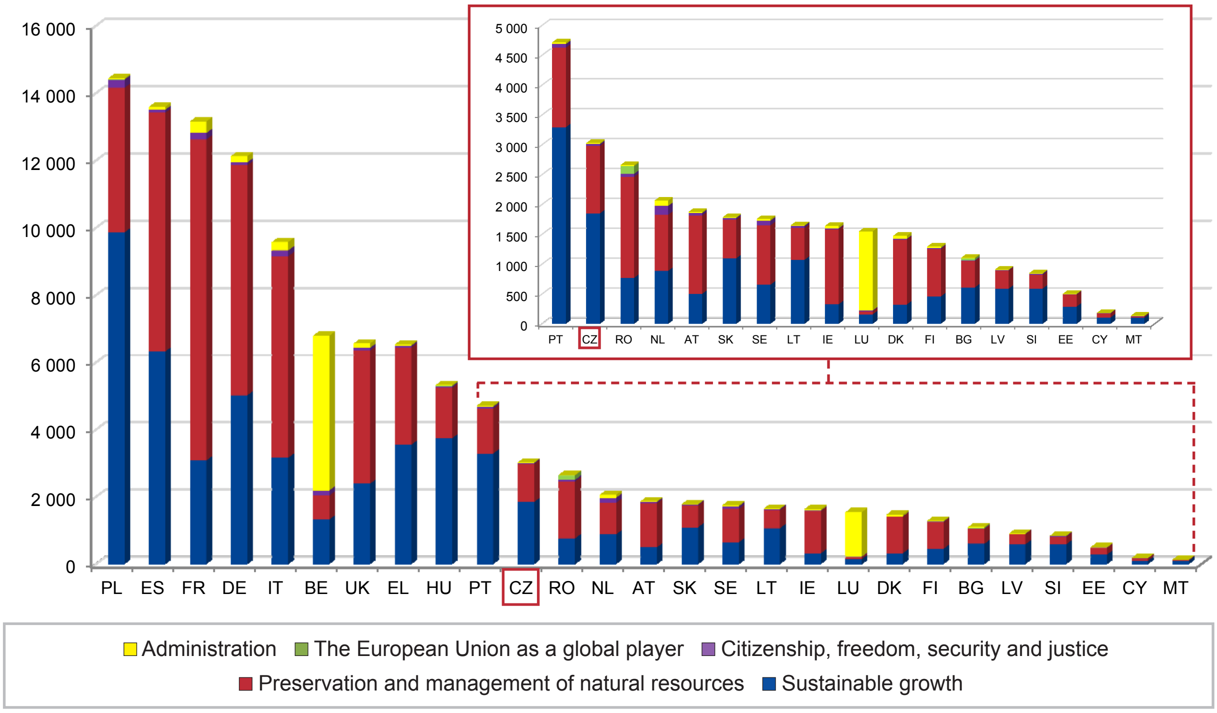
Graph 3 - Share of expenditure headings in the EU budget in 2011



Source: *EU budget 2011 – Financial Report*, European Commission.

Graph 4 illustrates the level and structure of drawdown from the EU budget in individual Member States.

Graph 4 - Drawdown from the EU budget by individual Member States in 2011 **(€ million)**



Source: *EU budget 2011 – Financial Report*, European Commission.
Abbreviations: see Graph 2 (p. 12).

It shows clearly that the predominant expenditure in countries that acceded in 2004 and later is Cohesion Policy spending, whereas the biggest budget expenditure heading for the original EU-15 states is *Preservation and management of natural resources*, which includes the CAP.

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 CAP. On the other hand, the CR is also obliged to contribute to the EU budget.

A.2.3.1 Contributions of the CR to the EU budget

The following table shows the contributions the CR provided to the EU budget in the years 2004 to 2011. In total the CR contributed almost €9.71 billion to the EU budget in that period.

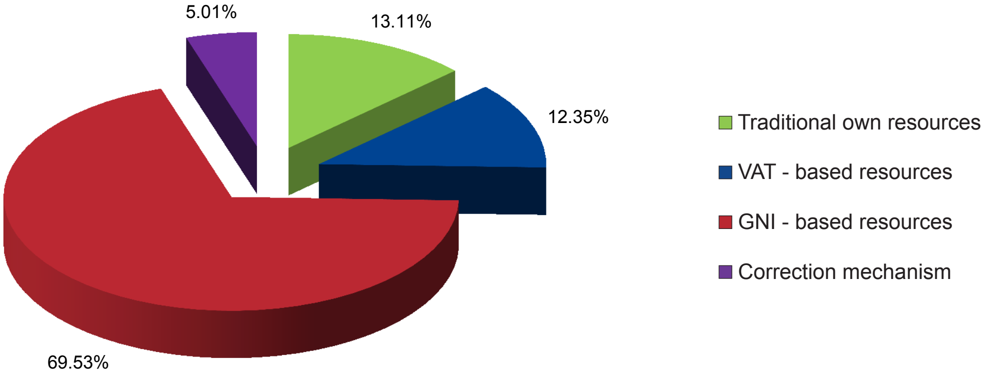
Table 1 – Overview of Czech contributions to the EU budget in 2004-2011 **(€ million)**

	2004	2005	2006	2007	2008	2009	2010	2011
Traditional own resources	60.4	146.1	149.0	178.8	206.9	166.8	189.4	220.6
VAT-based own resource	80.1	150.6	173.7	199.9	221.4	170.0	180.9	207.7
GNI-based own resource	373.0	614.6	632.5	703.8	843.8	860.3	1 050.9	1 169.9
Correction mechanism	51.7	78.9	80.1	84.5	123.9	177.0	76.5	84.3
Total	**565.2**	**990.2**	**1 035.3**	**1 167.0**	**1 396.0**	**1 374.1**	**1 497.7**	**1 682.5**
Annual growth (%)	x	+75.2	+4.6	+12.7	+19.6	–1.6	+9.0	+12.3

Source: *EU budget 2011 – Financial Report* and former, European Commission.

The structure of the CR's contributions in 2011, whose value is given in the last column of this table, is expressed as a percentage in the following graph.

Graph 5 – Share of Czech contributions to the EU budget in 2011



Source: *EU budget 2011 – Financial Report*, European Commission.

The CR's contribution to the EU has increased every year; the only decline came in 2009, when the influence of the financial and economic crisis was felt strongest. In 2011 this contribution grew again to more than €1.68 billion, which is almost 12.5% more than in 2010[17].

A.2.3.2 EU budget expenditure for the Czech Republic

In 2011 there was the first ever year-on-year reduction in drawdown from the EU budget, which was down more than 11.3% compared to 2010. The sum of €3,03 billion that the CR obtained from the EU budget in 2011 is nevertheless the second biggest amount in the history of drawdown from EU funds. The CR received a total of almost €16.78 billion from the EU budget from 2004 to 2011. The following table shows the drawdown levels in the individual years.

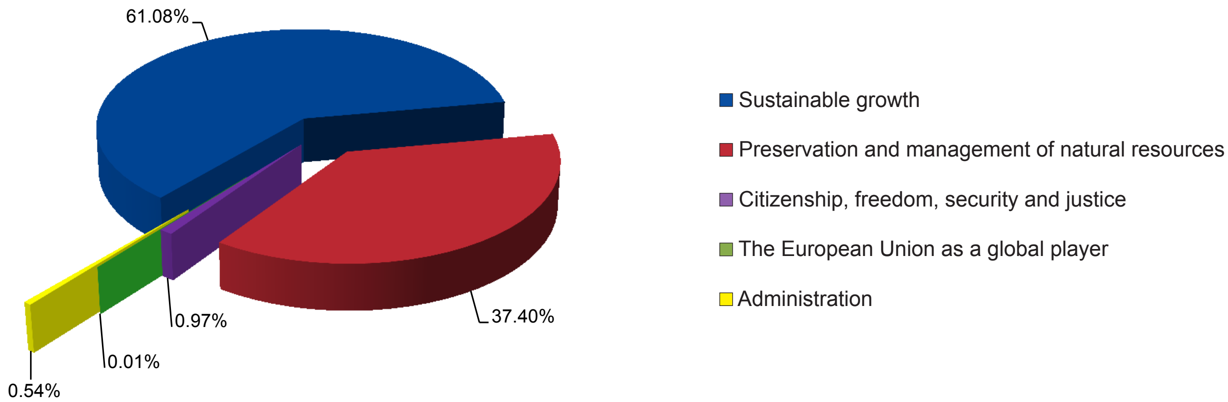
Table 2 – EU budget expenditure for the Czech Republic in 2004-2011 **(€ million)**

	2004	2005	2006	2007	2008	2009	2010	2011
Total (€ million)	**815.7**	**1 074.9**	**1 330.0**	**1 721.0**	**2 441.1**	**2 948.6**	**3 415.6**	**3 029.1**
Annual growth (%)	x	+31.8	+23.7	+29.4	+41.8	+20.8	+15.8	–11.3

Source: *EU budget 2011 – Financial Report* and former, European Commission.

Graph 6 shows that, in keeping with tradition, the largest volume of finances is accounted for by *Sustainable Growth*, which encompasses **Cohesion Policy** that takes up more than 61% of all expenditure. It is followed by the **CAP** (financed from the heading *Natural resources protection and their management*), which receives more than 37% of all expenditure heading into the CR. Payments made under these policies constituted more than 98% of the CR's drawdown from the EU.

Graph 6 – Structure of EU budget expenditure in the Czech Republic in 2011



Source: *EU budget 2011 – Financial Report*, European Commission.

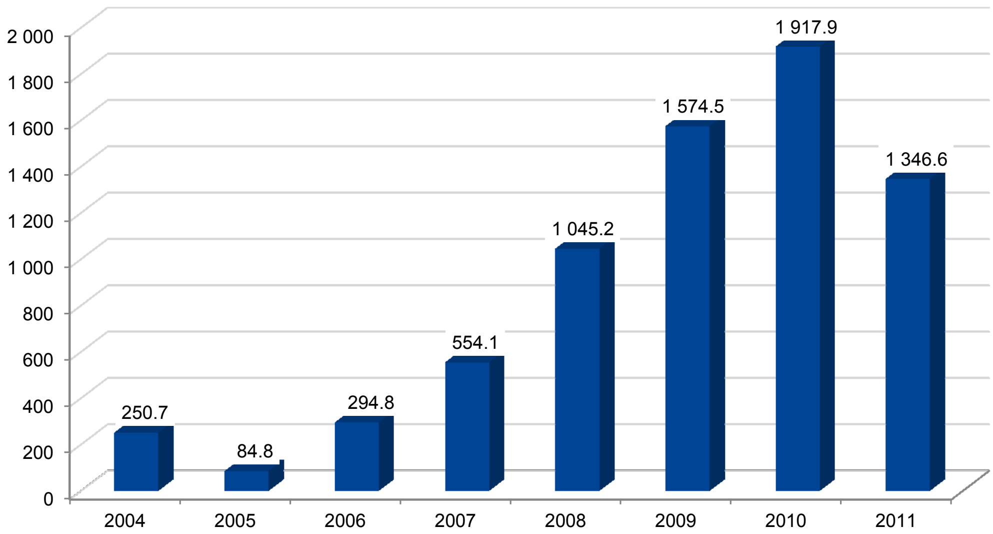
---

17 Based on the planned extraordinary review of national accounts, in 2011 the Czech Statistical Office recalculated GNI in the years 2004-2010, which was on average 3–4% higher than the figures it had published in previous years. As a result of the increase in GNI the Commission increased GNI-based payments for the preceding years by more than CZK 4 billion, incorporating this increase into Member States' contributions in 2011.

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 is based on official EU sources and shows the development of the CR's net position from 2004 to 2011.

Graph 7 – Net position of the Czech Republic in 2004-2011 (€ million)



Source: *EU budget 2011 – Financial Report* and former, European Commission.

The graph shows that the CR's net position fell sharply in 2011, by almost 30%. This fall was caused by the review of the national accounts performed by the Czech Statistical Office, on whose basis the CR had to pay an additional amount of approximately €0.2 billion into the EU budget, and, above all, by the suspension of expenditure certification following problems in OP *Transport,* OP *Environment* and *ROP North-West* in particular.

The CR's net position for the years 2004 to 2011 reached almost €7.07 billion, which is the equivalent of CZK 173.80 billion[18].

In February 2013 the MoF published figures showing that the CR's net position improved significantly in the 2012 financial year to attain a record level of €2.94 billion, which is more than twice the value in 2011, when it was €1.35 billion (total revenues from the EU budget were €4.52 billion, with total contributions to the EU budget at €1.58 billion). This radical increase was mainly caused by the growth in drawdown from the SF and CF, which was largely a consequence of the resumption of drawdown particularly in OP *Transport* and OP *Environment*.

A.3 ECA annual report for the 2011 financial year

In line with Article 287 of the TFEU and the financial regulation[19], the ECA approved its annual reports[20] for the financial year 2011 at its session of 6 September 2012.

The annual report on the implementation of the budget was published on 12 November 2012[21]. The key part of the report is the ECA's statement of assurance (DAS), comprising its statement on the reliability of the EU's consolidated financial statements and statements on the legality and regularity of the operations underlying these financial statements. The ECA is of the opinion that in all material respects the EU's consolidated financial statements gave a fair and true view of the EU's financial position as at 31 December 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.

18 The Czech National Bank's average exchange rate for 2011 was used for the conversion: 24.586 CZK/€.

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

20 Annual Report on the Implementation of the Budget; report on the European Development Funds; and special reports.

21 *Official Journal of the European Union* of 12 November 2012, Volume IV (2012/C 344/01).

As part of its statement on the legality and regularity of the operations underlying the financial statements for the financial year 2011, the ECA issued statements regarding revenues and commitments declaring that both revenues and commitments were legal and regular in all material respects. By contrast, as in previous years the ECA issued an adverse statement regarding the legality and regularity of payments underlying the financial statements for the financial year 2011, holding that the payments 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 were partially effective and that the most likely error rate[22] was 3.9%. The policy groups materially affected by error are *'rural development, environment, fisheries and health protection'* with a most likely error rate of 7.7%; *'regional policy, transport and energy'* with a most likely error rate of 6.0%; *'research and other internal policies'* with a most likely error rate of 3.0%; *'agriculture: market support and direct support'* with a most likely error rate of 2.9%; and *'employment and social affairs'* with a most likely error rate of 2.2%. The policy group *'external aid, development and enlargement'* as a whole was not materially affected by error, but a material error rate was found in interim and final payments.

Based on the scrutinised samples, the policy groups with the biggest payments were also those that had the highest proportions of operations materially affected by error:

- Based testing of 180 interim/final payments, errors were identified in 39% of operations in the *'agriculture: market support and direct support'* policy group.
- Based on the results of testing 178 interim/final payments, errors were identified in 57% of operations in the *'rural development, environment, fisheries and health protection'* policy group.
- Based on testing of 180 interim/final payments, errors were identified in 59% of operations in the *'regional policy, energy and transport'* policy group.

The following table summarises the results of the overall assessment of the supervisory and control systems for the different areas of the budget.

Table 3 – Summary of findings on the regularity of transactions in 2011

Area of assessment	Payments (€ million)	Most likely error rate (%)	Error frequency[23] (%)	Functioning of supervisory and control systems
Agriculture: Market and direct support	43 806	2.9	39	Partially effective
Rural development, environment, fishing and health protection	13 305	7.7	57	Partially effective
Cohesion, energy and transport	33 373	6.0	59	Partially effective
Employment and social affairs	10 171	2.2	40	Partially effective
External aid, development and enlargement	6 201	1.1	33	Partially effective
Research and other internal politics	10 591	3.0	49	Partially effective
Administrative and other expenditure	9 777	0.1	7	Effective
Total audited expenditure	**127 224**	**3.9**	**44**	**Partially effective**
Total revenue	**130 000**	**0.8**	**2**	**Effective**

Source: ECA Annual Report for the financial year 2011 – Table 1.2.

Note: The difference between payments in 2011 amounting to € 129.40 billion and the amount of audited payments € 127.20 billion was represented by the deposits paid out in individual areas.

22 The most likely error rate is a weighted average of the percentage rate of errors 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.

23 Error frequency decides the size of the share of audited sample which is affected by guantifiable and unguantifiable errors. Percents are rounded.

A year-on-year comparison of the results of audits conducted by the ECA shows that the estimate of the most likely error rate[24] increased by 0.2% in the case of audited payments from 2010 to 2011, i.e. from 3.7% to 3.9%. The ECA found errors in approx. 40% of audited operations, with the incidence of errors increasing in all policy groups except the former policy groups *'cohesion, transport and energy'* and *'administrative and other expenditure'*. It follows that, despite the annually reiterated reproaches and adopted remedial measures, the situation is not improving.

A.4 Current developments in the protection of the EU's financial interests

In line with Article 325 of the TFEU, the Commission, in cooperation with Member States, submitted to the Council and the European Parliament an annual report for 2011[25] on measures to protect the EU's financial interests and actions to counter fraud. The annual report assesses to what extent the EU's finances or EU budget revenues are at risk of misuse in consequence of irregularities, including fraud and other unlawful conduct that is detrimental to the EU's financial interests. The report also informs about measures adopted in the fight against fraud at the EU level and assesses measures adopted at the level of Member States in one specific area, namely Cohesion Policy.

According to this annual report, in total 12,204 irregularities[26] in revenues and expenditure were reported via electronic systems[27] in 2011. Table 4 gives the numbers of cases and total amounts of the irregularities reported, broken down by expenditure areas and revenues.

Table 4 – Number and amounts of reported suspicions of fraud and other irregularities within EU in 2011 (€ million)

Area of expenditure	Number of fraud suspicions	Number of other irregularities	Total estimated fraud suspicions (part of resources)	Total of other irregularities (part of resources)
Agriculture	139	2 256	77 (approx. 0.14%)	101 (approx. 0.18%)
Fishing	2	46	0.03 (approx. 0.003%)	1.6 (approx. 0.24%)
Cohesion Policy	276	3 604	204 (approx. 0.40%)	1 015 (approx. 2.00%)
Pre-accession funds	56	207	12 (approx. 0.67%)	48 (approx. 2.63%)
Direct expenditure	34	888	1.5 (approx. 0.002%)	49.9 (approx. 0.78%)
Total expenditure	**507**	**7 001**	**295** (total 0.21%)	**1 215.5** (approx. 0.86%)
Total revenue (Traditional own resources)	**723**	**3 973**	**109** (total 0.49%)	**278** (approx. 1.24%)

Source: Report from the Commission to the European Parliament and the Council – *Protection of the EU´s financial interests – Fight against fraud Annual Report 2011*.

24 Unlike in previous years, the most likely error rate was calculated on the basis of a representative sample of interim and final payments for 2011, taking into account cases where the beneficiaries of CAP payments did not fulfil their obligations linked to conditionality, with a 95% rate of reliability.

25 Report from the Commission to the European Parliament and the Council: *Protection of the European Union's financial interests – Fight against fraud Annual Report for 2011*, COM(2012) 0408, final, 19 July 2012.

26 Member States are obliged to report to the Commission suspicions of fraud and all irregularities exceeding €10,000 in value, where these finances come from EU sources.

27 The OWNRES database applies to budget revenues from *traditional own resources* and IMS deals with the expenditure side of the budget in cases of shared management by the Commission and Member States.

Compared to the figures for 2010, it was revealed that the total number of reported suspicions of fraud in the area of revenues was lower and the total financial amount involved also fell. However, both the number and the financial impact of other reported irregularities in the area of revenues grew slightly.

