Supreme Audit Office
Czech Republic

EU REPORT 2014

REPORT ON THE EU FINANCIAL MANAGEMENT IN THE CZECH REPUBLIC

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Content

Editorial note:

The publisher´s deadline of the Report on the EU Financial Management in the Czech Republic (EU Report 2014) was set on 15 April 2014. The presented information and figures taken from the Czech sources reflect the situation of 2013, or updates from the beginning of 2014. Information about the activities related to the management and audit of the EU budget performed by responsible authorities and institutions of the EU is also referring to 2013. Latest accessible data which were officially published by the Commission and other EU institutions within their annual reports and statistical overviews reflect, with few exceptions, the financial year 2012.

List of abbreviations

AB	audit body (Ministry of Finance, department 52 – audit body)
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
CNB	Czech National Bank
Commission	European Commission
Council	Council of European Union
CR	Czech Republic
DAS	*Déclaration d'assurance* (Statement of Assurance)
DG Mare	Directorate-general for Maritime Affairs and Fisheries
DG Regio	Directorate-general for Regional Policy
EAFRD	European Agricultural Fund for Rural Development
EC	European Communities
ECA	European Court of Auditors
EMFF	European Maritime and Fisheries Fund
EP	European Parliament
EPSAS	European Public Sector Accounting Standards
ERDF	European Regional Development Fund
ESF	European Social Fund
ESI	European structural and investment funds
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
FP	Framework Programme
FTT	Financial Transaction Tax
GAEC	Good Agricultural and Environmental Conditions
GDP	Gross domestic product
GFD	General financial directorate
GNI	Gross national income
IMS	Irregularity Management System
IOP	Integrated Operational Programme
IPA	Instrument for Pre-accession Assistance
IPSAS	International Public Sector Accounting Standards

IRDP	Integrated Regional Development Programme
ISPA	Instrument for Structural Policies for Pre-accession
LPIS	Land Parcel Information System
MFF	Multiannual Financial Framework
MfRD	Ministry for Regional Development
MoA	Ministry of Agriculture
MoC	Ministry of Culture
MoE	Ministry of the Environment
MoF	Ministry of Finance
MoLSA	Ministry of Labour and Social Affairs
MoT	Ministry of Transport
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
PCA	Payment and Certification Authority
RC	Regional Council of a Cohesion Region
RDP	Rural Development Programme for 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
SMR	Statutory Management Requirements
SPD	Single Programming Document for the Prague Cohesion Region
SGFFF	Support and Guarantee Farm and Forestry Fund
TFEU	Treaty on the Functioning of the European Union
Top-Up	National top-up payments in agriculture
VAT	Value Added Tax
YEI	Youth Employment Initiative

Summary

General information

- In 2013 **the Commission** continued to **coordinate Member States' economic policy**, partly in the form of recommendations the Member States incorporated into their convergence and stabilisation programmes and their national reform programmes. In addition, **the Commission issued two regulations** with a view to ensuring **the correction of budget deficits through enhanced budgetary surveillance** over euro area states.
- **The Multiannual Financial Framework 2014–2020** entered into force on 1 January 2014.
- **The Czech Republic began the ratification process** for accession to the *Treaty on Stability, Coordination and Governance in the Economic and Monetary Union* (known as the **Fiscal Compact**).
- **The EU budget 2012** comprised **revenues** totalling **€ 139.54 billion** and expenditure totalling **€ 135.85 billion. The Czech Republic contributed** more than **€ 1.59 billion** to the EU budget and **received** from it almost **€ 4.53 billion**, mainly from the *Sustainable Growth* budget heading. **The Czech Republic's net position** for 2012 was thus almost **€ 2.94 billion**. The MoF put the Czech Republic's net position for **2013** at **€ 3.24 billion**, which has been the **best result since 2004**, when the Czech Republic joined the EU.
- **The ECA** once again issued **an adverse statement on the legality and regularity of payments** out of the EU budget 2012. Year-on-year comparison of the results of audits revealed that **the most likely error rate** in audited payments **increased** from an average value of **3.9%** in **2011** to **4.8%** in **2012.** The ECA rated the supervisory and control systems as partially effective.
- In the fight against fraud, in **2012** the **Czech Republic** reported **36 cases** of **suspicion of fraud** concerning expenditure amounting to a total of **€ 54.48 million. In terms of the financial volume** of the reported **suspicions of fraud** the CR took **second place** among Member States. In terms of **the financial volume of reported irregularities**, which amounted to **€ 1,036.16 million**, the **CR accounted for 42%** of the total financial volume of irregularities identified in budgetary expenditure for the EU as a whole.
- In **2012 financial corrections** amounting to **€ 125 million** were performed in respect of the **CR** under shared management, which put the CR in **seventh position** among EU Member States in absolute terms. **The CR** also **announced** corrections performed in Structural Policy up to the end of **2012 by its own initiative** amounting to **€ 228 million**. This is **the third highest reported amount** among Member States. The performed corrections have a direct impact on the state budget.
- On 26–27 March 2014 **the European Parliament** conducted a fact-finding mission in the CR on the subject of **"Systemic Errors in EU Funds Controls and Auditing"**. One of the reasons for the visit was the **high error rate** in the use of resources from the Structural Funds identified by audits done in the CR by both the ECA and the Commission in **2012**. Despite the criticism, it was stated after discussions with the responsible national authorities (most notably the MoF and MfRD) that **"things are heading in the right direction"**. The mission report has not been issued yet.

Sector matters

Revenues

- For the **2014–2020** period **the Commission** proposed changing the way the EU budget is financed by introducing new **sources of revenue**; this involves introducing **a new VAT-based resource** and abolishing the existing one, introducing a **financial transactions tax**, **increasing EU revenues from existing own resources** from 75% to 90%, and replacing the existing correction mechanisms system with a system of **annual lump-sum payments**. The reason for the proposed changes is an endeavour to reduce tax evasion (particularly in VAT) from an estimated € 1 trillion to roughly half that amount in 2020. This proposal was not accepted by the Member States, however.

- In 2013 the **SAO** conducted **an audit focusing on unpaid tax**[1], by far the biggest share of which comprises – as in the EU as a whole – **unpaid VAT**. Between 2010 and 2012 total recorded tax shortfalls increased by almost 27% to reach a value of **CZK 134.74 billion**, with **unpaid VAT** accounting for **CZK 82.5 billion** of that amount, i.e. over 61%.
- **The SAO** also performed **an audit of the administration of payments for breach of budgetary discipline**[2] and found that the administration is not performed efficiently, as it is burdened down with superfluous administrative actions linked to the waiving of the imposed payment amounts. The imposed payment amounts do not reflect the intensity of the breach of budgetary discipline or the conditions of the provision of funding.

Common Agricultural Policy and Common Fisheries Policy

- Converted into Czech koruna, **CZK 31.3 billion** was received from the EU budget heading *Preservation and Management of Natural Resources* in **2012** and **CZK 28.5 billion** (according to SAIF data) in **2013**.
- In 2013 **the SAO** completed **an audit of direct payments**[3] and assessed the direct payments **implementation and administration system** as **functional and effective**; nevertheless, it detected certain **shortcomings, mainly in records of the use of agricultural land** (LPIS).
- **In the period from 2007 to 2013 the SAO** performed a total of **nine audits** targeting the CAP or CFP and **repeatedly** found **errors in the assessment and selection of projects, in checking whether expenditure was proportionate, in the setting of eligible expenditure limits, monitoring** the achievement of goals and **public procurement**. In the case of claimed support, the SAO stated **errors in the control systems** and **systems for imposing penalties,** and **violations of agro-environmental commitments (**GAEC standards and statutory management requirements, or SMR).
- **Comparison** of the available data on the implementation of **common agricultural and common fisheries policy** measures **with other EU Member States** reveals that **the CR drew down resources in this area without major problems**.