The Commission assessed this state of affairs to be a consequence of Member States' customs control focusing on high-risk imports and an improvement in the rate of detection of irregularities and fraud in the area of traditional own resources.

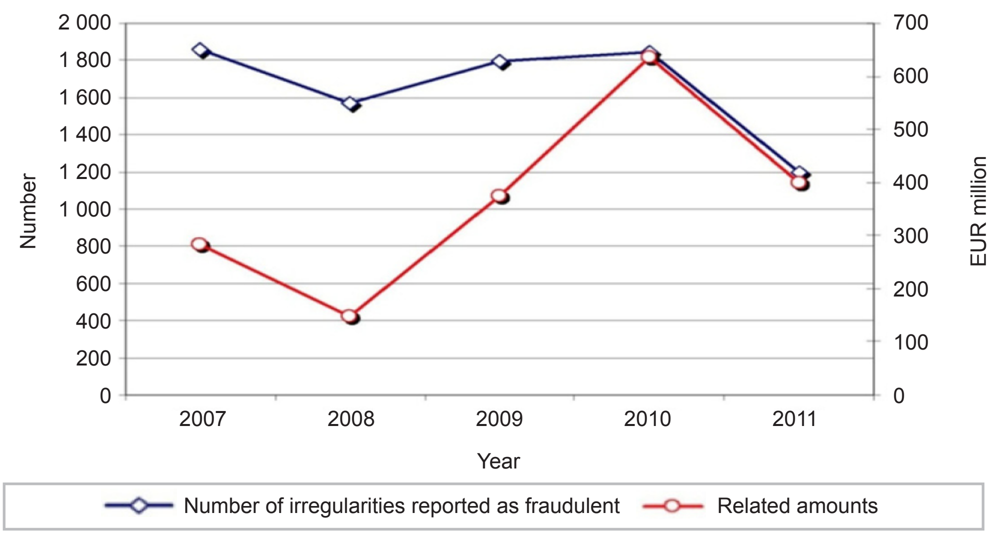
In the area of expenditure, the number of reported cases of suspicion of fraud fell to almost half the level of 2010, with a similar trend registered in their financial impact as well. The number of other reported irregularities fell by 25%; their financial impact was also down, albeit only slightly.

The Commission ascribes this positive development to an improvement in the management and control system, especially in the area of Cohesion Policy, and a gradual reduction in the number of countries to which pre-accession policy applied.

According to the data published by the Commission in its statistical evaluation of irregularities[28] for 2011, the CR reported a total of 382 irregularities amounting to a total of €169.45 million. Of that total, there were 49 cases of irregularities amounting to €2.92 million in traditional own revenues; 62 cases of irregularities amounting to €2.14 million in agriculture; and 270 cases amounting to €164.38 million in Cohesion Policy. Compared to 2010, the total number of reported irregularities increased slightly, mainly as a result of the increased number of irregularities reported in Cohesion Policy. The total volume of irregularities fell to roughly half the amount identified in 2010, however.

Although the number of irregularities reported as fraud by Member States in previous years has been stable, with the exception of the aforementioned fall in 2011, the related financial amounts registered a relatively marked increase in previous years (see the following graph).

Graph 8 – Irregularities reported as fraudulent and related amounts – 2007-2011



Source: Report from the Commission to the European Parliament and the Council – *Protection of the EU´s financial interests – Fight against fraud Annual Report 2011*.

With regard to this trend the Commission also adopted a general strategy for the fight against fraud and related unlawful conduct harming the EU's financial interests; this strategy encompasses all the options made possible by the TFEU, including criminal law. In order to implement this strategy thoroughly, the Commission proposed a legal instrument laying down measures to prevent and counter fraud and other unlawful conduct by defining criminal acts and setting out related penalties.[29]

28 Document accompanying the Report from the Commission to the European Parliament and Council: *Protection of the European Union's financial interests – Fight against fraud Annual Report for 2011,* SWD(2012) 229, of 19 July 2012.

29 Directive of the European Parliament and of the Council on the fight against fraud to the Union's financial interests, COM(2012) 363, of 11 July 2012.

B. Sector matters

B.1 EU revenues

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

On 8 June 2011 the European Parliament adopted a resolution on investing in the future, setting out its priorities for a new MFF 2014-2020 for a competitive, sustainable and inclusive Europe[30]. In the resolution it stated that the current own resources system is complex, non-transparent, insufficiently connected to existing EU policies and insufficiently equitable. The European Parliament is therefore demanding reform of the EU budget's own resources with a view to replacing the existing Member States' contributions with truly European resources.

In a communication entitled *A Budget for Europe 2020*[31] from the end of June 2011 the Commission shared the European Parliament's concerns, stating that the current own resources system places disproportionate emphasis on net balances between Member States, thus contradicting the EU principle of solidarity, diluting the European common interest and largely ignoring "European added value". At the same time the Commission submitted three separate legislative proposals that should be issued by the Council; the proposals reflect this position and are crucial for changing the system.[32] They are expected to enter into effect from 1 January 2014. The implementation of a new system of own resources should involve the following fundamental changes:

- terminating the existing VAT-based resources system as of 31 December 2013;
- introducing the FTT as of 1 January 2014, whereby the proposed decision sets a maximum percentage rate for the FTT;
- introducing a new VAT resource as of 1 January 2014 as a share of the VAT on supplies of goods and services, intra-Community acquisitions of goods and importation of goods subject to a standard rate of VAT in every member states not exceeding two percentage points of the standard VAT rate;
- increasing the share of EU revenues from traditional own resources from the current 75% to 90%;
- replacing the existing correction mechanisms with a system of annual lump sums which would be limited to the duration of the EU financial framework.

The swift and smooth execution of this change is made difficult by the fact that it is linked to the creation of the new MFF and by the fact that the European Parliament's role in decision-making has been expanded. The approval process has thus been accompanied by a number of discussions at various levels, addressing not only the details of the submitted proposals but also their appropriateness and fundamental design.

The European Parliament made repeated statements (e.g. in June 2012) declaring its insistence that the budget must display an appropriate equilibrium between revenues from own resources and EU expenditure. It also made clear that it is not prepared to agree to the regulation on the MFF unless political consensus on the reform of the own resources system is achieved in a way that leads to the abolition of the existing rebates and other financial correction mechanisms. The CR's position is that it rejects the proposed system as a whole and demands that a new proposal be submitted. The CR's justification for this position is that it advocates a simple, transparent and equitable system for financing the EU budget. This system should be based on revenues from traditional own resources and from a GNI-based resource that best reflects the level of development of individual Member States. In the form they were presented in the new sources of financing from VAT and the FTT would not bring the required simplification and the FTT could moreover compromise the EU's competitive environment.

30 *Official Journal of the EU*, C 380 E/89 of 11 December 2012.

31 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions *A Budget for Europe 2020*, Part II: Policy fiches, COM(2011) 500 of 29 June 2011.

32 Proposal for a Council Decision on the system of own resources of the European Union, COM(2011) 510 of 29 June 2011; Proposal for a Council Decision laying down implementing measures for the system of own resources of the European Union, COM(2011) 511 of 29 June 2011; Proposal for a Council Regulation on the methods and procedure for making available *the traditional and GNI-based own resources* and on the measures to meet cash requirements, COM(2011) 512 of 29 June 2011.

A similar view to the CR's is held by the ECA, as its opinion no. 2/2012 published in April 2012[33] makes clear. The ECA also regards the proposed new resource based on VAT as complicated; in respect of the FTT it stated the opinion that, besides possibly weakening the competitive environment, it is very hard to predict the level at which revenues from this resource could be achieved. One reason for this is the need for its introduction to be approved by all Member States, which will not necessarily be achieved in time.

This opinion of the ECA is borne out by the fact that in January 2013 the finance ministers of EU Member States decided, on the basis of the European Parliament's prior resolution, to introduce the FTT in only 11 Member States[34], after the Council had already declared that unanimous backing for the global introduction of the FTT would not be achieved. The CR continues to hold a reserved opinion on the FTT.

The current state of affairs with the introduction of the new financial framework is such that senior representatives of Member States only decided in February 2013 on the final form of the financial plans and this agreement had still to undergo the approval process in the European Parliament. However, in March 2013 the European Parliament did not approve their compromise proposal. In view of this fact and the problems referred to above, it will be necessary to wait for future editions of the *EU Report* for more concrete information on how the EU budget will be financed in the coming period.

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

In parallel with the preparation of the new financial framework and the related possibility of introducing new resources for the EU budget, legislation designed to improve the existing processes of own resource collection are being adopted at the level of the EU and Member States. In view of the nature of the individual instruments, this legislation is mainly designed to combat VAT fraud, as cooperation between Member States is essential in this area. This area also gives rise to considerable losses that then have to be made up through other resources. In February 2012 the SAO Board approved the audit conclusion of audit no. 11/07 targeting the collection of VAT upon importation of goods from third countries (see *EU Report 2012*). In view of the seriousness of the findings the SAO is systematically continuing to monitor this area.

Of the many activities undertaken to eliminate VAT fraud last year at EU level, at least the following three must be mentioned in brief.

The first concerns the "one-stop-shop" idea, which will be rolled out from 2015 and will enable VAT payers to declare and pay VAT in the member state they are established in. A new implementing regulation[35] was adopted in this area, laying down the details of the new system that require common rules to be defined for aspects such as the definition and scope of VAT systems, notification duty, identification, VAT returns, currency and records. The launch of the "one-stop-shop" from 1 January 2015 for providers of telecommunications services, radio and television broadcasting and electronic services should be expanded to other businesses, including supplies of goods, in the future.

The second area in which cooperation has been expanded is the creation of a platform for closer cooperation between concerned parties to discuss the evolution of VAT administration in the EU via the *EU VAT Forum*.[36] This grouping, which is composed of at most 45 members (always one representative of each Member State and representatives of business organisations or tax experts), was created in response to the need for a communication

33 Opinion No 2/2012 on an amended proposal for a Council Decision on the system of own resources of the European Union – COM(2011) 739, on an amended proposal for a Council Regulation laying down implementing measures for the system of own resources of the European Union – COM(2011) 740, on an amended proposal for a Council Regulation on the methods and procedure for making available the traditional and GNI-based own resources and on the measures to meet cash requirements – COM(2011) 742, on a proposal for a Council Regulation on the methods and procedure for making available the own resource based on the VAT – COM(2011) 737, on a proposal for a Council Regulation on the methods and procedure for making available the own resource based on the financial transaction tax – COM(2011) 738 of 18 April 2012.

34 These Member States still have to consider whether the FTT will become the basis of an own resource for them.

35 Council Regulation (EU) No 967/2012 of 9 October 2012 amending Implementing Regulation (EU) No 282/2011 as regards the special schemes for non-established taxable persons supplying telecommunications services, broadcasting services or electronic services to non-taxable persons and Commission Implementing Regulation (EU) No 815/2012 of 13 September 2012 laying down detailed rules for the application of Council Regulation (EU) No 904/2010, as regards special schemes for non-established taxable persons supplying telecommunications, broadcasting or electronic services to non-taxable persons; Proposal for a Council Regulation amending Implementing Regulation (EU) No 282/2011 as regards the place of supply of services, COM(2012) 763 of 18 December 2012.

36 *Official Journal of the EU*, C 198/05 of 6 July 2012.

channel[37] at EU level to facilitate the exchange of opinions on the practical aspects of VAT administration and thus help develop measures in this area in the EU. The forum is currently scheduled to close on 30 September 2018.

The final area that deserves a mention with regard to the stepping up of the fight against VAT fraud at EU level is the launch of the *Quick Reaction Mechanism*[38]. This special measure is intended to provide Member States with a legal foundation for adopting emergency measures in specific situations for which the existing legislation does not provide a sufficient basis. That should help combat sudden and extensive forms of VAT fraud that could result in considerable and irrevocable losses. Based on a standardised request from a Member State the Commission would permit the implementation of measures within a one-month time limit. For that reason a list of measures that could be permitted under the *Quick Response Mechanism* should be drawn up and approved.

Following the changes in the EU legislation and in line with certain SAO recommendations, the CR amended the relevant legal acts. The introduction of a new measure whereby a tax administrator may issue a securing order with immediate effect and enforceability if it has a legitimate concern that there is a risk of delay is of fundamental importance for the fight against VAT fraud (the same measure was incorporated into the act on excises as well). Another new measure was the extension of liability for unpaid tax, whereby the beneficiary of taxable performance is liable if the consideration for the performance is paid by non-cash transfer to an account maintained by a provider of payment services outside the CR. The act on VAT[39] was amended twice with effect from 1 January 2013 (Act No. 502/2012[40] and Act No. 500/2012[41]). The "technical amendment" of the VAT act, i.e. Act No. 502/2012, was mainly a response to the obligatory implementation of Council Directive 2010/45/EU[42] as regards invoicing rules. Another fundamental reason for the amendment was the proposed new measures to fight VAT evasion. The amendment of the act mainly covered the following areas:

- Tax documents – the goal of the changes is to ensure wider use of electronic systems for issuing, transferring and storing tax documents.
- Records for VAT purposes – for taxable goods and services received, VAT payers are now obliged to keep records of the tax identification number of the person providing the goods or services (i.e. the supplier) on which they claim a tax deduction, with the exception of goods and services for which simplified tax documents were issued.
- Tax period – a change was made in the basic taxation period, which is now a calendar month for a specified period for all newly registered VAT payers. In addition, conditions are defined on which a VAT payer may opt to use a calendar quarter as the tax period and rules are set for changing the tax period. The introduction of the calendar month as the tax period was done to make tax evasion more difficult in the event of different tax periods between the participants in business transactions and also to make it possible for tax administrators to obtain information more quickly and react faster to indications of possible fraud or tax evasion.
- Obligation to publish bank accounts used for economic activity – all taxpayers are now obliged to state in their tax registration application the numbers of their bank accounts used for economic activity (existing taxpayers are obliged to notify their tax administrator of their bank account numbers). Using accounts other than those published will be grounds for making the beneficiary of taxable performance liable for tax not paid by the provider.
- Unreliable payer – the institute of the "unreliable payer" was introduced to make the fight against tax evasion more effective. This institute will make it possible to identify payers who are in gross breach of their VAT obligations and whose registration cannot be annulled by their tax administrators ex officio because they meet the fundamental condition for a payer, i.e. exceeding the defined turnover for obligatory VAT registration. The tax administrator will publish the fact that a payer has become unreliable in a manner enabling remote access. If the provider of goods or services is an unreliable payer the recipient will be liable for tax not paid by the provider.

---

37 Communication from the Commission to the European Parliament, the Council and 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.

38 Proposal for a Council Directive amending Directive 2006/112/EC on the common system of VAT as regards a quick reaction mechanism against VAT fraud, COM(2012) 428 of 31 July 2012.

39 Act No. 235/2004, on value added tax.

40 Act No. 502/2012, amending Act No. 235/2004, on value added tax, as amended, and other related acts.

41 Act No. 500/2012, amending tax, insurance and other acts in connection with the reduction in the deficits of public budgets.

42 Council Directive 2010/45/EU amending Directive 2006/112/EC on the common system of value added tax as regards the rules on invoicing.

- Authorised recipient liability – a further tool introduced in the fight against tax evasion was the institute of VAT liability of an authorised recipient who becomes obliged to declare and pay the tax in connection with the receipt of products subject to excise duties. The authorised recipient of goods imported to CR from other EU member state is liable to the tax administrator for VAT that was not paid to the tax administrator by the person who acquired such goods to a third party in the CR.
- The liability of the recipient of taxable supply in the event of the supply of fuels – the institute of liability for VAT was also extended to cases where the payer receives a taxable supply consisting in the supply of fuel by a fuel distributor under the law on fuels. The recipient is liable for unpaid VAT on such supply if, at the moment it is performed, information that the provider of the taxable supply is registered as a fuels distributor in the register on the web site of the Customs Administration of the CR is not published in a manner enabling remote access.
- Obligatory electronic submissions from 1 January 2014 – now VAT payers will be obliged to submit documents (registration applications, tax returns, reports and annexes to tax returns) in electronic form. This obligation will not apply to natural persons whose turnover for at most the 12 preceding consecutive months did not exceed CZK 6 million, unless they are legally required to submit documents in electronic form.

The SAO welcomes the legislative steps taken in this area both by the EU and at national level. It is fair to say that the recommendations from SAO audits targeting VAT administration and collection from the years 2009 to 2012 have been adopted. This is above all true of the monthly submission of recapitulative statements, the adjustment of the conditions governing the registration of taxpayers for VAT or the shortening of the tax period. The submission of VAT returns in electronic form will be launched in the CR with effect from 1 January 2014.

B.2 Common Agricultural Policy and Common Fisheries Policy of the EU

The CAP and CFP are policies financed out of the *Preservation and Management of Natural Resources* expenditure heading of the EU budget. With a share of approx. 44.3% of total EU budget expenditure in 2011, this heading was the biggest budget item.

CAP expenditure is mainly covered by the *European Agricultural Guarantee Fund*, which provides finances for direct support and market support measures. Other finances come from the *European Agricultural Fund for Rural Development*, which co-finances rural development programmes. CFP spending is financed from the EFF.

B.2.1 Current developments in the CAP and CFP in the Czech Republic

In the CR, the CAP and CFP are implemented through the accredited paying agency, which is the SAIF. The MoA performs the role of managing authority. CZK 36.27 billion was disbursed under the CAP in the CR in 2011, with EU funds amounting to approx. CZK 29.28 billion and the national share approx. CZK 6.99 billion. In 2012, CZK 35.65 billion was disbursed under the CAP in the CR, with EU funds amounting to approx. CZK 31.27 billion and the national share approx. CZK 4.38 billion.

The total volume of funds disbursed under the CAP in 2011 and 2012 continued the trend of slight year-on-year decline, which has lasted three years now. Direct payments, which grew year-on-year by approx. 10%, remain the biggest area financially. These are followed by the RDP, where there has been a fall in expenditure in the past two years. Expenditure in the different areas of the CAP is shown in the following table.