Structural Policy

- To achieve the goals of Structural Policy **€ 26.76 billion** was earmarked for the **CR for the 2007–2013 programming period**; of that amount, **€ 14.41 billion had been drawn down** (payment applications sent to the Commission) **by the end of 2013**.
- In absorption terms **the CR ranked among the four worst Member States** up to **the end of 2012** and in **2013 there was no significant improvement**. Even though over **CZK 150 billion** was drawn down from the Structural Funds in 2013, representing the biggest increase compared to the previous years, drawdown of the allocation for the 2007–2013 programming period did not attain the required **65%** level, but just **approx. 54%**. That makes it reasonable to assume that the failure to fulfil the **n+3 rule** (for the allocation for 2010) or **n+2 rule** (for the allocation for 2011) in 2013 will mean that **the CR will be affected by the automatic cancellation of the commitment in the amount of CZK 12 billion.** If, during negotiations with the CR, the Commission makes allowance for certain objective reasons for delays in projects (impact of the financial crisis, floods in the CR, suspension of projects on the grounds of administrative or court proceedings) **the commitment** in the reduced amount of **CZK 9 billion may be automatically cancelled**. In 2014 and 2015 the **CR** must strive to fulfil further drawdown limits (the allocations for the years 2012 and 2013), otherwise **it may irrevocably lose** further funding from the EU budget. In February 2014 the OP managing authorities estimated that **the failure to drawdown the allocation earmarked for 2012 alone** could lead to the automatic cancellation of the commitment in the total amount of as much as **CZK 24.6 billion. Consequently, the CR may irrevocably lose a sum equivalent to more than CZK 36 billion.**

1 Audit conclusion 13/02 – Unpaid Tax under the Administration of the Tax Offices.

2 Audit conclusion 13/15 – Administration of Payments for Breach of Budgetary Discipline.

3 Audit conclusion 13/03 – Finances Earmarked for Direct Payments

- During 2013 **the SAO completed** a total of **ten audits**[4] that dealt with, among other things, finances from the Structural Funds, and **one audit** that dealt with a loan from the European Investment Bank[5]. As in previous years, **the SAO** repeatedly identified **errors in public procurement**, in the system for **monitoring projects**, **in the setting of goals** for programmes and projects, **errors in the functionality of management and control systems**, **errors in project selection** and in **claiming ineligible expenditure**.
- Based on the results of audits conducted **in 2012 and 2013 the SAO filed nine notifications** of suspicions of **crimes to the criminal justice authorities that concerned 20 audited entities in total.** Suspicions of **harming the EU's financial interests** in the field of structural operations were **the second most common** subject of notifications.
- **The results of audits by both the SAO and the ECA**, although they had slightly different focuses and audit methods, **displayed** essentially **the same types of findings**.
- **The preparation of Cohesion Policy** for the years **2014 to 2020 had not been completed** by this report's publication deadline and it is clear that **it will be delayed.** The CR fulfilled the obligation laid down by Regulation (EU) No 1303/2013[6] of the European Parliament and of the Council, i.e. it submitted to the Commission by 22 April 2014 a draft Partnership Agreement for programming period 2014–2020.

Other EU financial instruments

- Other financial instruments are assigned directly to applicants in **public tenders** and the support is conditional on the creation of **a partnership between entities from various states** and **European added value.** Expenditure is mainly provided from **Community programmes**; other sources of financing include **pre-accession instruments**, the **Solidarity Fund** and funds for the EU's migration and asylum policy under the **programme *Solidarity and management of migration flow.***
- **Entities from the CR were not particularly successful in competition with applicants from other Member States**, as they **drew down just approx. € 80 million**, ranking **the CR**, along with Poland and Romania, **among the least successful countries** in terms of support obtained **per capita**.

Other SAO activities

Legal matters

- In 2013 the SAO put forward **suggestions for modifications to the legal environment** as part of the interdepartmental consultation process on **53** out of a total of **132 submitted draft regulations**. Proposals for **expanding the SAO's powers** were submitted in 2013 as members' proposals that were for the most part identical to the previous government proposals that were rejected.
- The legislation on **transfers** in the field of **EU financing** remains ambiguous. As the SAO has repeatedly pointed out, this ambiguity mainly applies to accounting for transfers and defining the moment at which these accounting cases took place, which impacts on **how they are represented in accounts** and **reported in financial statements**.

International activities

- The principal international activity in 2013 was bilateral **cooperation between the SAO and the supreme audit institutions of Poland and Germany in coordinated audits.** In addition, the SAO took part in the work of **working groups of the Contact Committee.**

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4 Audits nos. 12/11, 12/13, 12/18, 12/19, 12/21, 12/35, 12/36, 13/04, 13/12 and 13/14.

5 Audit no. 12/27.

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

A. General information

A.1 Current developments in EU budget implementation and audit

A.1.1 Coordinated measures of EU economic policy

As part of the start of the third European semester, whose objective is the regular coordination of economic policies, the Commission adopted the *Annual Growth Survey 2013*[7]. Under the European semester, national results and priorities in working towards the goals of the Europe 2020 strategy are subjected to detailed scrutiny in the first half of every year. As part of this process Member States submit to the Commission their updated national programmes by mid-April of the current calendar year; the Commission then makes recommendations on these national programmes.

In the Annual Growth Survey 2013 the Commission defined five main priorities designed to lead Member States out of the crisis and restore economic growth. The Commission reached the conclusion that the priorities defined in the previous year's survey continue to be relevant. Accordingly, in 2013 Member States should continue to focus on similar priorities:

- continuing with the differentiated 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 Annual Growth Survey 2013, the Commission called on member states to incorporate these recommendations into their Stability and Convergence Programmes and National Reform Programmes.

On 17 April 2013 the CR presented to the Commission its National Reform Programme with the title of *Growth – Competitiveness – Prosperity* and on 26 April the updated *Convergence Programme for the 2013–2016 Period*[8]. The Commission assessed the two programmes together and proposed that the Council recommend that the CR implement measures in a total of seven specific areas[9]. In line with the Commission's proposal the Council recommended the following measures to the CR:

- Implement the planned budget for 2013 so as to correct the excessive deficit in a sustainable manner and achieve the structural adjustment effort specified in the Council's recommendations. For the year 2014 and beyond, reinforce and rigorously implement the budgetary strategy to make sufficient progress towards the medium-term objective. Prioritise growth-enhancing expenditure including committing on time remaining projects co-financed with EU funds under the current financial framework.
- Reduce the high level of taxation on labour by shifting taxation to areas less detrimental to growth (e.g. recurrent taxes on housing and vehicle circulation taxes). Further reduce discrepancies in the tax treatment of employees and the self-employed. Improve tax compliance and reduce compliance costs by establishing the Single Collection Point and harmonising the tax bases for personal income tax and social and health contributions.
- Speed up the increase of the statutory retirement age compared to current legislation, introduce a clear link between the statutory retirement age and life expectancy, and revise the indexation mechanism. Add new measures promoting employability of older workers and reduce early exit pathways; in particular, remove the public subsidy for the pre-retirement scheme. Take measures to significantly improve the cost-effectiveness of healthcare expenditure, in particular for hospital care.

7 Communication from the Commission: *Annual Growth Survey 2013,* COM (2012) 750, final wording of 28 November 2012.

8 *Convergence Programme of the Czech Republic (April 2013 update)* approved by Czech government resolution no. 290 of 24 April 2013.

9 Commission Recommendation for a *Council Recommendation on the Czech Republic's 2013 national reform programme and delivering a Council opinion on the Czech Republic's convergence programme for 2012–2016*, COM(2013) 353, final wording of 29 May 2013.

- Take measures to strengthen the efficiency and effectiveness of the public employment service. Increase significantly the availability of inclusive childcare facilities with a focus on children up to three years old and the participation of Roma children, notably by adopting and implementing the law on private childcare facilities and strengthening the capacities of public childcare facilities.
- Ensure implementation of the anti-corruption strategy for 2013–2014. Adopt a Public Servants Act that would ensure a stable, efficient and professional state administration service. Improve the management of EU funds in view of the 2014–2020 programming period. Strengthen the capacity for implementation of public tenders at local and regional level.
- Establish a comprehensive evaluation framework in compulsory education and take targeted measures to support schools that rank low in educational outcomes. Adopt measures to enhance accreditation and funding of higher education. Increase the share of performance-based funding of research institutions.
- Drawing on the on-going review, proceed with a reform of regulated professions, by reducing or eliminating entry barriers and reserves of activities where they are unjustified. Take further measures to improve energy efficiency in the buildings and industry sectors.

Based on the approved *Convergence Programme of the Czech Republic (April 2013 update)* for the 2013–2016 period, the CR moved to implement the National Reform Programme and had implemented some of the declared measures by the publication deadline of the EU Report 2014.

The government continues to prepare transposition measures whose principal steps follow up the currently unapproved drafts of essential regulations, i.e. most notably the draft amendment of the public servants act[10] and the draft act on the rules of fiscal responsibility. Intensive work is taking place on a number of further measures, e.g. for strengthening the fight against corruption or supporting the establishment of pre-school facilities.