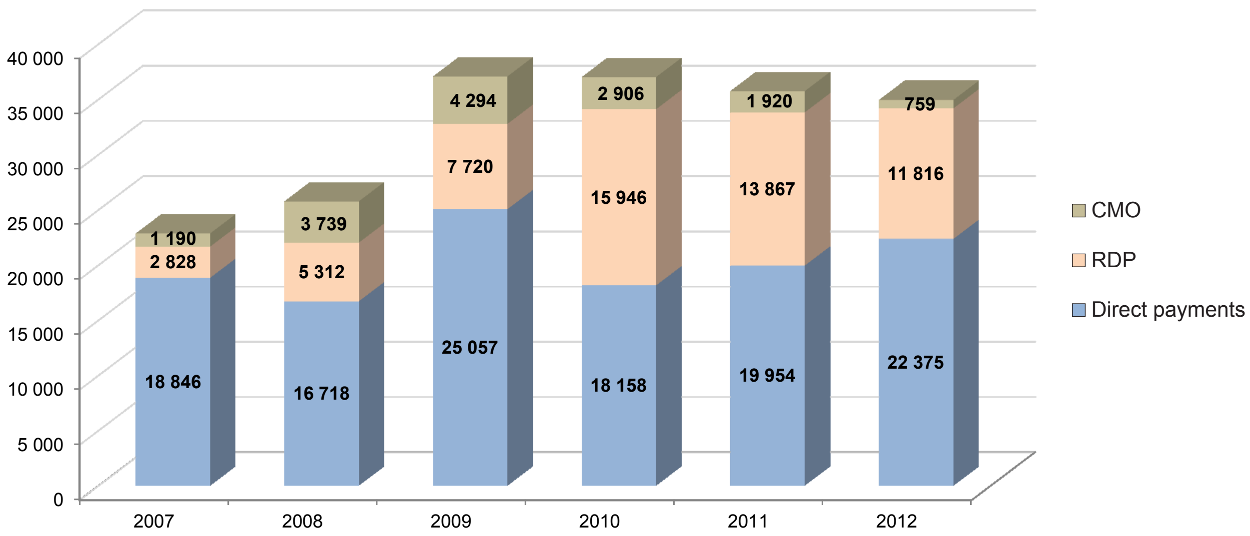
Table 5 – Overview of SAIF funds paid out for the main areas of the CAP in the CR (CZK million)

Expenditure area	2011			2012		
	CR	EU	Total	CR	EU	Total
Direct payments	2 136.56	17 817.60	19 954.16	650.94	21 724.52	22 375.46
CMO	1 521.35	398.55	1 919.90	447.28	312.05	759.33
RDP	3 060.48	10 806.19	13 866.67	2 620.95	9 194.61	11 815.56
Horizontal Rural Development Plan	70.64	260.86	331.50	12.30	38.52	50.82
Total	**6 789.03**	**29 283.20**	**36 072.23**	**3 731.47**	**31 269.70**	**35 001.17**

Source: SAIF annual report for 2011, SAIF – overview of paid out funds for the main areas of the CAP in 2012.

The following graph summarises the amount paid out in subsidies under the CAP and CFP in the years 2007 to 2012.

Graph 9 – Funds paid out for CAP and CFP in 2007-2012 (CZK million)



Source: SAIF annual report for 2011 and former, SAIF – overview of paid out funds for the main areas of the CAP in 2012.

B.2.1.1 Direct payments

Direct payments have been one of the most significant categories of support heading into Czech agriculture since the CR joined the EU. They are provided mainly per hectare of farmed agricultural land recorded in the LPIS geographical information system and are disbursed from EU finances under the SAPS. The amount of money provided to support beneficiaries from EU sources is topped up from national sources to the level of direct payments in EU states that joined before 2004 (Top-Ups).

Table 6 shows a breakdown of the funds paid out in the CR in 2011 and 2012 on direct payments.

Table 6 – Overview of SAIF funds paid out for direct payments in the CR in 2011 and 2012 (CZK million)

Direct payments	2011			2012		
	CR	EU	Total	CR	EU	Total
SAPS	0.00	16 036.79	16 036.79	0.00	19 267.21	19 267.21
Top-Up	2 136.56	0.00	2 136.56	650.93	0.00	650.93
Separate Sugar Payment	0.00	990.46	990.46	0.00	1 660.69	1 660.69
Separate Tomato Payment	0.00	9.25	9.25	0.00	10.51	10.51
Extra Support	0.00	781.10	781.10	0.00	786.12	786.12
Total	**2 136.56**	**17 817.60**	**19 954.16**	**650.93**	**21 724.53**	**22 375.46**

Source: SAIF annual report for 2011, SAIF – overview of paid out funds for the main areas of the CAP in 2012.

Compared to 2010 there was an increase in expenditure by approx. CZK 1.80 billion in total for 2011 and approx. CZK 4.22 billion for 2012, mainly in SAPS support fully financed by the EU. The reason for this growth was the increase in rates for Czech farmers in consequence of the gradual approximation of SAPS to the level of payments obtained by farmers in EU-15 countries.

In the context of direct payments, 51,963 payment applications in total were paid in 2011; of these, 26,079 were applications for SAPS support, 23,019 Top-Up applications, 2,093 applications for special support and 772 applications for a separate payment for sugar or tomatoes.

B.2.1.2 Common market organisation (CMO)

One of the CAP's mechanisms is CMO, which applies to agricultural primary production and products after primary processing. The meaning of CMO is to regulate the supply of individual products in a way preventing fluctuations in supply and thus also fluctuations in the prices paid to farmers. CMO also serves to ensure there are no fluctuations in the prices that the processor or end consumer pays when buying these products. Various instruments are used to this end, such as production quotas, intervention purchasing, aid for storage, intervention sales, export subventions, financial aid and subsidies or guarantees.

Table 7 – Overview of SAIF funds paid out for CMO in 2011 and 2012 (CZK million)

Type of CMO measure	2011			2012		
	CR	EU	Total	CR	EU	Total
Financial Support	118.46	173.47	291.93	117.49	139.36	256.85
Export Subvention	0.00	20.02	20.02	0.00	3.61	3.61
Subsidies and Levies	177.79	140.86	318.65	284.60	161.99	446.59
Intervention	1 216.42	58.82	1 275.24	21.15	0.52	21.67
Other related expenditure	8.68	5.38	14.06	24.04	6.56	30.60
Total	**1 521.35**	**398.55**	**1 919.90**	**447.28**	**312.04**	**759.32**

Source: SAIF annual report for 2011, SAIF – overview of paid out funds for the main areas of the CAP in 2012.

In the context of CMO there has been a pronounced fall in payments compared to 2010: in 2011 payments were down by CZK 0.99 billion and in 2012 by more than CZK 2.15 billion. Spending in this area has been shrinking constantly since 2009. The reason for this is developments in market prices in the EU and the CR, when there is no interest in intervention purchasing or export subventions.

B.2.1.3 Rural Development Programme (RDP)

The implementation of the five priority axes of the RFP for the years 2007 to 2013 went ahead in 2011 and 2012. As of 30 November 2012 66% of the total RDP application had been paid out[43].

43 Source: www.eagri.cz, material entitled *"Current State of Implementation of the RDP for the 2007-2013 Period"*.

Table 8 presents an overview of funds paid out for the RDP, broken down by axes, in 2011 and 2012.

Table 8 – Overview of funds paid out for RDP in 2011 and 2012 **(CZK million)**

Axis of the RDP		2011			2012		
		CR	EU	Total	CR	EU	Total
I	Improving competitiveness of agriculture and forestry	895.94	2 687.82	3 583.76	791.37	2 374.11	3 165.48
II	Improving environment and landscape	1 410.98	5 643.71	7 054.69	1 151.28	4 604.97	5 756.25
III	Quality of life in rural areas and diversification of rural economy	529.29	1 587.88	2 117.17	486.38	1 459.13	1 945.51
IV	Leader	213.97	855.87	1 069.84	180.63	722.54	903.17
V	Technical assistance	10.30	30.91	41.21	11.29	33.86	45.15
Total		**3 060.48**	**10 806.19**	**13 866.67**	**2 620.95**	**9 194.61**	**11 815.56**

Source: SAIF annual report for 2011, SAIF – overview of paid out funds for the main areas of the CAP in 2012.

There has also been a fall in payments in the RDP since 2010. Total payments for RDP measures decreased by approx. CZK 2 billion every year. That is the result of the exhaustion of the allocation for certain measures and the completion of projects.

B.2.1.4 Horizontal Rural Development Plan

In total CZK 331.50 million was spent on the *Horizontal Rural Development Plan* in 2011; CZK 70.64 million of that was out of the state budget and CZK 260.87 million out of the EU budget. The figure for 2012 was CZK 50.82 million with CZK 12.30 million coming from the state budget and CZK 38.52 million from the EU budget. This is an on-going programme from the previous programming period in which payment is gradually being completed.

B.2.1.5 OP Fisheries 2007-2013

The implementation of the three priority axes of OP *Fisheries* 2007-2013 went ahead in 2011 and 2012. The following table gives an overview of the funds paid under this OP, broken down by axes.

Table 9 – Overview of funds paid out for OP Fisheries 2007-2013 **(CZK million)**

Axis OP *Fisheries*		2011			2012		
		CR	EU	Total	CR	EU	Total
II	Aquaculture, processing and marketing of fish products and aquaculture	27.39	82.18	109.57	20.72	62.17	82.89
III	Common interest measures	26.27	78.80	105.07	10.13	30.40	40.53
V	Technical assistance	0.77	2.32	3.09	1.49	4.47	5.96
Total		**54.43**	**163.30**	**217.73**	**32.34**	**97.04**	**129.38**

Source: Publication *Agriculture* 2011, MoA.

In the middle of 2011 commitments for 100% of the allocation were closed in priority axis 2 and for 45% in priority axis 3. For that reason, available funds of approx. CZK 86 million were shifted between axes in 2012 and certain measures for which there was no interest among applicants were excluded.

B.2.2 The SAO's audit work in the field of the CAP and CFP

In the period from 2007 to 2012 the SAO conducted eight audits targeting the CAP or CFP[44]. Four of these audits focused on project measures; the other four on claimed payments and other aid. These audits covered all the financially significant areas of these policies. The audits threw up the following key findings:

44 Audits nos. 07/11, 08/05, 08/25, 09/12, 10/01, 10/28, 10/29, 11/15.

Project measures:

1. **The RDP implementation system** is assessed as essentially functional and effective, despite partial shortcomings in the MoE's control mechanisms.
2. **Selection of projects** is often done on the basis of criteria that are irrelevant to their quality.
3. **The system for assessing and selecting projects in OP *Fisheries*** was not consistent with the principle of sound financial management, i.e. the goals of effectiveness, efficiency and economy.
4. **Monitoring of the achievement of goals and progress made** in the implementation of programmes and projects is done on the basis of unsuitable monitoring indicators.
5. **Errors in public procurement and the claiming of ineligible expenditure are often detected among support beneficiaries.**
6. **Support beneficiaries artificially split investment projects** into smaller parts. In this way they wrongfully obtained a larger support amount than they would have under the rules for a single project.

Entitlement-based payments and other aid:

7. **In the case of entitlement-based payments** no evidence was found of significant irregularities in their provision and use.
8. **Finances earmarked to cover the costs of interventions and export subventions** were provided and used essentially in line with the defined terms.
9. **The management and control system** for non-project measures of the RDP is partially effective.

The following applies to both types of support:

10. **The MoA's and SAIF's control systems** are not fully reliable and effective.
11. **The MoA has for long failed to eliminate certain shortcomings** identified by the SAO and does not adopt remedial measures.[45]

An audit of axis 3 of the RPD was completed in 2012[46]. The aim of the audit was to check whether money from the state budget of the CR and the EU budget earmarked for improving the quality of life in rural areas was provided and used in line with the defined terms.

The SAO audit scrutinised the administration, implementation and payment of 36 projects for which CZK 301.20 million was paid out in support, i.e. approx. 4.4% of the total amount paid out for axis 3 of the RDP. The audit also examined the rules of the RDP.

The system for implementing measures under axis 3 of the RDP was assessed by the SAO as essentially functional and effective. Nevertheless, the audit detected certain shortcomings that mainly affected the work done by the managing authority (i.e. the MoA) and the work of the paying agency (i.e. the SAIF). Deficiencies were found in management and control mechanisms. These deficiencies mainly affected the monitoring indicators at project level and the mechanisms for selecting projects for financing. The set-up of the system for checking the reasonableness of expenditure was unsuited to ensuring that claimed project expenditure was consistent with the principles of effectiveness, efficiency and economy.

Irregularities worth CZK 8.31 million i.e. approx. 2.8% of the audited volume, were identified by the audit.

The audit of the beneficiaries found irregularities in contract award procedure and, in two cases, claims for VAT totalling CZK 3.55 million even though this was ineligible expenditure of the VAT payer. The SAIF was also in breach of good budgetary practice to the same value. In addition, it was found that accounting for property acquired from the appropriation contravened the act on accounting.

The SAIF wrongly scored one project, awarding it more points than the beneficiary was entitled to. Had it been properly scored, this project would not have been selected for funding. As a result of this error, CZK 4.32 million was wrongfully paid out, with the SAIF in breach of good budgetary practice.

---

45 The shortcomings affect the methodology for and execution of preliminary controls and shortcomings in reports on the results of financial controls. The internal control system does not create the right conditions for economical, efficient and effective performance of public administration. These findings come from audits nos. 07/11, 08/25, 09/12, 10/01 and 10/28.

46 Audit no. 11/15, volume 2/2012 of the *SAO Bulletin.*

B.2.3 Audit work of the ECA

B.2.3.1 ECA annual report

The key information in the ECA's annual report on the EU budget for 2011 included:

- **Agriculture market support and direct support**

Based on the results of its audits, the ECA reached the conclusion that payments for the financial year 2011 were materially affected by error and that the scrutinised supervisory and control systems were partially effective. Approx. three quarters of the quantifiable errors are "accuracy" errors, with the most common error being the reporting of an excessive area by beneficiaries in their applications for EU funding. Inaccurate data in various databases of the IACS[47] undermine the effectiveness of control systems.

- **Rural development, environment, fisheries and health protection**

The ECA reached the conclusion that payments for the financial year 2011 in the policy group *"rural development, environment and health protection"* were materially affected by error and that the scrutinised supervisory and control systems were partially effective. The majority of the most likely error rate concerned the appropriateness of measures not linked to an area of agricultural land. In 10 of 43 payments for agro-environmental schemes the farmers did not comply with the environmental commitments they took on. The ECA audit also revealed that administrative controls and on-the-spot controls are not sufficiently rigorous to mitigate the risk of the reporting of ineligible expenditure.

B.2.3.2 ECA special reports

In 2012 the ECA issued four special reports targeting agriculture. The CR was not selected as part of the audited sample in any of these audits.

In special report no. 7/2012[48] on the wine market the ECA states that the existing imbalances on this market have not been redressed.

In special report no. 8/2012[49] the ECA informed about the result of an audit that sought to ascertain whether the support the EU provides towards the modernisation of agricultural concerns is targeted at the priorities and specific needs of Member States. The ECA found that the degree of targeting differs considerably among the audited Member States and that the Member States' RDPs often fail to document sufficiently the proper targeting of investment support. The common assessment and monitoring framework does not provide the necessary data to make it possible to continuously monitor progress towards attaining the EU's priorities; the data are not sufficiently reliable and do not allow comparisons between Member States.

Special report no. 11/2012[50] sought to answer the question whether direct support is effective, well monitored and targeted at the most relevant regions in Member States. The ECA reached the conclusion that the audited schemes in their existing form are not targeted at the most relevant regions and agricultural areas; it did not find that the audited aid scheme was more effective than decoupled aid. It also detected shortcomings in the monitoring of the key performance indicators.

Special report no. 16/2012[51] concerned the implementation of the SAPS, specifically the scheme's main elements, the scheme's contribution towards achieving the goals of support for farmers' incomes in new Member States and the preparations for the transition to the new system of direct payments that will apply to all Member States. The ECA stated that the definition of "farmers" is inadequate and that payments are made to beneficiaries not or only marginally involved in farming. Member States did not precisely identify eligible areas. Payments were made in relation to unutilised parcels or land devoted to non-agricultural activities. Most Member States applying the SAPS are not prepared for the introduction of an entitlement-based scheme.

---

47 *Integrated Administration and Control System.*

48 Special report no. 7/2012 – *The reform of the common organisation of the market in wine: Progress to date*, ECA 2012.

49 Special report no. 8/2012 – *Targeting of aid for the modernisation of agricultural holdings*, ECA 2012.

50 Special report no. 11/2012 – *Suckler cow and ewe and goat direct aids under partial implementation of SPS arrangements*, ECA 2012.

51 Special report no. 16/2012 – *The effectiveness of the Single Area Payment Scheme as a transitional system for supporting farmers in the New Member States*, ECA 2012.

B.2.4 Protection of the EU's financial interests and the fight against fraud

B.2.4.1 Development trends in EU agriculture

The number of reported cases of irregularities in agriculture grew to 2,395 in 2011 compared to 1,841 in 2010. The estimated financial impact of the irregularities was approx. €178 million, compared to €131 million in 2010.

In agriculture, after the upward trend from 2008 to 2010 the number of irregularities reported as fraud fell sharply from 414 in 2010 to just 139 in 2011. However, the financial impact of these irregularities grew (from €69 million in 2010 to €77 million in 2011). This increase can be explained by the reporting of two major cases worth €39 million and €26 million. Two cases of fraud worth a total of €30,000 were reported in connection with the *European Fisheries Fund*.

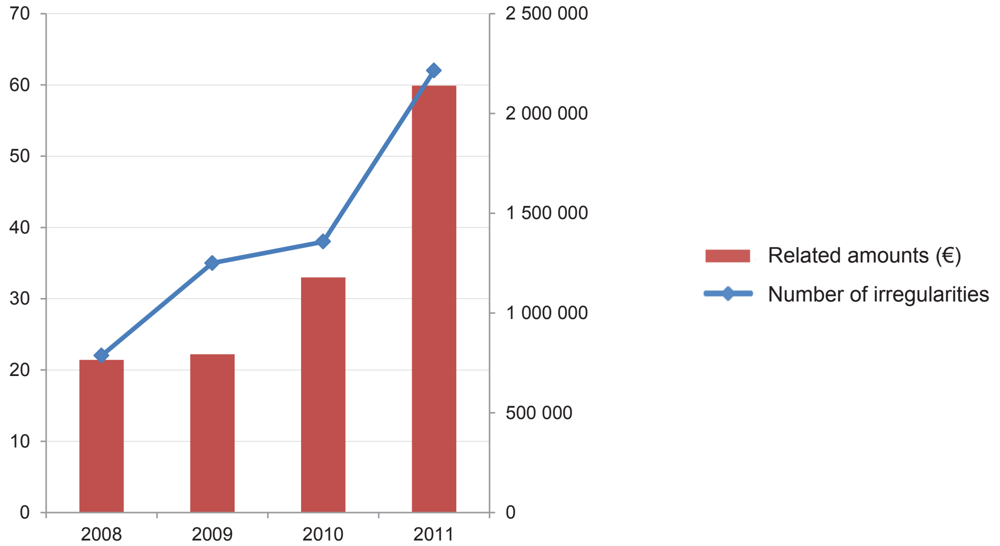
The rate of recovery of finances wrongly paid out as ineligible costs fell from 85% in 2010 to 77% in 2011.

B.2.4.2 Fulfilment of obligations related to reporting irregularities in the Czech Republic[52]

62 cases of irregularities were reported in the agriculture and fisheries sector in the CR in 2011, which represents a marked increase from 2010 (when just 38 cases were reported) and a constantly rising tendency. The financial impact of these irregularities amounted to €2,138,724, which is almost double the amount in 2010 (€1,177,815). Three cases concerned a suspicion of fraud, involving a total sum of €3,589.

The following graph shows the development of irregularities reported in the CR in the agriculture and fisheries sector.

Graph 10 – Reported irregularities in the CR within the period 2008-2011



Source: Report from the Commission to the European Parliament and the Council – *Protection of the EU´s financial interests – Fight against fraud Annual Report 2011*.

Caption: The number of irregularities is on the left axis, the related amount in € is on the right axis.

The CR's overall rate of fulfilling its obligations relating to the reporting of irregularities was 99%, the best result in the last five years. That put the CR in joint second place with Slovakia among Member States in terms of the quality of reporting; Malta was in first place (100%). The CR only fell short of 100% success in the timeliness of reporting (94%).

52 Commission staff working document SWD(2012) 229, 19 July 2012.

B.2.5 The CAP and CFP in the 2014-2020 programming period

A new CAP is supposed to apply from 2014. The reform, which seeks to change the form of both pillars of the CAP, i.e. both direct payments for farmers and agricultural market regulation measures and also the RDP, was proposed by the Commission in October 2011. The principal objectives of the new CAP are:

- viable food production
- sustainable management of natural resources and climate measures
- balanced territorial development.

According to the Czech government, certain measures in the proposed CAP reform go against efforts to make agricultural policy more equitable, more transparent and less bureaucratic. In particular, the CR has reservations about the proposal that 30% of payments should be tied to compliance with strict ecological rules. For the CR that would mean setting aside around 250,000 ha of land[53].

At level of the EU authorities, however, there has been a considerable delay in the discussion and adoption of the new EU regulations that would implement the new CAP. Neither the definitive wording of the EU regulations nor the exact timetable for their adoption are currently known. Most notably, the Commission's implementing regulations may not be adopted until the end of 2013, or even during 2014, which may cause substantial difficulties if national legislation has to react to them.

Intensive talks are currently being held at both the expert and the political levels. As the future budget for agriculture is still unclear, it is likely that a transitional period will have to be introduced for 2014.

In January 2013 the MoA presented its proposal for a *"Strategy for Czech Agriculture and Food Production in the Context of the EU Common Agricultural Policy after 2013"*. This strategy defines the main principles and goals that should underpin the MoA's fundamental decisions when implementing the CAP in the CR in the years 2014 to 2020, and in particular the structuring and distribution of direct payments and support under the RDP[54]. Concrete measures include a transition to a system of single payments, i.e. the CR will become one administrative region receiving appropriations from the EU budget. In line with the "greening" objective, an obligation to rotate crops on arable land should be introduced, among other things. Advantages should be given to projects that create sustainable jobs or seek to reduce energy intensiveness. More investment should be channelled into fruit and vegetable cultivation and, above all, into animal produce. Support is also envisaged for young, novice farmers and for ecological farming. In food production, the strategy proposes advantaging projects putting innovations into practice and supporting projects promoting regional specialities.

The CFP is also undergoing reform designed to make it more effective so that European fishing fleets are economically viable, fish populations are not decimated, fishing policy is linked to maritime policy and consumers are guaranteed high-quality food products.

In December 2011 the Commission presented a proposal for creating the EMFF, out of which CFP expenditure will be financed in the 2014-2020 programming period. From the CR's perspective, the key aspect of the proposed regulation on this new fund replacing the EFF is the possibility of continuing co-financing for freshwater fish cultivation. Also important for the CR is the inclusion of support for innovation and technologies transfer, as well as support for productive investments in the fish farming facilities of aquaculture enterprises with a view to increasing competitiveness.

53 Agroweb – agricultural news server, report of 21 January 2013.

54 *Principles of the Structuring and Distribution of Direct Payments and Measures under the Rural Development Programme in the Conditions of the CR for the 2014-2020 Period*, annex to an MoA press release of 21 January 2013.

B.3 EU Cohesion Policy

Along with the CAP, the *policy of economic, social and territorial cohesion* (Cohesion Policy) is the most significant EU policy. The goals of Cohesion Policy[55] are a response to the needs of existing and acceding EU members, and consequently they change over time[56]. In the current programming period 2007-2013 Cohesion Policy accounts for 35.7% of total EU budget expenditure, i.e. €347.41 billion.

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 SF

The SF allocation for the CR was €1.69 billion in the 2004-2006 programming period. In total, €1.67 billion had been used as of 31 December 2012, i.e. 98.6% of the allocation. A sum of approx. €14.9 million has been the subject of further negotiations with the Commission since 1 January 2013. More detailed information about the drawdown can be found in Appendix 1.

State of drawdown of the allocation from the Cohesion Fund and ISPA[57]

The CF allocation for the CR was €1.23 billion in the 2004-2006 programming period. In total, €1.16 billion had been used as of 31 December 2012, i.e. 94.4% of the allocation.

B.3.1.2 2007-2013 programming period

In the current programming period 2007-2013 Cohesion Policy has three goals: *Convergence, Competitiveness and Employment,* and *European Territorial Cooperation.* €350 billion was earmarked for these goals from the SF and CF for the entire EU for the seven-year period; €26.7 billion of that was allocated to the CR. Finances under this policy are drawn from three funds[58].

State of drawdown of the allocation

From the start of the programming period to 31 December 2012, €8.08 billion had been drawn down from the ERDF, ESF and CF (i.e. certified and submitted to the Commission), i.e. just 30.2% of the total allocation. €18.68 billion remains to be drawn down by the end of the programming period. The details are given in Appendix 2.

Main problems with drawing down the allocation and state of efforts to resolve them

According to the NCB, the main problems with the drawing of the allocation in 2012 were shortcomings in the management and control systems (see also DAS 2011 – subsection B.3.3.1), financial corrections, problems with fulfilling the drawdown limit in consequence of the application of the n+3/n+2 rule, insufficient administrative capacity (workforce fluctuations), the extension of the implementation timetable for major projects, problems with securing sufficient co-financing, and errors in public procurement that are detected during the conducted audits. The consequences of these shortcomings are specified in Appendix 3.

Since March 2012 no payment applications have been submitted to the Commission in all OPs co-financed out of the ERDF and CF. This was in reaction to the Commission's decision to suspend payments in these OPs after shortcomings were found in the working of the Czech management and control systems. The Commission called on the Czech side to adopt the appropriate remedial measures formulated in ***the Action Plan*** by the end of June 2012.

---

55 Article 174 of the *Lisbon Treaty* (consolidated text of the *Treaty establishing the European Union* and the *Treaty on the Functioning of the European Union*) provides that the general purpose of Cohesion Policy is to reduce disparities between the levels of development of the various regions and the backwardness of the least favoured regions and to strengthen economic, social and territorial cohesion in order to promote the harmonious development of the EU.

56 The *Europe 2020* strategy, a communication from the European Commission approved by a decision of the European Council of 3 March 2010, is the EU's principal economic strategy up to 2020. Subtitled "European strategy for smart, sustainable and inclusive growth", the strategy is based on a Commission consultation document issued on 24 November 2009 and the subsequent public consultation. The proposed *Europe 2020* strategy is a response to the shortcomings in Member States' economies and should lead the EU out of the economic crisis and ensure its growth and competitiveness. The strategy is transposed into national strategic documents.
(Source: http://www.dotacni.info/strategicke-dokumenty-eu-a-jejich-vliv-na-tvorbu-narodnich-strategii/).

57 Under Council Regulation (EC) No 1085/2006 ISPA was replaced by the IPA pre-accession aid instrument.

58 ERDF, which supports investment projects such as support for start-up businesses, investments in infrastructure and cooperation in border regions; ESF, which supports non-investment projects such as programmes for disadvantaged groups of the population, development of educational programmes, re-training for the unemployed etc.; and CF, which finances key infrastructure projects in transport and the environment.

Fulfilment of the requirements of the *Action Plan*[59]

1. **In order to tackle the insufficient independence of the assigned auditors** and to separate the management and control functions in OPs, the assigned auditors were taken out of the structure of the management authorities and made part of the centralised Audit Authority. At the same time, a proposal for a new organisational structure of the MoF was drawn up, the rotation and deployment of auditors and audit teams was agreed on and a timetable for centralising audits was set.[60]
2. **In order to address the shortcomings in the work of the Audit Authority** (insufficient coordination and supervision of the work of the assigned auditors, the methodology for system audits that did sufficiently cover all key requirements of the working of management and control systems), the *Management and Control Systems Audit Manual* was revised, a plan of recommended training events for 2012 and 2013 was drawn up, re-performance audits[61] were planned and the system audits for OPs for which no audit report had been submitted to the Commission were completed.
3. **In order to resolve shortcomings in the system of irregularities and recovering wrongly paid out finances**, the description of management and control systems was modified. With effect from 1 July 2012, the *Methodology of Financial Flows and Control of Programmes Co-financed out of the SF, CF and European Fisheries Fund for the 2007-2013 Programming Period* was revised, with a time limit set for resolving irregularities and a more specification of the powers of the various entities when resolving irregularities.
4. **In order to improve the quality of management control performed by managing authorities and intermediate bodies**, especially in the area of public procurement and this procedure's compliance with Articles 58(c) and 60(b) of Council Regulation (EC) No 1083/2006 (General Regulation) and with Article 13(2) and (4) of Commission Regulation (EC) No 1828/2006, checklists were drawn up for the performance of management control, public procurement and public support. In addition, in the area of management control, the *Binding Procedures for Awarding Contracts Co-financed out of EU Funds* which do not come under the application of Act No. 137/2006, on public procurement, were updated with effect from 1 July 2012. The update consists mainly in more precise information about tender procedures.
5. **In order to tackle problems related to administrative capacity**, the Methodology for the Selection of Employees Participating in the Implementation of OPs was updated and a Methodological Instruction for Outsourcing was drawn up.

According to the Commission's letter of 23 July 2012, the reasons for suspending payments in seven OPs that were covered by the *Action Plan* have ceased to apply. From September 2012 to November 2012, payment was gradually resumed in a further five OPs. By the end of 2012, reimbursement had not been resolved in the case of *ROP North-West*, *ROP North-East* and *ROP Central Bohemia*.

Financial corrections[62]

In 2012 the following financial corrections were performed to the detriment of the CR's public budgets:

1. In the case of OP *Environment* a financial correction of 5% of the finances paid out to beneficiaries was applied. The most common irregularities were found in public procurement. After the correction had been made, payments were resumed by the Commission.

   The total estimated value of the financial correction in OP *Environment* is CZK 1.95 billion.

2. In the case of OP *Transport* a financial correction of 10% of the finances paid out to beneficiaries was applied. The deficiencies identified by audits by European institutions mainly concerned public procurement. After a financial correction worth CZK 5.7 billion had been made, payments in this programme were resumed, whereby the remainder of the correction would be deducted from the subsequent payments.

   The total estimated value of the financial correction in OP *Transport* is CZK 11.2 billion.

59 See footnote No 2.

60 In May and September 2012 the CR changed the set-up of the audit system for finances drawn from the SF, CF and EFF. Moving OPs' authorised auditors into the Audit Authority (MoF) is intended to help solve problems associated with the function of the system of audit work.

61 Re-performance audits are audits examining the procedures and results of previously performed controls.

62 Article 99 of Council Regulation (EC) No 1083/2006, under which the Commission may make financial corrections by cancelling all or part of the Community contribution to an OP where, after carrying out the necessary examination, it concludes that there is a serious deficiency in the management and control system which has put at risk the Community contribution already paid to the programme.

3. A blanket financial correction was also applied in the case of OP *Education for Competitiveness.* Here, too, the most common findings concerned public procurement.

The total value of the financial correction in OP *Education for Competitiveness* is estimated at approx. CZK 1.66 billion.

State of the n+3/n+2 rule[63]

As of 31 December 2012, the n+3 rule for the allocation of 2009 increased by 1/6 of the allocation of 2007[64] was supposed to have been satisfied. From the start of the programming period till the end of 2012 the level of certified expenditure, or payment applications sent to the Commission, had to attain approx. 31% of the total OP allocation for the 2007-2013 programming period. All OPs satisfied the drawdown limit in 2012, though some made use of the preliminary payments or annual commitments of major projects submitted to the Commission.[65]

The year 2013, when the n+3 rule for 2010 will operate concurrently with the n+2 rule for 2011 (and 2/6 of the 2007 allocation), will be crucial for the drawdown of the allocation[66].

Enhanced risk management

As in 2011 (see *EU Report 2012*), the NCB carried out enhanced risk management[67] in 2012. On this matter, in July 2012 the Czech government adopted resolution no. 498 concerning the documented entitled *High-risk Operational Programmes – Proposed Measures Designed to Achieve the Goals of the National Strategic Reference Framework* (see the overview of government resolutions on the SF and CF)[68]. Part of this document was the implementation of the adopted measures in the form of "action plans"[69]. Under this resolution, CZK 1 billion was transferred from OP *Education for Competitiveness* to OP *Human Resources and Employment*, and part of the finances for the goal of *Regional Competitiveness and Employment* necessary for preserving the ratio between funding for the goals of *Convergence* and the goals of *Regional Competitiveness and Employment* in all OPs were transferred to OPPA. Resolution of the Government of the Czech Republic no. 662 of 12 September 2012 transferred a further CZK 1.6 billion from OP *Education for Competitiveness* to OP *Human Resources and Employment* and to OPPA while preserving the said ratios. These measures reduced the risk of an irrecoverable loss of finances in OP *Education for Competitiveness* as a consequence of the failure to satisfy the n+3/n+2 rule.

---

63 The n+3/n+2 rule is regarded as an administrative tool for ensuring smooth drawdown of finances from the SF and CF. Under this rule, an allocation for the nth year must be drawn down fully in the following three/two calendar years. The n+3 rule applies to the allocations of 2008, 2009 and 2010. The n+2 rule applies to the allocations of 2011 and 2012. The part of the budget commitments still open as of 31 December 2015, i.e. the allocation of 2013, will be automatically cancelled if the Commission does not receive an acceptable payment application for it by 31 March 2017 (Article 93 (3) of the General Regulation). Finances that are not drawn down from the relevant allocation by the end of the given year are subject to automatic cancellation of the commitment. That means that the allocation for the given year is reduced by the finances not drawn, which are returned to the EU budget.

64 Regulation of the European Parliament and of the Council (EU) No 539/2010 of 16 June 2010 approved an amendment to the General Regulation of the Council (EC) No 1083/2006 consisting in the abolition of the n+3 rule for the allocation of 2007 (amendment of Article 93 of the General Regulation). The budget commitment for 2007 was divided evenly among the six following years of the programming period.

65 In the event of a risk that the n+3/n+2 rule is not satisfied, so-called pre-payments (advances) may be used to reduce the risk of the automatic decommitment. These are finances that the Commission provided the CR for every OP at the start of the programming period. Given the set-up of the programming period, the MoRD/NCB recommends leaving the option of their use until 2013, i.e. the year when the n+3 rule for the 2010 allocation and the n+2 rule for the 2011 allocation will apply concurrently, i.e. when the individual OPs must have certified expenditure at approximately 65% of the total allocation for the OP. Nevertheless, the manner of implementation of each OP, or use of preliminary payments, is fully the responsibility of each OP's managing authority.
Another instrument that certain OPs can use in order to satisfy the n+3/n+2 rule is a specific calculation of the fulfilment of this rule when implementing major projects. In that case the allocation for an OP implementing part of its allocation via major projects may be reduced by the annual budget commitments of these major projects which were submitted by the Member State to the Commission for approval and simultaneously satisfy the requirements of Articles 40 and 94 of the General Regulation, and thus reduce the drawdown limit in the given year of implementation. The budget commitments of major projects that are used to reduce the limit for satisfying the n+3/n+2 rule have to be fully drawn within three or two years after the issuance of the Decision.

66 The level of certified expenditure, or payment applications sent to the Commission, must be at least 65% of the OP's total allocation for the 2007-2013 programming period. Managing authorities may also attain this drawdown limit by using preliminary payments, or annual commitments for major projects submitted to the Commission for approval.

67 This consists in negotiations with the managing authorities regarding an assessment of the state of the OP.

68 Resolution of the Government of the CR no. 498 of 4 July 2012: *"The government approves part III of material ref. no. 617/12 High-risk Operational Programmes – Proposals for measures designed to achieve the objectives of the National Strategic Reference Framework, including proposed measures for high-risk operational programmes, whereby CZK 1 billion will be transferred from the Operational Programme Education for Competitiveness to Operational Programme Human Resources and Employment and part of the finances of the Objective Regional Competitiveness and Employment necessary for preserving the ratios between finances of Objective Convergence and Regional Competitiveness and Employment in all operational programmes to Operational Programme Prague Adaptability."*

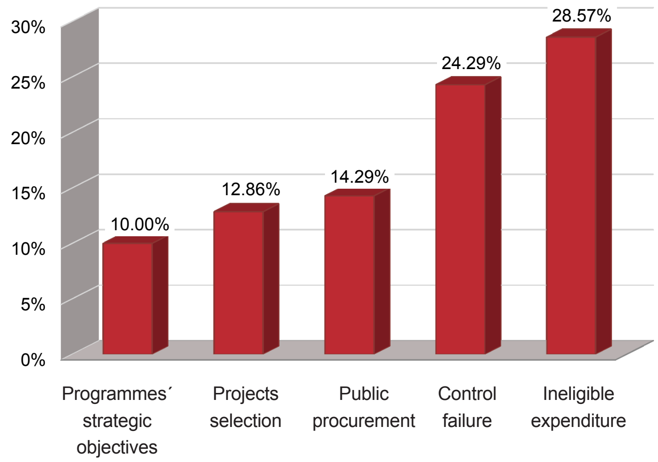
69 A separate action plan was drawn up for each high-risk OP and represents a tool for coordinating and managing the risks of the OP in question.

B.3.2 The SAO's audit work

In the period from 2007 to 2012 the SAO conducted a total of 33 audits targeting programme measures under Cohesion Policy. According to the SAO, the reasons for the problems in drawing down the allocation in certain OPs are implementation errors which the SAO has repeatedly flagged up in its audit conclusions (see also previous *EU Reports*). From the start of 2012 until the editorial deadline of the *EU Report 2013*, the SAO completed nine audits that touched on EU Cohesion Policy. Appendix 4 contains an overview of the most important findings thrown up by these audits. The types of error are as follows:

1. **The programmes' strategic objectives** are often general and, in a number of cases, are not concretised as specific targets; the achievement of objectives is hard to judge; in many cases monitoring indicators are not properly designed and monitoring fails.
2. **The mechanisms for selecting projects for financing** fail, which sometimes leads to violations of the principle of sound financial management, i.e. effectiveness, efficiency and economy.
3. **Public procurement** displays frequent errors contravening the principles of transparency, non-discrimination and equal treatment.
4. **Control systems** are in many cases assessed as only partially effective as a result of high error rates.
5. **Ineligible expenditure** comprises the largest group of errors. This includes expenditure claimed by beneficiaries for supplies and services that were delivered in insufficient scope or quality or were not supplied at all.

Graph 11 - The most significant errors-total number of errors ratio (%)



Source: the SAO audit conlusions in appendix 4 of this report.

B.3.3 Audit work of the ECA

B.3.3.1 ECA annual report

Chapters 5 and 6 of the ECA annual report on the implementation of the 2011 budget contain detailed audit findings concerning expenditure in the policy groups *"regional policy; energy and transport"* and *"employment and social affairs"*. The special assessments are based mainly on the results of testing the regularity of operations by the ECA and on an assessment of the effectiveness of the principal supervisory and control systems covering the relevant revenues and expenditure.

- **Regional policy, energy and transport**

Based on the results of transactions audits the ECA expressed the opinion that payments were materially affected by error[70]. The ECA declared that:

  - In the case of regional policy the shortcomings lay in verifications by the national authorities, above all in "first-level checks" done by the managing authorities and intermediate bodies.
  - The public procurement rules of the EU and Member States were not complied with in 25% of the audited operations, with the rules breached in a serious manner[71] in 9% of the audited operations.
  - Ineligible costs were identified in 12% of the audited operations.

- **Employment and social affairs**

Based on the results of transactions audits the ECA declared[72] that:

  - Ineligible costs were reimbursed in 13% of the 180 audited operations (eligibility errors); all of these eligibility errors related to ESF projects. These errors account for 77% of all quantifiable errors and make up approximately 73% of the estimated error rate for this policy group.
  - 3% of the 180 audited transactions concerned projects where the costs claimed for reimbursement had been incorrectly calculated (accuracy errors). These errors represent 20% of all transactions affected by quantifiable error and make up approximately 9% of the total estimated error rate.
  - Almost all of the transactions affected by non-quantifiable error found by the ECA (40 out of 42) concerned various failures by managing authorities and beneficiaries to observe procedural requirements in the management and implementation of ESF projects.