A.1.2 Enhancing budgetary surveillance

Following up the euro area states' agreement known as the Stability and Growth Pact (which partly applies also to Member States who have not yet adopted the euro as their currency), which binds them to restrict budget deficits and public debt levels according fixed limits[11], and the adoption of the package of legislation to enhance economic governance and budgetary surveillance under Cohesion Policy (known as the "Six-Pack"), a package of two legislative measures (the "Two-Pack") entered into force on 30 May 2013. The fundamental objective of the two regulations[12] is to ensure the health of public finances (by strengthening budgetary surveillance over euro area states) and correcting budget deficits. Starting with the budgetary cycle for 2014 the measures have already been fully applied. The measures also affect Member States which are struggling with serious financial imbalances or which are receiving preventive financial assistance. These Member States will be monitored by the Commission and the European Central Bank; based on this surveillance, the Commission will be able to draw a conclusion that the Member State in question must adopt further measures, otherwise its financial situation could have significant adverse effects on financial stability in the euro area. In these cases the Commission may propose that the Council of Ministers recommend the Member State concerned adopt corrective measures or draw up a proposal for a macroeconomic recovery programme.

A.1.3 Multiannual financial framework

The negotiations on the financial framework for the 2014–2020 period were very complicated. The initial proposals envisaged budget funds of € 1,025 billion, 4.8% more than in the previous seven-year period. In February 2013, after almost a year and a half of talks, the European Council adopted a compromise

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10 Act No. 218/2002, on the service of state employees in administrative offices and on remuneration of such employees and other employees in administrative offices (public servants act).

11 Limiting budget deficits to at most 3% of GDP and public debt to at most 60% of GDP.

12 Regulation (EU) No 472/2013 of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability.
Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 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.

proposal, with the budget ceiling set, in 2011 prices, at € 960 billion for commitments and € 908 billion for payments. Compared to the previous financial framework for 2007–2013 that is 3.4% less for commitments and 3.7% less for payments. Political consensus on the final form of the MFF for 2014–2020 was reached in June 2013.

The European Parliament approved the proposed MFF on 19 November 2013. The late approval was partly caused by requirements for resolving stoppages of EU payments in 2013 and requirements for increasing payments in the budget for 2014. The Council of the EU approved the MFF for 2014–2020[13] at a meeting of the Competitiveness Council on 2 December 2013. The MFF entered into force on 1 January 2014. The Commission will review the working of the MFF in 2016.

A.1.4 The CR's accession to the European Stabilisation Mechanism

At its session of 24 March 2014 the Czech government expressed its agreement with the proposal for the CR to accede to the *Treaty on Stability, Coordination and Governance in Economic and Monetary Union*, known as the "Fiscal Compact". It thus launched the ratification process, which should culminate in the Fiscal Compact being approved by a constitutional majority in both chambers of Parliament.

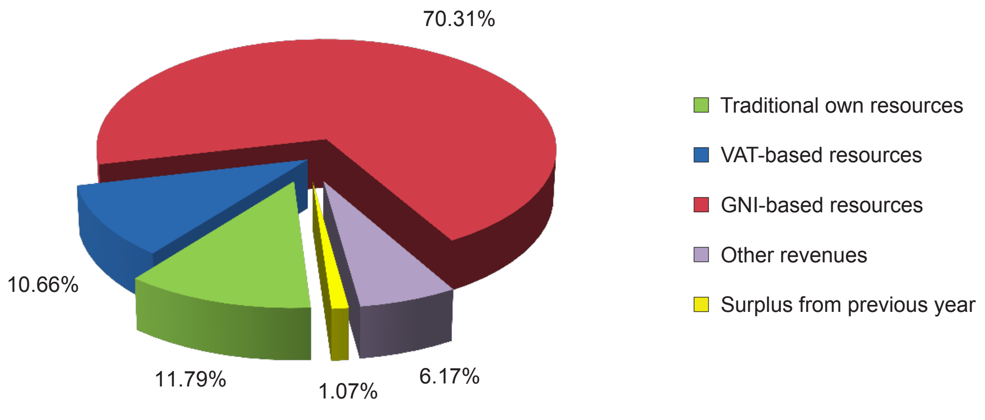
A.2 EU budget structure and its relation to the Czech Republic

A.2.1 EU budget revenues

The EU revenue side of the EU budget consists primarily of **own resources**, which are traditional own resources[14], the VAT-based resource[15] and the GNI-based resource[16]. Traditional own resources are collected by Member States on behalf of the EU and then transferred to the EU budget. The resources based on VAT and GNI are financed out of Member States' national budgets. **Other revenues**[17] are another source of budget revenues.

The proportions of the individual resources in the EU budget's total revenues, which **amounted to almost € 139.54 billion in 2012**, is shown in Graph 1.

Graph 1 – Structure of EU budget financing in 2012



Source: *EU budget 2012 – Financial Report*, European Commission 2013.

13 Council Regulation (EU, EUROATOM) No 1311/2013 of 2 December 2013 laying down the multiannual financial framework for the years 2014–2020.

14 **Traditional own resources** are duties collected on imports of products from third countries, and agricultural and sugar levies. Member states pay 75% of the finances collected from these sources into the EU budget, keeping the rest as compensation for the cost of collecting them.

15 The **VAT-based resource** is created by the application of a uniform percentage rate (0.30%) for all Member States that is applied to the harmonised VAT assessment base. The total volume of the harmonised base is limited to 50% of the member state's GNI.

16 The **GNI-based resource** is a variable resource. It is used to make up the difference between EU budget revenues and expenditure. A single percentage rate is applied to all member states; in 2012 this rate was almost 0.76%.

17 **Other revenues** comprise 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.

One factor influencing the final size of individual Member States' contributions is the **correction mechanisms** under which part of some Member States' contributions is refunded.

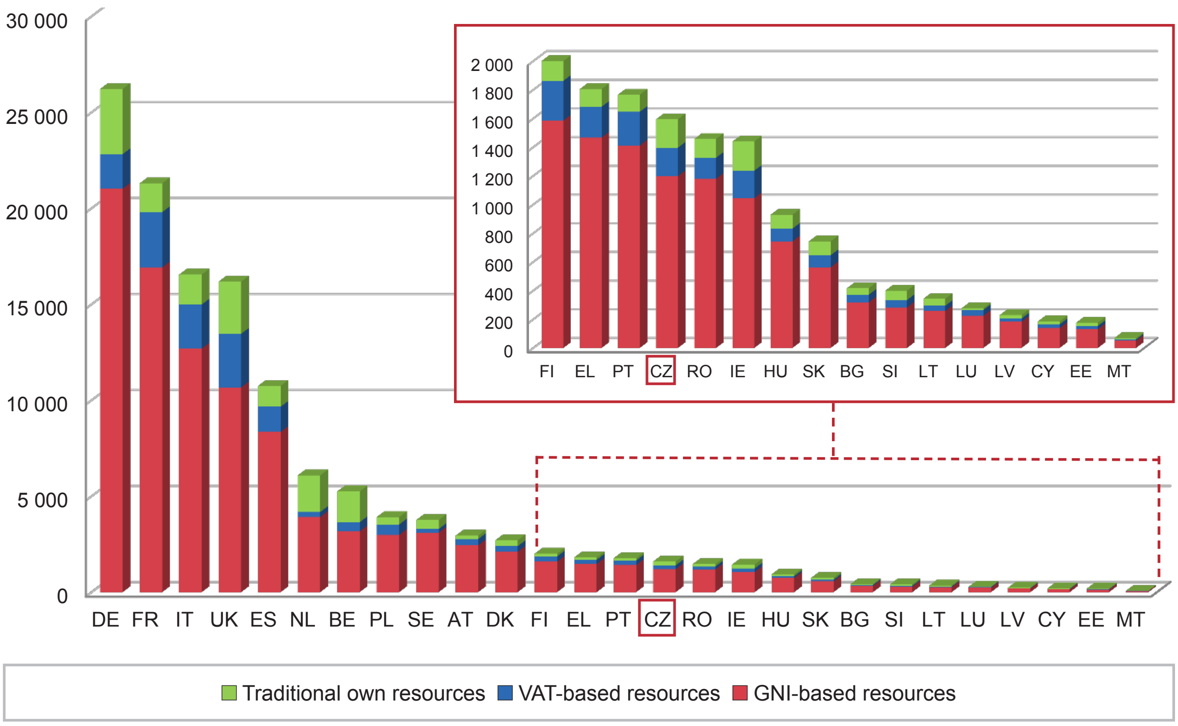
The most significant correction mechanism financially is Great Britain's (€ 3.80 billion in 2012), which is used to reduce the budgetary imbalance between the country's contributions and drawdown. The costs of this measure are borne by other Member States according to their share in the GNI of the European Union as a whole, whereby the share of financing this mechanism is reduced for certain Member States[18].

A further significant reduction in annual GNI-based contributions was awarded to the Netherlands (€ 605 million) and Sweden (€ 150 million). In addition, 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. These shortfalls in revenues also had to be financed by the other Member States according to their share in the GNI of the European Union as a whole.[19]

For the 2007–2013 period the rate applied to the VAT-based resource was set at 0.225% for Austria, 0.15% for Germany, and 0.10% for the Netherlands and Sweden. Other states paid a flat rate of 0.3%.