System audit

In 2011 the ECA conducted a special audit of seven audit authorities and assessed the work of the Commission as regards supervision of these authorities.

The ECA described the working of the Audit Authority of the CR as ineffective[73], because serious problems were found in almost all key requirements[74].

This assessment led to a suspension of payments – see subsection B.3.1.2. (Main problems with drawing the allocation and state of efforts to resolve them).

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

When comparing the results of the ECA's and SAO's audits it must be kept in mind that there are minor methodological differences, mainly in the way operations are selected for audit.

The ECA selects operations for the audit sample using statistical methods for a specific financial year. The scope of the ECA audit conducted in the CR in 2011, or 2012, is clear from Appendix 5. By contrast, in 2011 and 2012 the SAO selected the audit sample by a multi-criteria method and always for an audit period longer than a single financial year.

Although the ECA's and SAO's audit methods are not the same and cannot be categorically compared for a given year, the long-term conclusions show that there is a clear correlation between the two institutions' findings and both institutions find errors in the same places. These are mainly errors of ineligible costs, public procurement and deficiencies in the effectiveness of management and, above all, control systems.

---

70 Point 5.28 of the *ECA annual report for the financial year 2011*.

71 Types of serious breach of the rules:
- use of direct award without justification
- direct award of extra work without the existence of unforeseeable circumstances
- award of a contract to a sole candidate without negotiating a lower offer price
- artificial splitting of contracts
- significant changes in the scope of the assigned works.

72 Point 6.16–6.18 of the *ECA annual report for the financial year 2011*.

73 The ECA assess an audit authority as "ineffective" if it finds significant shortcomings in the annual audit report and/or annual opinion of if there are across-the-board shortcomings in fundamental elements of the audit authority's work that jeopardise the reliability of annual audit reports and annual opinions.

74 Points 5.35-5.51 and Appendix 5.2 of the *ECA annual report for the financial year 2011* refer to shortcomings in the design of management and control systems of the OP with division and separation of functions in audit authorities and between audit authorities and contradictions between the findings submitted by the audit authority to the Commission and between the results of the review of audits done by the ECA.

B.3.4 Protection of the EU's financial interests

EU-wide state of affairs

Cohesion Policy is implemented within the EU in the form of "shared management", and for that reason Member States are responsible for preventing, detecting, reporting and remedying irregularities.

According to the Commission's data[75], irregularities reported by Member States in the area of Cohesion Policy account for a fundamental share of all reported irregularities related to EU budget expenditure (almost 50% of cases reported in 2011). The following tables show the state of affairs in the reporting of irregularities in this area in the years 2001 to 2011 and their impacts on budget spending on Cohesion Policy. Development tendencies are shown in graph no. 12. After a significant jump in the number of irregularities in 2010[76] the number returned to the level that was customary in the previous years.

Table 10 - The state of affairs in the reporting of irregularities within 2007-2011 and their impacts on budget spending on Cohesion

Year	Number of irregularities	Related amount in € million	Total budget in € million	Impact on total budget
2007	3 619	652	45 327	1.44%
2008	3 691	512	46 889	1.09%
2009	4 737	1 183	48 400	2.44%
2010	7 062	1 550	49 144	3.15%
2011	3 880	1 219	50 100	2.43%

Source: OLAF Annual Report concerning the financial year 2011 and former.

Graph 12 – Developmental tendency in reporting of irregularities

Source: Commission Staff Working Document, *Statistical Evaluation of Irregularities reported for 2011, Own Resources, Natural Resources, Cohesion Policy, Pre-Accession and Direct Expenditure accompanying the document Report from the Commission to the European Parliament to the Council Protection of the European Union's financial interests - Fight against fraud Annual Report 2011.*

Caption: Number of irregularities is indicated on the left vertical axis, the related amount is on the right axis in € million.

The largest number of irregularities under Cohesion Policy in 2011 concerned finances provided out of the ERDF (64%) and ESF (26%). The majority of irregularities were reported by the following six states: Poland, Great Britain, Czech Republic, Spain, Germany and Lithuania. The following countries accounted for the largest share of the financial impact of irregularities: Czech Republic, Poland, Greece, Italy, Lithuania and Spain.

In 2011 the reported irregularities were based on fake or counterfeited documents, most of which were used to prove expenditure or the eligibility of costs for reimbursement. There were also often irregularities related to breaches of the public procurement rules.

75 Report from the Commission to the European Parliament and the Council: *Protection of the European Union's financial interests – Fight against fraud – Annual Report for 2011,* COM(2012) 408, of 19 July 2012

76 The main reasons for this increase are more intensive control work linked to the end of the 2000-2006 programming period, the full implementation of programmes of the 2007-2013 programming period and the launch of the IMS.

Czech Republic

2004-2006 programming period

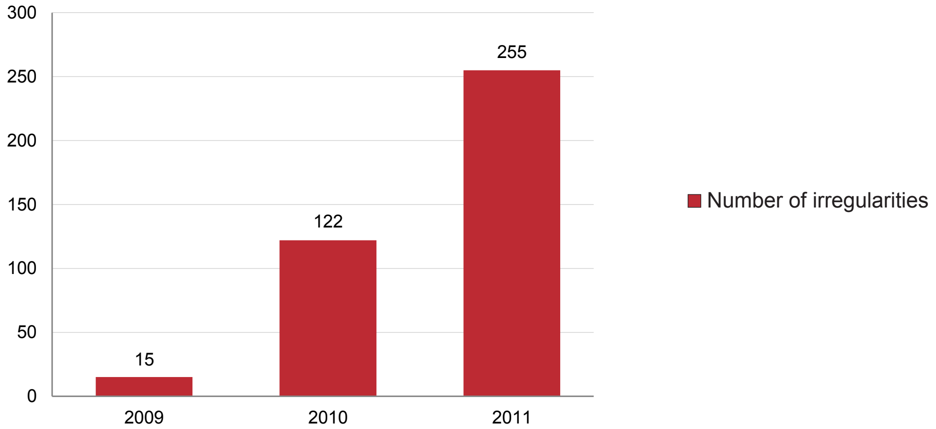
28 new[77] reports of irregularities amounting to a total value of €6.67 million were sent to OLAF for 2011 in the area of the SF and CF. 22 of these irregularities, with a value of €2.01 million concerned the SF and 6, with a value of €4.68 million concerned the CF.

The most commonly violated rules were those contained in the public procurement act (35% of irregularities), followed by the conditions laid down in legal regulations linked to the provision of support (32%). The third most common irregularity consisted in violations of the budgetary rules (25%).

2007-2013 programming period

In total 255 new[78] irregularities with a total value of €184.67 million were reported to OLAF for 2011 in the area of the SF and CF. The following graph shows the numbers of new irregularities reported to OLAF in the area of the SF and CF in different years.

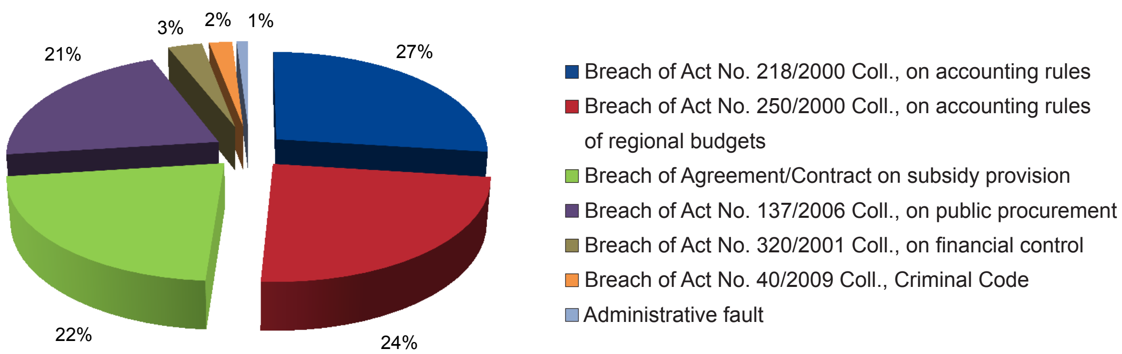
Graph 13 – The number of irregularities reported to OLAF in SF and CF in individual years



Source: *Report on the results of financial audits in public administration for 2011*, MoF 2012.

The following graph breaks down newly reported irregularities in the area of the SF and CF in 2011 related to the 2007-2013 programming period by legal qualification of the irregularity.

Graph 14 – Types of shortcomings giving rise to the irregularities in programming period 2007-2013



Source: *Report on the results of financial audits in public administration for 2011*, MoF 2012.

77 The total does not include newly reported irregularities that were closed in 2011 on the basis of an unconfirmed suspicion.
78 The total does not include newly reported irregularities that were closed in 2011 on the basis of an unconfirmed suspicion.

B.3.5 Preparatory work for the 2014-2020 programming period in the Czech Republic

The CR continued to prepare for the new programming period (2014-2020) in 2012.

In Resolution of the Government of the Czech Republic no. 610 of 22 August 2012 the government approved proposals for reducing the legislative barriers to the implementation of the SF and CF in the 2014-2020 programming period. These were recommendations to draw up amendments of Act No. 218/2000, on the budgetary rules, Act No. 250/2000, on the budgetary rules for territorial budgets, Act No. 248/2000, on support for regional development, and Act No. 47/2002, on support for small and medium-sized enterprise.

In its resolution no. 794 of 31 October 2012 the Czech government approved the updated *Framework Position on the Proposed Regulations for Cohesion Policy 2014-2020.*

In resolution no. 867 of 28 November 2012 the Czech government noted the *Material for the Preparation of a Partnership Agreement for the 2014-2020 Programming Period.* By the same resolution the government approved the course of the preparation of programmes co-financed out of the funds of the *Common Strategic Framework for the 2014-2020 Programming Period* in the conditions of the Czech Republic and the specification of operational programmes for the *European Regional Development Fund*, the *Cohesion Fund* and the *European Social Fund* in the context of the objective of *Investments for Growth and Employment*[79] and the specification of operational programmes for the *European Regional Development Fund* implemented in the context of the objective of *European Territorial Cooperation*[80].

In addition, the government instructed that a proposed system to ensure effective management and coordination of the fulfilment of the objectives of the *Partnership Agreement for Programmes Co-financed out of the Funds of the Common Strategic Framework in the Conditions of the Czech Republic* should be submitted by 30 April 2013, and that a draft Partnership Agreement[81] and the proposed OPs should be submitted by 31 May 2013 (see Annex III of Government Resolution No. 867 of 28 November 2012).

B.4 Other EU financial instruments

Other EU financial instruments comprise primarily finances allocated from the EU budget directly to applicants on the basis of public tenders, i.e. not allocated to Member States. The applicants' projects therefore have to beat international competition to gain funding. The purpose of the support is to increase cooperation levels between

79

1. OP *Enterprise and Innovation for Competitiveness*, managed by the Ministry of Industry and Trade;
2. OP *Research, Development and Education*, managed by the MoEYS;
3. OP *Employment*, managed by the Ministry of Labour and Social Affairs;
4. OP *Transport*, managed by the Ministry of Transport
5. OP *Environment*, managed by the Ministry of the Environment;
6. *Integrated Regional Operational Programme*, managed by the MoRD;
7. OP *Prague – Growth Pole of the CR*, managed by the Prague City Hall;
8. OP *Technical Assistance*, managed by the MoRD.

80

1. OP *Cross-border Cooperation between the Czech Republic and Republic of Poland*, managed by the MoRD;
2. OP *Cross-border Cooperation between the Slovak Republic and the Czech Republic*, coordinated in the CR by the MoRD;
3. OP *Cross-border Cooperation between the Republic of Austria and the Czech Republic*, coordinated in the CR by the MoRD;
4. OP *Cross-border Cooperation between the Free State of Bavaria and the Czech Republic*, coordinated in the CR by the MoRD;
5. OP *Cross-border Cooperation between the Free State of Saxony and the Czech Republic*, coordinated in the CR by the MoRD;
6. OP *Transnational Cooperation Central Europe*, coordinated in the CR by the MoRD;
7. OP *Interregional Cooperation*, coordinated in the CR by the MoRD.
8. OP International Cooperation, coordinated in the CR by the MoRD.

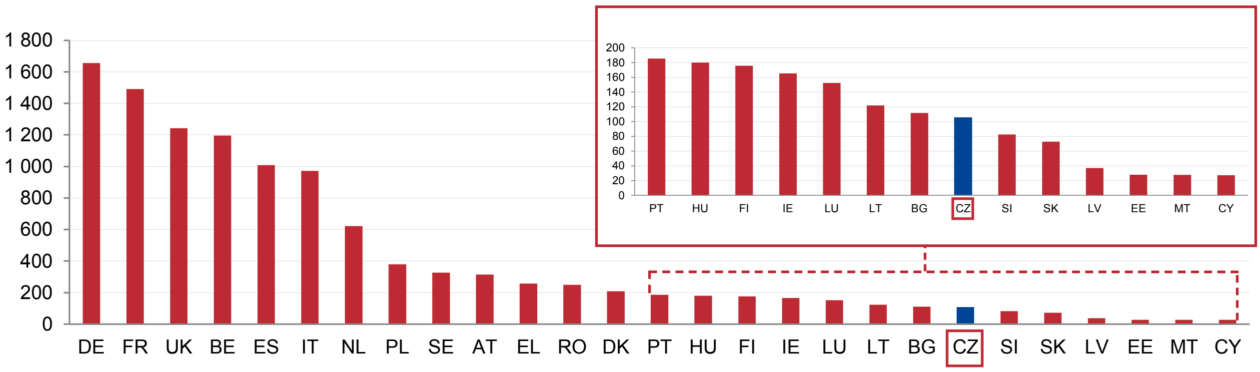
81 On 22 November 2012 representatives of the Directorates-General of the Commission in Prague presented a Position Paper that represents the Commission's priorities for the further use of finances of the European funds in the CR in the 2014-2002 programming period.
The Commission's Position Paper is a material that will underpin the Commission's negotiations with the CR on the substance of the Partnership Agreement and on programmes of the *Common Strategic Framework*, which are key documents establishing the focus and manner of drawdown of finances from the EU for the coming period.
The Commission calls on the Czech side to make more effective use of finances. The CR is prepared to respond to this by narrowing the focus of future OPs, setting up a friendlier methodological environment and reducing the number of supported activities. More specifically, the Commission appeals for the building of effectively working transport, information, energy and environmental infrastructure, for the strengthening of regional cohesion and for effective public administration that would guarantee high-quality services, a transparent business environment and the enforceability of law.
The Commission's Position Paper also focuses on boosting the competitiveness of Czech firms and criticises the unsuitably designed system of research and innovation. In view of this the CR plans to speed up the structural shift of the national economy towards a knowledge-based economy, to boost the competitiveness of enterprises through innovation and to create a better-quality educational system closely linked to the labour market. (Source: http://www.mmr.cz/cs/Evropska-unie/Kohezni-politika-EU/Informace-a-aktuality/Pozice-Evropske-komise-k-priprave-Dohody-o-partner)

Member States and find more effective solutions to common problems affecting specific EU policies. A general rule for gaining support is that a partnership has to be established between entities from different states and “European added value” has to be created by projects declaring a supranational significance.

These other financial instruments account for a very small share of the total budget. In the EU financial framework for 2007-2013 they mainly fall under the headings *Sustainable Growth; Citizenship, Freedom, Security and Justice;* and *External Aid, Development and Enlargement.* Financing takes place mainly through Community programmes. Other sources of financing include the IPA pre-accession instrument and funds for achieving the objectives of the EU’s migration and asylum policy.

The following graph shows the drawdown of finances from other financial instruments in EU Member States in 2011. The largest amount of funding was drawn by Germany (€1.66 billion), France (€1.49 billion), Great Britain (€1.24 billion) and Belgium (€1.20 billion). The CR, along with Lithuania, Bulgaria, Slovenia and Slovakia, ranks among a group of states with a drawdown of around €100 million. The least funding was drawn down by Estonia (€28 million), Malta (€28 million) and Cyprus (€27 million).

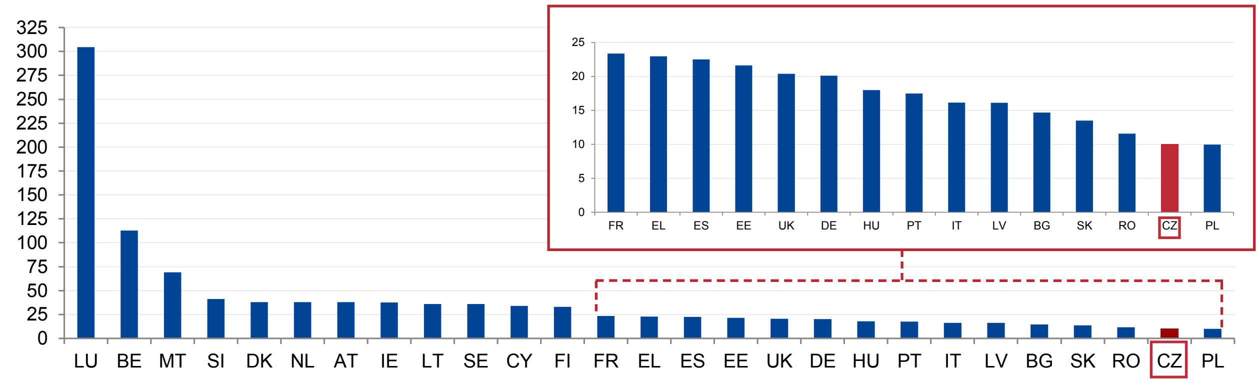
Graph 15 – The drawdown of finances from other financial instruments in EU Member States in 2011 **(€ million)**



Source: *EU budget 2011 – Financial Report*, European Commission.
Abbreviations: see Graph 2 (p. 12).

Along with Poland, the CR is at the very bottom of the table of EU Member States in terms of the success of drawing other financial instruments: the CR’s drawdown converts to just €10 per capita, while the average value of this indicator is approximately €40. At the other end of the table is Luxembourg, with more than €300 per capita.

Graph 16 – The drawdown of finances from other financial instruments by one citizen in EU Member States in 2011 **(€)**



Source: *EU budget 2011 – Financial Report*, European Commission.
Abbreviations: see Graph 2 (p. 12).

B.4.1 Other EU financial instruments in the CR

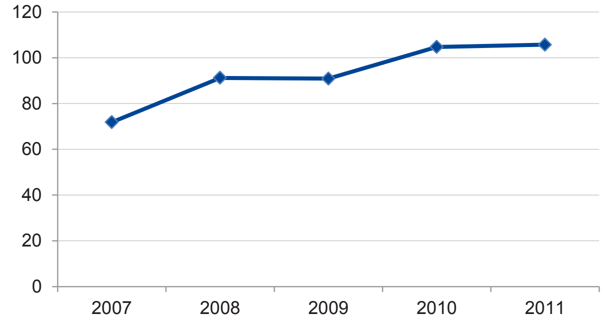
In most cases, other EU financial instruments are covered by centralised management by the relevant unit of the Commission and merely have a contact point at the programme coordinators in the CR. There are some exceptions, e.g. programmes *Lifelong Learning* and *Youth in Action*, which are implemented indirectly in the CR through "national agencies".

In 2011[82] beneficiaries of other financial instruments in the CR obtained in total approx. €105.7 million (i.e. approx. CZK 2.6 billion[83]), which is almost the same amount as in 2010 (€104.7 million).