The following graph shows the structure of EU budget revenues by Member States after taking into account all the correction mechanisms.

Graph 2 – Member states' contributions to the EU budget in 2012 with close-up section (€ million)



Source: *EU budget 2012 – Financial Report*, European Commission 2013.

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, LT – Lithuania, LU – Luxembourg, LV – Latvia, MT – Malta, NL – the Netherlands, PL – Poland, PT – Portugal, RO – Romania, SE – Sweden, SI – Slovenia, SK – Slovakia, UK – Great Britain.

18 For Austria, Germany, the Netherlands and Sweden the financing of Great Britain's correction mechanism was reduced to one quarter of their share. The remaining three-quarter share is covered by the remaining Member States according to their share of the GNI of the European Union as a whole.

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

A.2.2 EU budget expenditure

The expenditure side of the EU budget is divided into six headings.

The ***Sustainable Growth*** heading is composed of two sub-headings: *Competitiveness for Growth and Employment* (comprising activities such as education, science and research, and the development of trans-European networks) and *Cohesion for Growth and Employment* (comprising finances earmarked for enhancing economic, social and territorial cohesion).

The ***Preservation and Management of Natural Resources*** heading covers resources earmarked for agriculture, rural development, fisheries and environmental protection.

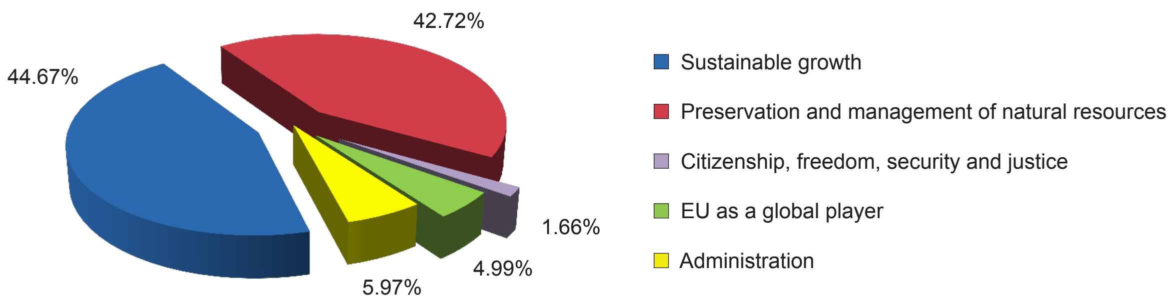
The ***Citizenship, Freedom, Security and Justice*** heading is also divided into two sub-headings: *Freedom, Security and Justice* (covering spending e.g. on migration management, the fight against terrorism, protection of fundamental human rights and judicial cooperation) and *Citizenship* (covering spending to promote European culture, protect consumers and safeguard public health).

The EU as a Global Player finances spending on the EU's external affairs (cross-border activities, enlargement, bilateral relations, humanitarian aid and development aid).

The remaining two headings are ***Administrative Expenditure*** and ***Compensation Expenditure*** (compensation was zero in 2012, however).

The following graph shows the structure of EU budget expenditure in the 2012 financial year broken down by headings. **Expenditure amounted to € 135.85 billion** (including the contribution of € 0.25 billion to EFTA[20]), with the first two headings accounting for almost 87.39% of all budget expenditure.

Graph 3 – Share of expenditure headings in the EU budget in 2012

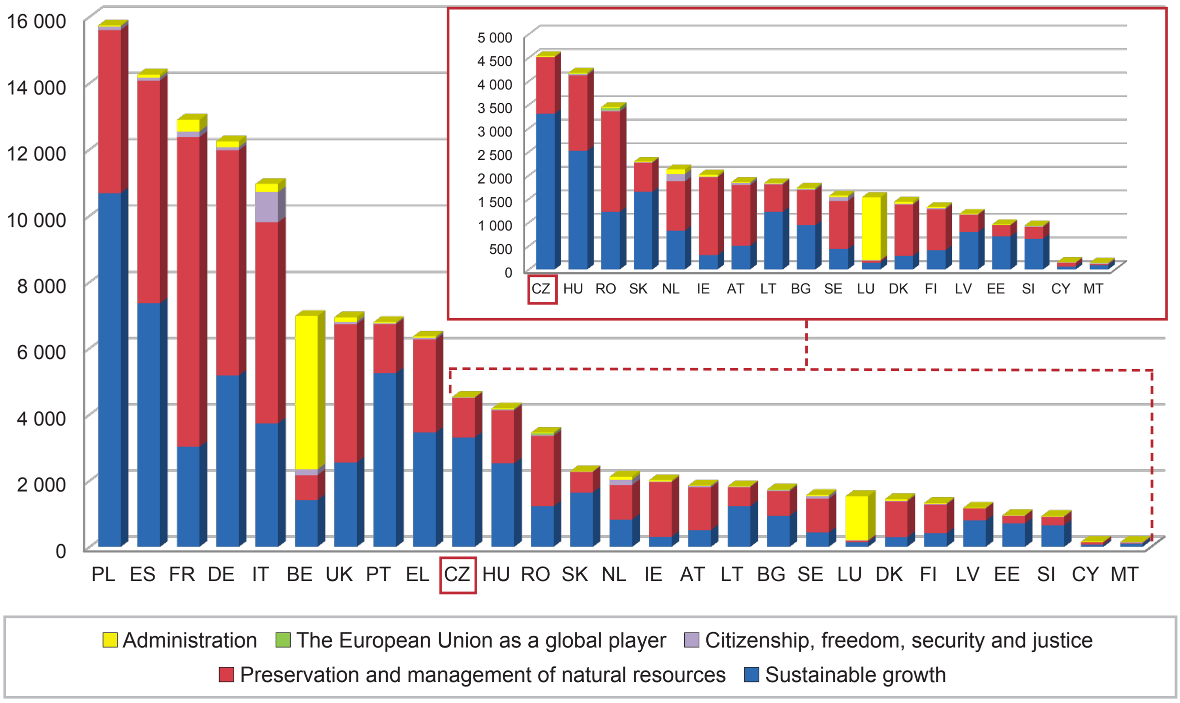


Source: *EU budget 2012 – Financial Report*, European Commission 2013.

The following graph illustrates the level and structure of drawdown from the EU budget in individual Member States.

20 EFTA is the European Free Trade Association.

Graph 4 – Drawdown from the EU budget in 2012 by individual Member States with close-up section (€ million)



Source: *EU budget 2012 – Financial Report*, European Commission 2013.

Abbreviations: See the legend under Graph 2 (p. 11).

Graph 4 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

Like all other Member States, the CR is obliged to contribute to the EU budget. On the other hand, it may draw finances from European funds, primarily under Cohesion Policy and the CAP.

A.2.3.1 Contributions of the CR to the EU budget

The CR contributed a total of € 11.30 billion to the EU budget in the 2004–2012 period. The following table gives an overview of these payments in each year.

Table 1 – Overview of Czech contributions to the EU budget in 2004–2012

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total (€ million)	565.2	990.2	1 035.3	1 167.0	1 396.0	1 374.1	1 497.7	1 682.5	1 594.1
Annual growth (%)	x	75.2	4.6	12.7	19.6	-1.6	9.0	12.3	-5.3

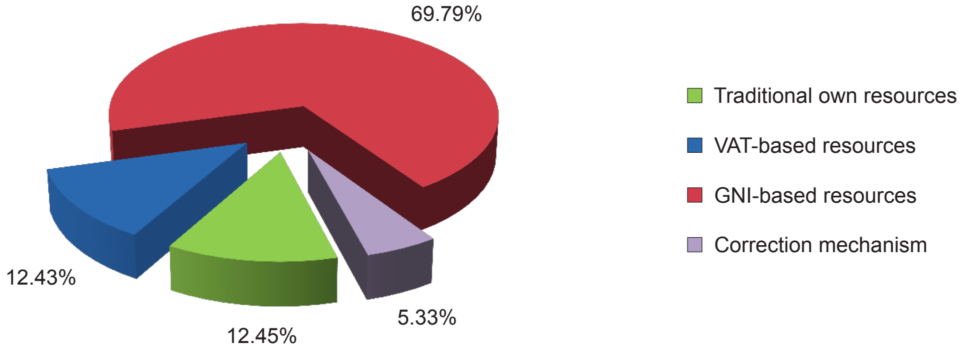
Source: *EU Budget 2012 – Financial Report* and previous EU budget reports, European Commission 2005–2013.

For the second time in history, **the CR's contribution to the EU budget fell in 2012** (the first time this happened was in 2009, when the impact of the global financial and economic crisis was felt strongest). The fall in 2012 was relatively significant at 5.3%, which represents a sum in excess of € 88 million. It should not be overlooked, however, that the principal reason for the significant increase in contributions in 2011 was the extraordinary revision of national accounts for 2004–2010, which was reflected in an increase in GNI of approx. 3–4% per annum. Further to this revision, in 2011 the CR had to contribute an additional CZK 4.9 billion to the EU budget. Another reason for the lower contribution was the Czech economic recession that persisted throughout 2012 and led to a fall in GDP – according to the Czech Statistical Office the fall in GDP in 2012 was 1.2%[21].

21 *Development of the Economy of the Czech Republic in 2012,* Czech Statistical Office 2013.

The following graph shows the structure of the CR's total contributions to the EU in 2012 by percentage share.

Graph 5 – Structure of Czech contributions to the EU budget in 2012



Source: *EU budget 2012 – Financial Report*, European Commission 2013.

A.2.3.2 The CR's revenues from the EU budget

In 2012 the CR's total revenues from the EU budget amounted to almost €4.53 billion and registered their biggest ever year-on-year growth of 49.53%. This significant difference was partly caused by the pronounced fall in the CR's drawdown from the EU budget in 2011, down 11% from 2010, resulting from the suspension of selected operational programmes.

The CR received a total of almost €21.31 billion from the EU budget from 2004 to 2012. The following table shows the drawdown levels in the individual years.

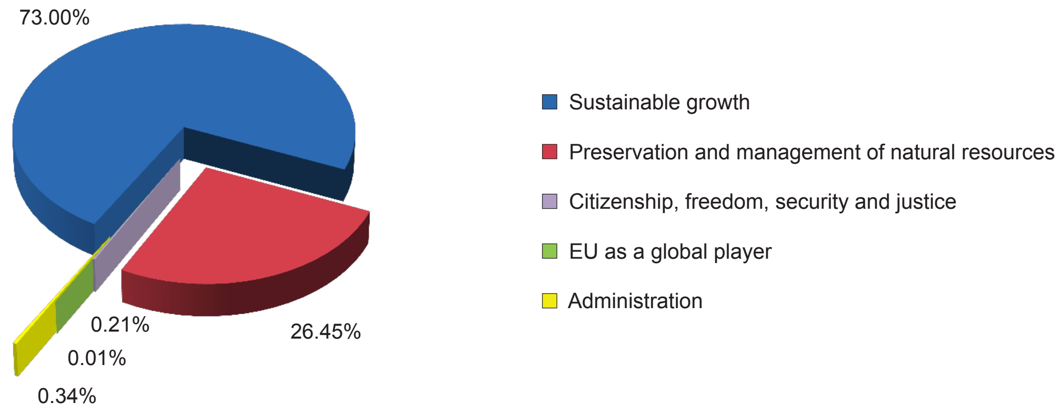
Table 2 – EU budget expenditure for the CR in 2004–2012

	2004	2005	2006	2007	2008	2009	2010	2011	2012
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	4 529.5
Annual growth (%)	x	31.8	23.7	29.4	41.8	20.8	15.8	-11.32	49.53

Source: *EU Budget 2012 – Financial Report* and previous EU budget reports, European Commission 2005–2013.

The structure in percentage terms of total EU budget expenditure for the CR in 2012 is shown in the following graph.

Graph 6 – Structure of EU budget expenditure for the CR in 2012



Source: *EU Budget 2012 – Financial Report*, European Commission 2013.

Graph 6 shows that, in keeping with tradition, the CR's biggest revenue from the EU budget came from the *Sustainable Growth* heading, which covers **Cohesion Policy**. That accounted for 73% of all revenue in 2012. In this context the MoF stated[22] that the CR managed to draw down all the finances under this budget heading in line with the n+3 rule.

22 http://www.mfcr.cz/cs/zahranicni-sektor/monitoring/pozice-cr-vuci-rozpoctu-eu/2012/cista-pozice-ceske-republiky-vuci-rozpoc-9386.

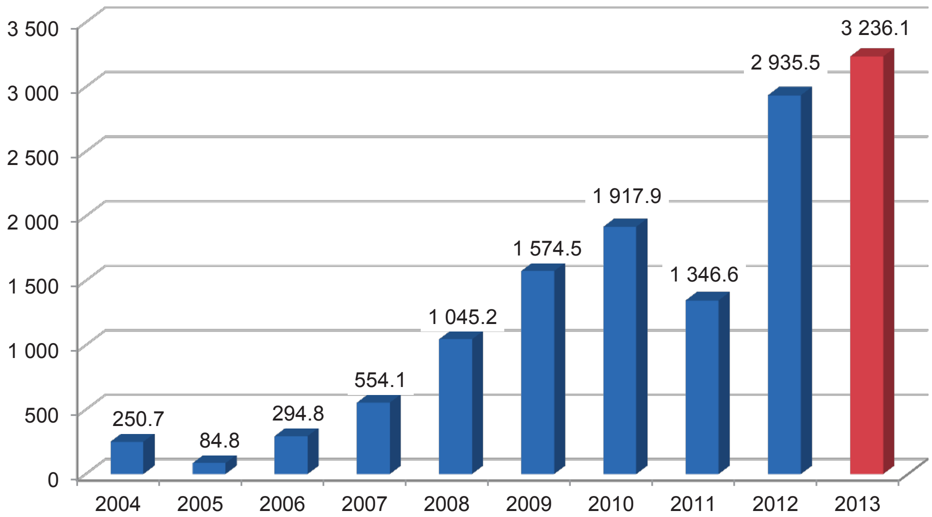
The second most significant policy in terms of volume is the **CAP** (funded out of the *Preservation and Management of Natural Resources* heading), which took up more than 26% of all the EU budget expenditure for the CR.

Payments under these two policies constituted more than 99% of the CR's total drawdown from the EU.

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 regularly exceed their contributions. It is therefore a **net beneficiary**. Graph 7 is based on official EU sources and shows the development of the CR's net position from 2004 to 2012. The last column in the graph shows the net position for 2013 according to MoF data.

Graph 7 – Net position of the Czech Republic in 2004–2012 and 2013 (€ million)



Source: *EU Budget 2012 – Financial Report* and previous EU budget reports, European Commission 2005–2013; MoF data for 2013 published in February 2014.

The graph shows that, after the fall of almost 30% registered in 2011, the **net position of the CR grew by a record amount** to almost **€ 2.94 billion**. This figure represents a **year-on-year improvement of 118% in the net position**. The significant improvement in the CR's net position was driven by the increased drawdown from the SF and CF that occurred after the resumption of payments of claimed expenditure under OP *Transport* and OP *Environment*.

The total **net position of the CR for 2004–2012** reached **€ 10.00 billion**, which is equivalent to more than CZK 259.74 billion[23].

In February 2014 the MoF published figures[24] showing that the CR's net position in 2013 improved again to reach € 3.24 billion (amounting to more than € 13.24 billion for the years 2004 to 2013). Total EU budget expenditure for the CR amounted to € 4.84 billion and the CR's total contributions to the EU budget to € 1.60 billion. These figures had not been published by the Commission before the EU Report's publication deadline, but it is fair to expect that the EU's official data will confirm the growth in the CR's net position. Despite the relatively large payments received from the EU budget in 2013, the degree of drawdown of the allocation (limit 65%) was not enough to stop the application of the n+3/n+2 rule, i.e. for the commitment to be automatically cancelled under Council Regulation (EC) No 1083/2006, laying down general provisions (the General Regulation). For more details see section B.3.1.1.

23 The Czech National Bank's average exchange rate for 2012 was used for the conversion: 25.974 CZK/€.

24 http://www.mfcr.cz/cs/zahranicni-sektor/monitoring/pozice-cr-vuci-rozpoctu-eu/2013/cista-pozice-ceske-republiky-vuci-rozpoc-17026.

A.3 ECA annual report for the 2012 financial year

At its meeting of 5 September 2013 the ECA adopted its annual reports concerning the 2012 financial year, comprising the annual report on the implementation of the budget, the annual report on the European development funds and special reports. These reports form the basis for the European Parliament's discharge procedure, in which it decides whether the Commission has satisfactorily carried out its responsibilities for implementing the budget.

The principal component of the Annual Report on the Implementation of the Budget published on 14 November 2013[25] is the ECA's statement of assurance (DAS) on the reliability of the EU's consolidated financial statements and 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 2012 and that the results of its operations, cash flow and changes in net assets for the given year were consistent with the provisions of the financial regulation and the internationally recognised accounting standards for the public sector.

As part of its statement on the legality and regularity of the operations underlying the financial statements for the financial year 2012, the ECA issued statements regarding revenues and commitments declaring that both revenues and commitments were legal and regular in all material respects.