After a gradual increase in drawdown from these sources by entities in the CR between 2006 and 2008, the subsequent period was one of stagnation. The CR's total drawdown as a percentage of total EU drawdown under other financial instruments is constant at just 1%.

Graph 17 shows the development in drawdown of other EU financial instruments in the CR from 2007 to 2011.

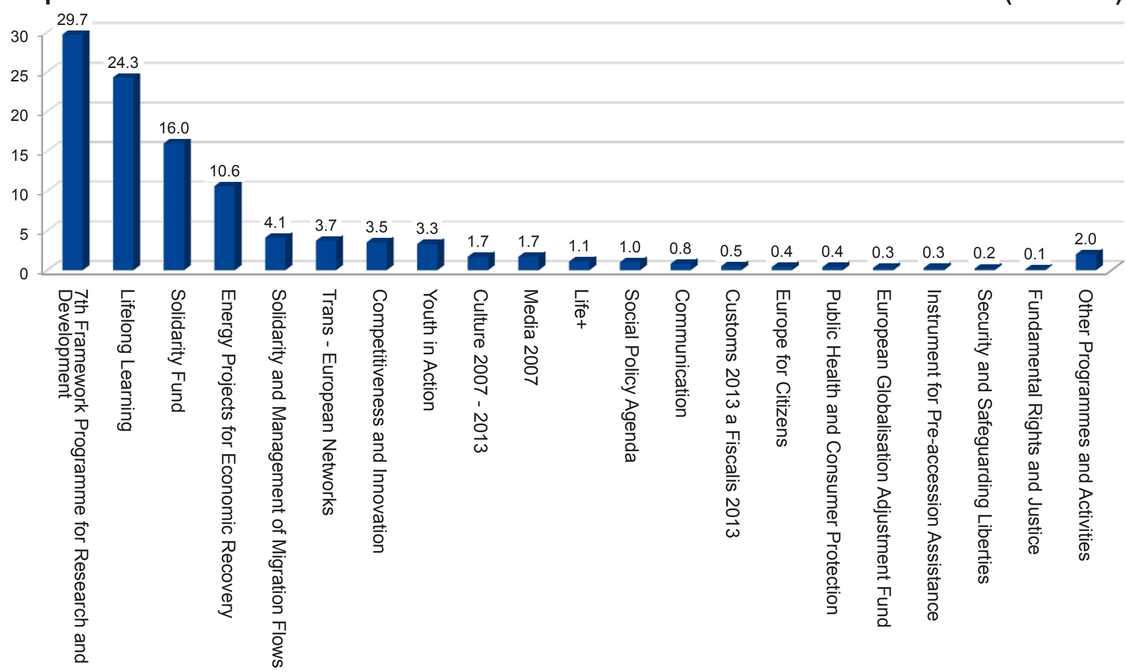
Graph 17 – The drawdown of finances from other financial instruments in the CR within 2007-2011
(€ million)



Source: *EU budget 2011 – Financial Report* and former, European Commission.

The following graph details the structure of the use of other financial instruments in the CR in 2011.

Graph 18 – Use of other financial instruments in the CR in 2011 **(€ million)**



Source: *EU budget 2011 – Financial Report*, European Commission

82 *EU budget 2010 – Financial Report*, European Commission.

83 The Czech National Bank's average exchange rate for 2011 was used for the conversion: 24.586 CZK/€.

B.4.2 Financial management and audit

B.4.2.1 The SAO's audit work

In June 2012 the SAO Board approved the audit conclusion of audit no. 11/27 *Finances Earmarked for Achievement of the Objectives of the Common Migration and Asylum Policy of the European Union*, which sought to check whether the conditions for the provision and drawdown of financing from the *European Refugee Fund,* the *European Return Fund,* the *External Borders Fund* and the *European Fund for the Integration of Third-country Nationals* were complied with in the efforts to achieve the goals of the EU's migration and asylum policy. During the audit the SAO qualified shortcomings in the management and control system in several areas. For example:

- the selection criteria for assessing and selecting projects did not include the criterion that the projects should complement other EU-funded programmes;
- as regards financial and technical monitoring, concrete objectives and measurable indicators were not set for assessment purposes at the level of certain annual programmes;
- the SAO identified failings in 7 of the 10 audited cases based on the repeated conduct of audits prior to payment and in 2 out of 3 audited cases based on follow-up public administration controls;
- cases of violations of the principles of transparency, non-discrimination and equal treatment in public procurement were found among support beneficiaries;
- other shortcomings consisted in the reimbursement of expenditure contrary to the eligibility rules in consequence of the overall management of projects on a subcontractor basis and the acceptance of defective, unproven and unnecessary performance.

The proportion of the identified shortcomings identified by the SAO as ineligible costs was 6.7%. Based on the scrutiny of the key elements of the management and control system, this system was assessed overall as partially effective.

B.4.2.2 Audit work of the ECA

The ECA's annual report for 2011 mentions other EU financial instruments mainly in the context of its conclusions on the policy groups *"external aid, development and enlargement"* and, above all, *"research and other internal policies."*

In connection with the DAS the ECA stated that payments in the policy group *"external aid, development and enlargement"* were not materially affected by error. However, roughly a third of the amount paid out, which comprised interim and final payments, was materially affected by error. Based on its audit the ECA assessed the supervisory and control systems as partially effective. In the policy group *"research and other internal policies"* the ECA reached the conclusion that payments were materially affected by error. It assessed the supervisory and control systems as partially effective.

In 2011 the ECA performed an audit in the CR (for DAS 2011) targeting the implementation of the CAMINEMS grant-based research project that falls under the *Seventh Framework Programme of the European Community for Research, Technological Development and Demonstration Activities* in the 2007-2013 programming period. The audit, which took place at the University of Pardubice, found no shortcomings. Yet the overall results of the audit in selected Member States found that 68% of the tested operations were materially affected by error (46 out of 68), with the vast majority of errors (89%) affecting interim and final payments.

In November 2011 the ECA conducted a performance audit in the CR and four other Member States[84] targeting expenditure and management of the *European Refugee Fund* and the *European Fund for the Integration of Third-country Nationals* with a view to judging whether the SOLID[85] programme was effectively contributing to the integration of third-country nationals in the EU through the *European Fund for the Integration of Third-country Nationals* and the *European Return Fund*. The audit also scrutinised the Member States' management and

84 Besides the CR, in Germany, Luxembourg, Portugal and the United Kingdom.

85 The general programme *Solidarity and Management of Migration Flows for the 2007-2013 Period*, which is composed of four funds (*European Refugee Fund, European Return Fund, External Borders Fund* and *European Fund for the Integration of Third-country Nationals)*.

control systems. The audit's output was special report no. 22/12[86], whose conclusions criticise primarily the funds' insufficient effectiveness, resulting from fragmented nature of their in their design, inadequate coordination with other EU funds and shortcomings in the management and control systems. The ECA pointed out an absence of effective systems for monitoring and assessment, as well as shortcomings in the incorporation of SMART[87] goals in the programmes. In addition, the indicators used to assess effectiveness did not provide comparable data.

B.4.3 Protection of the EU's financial interests

Direct EU budget expenditure realised as part of direct centralised management by the Commission, which comprises the vast majority of other financial instruments, are recorded in the ABAC[88] system, which enables the Commission to execute and monitor all budgetary and accounting operations. In this system in 2011, the Commission registered a total of 922 recovery orders (0.8% of all recovery cases) that were qualified as irregularities, with a total value of €51.4 million[89]. 34 of these cases with a total value of €1.5 million were reported to OLAF as suspicions of fraud. OLAF is authorised to determine the nature of an irregularity by an investigation. The majority of suspicions of fraud and, simultaneously, the biggest financial volume concerned budget items in the area of the EU's external activities.

In the case of entities based in the CR, there were 13 irregularities in 2011 with a financial value of €42,900 and one suspicion of fraud amounting to €10,000.

86 Special report no. 22/2012 *"Do the European Integration Fund and the European Refugee Fund contribute effectively to the integration of third-country nationals?"*, ECA 2012.

87 SMART objectives are "specific, measurable, achievable, relevant, and timely".

88 Accrual Based Accounting.

89 Document accompanying the Report from the Commission to the European Parliament and Council: *Protection of the European Union's financial interests – Fight against fraud Annual Report for 2011,* SWD(2012) 229, of 19 July 2012.

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

C.1 Legal matters

The SAO publishes its suggestions for modifications to the legal environment in the approved audit conclusions of individual audits or presents them in the interdepartmental consultation process on new legislation, which is procedurally governed by the *Government Legislative Rules*.

Article 6 of Act No. 166/1993, on the Supreme Audit Office, provides that both chambers of the Parliament of the CR and their bodies are authorised to request the SAO's opinion on draft legislation concerning fiscal management, accounting, state statistics and the performance of control, supervisory and inspection work. In 2012, however, these bodies did not file any formal requests making use of this authorisation.

In previous years, the leading issue was that of the possible extension of the SAO's competence through a change in the Constitution of the CR and the act on the SAO. Both proposals were submitted for consultation by the government.

Significant changes in the legal environment made in the previous period with the SAO's active participation include the amendment of the act on the SAO, the adoption of a new act on control and an amendment of the budgetary rules.

C.1.1 Proposal for an extension of the SAO's competence

In 2012 the Chamber of Deputies of the Parliament of the CR debated the government draft of an amendment to Article 97 of the Constitution of the CR, whose aim was to extend the SAO's competence, mainly to enable scrutiny of the management of the assets of legal persons of a public nature and territorial self-governing units, and the related draft amendment of the act on the SAO. The comments the SAO submitted regarding the government drafts were presented at sessions of the relevant committees of the Chamber of Deputies. The Chamber of Deputies approved both drafts in the wording of the adopted change proposals, but the Senate did not approve the draft amendment of the Constitution of the CR and rejected the draft amendment of the act on the SAO. As a result of the non-acceptance of the related amendment of the Constitution, the Chamber of Deputies failed to outvote the Senate's veto on the amendment of the act on the SAO, so both proposals remained unapproved in February 2013.

At present, two members' draft amendments of the Constitution and the act on the SAO, which are to a great extent identical in substantive terms and are based on the non-adopted government drafts of these amendments, have been submitted to the Chamber of Deputies.

C.1.2 Amendment of the act on the SAO

The act on the SAO was amended twice in 2012, by Act No. 239/2012 and Act No. 255/2012. The first amendment widened the SAO's audit powers to include access to data and information from the central system of state accounting information. The second amendment took the SAO out of the scope of the new act on control.

C.1.3 Act on control

In 2012 Act No. 255/2012, on control (the control rules), entered into effect. With effect from 1 January 2014 this will replace the previous Act No. 552/1991, on state control.

The fundamental goal of the new legislation is to preserve and respect to the greatest possible degree the legal certainty of persons subject to control, while simultaneously enabling the control body effectively to enforce the implementation of control-related obligations, thus enabling the effective and efficient performance of control and achievement of its purpose. This is directly linked to the rules on coercive resources in the form of fines, whose maximum limit is much higher than the previous limit set by the act on state control or the level of fines that can be imposed under the administrative rules of procedure. The new control rules also put in place the right conditions for cooperation and coordination in control work and for the publishing of control results in order to boost transparency.

C.1.4 Amendment of regulations in accordance with the SAO's recommendations

In the interdepartmental consulting process based on the *Government Legislative Rules* the SAO gives its opinion on draft legislation that affects it as an organisational component of the state or affects its competency. In 2012 the SAO submitted comments on 37 drafts.

Act No. 171/2012 issued the "anti-corruption amendment" of Act No. 218/2000, on the budgetary rules and amending certain related acts. This amendment mainly deals with additional requisites of applications for grants or returnable financial assistance, namely data on the ownership and controlling structure of grant applicants, and additional provisions making it obligatory to publish on the internet all information related to decision-making on grants and returnable financial assistance. The SAO's comments, which mainly concerned the precision of formulations, were mostly accepted by the author of the legislation.

C.1.5 SAO recommended changes to the law that have not yet been adopted

In the draft act amending Act No. 250/2000, on the budgetary rules of territorial budgets, the SAO's previous comment on its legislative intention was taken into account. This comment, made in connection with the SAO's findings during audit no. 09/26 *Finances Earmarked under Regional Operational Programmes for Transport Infrastructure Projects*, drew attention to the issue of the provision of funding by the Regional Councils of cohesion regions on the basis of private-law contracts[90]. The draft amendment provides that funding or returnable financial assistance are to be provided on the basis of public-law contracts. The draft of this amendment was discussed by the government on 27 March 2013 and submitted to the Chamber of Deputies on 22 April 2013.

In 2012 the SAO also took part in the consultation process on a draft constitutional act on fiscal responsibility, which envisages the entire government sector being consistently covered by numerical fiscal rules, the establishment of a maximum limit for government debt, tighter budgetary rules for territorial self-governing units, the establishment of a *National Budgetary Council* and the stipulation of transparency rules for publishing selected information. This draft is intended to transpose partially into Czech law Council Directive 2011/85/EU of 8 November 2011, on requirements for budgetary frameworks of the Member States. The draft constitutional act approved by the government was put before the Chamber of Deputies, where it had its first reading on 6 February 2013 and was sent to the budgetary committee for discussion.

C.2 International activities of the SAO

During 2012 the SAO continued its joint audit activities with the SAIs of EU Member States which play the role of independent external auditors of public finances. Through its representatives it also took part in the activities of several working groups whose work seeks to assess the development of the financial management of EU finances, including measures adopted to mitigate the impacts of the economic and financial crisis.

C.2.1 Audit work

In 2012 there was bilateral cooperation between the SAO and BRH focusing on audit of contracting procedures in public procurement and the prevention of corruption in transport infrastructure construction. Based on the results of this work, findings and recommendations to limit corruption in the public procurement process were formulated. When comparing the public procurement practice in the two countries, the national legislation and, above all, the EU's legislative requirements were assessed.

At the end of 2012 the SAO also began cooperation with the NIK. This cooperation entails a coordinated audit intended to scrutinise the provision and drawdown of finances earmarked for the implementation of OP *Cross-border Cooperation Czech Republic – Republic of Poland 2007-2013*. As part of the audit, the SAO and NIK will focus on ERDF-financed projects and will assess the working of the OP implementation structure, which is composed of entities from both countries. The coordinated audit was formally commenced by the signing of a joint agreement between the top-level representatives of the two audit institutions on 27 February 2013.

---

90 For more details see *EU Report 2011*, Chapter C.1.1 *Legislation on contracts on the provision of aid under ROPs.*

C.2.1.1 Audit missions of European institutions in the Czech Republic

The ECA fulfils the key role in external audit of EU budget finances. In 2012 the ECA undertook seven audit missions in the CR, during which the SAO coordinated information exchange between the ECA and the audited entities. SAO auditors took part in these missions as observers. In several other cases ECA auditors requested the SAO's cooperation in acquiring materials for studies being drawn up or for verifying information. An overview of the ECA audit missions, including correspondence enquiries, is presented in Appendix 5.

SAO auditors did not take part in any Commission audit mission in 2012. The focus and times of five audits conducted by the Commission during 2012 in the CR are given in Appendix 6.

C.2.1.2 International cooperation in the context of the activities of the Contact Committee[91]

In 2012 the main topics dealt with by the Contact Committee were the role of SAIs in preparing the long-term EU financial framework for the 2014-2020 programming period and experiences with the performance of audits in areas currently responding to the development of the economic and financial crisis in the EU. During 2012 SAO representatives played an active part in the work of the Contact Committee working groups listed below.

The work of the working groups for assessing the possibilities of cooperation between EU Member States' SAIs and Eurostat[92] and national statistical institutions was based on the current concept of Eurostat, one of whose aims is to strengthen cooperation with the SAIs of Member States in the area of improving and guaranteeing the quality of government statistics on budget deficits and public debt. During 2012 the SAO began cooperation with the Czech Statistical Office to assess the reliability and comparability of source data.

The Working Group on Structural Funds V analysed the Commission's work designed to simplify the conditions for drawing from the SF and assessed the implementation of these measures and their impact in Member States.

As part of the work of the *Network on National SAI Reports on EU Financial Management* the SAO took part in the process of mapping usable and reliable information sources. It prepared a questionnaire-based survey focusing mainly on the identification and means of transfer of the relevant information flows. Sharing this information could help increase the number of SAIs drawing up these national reports[93] and could improve the comparability of such reports.

The Joint Working Group on Audit Activities facilitates and coordinates the transfer of technical and expert knowledge to the SAIs of countries seeking to join the EU. In collaboration with SIGMA[94] the working group played an active role in preparing and organising a seminar on audit quality management that was held in Prague in April 2012. During the seminar the participants exchanged experiences with the application of the ISSAI and ISQC-1 international audit standards in the process of ensuring the quality of audit work.

As part of the work of the Joint Working Group on Audit Activities the SAO is also helping prepare an international seminar on performance audit being organised by the Commission and scheduled for May 2013 in Belgium. The aim of the seminar is to emphasise the importance of performance audit in the control of public finances and to promote its long-term sustainable development in the SAIs of EU Member States and candidate countries.

The SAO was also involved in the work of newly founded working groups of the Contact Committee in 2012. These working groups assess the tasks and role of external public audit in the conditions of the current evolution of the EU's economic management and look into the suitability of the use of international public sector accounting standards (IPSAS), including analysing the possible ways that SAIs can play an active role in the process of drawing up EU standards.

Information about the work of all the working groups can found on the Contact Committee's web site (www.contactcommittee.eu, *Status Outline 2012*).

91 The Contact Committee is a grouping of the leading representatives of the SAIs of EU Member States and the ECA.

92 Eurostat is the EU statistics authority.

93 By the end of 2012, 13 SAIs had drawn up at least one edition of the report on the financial management of EU finances.

94 SIGMA (Support for Improvement in Governance and Management) is a joint initiative of the EU and the Organisation for Economic Co-operation and Development primarily funded by the EU that seeks to promote public administration reforms in candidate countries, potential candidate countries and European Neighbourhood Policy countries.

D. Literature and sources

1) Agroweb – agricultural news server, report of 21 January 2013

2) *Action Plan for Improving the Management and Control System in the Context of the Structural Funds and Cohesion Fund in the CR*, part of a letter by the Director-General for Regional Policy of 20 March 2012

3) *Current State of Implementation of the RDP for the Years 2007–2013*, material accessible on www.eagri.cz.