As in previous years, the ECA issued an adverse statement regarding the legality and regularity of payments underlying the financial statements, having reached the conclusion that they were materially affected by error. From the point of view of the legality and regularity of payments the ECA came to the conclusion that the supervisory and control systems were partially effective. All policy groups linked to operational expenditure were materially affected by error, with the most likely error rate[26] estimated at 4.8% by the ECA. This estimate represents a fairly significant year-on-year increase (up from 3.9% in 2011).

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 2012

Area of assessment	Audited operations (€ mil.)	Total of tested payments	Most likely error rate (%)	Error Frequency (%)	Functioning of supervisory and control system
Agriculture: Market and direct support	44 546	180	3.8	41	Partially effective
Rural development, environment, fishing and health protection	14 994	177	7.9	63	Partially effective
Regional policies, energy and transport	40 735	180	6.8	49	Partially effective
Employment and social affairs	13 404	180	3.2	35	Partially effective
External aid, development and enlargement	6 616	174	3.3	23	Partially effective
Research and other internal policies	10 667	150	3.9	49	Partially effective
Administrative and other expenditure	9 985	151	0.0	1	Effective
Payments in total accounted into expenditure	**140 947**	**1 192**	**4.8**	**38**	**Partially effective**
Total revenues	**139 541**	**55**	**0.0**	**0**	**Effective**

Source: ECA Annual Report on the Implementation of the Budget for the Financial Year 2012.

A year-on-year comparison of the results of audits performed by the ECA shows that the estimated error rate in the audited payments increased in all policy groups bar *Administrative and Other Expenditure*. The trend of regular year-on-year rises in the estimated error rate has been apparent since 2010.

25 *Official Journal of the European Union* of 14 November 2013, Volume IV Information.

26 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.

The Czech Republic is mentioned in the Annual Report on the Implementation of the Budget as an example of flat-rate corrections impacting on a Member State. Based on serious shortcomings in the working of the management and control systems identified in 2011 for OP *Transport* and OP *Environment*, the Commission and the Czech authorities agreed on a flat-rate correction (5% for OP *Environment* and 10% for OP *Transport*) for all expenditure paid by the managing authorities to beneficiaries before 31 September 2012. The Czech authorities also accepted to deduct the agreed correction in subsequent expenditure declarations to the Commission, leading to reduced reimbursement from the Commission concerning these beneficiaries.

Another mention concerns, for example, expenditure eligibility errors under the *Rural Development, Environment, Fisheries and Health* policy group caused by failure to respect agro-environmental commitments.

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

In July 2013 the Commission published its annual report for 2012[27] on measures to protect the EU's financial interests and actions to counter fraud. In addition to information about the results of the measures adopted by the Commission and Member States, the report contains recommendations for ways to tackle problems and risks identified by data analysis.

In 2012 Member States and candidate states reported to the Commission a total of 13,436 suspicions of fraud and other irregularities[28], with an impact of approx. € 3.36 billion on the EU budget. The following table gives the numbers of cases and total amounts of the irregularities reported, broken down by expenditure and revenue areas.

Table 4 – Numbers and amounts of reported suspicions of fraud and other irregularities within the EU for 2012

Area of expenditure/revenues	Number of fraud suspicions	Volume of fraud suspicions in € million	Number of other irregularities	Volume of other irregularities in € million
Agriculture	143	59.0	1 036	63.0
Rural development	61	9.0	1 228	51.0
Fishing	4	0.7	74	13.0
Other (without data)	0	0.0	9	1.0
Natural resources in total	**208**	**68.7**	**2 347**	**128.0**
Structural funds 2000–2006	81	40.0	862	719.0
Cohesion policy 2007–2013	198	159.3	3 216	1 577.0
Cohesion policy in total	**279**	**199.3**	**4 078**	**2 296.0**
ISPA 2000–2006	27	44.5	204	45.0
IPA 2007–2013	6	0.3	17	1.0
Pre-accession funds in total	**33**	**44.8**	**221**	**46.0**
Direct expenditure	29	2.0	1 648	119.0
Total expenditure	**549**	**314.8**	**8 294**	**2 589.0**
Total revenues (Traditional own resources)	**682**	**77.6**	**3 912**	**370.0**

Source: Report from the Commission to the European Parliament and the Council: *Protection of the European Union's financial interests – Fight against fraud – Annual Report for 2012.*

27 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 2012, COM (2013) 548, in the final wording of 24 July 2013.*

28 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.

The total reported irregularities represented 2.3% of budgetary expenditure and 2.1% of revenues under traditional own resources. Compared to 2011, the number of cases increased only slightly (6%) but the financial impact grew by 77%. The increase was caused solely by "other irregularities", as both the quantity and the financial value of suspicions of fraud were unchanged year-on-year.

The increase in the quantity of other irregularities was registered in both revenues and, above all, in expenditure, specifically in expenditure on Cohesion Policy. The Commission attributes this fact to the greater activity linked to drawing down the allocation for the 2007–2013 programming period and in particular to the results of the audit work done by the Commission, which Member States only announced in 2012. The CR is again mentioned in this context, with almost half of the reported sums deriving from financial corrections done after the Commission's audits.

Annex 1 of the annual report for 2012, which contains data on reported suspicions of fraud for each Member State, reveals that **during the year the CR reported a total of 36 cases of suspicion of fraud affecting expenditure totalling € 54,478,847**. Of that amount, two cases amounting to € 31,028 concerned agriculture and the remaining 34 cases totalling € 54,447,819 concerned expenditure on Cohesion Policy. No suspicions of fraud were reported in the area of revenues. **In terms of the financial volume of the reported suspicions of fraud the CR took second place among Member States.** The Commission stated that the CR is one of a group of the six leading countries in the ability to detect fraud in the area of expenditure.

Annex 2 of the annual report for 2012, which contains data on irregularities not reported as suspicions of fraud, shows that **in 2012 the CR reported a total of 657 irregularities relating to expenditure totalling € 1,036,156,953**. Of that amount, 106 cases totalling € 2,420,077 related to agriculture; two cases valued at € 202,636 concerned fisheries; and 549 cases totalling € 1,033,534,240 concerned Cohesion Policy. **In terms of the financial value of the reported irregularities the CR occupied first place, accounting for 42% of the total value of expenditure irregularities. In the area of revenues, the CR reported 69 irregularities worth a total of € 2,921,712 in 2012, ranking it among the Member States with the lowest reported value of irregularities.**

An overall assessment of the CR's position based solely on the quantitative values given above would be highly misleading, mainly because the CR is mentioned by the Commission as one of the Member States that actively implemented the recommendations formulated in the annual report for 2011[29]. The objectively higher error rate in spending financed out of the SF and CF is counterbalanced by the intensive steps taken by the national implementing authorities to detect and report irregularities. The different approaches to detecting and tackling fraud stemming from the legal and organisational differences between Member States make comparisons between countries difficult.

A.5 Preventive and corrective activities to protect the EU budget 2012

Based on a request from the European Parliament,[30] the Commission issued a report[31] presenting an overview of legislative instruments for identifying and dealing with administrative errors, irregularities and suspected fraud and gives an estimate of the total amounts concerned both for 2012 and for individual programming periods.

The data contained in the report reveal that, under shared management in 2012, financial corrections and recoveries for the CAP, structural policy, internal policy areas, external policy areas and administrative expenditure amounted to a total of € 4,419 million, or 3.2% of total payments for 2012. More than half of that

29 As part of the fight against fraud and other irregularities the CR adopted administrative measures consisting in, for example, stepping up monitoring by the managing authorities, more rigorous financial audit and updating methodological handbooks, improving the act on public procurement, improving measures to recovery wrongful payments, adopting new legislative and administrative fraud-prevention measures, measures improving the administration of agriculture support etc.

30 Resolution of the European Parliament of 17 April 2013.

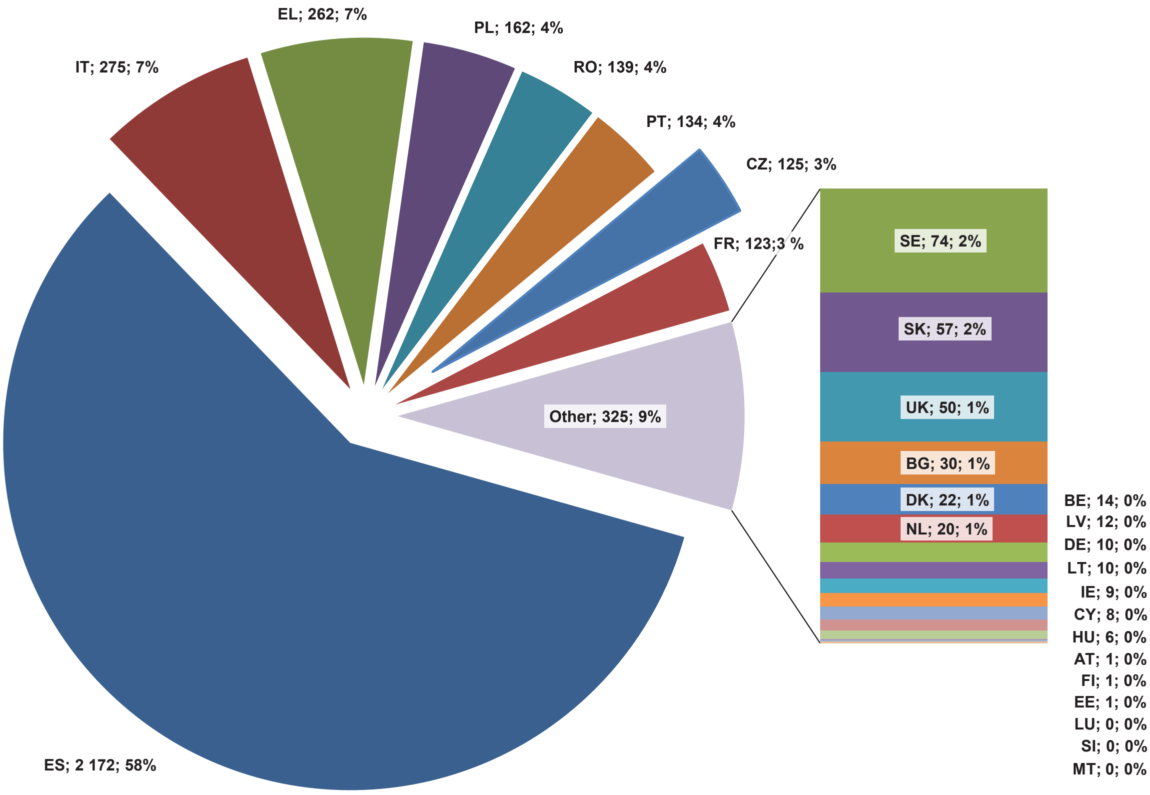
31 Communication from the Commission to the European Parliament: Protection of the European Union Budget to End 2012, COM (2013) 682 of 26 September 2013, based on Commission Staff Working Document SWD (2013) 404 of 26 September 2013.

sum fell to financial corrections and recoveries relating to ERDF operations. A year-on-year comparison showed that the total value of financial corrections and recoveries in 2012 was more than double that in the years 2009 to 2011, when the total value was approx. € 2 billion. This increase is driven by the dramatic growth in the values of financial corrections in Structural Policy linked to the closure of the 2000–2006 programming period for Spain and the acceleration of the process of implementing financial corrections for current programmes[32].

Financial corrections and recoveries implemented under shared management have a direct impact on Member States' national budgets, as ineligible expenditure leading to a possible loss in the EU budget has to be covered out of national budgets. Financial corrections implemented with regard to the CR in 2012 attained a value of € 125 million and related mainly to ERDF operations. This amount represented 2.8% of total payments received from the EU budget and almost 3.3% of the total amount of financial corrections for all 27 EU Member States. In terms of the value of financial corrections, the CR thus came seventh in the EU.

The following overview ranks Member States by the value of financial corrections implemented in 2012.

Graph 8 – Financial corrections implemented in 2012 under shared management by Member States with close-up section **(€ million)**



Source: Commission Report to the European Parliament: Protection of the EU budget until the end of 2012 COM (2013) 682 of 26 September 2013, table 6.2.2, page 14.

The reporting of financial corrections implemented by Member States on their own initiative corroborates that spending on EU Cohesion Policy is more affected by error than spending under other policies. According to the figures published in the Commission's Staff Working Document, Member States reported cumulative financial corrections up to the end of 2012 totalling € 1,652 million for Cohesion Policy alone in the 2007–2013 programming period. The CR reported corrections amounting to € 228 million. In terms of the reported amount, the CR thus came in third behind Germany and Spain.

32 Before the end of 2006 the funding of measures in the area of fisheries and rural development was included under Structural Policy.

A.6 Fact-finding visit to the CR by members of the European Parliament

On 26–27 March 2014 there was a fact-finding visit to the CR by members of the Committee on Budgetary Control of the European Parliament focusing on the subject of *Systemic Errors in EU Funds Controls and Auditing*. The aim of the visit was to learn what steps had been taken by the competent authorities of the CR to reduce the error rate in the implementation of support from the Structural Funds, in particular the ERDF, in the period since the discussion of the discharge of the EU budget for 2011. Another reason for the investigation was that in 2012 there was a hearing in the EP of the deputy finance minister of the CR on the causes of the high error rate and on measures proposed by the Commission and the CR in the *Action Plan*[33] for reducing it. The MEPs held discussions with the Czech authorities responsible for setting up, coordinating and managing the support system for programmes under Cohesion Policy funded out of the EU budget (MoF, MfRD, MoT, MoE and ROP Northwest).

The resulting report from the fact-finding visit had not been published by the publication deadline of this EU Report.

The shortcomings that led to the adoption of the *Action Plan* were repeatedly drawn to the attention of the responsible entities in audit protocols and of the public in the published audit conclusions by the SAO. The SAO drew attention to the issue of the limited independence of assigned auditors in its audit conclusions from audits nos. 11/17, 12/02, 12/06 and 12/13. The shortcomings in the system for dealing with irregularities and recovering ineligible expenditure were pointed out by the SAO in its audit conclusion from audit no. 11/27, for example. Issues linked to improving the quality of management control exercised by the Managing Authorities and Intermediate Bodies were covered by a whole series of audits performed by the SAO. These included audits nos. 12/13, 12/19, 12/21 and 13/04, which assessed the effectiveness of the management and control system. The SAO covered the issue of insufficient administrative capacity in the implementation authorities and their high staff fluctuation rates in its audit conclusions from audits nos. 08/06 and 12/13.

In a number of cases, however, corrective measures consistent with the SAO's findings were not adopted. That is despite the fact that the SAO repeatedly drew attention to the errors in its analytical reports as well, most notably the EU Reports published in the years 2010 to 2013.

33 Put simply, the *Action Plan* adopted by the Czech government and approved by the Commission contains 5 points for improving the management and control system: centralising the Audit Authority, improving the performance and verification of the results of audits conducted by the Audit Authority, a strategy for ensuring sufficient staffing, adjustments to the system for reporting and investigating irregularities, and improving the system of first-level checks done by the authorities responsible for implementation (see EU Report 2013, pp. 31 and 34).

B. Sector matters

B.1 EU revenues

B.1.1 Current developments in the EU's revenues

In connection with the European economic growth strategy up to 2020, in June 2011 the Commission presented a draft multiannual financial framework for 2014–2020. One of the proposals was for a change in the way the budget is financed. The Commission proposed introducing new sources of budget revenue that should partially replace Member States' GNI-based contributions and some other changes:

- terminating the existing VAT-based resource;
- introducing a financial transactions tax (FTT), whereby the proposed decision sets a maximum percentage rate for the FTT;
- introducing a new VAT resource 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 State not exceeding two percentage points of the standard rate;
- increasing the share of EU revenues from own resources from 75% to 90% (see below);
- 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 future of own resources for the EU budget has so far remained unresolved. In February 2013 the European Council agreed[34] on certain changes to the own resources system for 2014–2020. The current own resources system will continue until a new Council decision is issued, however; what is new is that cost compensation, which Member States can retain in connection with the choice of traditional own resources, will be reduced from 25% to 20% and the financial corrections mechanism will be modified[35]. Despite the adopted adjustments to the EU revenues system, there is continuing debate on more radical alterations that are supposed to help improve the own resources collection system.

The European Council requested the Council to keep working on a proposal for a new own resource based on VAT with a view to making it as simple and transparent as possible. Another purpose of the adjustments should be to strengthen the link between the structure of the new VAT-based resource and EU policy on VAT and actually attained VAT revenues. The design of the new resource should also ensure equal treatment for taxpayers in all Member States.

Following the European Parliament's approval granted on 12 December 2012, Decision of the Council No 2013/52/EU[36] authorised enhanced cooperation in the area of financial transaction tax for 11 Member States. In February 2013 the Commission presented a proposal for introducing FTT under enhanced cooperation[37]. The general aims of this proposal are based on the original Commission proposal from 2011[38] that was not, however, supported by all Member States. Unlike this original proposal intended for all Member States, the new proposal concentrates on defining a common tax structure and common provisions on the tax obligation under enhanced cooperation between 11 Member States. The tax should be levied on every transaction in financial instruments between financial institutions; two new principles to be applied are the residence principle[39] and the issuance principle[40]. Member States participating in enhanced cooperation regarding FTT will judge whether this tax could form the basis for a further new own resource of the EU budget.