4) Commission Staff Working Document: *Statistical Evaluation of Irregularities reported for 2011 Own Resources, Natural Resources, Cohesion Policy, Pre-Accession and Direct Expenditure* SWD(2012) 229 of 19 July 2012

5) Council recommendation no. 11248/12 of 6 July 2012

6) Document accompanying the Report from the Commission to the European Parliament and Council: *Protection of the European Union's financial interests – Fight against fraud Annual Report for 2011,* SWD(2012) 229, of 19 July 2012

7) *EU budget 2011 – Financial Report*, European Commission 2012

8) EUCO 37/13 of 8 February 2013

9) Information of the MoF, National Fund department – Paying and Certifying Authority

10) Information of the MoF of 21 February 2013, department Audit body - CHU

11) Audit conclusion 09/26 *Regional Operational Programme Finances Earmarked for Transport Infrastructure Projects*

12) Audit conclusion 11/15 *Finances Earmarked for Improving the Quality of Life in Rural Areas under the Rural Development Programme*

13) Audit conclusion 11/16 *Finances Earmarked for the Construction of a Ring Road around the City of Prague*

14) Audit conclusion 11/17 *European Union and State Budget Finances Earmarked for the Initial Education Priority Axis of the Operational Programme Education for Competitiveness*

15) Audit conclusion 11/18 *Finances Earmarked for the Development of Urban and Rural Areas under the Regional Operational Programme of the North-East Cohesion Region for the Period 2007-2013*

16) Audit conclusion 11/19 *Finances Earmarked for the Stabilisation and Development of Urban and Rural Areas under the Regional Operational Programme of the South-West Cohesion Region for the Period 2007-2013*

17) Audit conclusion 11/20 *Finances Earmarked for the Urban Development under the Regional Operational Programme of the Moravian-Silesian Cohesion Region for the Period 2007-2013*

18) Audit conclusion 11/27 *Finances Earmarked for Achieving the Goals of the European Union's Common Migration and Asylum Policy*

19) Audit conclusion 11/35 *Finances from the European Social Fund Pre-financed and Co-financed from the State Budget Earmarked for Projects Implemented in the Territory of the City of Prague*

20) Audit conclusion 12/02 *European Union and State Budget Finances Earmarked for the Implementation of the Integrated Operational Programme*

21) Audit conclusion 12/06 *Finances Earmarked for the Implementation of Projects of the Priority Axis Integrated Territory Development under the Regional Operational Programme for the Central Bohemia Cohesion Region for the Period 2007-2013*

22) Audit conclusion 12/10 *Finances Earmarked for Limiting Industrial Pollution and Environment Risks*

23) *Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community* (2007/C 306/01) of 13 December 2007

24) *Methodology of Financial Flows and Control of Programmes Co-financed out of the Structural Funds, Cohesion Fund and European Fisheries Fund for the Programming Period 2007-2013,* MoRD

25) *Monthly monitoring report on the course of drawdown from the Structural Funds, Cohesion Fund and National Sources in the Programming Period 2007-2013*, MoRD, January 2013

26) 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 Council Regulation (EC) No 1083/2006. Amended proposal for a Regulation COM(2012) 496, final, 11 September 2012

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

28) 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 Fund for Regional Development*, 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*

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

30) Council Regulation (EU) No 967/2012 of 9 October 2012 amending Implementing Regulation (EU) No 282/2011 as regards the special schemes for non-established taxable persons supplying telecommunications services, broadcasting services or electronic services to non-taxable persons

31) Council Regulation (EC) No 1083/2006 laying down general provisions on the *European Fund for Regional Development*, the *European Social Fund* and the *Cohesion Fund* and repealing Regulation (EC) No 1260/2999 of 11 July 2006

32) Proposal for a Regulation of the European Parliament and of the Council on the strengthening of economic and fiscal surveillance of member states with serious difficulties with respect to their financial stability in the euro area, COM(2011) 819, final, 23 November 2011

33) 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 debt of the Member States in the euro area, COM(2011) 821, final, 23 November 2011

34) Proposal for a Council Regulation amending Implementing Regulation (EU) No 282/2011 as regards the place of supply of services, COM(2012) 763 of 18 December 2012

35) Proposal for a Council Decision laying down implementing measures for the system of own resources of the European Union, COM(2011) 511 of 29 June 2011

36) Proposal for a Council Regulation laying down the multiannual financial framework for the years 2014-2020, COM(2011) 398 of 29 June 2011

37) Proposal for a Council Regulation on the methods and procedure for making available traditional own resources and GNI-based own resources and on the measures to meet cash requirements, COM(2011) 512 of 29 June 2011

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

39) Proposal for a Council Directive amending Directive 2006/112/EC on the common system of value added tax as regards a *quick reaction mechanism* against VAT fraud, COM(2012) 428 of 31 July 2012

40) SAIF materials – overview of SAIF finances disbursed in the main areas of the CAP in 2012

41) *Principles of the Structuring and Distribution of Direct Payments and Measures under the Rural Development Programme in the Conditions of the CR for the 2014-2020 Period*, annex to an MoA press release of 21 January 2013

42) Commission Implementing Regulation (EU) No 815/2012 of 13 September 2012 laying down detailed rules for the application of Council Regulation (EU) No 904/2010, as regards special schemes for non-established taxable persons supplying telecommunications, broadcasting or electronic services to non-taxable persons

43) *Agriculture 2011* publication, MoA materials

44) Council Decision No 2007/436/EC, Euratom, on the system of the European Communities' own resources

45) Commission Decision on the setting up of the EU VAT forum of 3 July 2012 (*EU Official Journal*, C 198/05 of 6 July 2012)

46) Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions *A Budget for Europe 2020*, Part II: Policy fiches, COM(2011) 500 of 29 June 2011

47) Communication from the Commission to the European Parliament, the Council and 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

48) Communication from the Commission *Annual Growth Survey 2012*, COM(2011) 815, final, 23 November 2011

49) Communication from the Commission *Annual Growth Survey 2013*, COM(2012) 750, final, 28 November 2012

50) Communication from the Commission *Europe 2020 A Strategy for Smart, Sustainable and Inclusive Growth*, COM(2010) final, 3 March 2010

51) Directive of the European Parliament and of the Council on the fight against fraud to the Union's financial interests, COM(2012) 363, approved on 11 July 2012

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

53) Council Directive 2010/45/EU of 13 July 2010 amending Directive 2006/112/EC on the common system of value added tax as regards the rules on invoicing

54) Opinion No 2/2012 on an amended proposal for a Council Decision on the system of own resources of the European Union – COM(2011) 739, on an amended proposal for a Council Regulation laying down implementing measures for the system of own resources of the European Union – COM(2011) 740, on an amended proposal for a Council Regulation on the methods and procedure for making available the *traditional and GNI-based own resources* and on the measures to meet cash requirements – COM(2011) 742, on a proposal for a Council Regulation on the methods and procedure for making available the *own resource based on the VAT* – COM(2011) 737, on a proposal for a Council Regulation on the methods and procedure for making available the own resource based on the financial transaction tax – COM(2011) 738 of 18 April 2012

55) European Parliament resolution on Investing in the future: a new Multiannual Financial Framework for a competitive, sustainable and inclusive Europe, 8 June 2011 (*EU Official Journal*, C 380 E/89 of 11 December 2012)

56) Resolution of the Government of the Czech Republic no. 271 of 11 April 2012, on the National Programme of Reforms of the Czech Republic 2012

57) Resolution of the Government of the Czech Republic no. 309 of 25 April 2012, on the Convergence Programme of the Czech Republic

58) Resolution of the Government of the CR no. 662 of 12 September 2012, assessment of the analysis of the fulfilment of the n+3/n+2 rule in OP *Education for Competitiveness* in the years 2012-2015

59) Resolution of the Government of the CR no. 498 of 4 July 2012 on the document entitled High-risk Operational Programmes - Proposed measures designed to achieve the goals of the National Strategic Reference Framework

60) Resolution of the Government of the CR no. 610 of 22 August 2012 on the proposal for reducing the legislative barriers for the implementation of the European Union Structural Funds and the *Cohesion Fund* in the Programming Period 2014 to 2020

61) Resolution of the Government of the CR no. 794 of 31 October 2012 on the updated Framework Position on the Proposed Regulations for Cohesion Policy 2014-2020

62) Resolution of the Government of the CR no. 867 of 28 November 2012 on the preparation of programmes co-financed out of the funds of the *Common Strategic Framework* for the Programming Period 2014 to 2020 in the conditions of the CR

63) Annual Report of the Supreme Audit Office for 2012

64) *ECA annual report concerning the financial year 2011*, ECA 2012, available at www.eca.eu

65) *Annual report on the work of the SAIF and drawdown of finances for 2009*, SAIF 2010

66) *Annual report on the work of the SAIF and drawdown of finances for 2010,* SAIF 2011

67) *Annual report on the work of the SAIF and drawdown of finances for 2011,* SAIF 2012

68) Act No. 137/2006, on public procurement

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

70) Act No. 171/2012, amending Act No. 218/2000, on the budgetary rules and amending certain related acts (the budgetary rules), as amended, and Act No. 250/2000, on the budgetary rules for territorial budgets, as amended

71) Act No. 235/2004, on value added tax, of 1 April 2004

72) Act No. 239/2012, amending Act No. 563/1991, on accounting, as amended, and other related acts

73) Act No. 250/2000, on the budgetary rules for territorial budgets

74) Act No. 255/2012, on control (the control rules)

75) Act No. 500/2012, amending tax, insurance and other acts in connection with the reduction in the deficits of public budgets, of 19 December 2012

76) Act No. 502/2012, amending Act No. 235/2004, on value added tax, as amended, and other related acts, of 19 December 2012

77) Report from the Commission to the European Parliament and the Council: *Protection of the European Union's financial interests – Fight against fraud – Annual Report for 2009*, COM(2010) 382, of 14 July 2010

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

79) Report from the Commission to the European Parliament and the Council: *Protection of the European Union's financial interests – Fight against fraud Annual Report for 2011,* COM(2012) 408, final, 19 July 2012

80) *Report on the results of financial controls in public administration for 2011*, MoF 2012

81) Special report no. 7/2012 – *The reform of the common organisation of the market in wine: Progress to date*, ECA 2012

82) Special report no. 8/2012 – *Targeting of aid for the modernisation of agricultural holdings*, ECA 2012

83) Special report no. 11/2012 – *Suckler cow and ewe and goat direct aids under partial implementation of SPS arrangements*, ECA 2012

84) Special report no. 16/2012 – *The effectiveness of the Single Area Payment Scheme as a transitional system for supporting farmers in the New Member States*, ECA 2012

85) Special report no. 22/2012: *Do the European Integration Fund and the European Refugee Fund contribute effectively to the integration of third-country nationals?*, ECA 2012

Web pages used:

- http://www.agroweb.cz
- http://www.eagri.cz
- http://ec.europa.eu
- http://www.eca.eu
- http://www.eurosai.org
- http://www.intosai.org
- http://www.contactcommittee.eu
- http://www.dotacni.info/strategicke-dokumenty-eu-a-jejich-vliv-na-tvorbu-narodnich-strategii
- http://www.mfcr.cz
- http://www.mmr.cz/cs/Evropska-unie/Kohezni-politika-EU/Informace-a-aktuality/Pozice-Evropske-komise-k-priprave-Dohody-o-partner
- http://www.nku.cz
- http://www.strukturalni-fondy.cz
- http://www.szif.cz
- http://www.vlada.cz

E. Appendices

Appendix 1 – Spending of allocation in the programming period 2004-2006 as of 31.12.2012

Operational Programme	Allocation 2004-2006	Total paid out by Commission	Spent from allocation	Final payment received	Amounts to be further negotiated with Commission [1]
	(€)	(€)	(%)	(date)	(€)
***Joint regional OP* - total**	**454 332 571**	**452 063 768**	**99.50%**		**810 732**
Joint regional OP - ERDF	407 055 051	406 487 040	99.90%	8. 8. 2012	568 011
Joint regional OP - ESF	47 277 520	45 576 728	96.40%	5. 10. 2011	242 721
OP *Rural Development and Multifunctional Agriculture* - total	**173 901 427**	**169 158 216**	**97.30%**		
OP RDMA - EAGGF	169 790 354	165 395 619	97.40%	28. 12. 2011	
OP RDMA - FIFG	4 111 073	3 762 597	91.50%	23. 1. 2012	
OP *Industry and Enterprise*	260 852 142	250 920 520	96.20%	13. 8. 2012	7 949 043
OP *Infrastructure*	246 360 355	243 032 860	98.60%	13. 8. 2012	3 327 495
OP *Human Resources Development*	318 819 283	318 819 283	100.00%	15. 12. 2011	
Objective 1 total	**1 454 265 778**	**1 433 994 647**	**98.60%**		**12 087 270**
SPD 2	71 295 400	68 517 781	96.10%	25. 7. 2012	2 777 619
SPD 3	58 793 363	58 793 363	100.00%	11. 11. 2011	
SPD total	**130 088 763**	**127 311 144**	**97.90%**		**2 777 619**
EQUAL	32 100 929	32 100 929	100.00%	14. 9. 2011	
Interreg Poland [2]	34 502 947	34 502 947	100.00%	19. 1. 2011	
Interreg Saxony	13 036 240	12 384 357	95.00%	X [3]	
Interreg Bavaria	8 600 000	9 003 055	104.70%	30. 1. 2012	
Interreg Slovakia	8 999 999	8 999 999	100.00%	10. 5. 2011	
Interreg Austria	11 000 000	11 332 254	103.00%	14. 2. 2011	
Initiatives total	**108 240 115**	**108 323 542**	**100.10%**		
Total SF	**1 692 594 656**	**1 669 629 332**	**98.60%**		**14 864 889**

Source: MoF, department National Fund – Paying and Certification Authority.

[1] Amounts to be negotiated for the purpose of this overview are only up to the limit of the individual OP allocation, i.e. it is taken as the maximum amount which CR could additionally gain. Total amounts to be negotiated may be however higher.

[2] In the *Interreg IIIA CR–Poland*, there is also included the Polish part.

[3] In the *Interreg IIIA CR–Saxony*, the final request has not been received yet.

Appendix 2 – Overview of drawdown of individual OP in the programming period 2007-2013 as of 31 December 2012

Operational Programme	Objective	Fund	Allocation 2007-2013 (€)	Spent [1] (€)	Spent from allocation (%)	Date of last certification of expenditure
OP *Transport*	1	ERDF	1 217 852 810	628 199 128	51.60%	12. 10. 2012
		CF	4 603 637 553	1 114 663 642	24.20%	
OP *Environment*	1	ERDF	702 482 212	186 908 262	26.60%	12. 10. 2012
		CF	4 215 384 886	1 043 681 375	24.80%	
OP *Enterprise and Innovation*	1	ERDF	3 120 690 664	1 002 152 855	32.10%	15. 9. 2012
OP *Human Resources and Employment*	1	ESF	1 858 053 308	669 307 591	36.00%	31. 10. 2012
	2	ESF	24 171 648	6 037 367	25.00%	
OP *Research and Development for Innovation*	1	ERDF	2 070 680 884	215 012 159	10.40%	31. 10. 2012
Integrated OP	1	ERDF	1 591 356 687	406 158 101	25.50%	19. 10. 2012
	2	ERDF	29 379 498	7 382 754	25.10%	
OP *Education for Competitiveness*	1	ESF	1 778 912 800	419 928 432	23.60%	7. 12. 2012
	2	ESF	13 186 738	3 940 072	29.90%	
OP *Technical Assistance*	1	ERDF	191 767 501	57 350 417	29.90%	30. 11. 2012
	2	ERDF	3 106 811	928 934	29.90%	
ROP North-West	1	ERDF	762 765 901	186 184 514	24.40%	30. 11. 2010
ROP Moravia-Silesia	1	ERDF	732 274 322	306 681 887	41.90%	15. 8. 2012
ROP South-East	1	ERDF	720 363 547	419 859 751	58.30%	15. 8. 2012
ROP Central Moravia	1	ERDF	672 244 025	353 481 543	52.60%	15. 8. 2012
ROP North-West	1	ERDF	671 291 163	315 530 718	47.00%	15. 9. 2011
ROP South-West	1	ERDF	633 653 121	281 417 461	44.40%	15. 8. 2012
ROP Central Bohemia	1	ERDF	571 717 102	186 374 346	32.60%	15. 9. 2011
OP *Prague Competitiveness*	2	ERDF	241 205 606	79 880 888	33.10%	16. 11. 2012
OPPA	2	ESF	113 471 498	52 443 258	46.20%	15. 9. 2012
OP *Cross-border cooperation CR-Poland*	3	ERDF	219 459 344	133 624 816	60.90%	27. 9. 2012
ERDF			14 152 291 198	4 767 128 537	33.70%	
ESF			3 787 795 992	1 151 656 720	30.40%	
CF			8 819 022 439	2 158 345 017	24.50%	
Total			**26 759 109 629**	**8 077 130 273**	**30.20%**	
OP *Fisheries*		EFF	27 106 675	15 714 534	58.00%	31. 10. 2012
Total inclusive EFF			**26 786 216 304**	**8 092 844 807**	**30.20%**	

Source: MoF, department National Fund – Paying and Certification Authority.

Note: According to information of the MoF submitted as of the deadline, the OP *Prague Competitiveness* managing body requested a removal of the preliminary payment request amounting to € 4 174 734 in February 2013.

[1] Payment requests sent to the Commission since 1 January 2007 until 31 December 2012.

Appendix 3 – Suspension and resumption of the submission of payment applications for reimbursement to the Commission

(Extract from the *MoRD Monthly Monitoring Report on the course of drawdown from the SF, CF and national sources in the programming period 2007-2013*, December Report 2012, pp. 31 et seq.)

Since March 2012 no payment applications have been submitted to the Commission for reimbursement in all OPs co-financed out of the ERDF and CF. This was in reaction to the Commission's decision not to pay any payment applications in these OPs **on the grounds of shortcomings found in the working of the Czech management and control systems in drawdown from the ERDF and CF.** The Commission called on the Czech side to adopt appropriate remedial measures by the end of June 2012.

As a result of the high error rate revealed in the annual audit report, in June 2012 the Commission interrupted the payment deadline pursuant to Article 91 (1) of Council Regulation (EC) No 1083/2006 for OP *Cross-border Cooperation Czech Republic - Poland*.

In practice, the suspension of the submission of payment applications means that there is no payment of finances from the EU budget to the account of the Paying and Certifying Authority from which finances are transferred to those state budget headings that released them for pre-financing of resources from the EU budget.

Although this financial flow between the Commission and the CR was suspended, processes continued at national level. Finances were paid to beneficiaries, summary applications were submitted to the Paying and Certifying Authority and finances were reimbursed to the state budget headings that released finances for pre-financing of resources from the EU budget, and expenditure as of 30 April 2012 was certified.

In response to the measures taken, in July 2012 the Commission informed the Czech side **about the possibility of sending payment applications for several OPs co-financed from the ERDF**, this includes OP *Enterprise and Innovation,* OP *Research and Development for Innovation,* OP *Technical Assistance, ROP South-West, ROP Central Moravia, ROP Moravia-Silesia,* OP *Prague-Competitiveness.*

When all the conditions had been satisfied, the Commission informed in a letter dated 28 September 2012 **that the sending of payment applications to the Commission and reimbursement by the Commission for OP *Cross-border Cooperation Czech Republic – Poland* had been resumed.**

Following the measures taken, during October 2012 the Commission resumed the sending of payment applications for some above mentioned OPs (specifically OP *Environment,* OP *Transport, Integrated OP*).

In a letter dated 20 November 2012 the Commission informed the managing authority of OP *Education for Competitiveness* that it agreed with the proposed remedial measures. These measures, however, have to be incorporated into the next payment application sent to the Commission. At present, the administration of the certification of expenditure as of 22 November 2012 has been completed, the upshot of which will be a payment application incorporating the required correction.

The situation remains unchanged in a further 3 programmes, meaning that **payment applications are still not being sent to the Commission and there is no refunding by the Commission**. The programmes are *ROP North-West, ROP North-East, ROP Central Bohemia.*

(MoRD, January 2013)

Appendix 4 – Overview of audits conducted from the start of 2012 until the printing of the *EU Report 2013* went to print, touching on EU Cohesion Policy

1. Audit no. 11/16 Finances Earmarked for the Construction of a Ring Road around the City of Prague

The audit[95] focused on the provision, drawdown and use of finances earmarked for the Prague ring road. The audit found the following:

- Breaches of the act on public procurement were found in nine public contracts (not including small-scale contracts) awarded by the Road and Motorway Directorate.
- The Road and Motorway Directorate failed to document the need for six small-scale public contracts.
- Construction and work that had only an indirect connection to the Prague ring road were pushed through without any payment or co-payment by the applicants.
- The Road and Motorway Directorate failed to prove that it had actively addressed the possible ways for cutting the costs of the Prague ring road construction.

2. Audit no. 11/17 European Union and State Budget Finances Earmarked for the *Initial Education* Priority Axis of the Operational Programme *Education for Competitiveness*

The aim of the audit[96] was to scrutinise whether the audited entities' procedure in drawing down finances for initial education under OP *Education for Competitiveness* complied with the legislation and with the principles of effectiveness, efficiency and economy and whether the OP's implementation system displayed any serious shortcomings jeopardising the drawdown of finances from EU budgets. Scrutiny was directed at the administration system for "miscellaneous individual projects" in support areas 1.1, 1.2 and 1.3 and the administration system for "miscellaneous individual projects which apply standard unit costs comparisons" in support area 1.4 – i.e. projects known as "EU funds to schools". In addition to the functioning of the system, a sample of 43 individual projects was audited. The audit found the following:

- Since the beginning of the programme's implementation, the designed system for the substantive assessment of project applications has displayed a high degree of risk of subjective assessment and unequal treatment of applicants. A change in the system of assessment criteria that the MoEYS made in May 2011 increased this risk further.
- The MoEYS approved for financing projects worth a total exceeding CZK 80 million that were selected in a manner contrary to the rules for project selection and contrary to the principles of transparency, equal treatment and non-discrimination.
- The system and method for monitoring the progress achieved makes it impossible to assess the achievement of the set goals and the actual impact of interventions objectively. The MoEYS failed to produce an evaluation study assessing the achievement of the global objective of OP *Education for Competitiveness*, which was meant to be finished in 2008. As a result, it will not be possible to assess progress in an appropriate manner and, if necessary, react to the identified shortcomings.
- The MoEYS introduced a funding provision system as part of templates of key activities "innovation" in "EU funds to schools" projects that makes it possible for beneficiaries, contrary to the general principle of effectiveness, to acquire equipment and property unrelated to the project implementation and not necessary for the project out of the finances of OP *Education for Competitiveness* or the ESF.
- At the support beneficiaries level, cases of non-compliance with the conditions set in the decisions on the provision of funding were identified, especially in public procurement; these were mainly non-compliance with the ban on discrimination and equal treatment in the course of the award of public contracts, the contacting of unsuitable candidates in tenders and the failure to exclude incomplete tenders from the assessment, erroneous assessments of candidates' tenders (influencing the outcome of the tender) and the conclusion of contracts with other than the winning candidates.
- In the case of beneficiaries, there was identified a suspicion of violation of budgetary good practice (ineligible expenditure while failing to comply with the terms set out in the decision on the provision of an appropriation in the area of public procurement and in the area of eligibility of personal costs) to the value of CZK 3.6 million, which also constitutes an irregularity amounting to CZK 3 million.

---

95 Audit no. 11/16, volume 2/2012 of the *SAO Bulletin*.

96 Audit no. 11/17, volume 4/2012 of the *SAO Bulletin*.

3. Audit no. 11/18 Finances Earmarked for the Development of Urban and Rural Areas under the *Regional Operational Programme of the North-East Cohesion Region for the Period 2007-2013*

The aim of the audit[97] was to check whether the audited entities were providing and drawing down finances for the development of regional centres and for the development of towns and rural areas under priority axis 2 of *ROP NUTS II North-East* in compliance with the law and the defined conditions. The audit found the following:

- When assessing the technical quality of projects during the 2nd and 9th round of calls, the "four eyes rule" was violated – the North-East Regional Council approved 100 projects, with appropriations worth CZK 3 billion, on the basis of the opinion of a single external expert.
- The assessment of projects' need and relevance was subjective and impossible to review.
- The North-East Regional Council selected for financing projects that had no defined results monitoring indicator that would make it possible to assess whether the project's specific goal had been achieved and what part it had played in fulfilling the priority axis's objectives.
- The North-East Regional Council significantly reduced the planned target values of selected monitoring indicators, even down to one third of the originally planned value.
- At the level of support beneficiaries, cases of non-compliance with the terms set out in the decisions on the provision of funding were found, especially in the area of public procurement (e.g. non-compliance with the rule demanding equal treatment and banning discrimination, failure to exclude a candidate that did not satisfy the requirements in the tender conditions or award of a public contract directly to a sole contractor).
- In their payment applications, support beneficiaries claimed ineligible costs worth CZK 27 million, thereby committing a breach of budgetary good practice and simultaneously irregularities amounting to CZK 25 million.

4. Audit no. 11/19 Finances Earmarked for the Stabilisation and Development of Urban and Rural Areas under the *Regional Operational Programme of the South-West Cohesion Region for the Period 2007-2013*

The aim of the audit[98] was to check whether the audited entities were providing and drawing down finances for the stabilisation and development of towns and rural areas under priority axis 2 of *ROP NUTS II South-West* in compliance with the law and the defined conditions. The audit found the following:

- The South-West Regional Council was guilty of systemic deficiencies in the assessment of projects, as from 2008 to 2010 the assessment of projects was done by the financial managers of RC South-West together, as a result of which their scoring and comments were identical. RC South-West failed to comply with the principle of the separation of functions and the "four eyes" checking rule.
- In the case of the audited sample, RC South-West's control work was not fit to guarantee that the financed projects and reported expenditure were in all regards consistent with the requirements of the EU and internal regulations.
- At the level of support beneficiaries, cases of non-compliance with the conditions defined in the decisions on provision of funding were found.
- In a number of cases the support beneficiaries included among eligible costs expenditure items that were not related to the project, whereby they were in breach of the conditions of the decisions of provision of appropriations or of budgetary good practice.

5. Audit no. 11/20 Finances Earmarked for Urban Development under the *Regional Operational Programme of Moravian-Silesian Cohesion Region for the Period 2007-2013*

The aim of the audit[99] was to check whether the audited entities were providing and drawing down finances in support of development poles of the region and regional sub-centres funder priority axis 3 of *ROP NUTS II Moravia-Silesia* in compliance with the law and the defined conditions. The audit found the following:

97 Audit no. 11/18, volume 3/2012 of the *SAO Bulletin*.
98 Audit no. 11/19, volume 3/2012 of the *SAO Bulletin*.
99 Audit no. 11/20, volume 3/2012 of the *SAO Bulletin*.

- The designed pre-payment control system contained shortcomings that in several cases caused the system to fail. These were mainly controls performed by RC Moravia-Silesia in the area of public procurement and in the area of technical implementation of projects. The SAO audit found wrongful reimbursement of costs totalling CZK 156,163,649.
- Regarding the selection of contractors, in certain cases violations of the public procurement act were identified; in three cases the contracting entity's actions fundamentally influenced the selection of the most suitable tender.
- Wrongful use of funding to cover ineligible costs was found in all the audited projects.
- In certain projects the precondition of the use of project outcomes and outputs as declared in the project application was not fulfilled in the first years of the sustainability period.

6. **Audit no. 11/35 Finances from the *European Social Fund* Pre-financed and Co-financed from the State Budget Earmarked for Projects Implemented in the Territory of the City of Prague**

The aim of the audit[100] was to scrutinise the provision, drawing and use of finances earmarked for the implementation of OPPA, its implementation system and the use of the outputs of the assessment of the *Single Programming Document for Objective 3 of the Prague Cohesion Region* when designing and managing OPPA. The audit found the following:

- In the OPPA Programming Document Prague City Hall defined the conditions for drawing OPPA finances in a way making it possible to support target groups without any tie to the recognised region, i.e. with any tie to the city of Prague.
- Some OPPA monitoring indicators were designed in a way that made it impossible to check the progress made towards attaining the OPPA objectives or to judge the effectiveness, efficiency and economy of the use of finances.
- In the case of one beneficiary, a serious breach of the OPPA rules was found in the selection of contractors, whereby the beneficiary annulled a tender and subsequently did not conduct a substitute tender but contacted the services supplier directly.

7. **Audit no. 12/02 European Union and State Budget Finances Earmarked for the Implementation of the *Integrated Operational Programme***

The aim of the audit[101] was to check whether the audited entities were providing and drawing finances earmarked for the IOP for the 2007-2013 period in compliance with the law and the defined conditions in an effective, efficient and economical manner. The audit found the following:

- In the audited period (2007-2011) the functional independence of the assigned auditor, i.e. the Internal Audit and Assigned Auditor Department of the MoRD, was not ensured.
- Neither the MoRD nor the MoC ensured that the support provided under intervention area 5.1 of the IOP complied with the procedural and substantive rules of public support.
- In the case of two projects, the MoC provided IOP funding for the renovation of buildings that should not have been supported in this manner according to the programming document. As a result, the MoC wrongfully reimbursed ineligible costs, thus committing a breach of budgetary good practice to the value of CZK 185.4 million and also irregularities amounting to CZK 157.6 million.
- The defined outcome and output indicators for measuring one of the four specific objectives of intervention area 5.1 of the IOP only provide a minimum of the information necessary for judging the effectiveness, efficiency and economy of the money spent and afford only a limited opportunity for monitoring progress towards the objectives and measuring progress.
- Cases of non-compliance with the public procurement act were identified at the support beneficiaries level. In one case, a contract was awarded to a candidate who should have been excluded on the grounds of failure to meet the tender conditions; in another case a candidate should have been excluded for failing to demonstrate the basic qualification requirement.

---

100 Audit no. 11/35, volume 2/2012 of the *SAO Bulletin.*

101 Audit no. 12/02, volume 4/2012 of the *SAO Bulletin.*

- In the field of accounting, shortcomings were found in six beneficiaries that did not proceed in compliance with the act on accounting. The shortcomings included incorrect accounting for expenditure related to the acquisition of fixed tangible assets, failure to valuate and account for buildings related to the project and failure to inventorise assets properly.

8. **Audit no. 12/06 Finances Earmarked for the Implementation of Projects of the Priority Axis *Integrated Territory Development* under the *Regional Operational Programme for the Central Bohemia Cohesion Region for the Period 2007-2013***

The aim of the audit[102] was to check whether the audited entities were providing and drawing finances for the implementation of projects in the priority axis of the *Integrated Territory Development* under *ROP NUTS II Central Bohemia* in compliance with the law and the defined conditions, and to verify the implementation of measures adopted in this area on the basis of previous audits. The audit found the following:

- Up to 2009 the assessment criteria of *ROP Central Bohemia* for priority axis 3 insufficiently reflected the requirement for compliance with the principles of sound financial management (the principles of effectiveness, efficiency and economy) in the case of the selected projects. The project selection system was not designed in line with the requirements of Article 27 of Council Regulation (EC) No 1605/2002 and Article 60 of Council Regulation (EC) No 1083/2006.
- Controls by RC Central Bohemia were found to have failed in a number of cases. These were mainly controls in the area of public procurement and in the area of technical implementation of projects (control of eligibility of expenditure).
- Irregularities in the selection of contractors were found in the final beneficiaries. Seven out of eight audited beneficiaries broke the law. Contracts were split into several parts; contracts were awarded without tenders; and contracts were wrongfully awarded in negotiated proceedings without publication.
- In the field of accounting, several beneficiaries failed to comply with the act on accounting by incorrectly accounting for acquired fixed tangible assets.

9. **Audit no. 12/10 Finances Earmarked for Limiting Industrial Pollution and Environmental Risks**

The aim of the audit[103] was to check the provision, drawing and use of finances earmarked for limiting industrial pollution and environmental risks. The audit found the following:

- The vast majority of assessment criteria in priority axis 5 of OP *Envinroment* focusing on industrial pollution and environmental risks were not derived from quantified indicators; generally there were merely verbal assessments. Some criteria, or their assessment, were subjective.
- Indicators to monitor the achievement of the priority axis's objectives and benefits were significantly modified during the OP implementation.
- A beneficiary did not comply with the public procurement act, as it failed to exclude from the tender a candidate whose tender did not satisfy the scope of defined work required by the contracting entity. The contracting entity subsequently concluded a contract with this candidate that did not correspond to the candidate's tender or the tender documentation.
- The indicators of projects designed to limit pollution or mitigate environmental risks were set up in a way that meant it was not possible, after completion of the projects, to quantitatively assess how pollution was reduced or the risk caused by the relevant substance was mitigated in consequence of the programme as a whole. The indicators set up in this way give no information about the actual effectiveness of the use of finances earmarked for limiting the volume of pollutants in the CR.

102 Audit no. 12/06, volume 4/2012 of the *SAO Bulletin*.
103 Audit no. 12/10, volume 4/2012 of the *SAO Bulletin*.

Appendix 5 – Overview of the ECA audit missions in 2011 and 2012

Year		Date of execution	Audit subject (programme)	Audit type (DAS/ /performance audit)	Audit form (on-the-spot/ /questionnaire)
2011	1	17. 1. – 4. 2.	*European Regional Development Fund,* OP *Transport*	DAS	on-the-spot
	2	21. 3. – 25. 3.	Implementation of the EU hygiene legislation in the new member states´ slaughterhouses	performance audit	on-the-spot
	3	1. 8. – 5. 8.	*European Agricultural Fund for Rural Development*	DAS	on-the-spot
	4	22. 8. – 30. 8. 17. 10. – 25. 10.	Management of SF in the area of energy efficiency	performance audit	on-the-spot
	5	12. 9. – 14. 9.	Financing of the CAMINEMS project	DAS	on-the-spot
	6	3. 10. – 7. 10.	Support and development of rural areas from EAFRD	DAS	on-the-spot
	7	17. 10. – 21. 10.	Revitalization of former military and industrial areas from the ERDF and their transformation into employment generating centres and economic activity	performance audit	on-the-spot
	8	24. 10. – 16. 11.	Review of audit body related to OP *Transport* and *South-East*	DAS	on-the-spot
	9	13. 11. – 25. 11.	Expenditure and management of *European Refugee Fund* and *European Integration Fund*	performance audit	on-the-spot
		January	Review of customs duty amount set by CR bodies in September 2010	DAS	questionnaire
		June	Systems implemented by Commission and member states for assessing the effectiveness of expenditure from ESF for active aging	performance audit	questionnaire
		July	Preliminary study of the possible audit of efficiency and effectiveness of investments for improvement of urban traffic control	performance audit	questionnaire
		November	Preliminary study of the possible audit of efficiency and effectiveness of biological diversity	performance audit	questionnaire
2012	1	13. 2. – 2. 3.	*European Regional Development Fund:* OP *Enterprise and Innovation*	DAS	on-the-spot
	2	14. 5. – 16. 5. 18. 6. – 22. 6.	Measures aimed at diversification of the rural economy	performance audit	on-the-spot
	3	1. 10. – 10. 10.	*European Regional Development Fund:* Measures supporting business incubators	performance audit	on-the-spot
	4	22. 10. – 26. 10.	*European Agriculture fund for Rural Development*: Support for Rural Development (first quarter payments 2012)	DAS	on-the-spot
	5	5. 11. – 8. 11.	*Lifelong Learning Programme*	DAS	on-the-spot
	6	5. 11. – 9. 11.	*European Agriculture fund for Rural Development*: Support for Rural Development (second quarter payments 2012)	DAS	on-the-spot
	7	4. 12. – 6. 12.	Statistics of the results of administrative and on-the-spot checks for rural development measures and direct aid schemes		on-the-spot
		February	Request for information on expenditure for research financed from SF ERDF		questionnaire
		March	Survey/Review of national and/or regional plans for subventions to transport within the activities for transition to other means of transport and limitation of traffic – programme *Marco Polo*		questionnaire
		May	Survey focusing on system of assurance inference in the cohesion area		questionnaire
		November	Request for information on large ERDF projects and extensive CF projects in the CR in the programming period 2007-2013		questionnaire
		December	Visit related to audit of regulatory and supervisory system which was initiated by the Commission with the objective to react on crisis in banking sector		questionnaire

Source: The SAO, Department of International Relations.

Appendix 6 – Overview of Commission´s audit and verification missions in 2011 and 2012

Year	Audit mission	Date	Operational Programme	Audit subject
2011	DG EMPL	14. 2. – 18. 2. 2011	OP *Human Resources and Employment*	System audit
	DG EMPL	28. 2. – 4. 3. 2011 8. 3. – 10. 3. 2011	OP *Human Resources and Employment*	Operations audit
	DG REGIO	11. 4. – 15. 4. 2011 29. 8. – 2. 9. 2011	OP *Industry and Enterprise*	Winding-up
	DG EMPL	14. 6. – 17. 6. 2011	OPPA	System audit
	DG EMPL	20. 6. – 24. 6. 2011	OPPA	Operations audit
	DG REGIO	20. 6. – 24. 6. 2011	OP *Environment*	System audit
	DG REGIO	29. 8. – 2. 9. 2011	OP *Industry and Enterprise*	Winding-up
	DG REGIO	12. 9. – 16. 9. 2011	IOP	System audit/Operations audit
	DG REGIO	17. 10. – 21. 10. 2011	OP *Transport*	Operations audit
	DG EMPL	3. 10. – 7. 10. 2011	OP *Education for Competitiveness*	System audit
	DG EMPL	10. 10. – 17. 10. 2011	OP *Education for Competitiveness*	Operations audit
2012	DG REGIO	19. 3. – 23. 3. 2012	OP *Research and Development for Innovation*	System audit/Operations audit
	DG EMPL	14. 5. – 20. 6. 2012	OP *Human Resources and Employment*	System audit with operations sample
	DG REGIO	4. 6. – 8. 6. 2012	*ROP North-West*	System audit/Operations audit
	DG REGIO	9. 7. – 13. 7. 2012	OP *Environment*	System audit/Operations audit
	DG REGIO	9. 7. – 13. 7. 2012	OP *Transport*	Operations audit

Source: Information of the MoF (Audit body) as of 21 February 2013.

Appendix 7 – Overview of the SAO audits completed in 2012 focused partly or completely on EU funds

Audit No.	Audit subject	Published in the *SAO Bulletin* (Issue/Year)
11/15	Funds earmarked for enhancing the quality of life in the rural areas under the *Rural Development Programme*	2/2012
11/16	Funds earmarked for the construction of the ring road around the capital city of Prague	2/2012
11/17	EU and State funds earmarked for the priority axis *Initial Education* under the operational programme *Education for Competitiveness*	4/2012
11/18	Funds earmarked for the development of urban and rural areas under the *regional operational programme "North-East" for the period 2007-2013*	3/2012
11/19	Funds earmarked for the stabilization and development of towns and municipalities under the *regional operational programme "South-West" for the period 2007-2013*	3/2012
11/20	Funds earmarked for the urban development under the *regional operational programme "Moravia-Silesia" for the period 2007-2013*	3/2012
11/27	Funds earmarked for the fulfilment of aims of the EU's common migration and asylum policy	2/2012
11/35	Funds from the *European Social Fund* pre-financed and co-financed by the State budget that were earmarked for projects carried out in the capital city of Prague	2/2012
12/02	EU and State budget funds earmarked for the *Integrated Operational Programme*	4/2012
12/06	Funds earmarked for the implementation of projects of priority axis *Integrated Territorial Development* within the *Regional Operational Programme of Cohesion Region the Central Bohemia for the period 2007-2013*	4/2012
12/10	Funds earmarked for the limitation of industrial pollution and environmental risks	4/2012

Source: *The SAO Bulletin*.

Czech Republic | Supreme Audit Office | EU REPORT 2013