34 Conclusions of the European Council (Multiannual Financial Framework) of 7 and 8 February 2013, EUCO 37/13.

35 For details see chapter A.2.

36 Council Decision No 2013/52/EU of 22 November 2013 authorising enhanced cooperation in the area of the financial transaction tax.

37 Proposal for a Council Directive implementing enhanced cooperation in the area of financial transaction tax, COM (2013) 71.

38 Proposal for a Council Directive on a common system of financial transaction tax and amending Directive 2008/7/EC, COM (2011) 594.

39 The tax should always be payable if either party to the transaction is based in a Member State applying enhanced cooperation or if either party is acting under the authorisation of a party based in a Member State applying enhanced cooperation.

40 Financial instruments issued in Member States applying enhanced cooperation will be taxed when traded even if the entity trading in them is not based in any of these Member States.

The consequences of introducing the tax should therefore also be felt to some extent outside the area of enhanced cooperation; consequently, this also applies to the CR (whose entities often purchase securities in Germany, for example). The CR has rejected the introduction of FTT from the very start, stating that there are many reasons why the EU should not gain the right to collect taxes. Other countries refusing to participate in the FTT system are Luxembourg, Malta and Great Britain. In July 2013 the European Parliament supported the proposal to introduce FTT under enhanced cooperation.

Based on a joint declaration of the Council, the European Parliament and the Commission[41], a special high-level group composed of representatives of the three institutions was convened to review the existing own resources system. This special group should operate until 2016; on the basis of the results of its work the Commission will assess if new reform of the EU's own resources system is appropriate for the next multiannual financial framework.

B.1.2 The SAO's audit work in the field of revenues

In 2013 the SAO performed an audit focusing on unpaid tax. Audit no. 13/02 found that total registered unpaid tax grew by almost 27% between 2010 and 2012, with a collection success rate of only approx. 9%. The biggest share of unpaid tax (over 61%) was accounted for by unpaid VAT, which had reached CZK 82,505 million as at 31 December 2012. At the end of April 2013, the tax offices, as the administrators of tax, registered 77 taxpayers whose unpaid tax exceeded CZK 100 million, for example. These entities owed around CZK 25.7 billion in VAT, roughly a third of all registered unpaid VAT. 45 of these debtors are registered at virtual addresses, or are not located at the address stated in the commercial register or could not be contacted.

In 2014 the SAO will again focus on auditing VAT and will assess the impacts of legislative changes on VAT collection. The planned audit no. 14/17 will scrutinise the use of the new institutes of the reverse charge mechanism in the CR and the guarantee for unpaid tax, which the MoF estimated would have a positive impact on state budget revenues to the tune of CZK 6.9 billion over three years. The calculation of the impacts envisaged that these measures would restrict tax evasion.

In 2013 the SAO also audited the administration of payments for breach of budgetary discipline[42]. This audit followed an audit completed in 2011[43], in which the SAO found that this work was not performed effectively, as the system as a whole generated redundant administrative actions linked to the waiving of payments for breach of budgetary discipline. These administrative actions were a burden on both the affected administrative bodies and the beneficiaries of finances from the state budget or from the EU. The lack of transparency in the waiving of payments was also criticised by the Commission[44].

In audit no. 13/15 the SAO also found that, despite a reduction in the percentage of payments for breach of budgetary discipline waived in the period from 2011 to the completion of the SAO's audit, the administration of these payments remains uneconomical and inefficient. The audit found that the state of affairs persists where the imposed payment amounts do not reflect the intensity of the breach of budgetary discipline or of the funding conditions. The General Financial Directorate then remedies this disproportion by waiving payments.

In November 2007 the Commission issued Guidelines[45] for the 2000–2006 and 2007–2013 programming periods regarding financial corrections used when irregularities are identified in public procurement for contracts co-funded by the SF and CF. The Guidelines list the types of irregularity and the recommended correction (rate).

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41 Joint Declaration of the Council of the European Union on Own Resources, ST 15997 2013 ADD1 of 25 November 2013.

42 Audit conclusion 13/15 – Administration of Payments for Breach of Budgetary Discipline.

43 Audit conclusion 10/08 – Administration of Payments for Breach of Budgetary Discipline.

44 *Action Plan for improving the functioning of management and control systems for the Structural Funds in the Czech Republic of 20 March 2012; reason statement for the draft amendment of Act No. 218/2000* of 22 August 2013.

45 *Instructions regarding the determination of financial corrections used for expenditure co-financed from the Structural Funds and Cohesion Fund in the event of non-compliance with the public procurement rules* of 29 November 2007, COCOF 07/0037/03-CS.

If the authorities of a Member State detect irregularities in their audit work, they are obliged to perform the necessary corrections. The Commission recommends that Member States should apply the same criteria and rates for irregularities identified in audit work with a different focus than public procurement and does not rule out the use of stricter measures. Financial corrections are implemented by cancelling all or part of the provided EU contribution.

The results of the audit showed that in the CR the Commission's Guidelines were taken into account in the instructions of the General Financial Directorate[46] for the purposes of waiving payments. Yet the rates stated in the Commission's Guidelines apply to the determination of the size of the payment and not the waiving of payments. The audit also verified that the Commission's Guidelines can be used, in line with Act No. 218/2000[47], when determining a payment only if the provider has made allowance for the application of these Guidelines and the amount of corrections in the decision on the provision of funding. If the provider does not make use of this option, the payment is determined as a percentage deduction or possibly a deduction corresponding to the breach of budgetary discipline.

B.1.3 Audit work by the EU authorities

In December 2013 the Commission issued a report[48] intended to assess the working of the arrangements for the computerised supervision of excise movements under duty suspension (EMCS[49]) and on the application of the administrative cooperation rules in the area of excise duties. The most commonly applied excise duties in the EU are those on alcoholic beverages, tobacco products and energy products (motor diesel, petrol, electricity, natural gas, coal and coke). The Commission judged that both the EMCS and administrative cooperation in the area of excise duties function satisfactorily. The stakeholders, however, made suggestions for improvements, e.g. linking EMCS with customs applications, standard templates for fall-back documents and improving some of the functions of EMCS. The legislative reform is scheduled for 2015.

B.1.4 Protection of the EU's financial interests and the fight against fraud

The EU states that tax losses amount to € 1 trillion per year; it has therefore set a target of halving these losses (tax deficit) by 2020. On 2 March 2012 the European Council called on the Council and the Commission to draw up proposals for specific ways to improve the fight against tax evasion and tax fraud, including in relation to third countries. In December 2012 the Commission presented an Action Plan[50] setting out 34 measures, including two recommendations, for enhancing the fight against aggressive tax planning and other phenomena detrimental to the collection of taxes. The Commission recommended that Member States should draw up a set of criteria by which to identify "tax havens" and place them on a blacklist of countries with which cooperation will not be supported. In May 2013 the European Parliament stressed the need to draw up Europe-wide strategies to combat the tax deficit, including laying down a categorical definition of tax havens. According to the European Parliament, Member States should also focus on preventive measures and cooperation with developing countries that are not yet tax havens.

The second recommendation from the Action Plan concerns "aggressive tax planning" and proposes ways to restrict tax avoidance practices. The Commission called on Member States to strengthen their Double Tax Conventions and recommended using a common general anti-abuse rule. The Action Plan also proposes introducing a taxpayers' code and tax identification numbers and creating a platform for good

46 Instruction of the General Financial Directorate D-9 of 27 June 2012 and Instruction of the General Financial Directorate D-11 of 1 August 2012.

47 Act No. 218/2000, on the budgetary rules and amending certain related acts (the budgetary rules).

48 Report from the Commission to the European Parliament and the Council of 3 December 2013 on the functioning of the arrangements for the computerised supervision of excise movements under duty suspension and on the application of the administrative cooperation rules in the area of excise duties, in accordance with Article 8(3) of Decision No 1152/2003/EC, Article 45(1) of Directive 2008/118/EC, Article 35(1) of Council Regulation (EC) No 2073/2004 and Council Regulation (EU) No 389/2012, COM92013) 850.

49 Excise Movement and Control System.

50 Communication from the Commission to the European Parliament and the Council of 6 December 2012 – An Action Plan to strengthen the fight against tax fraud and tax evasion, COM(2012)722.

governance of tax and extending the EUROFISC[51] network for rapid information exchange on VAT fraud to direct taxes as well. Since 1 January 2013 a standard form has been used for information exchange, notification and feedback on tax; the form is available in all EU languages.

To step up the fight against fraud and tax evasion the EU adopted special legal instruments with a view to implementing automatic information exchange between the tax administrations of Member States. On 1 January 2013 the Council Directive on administrative cooperation[52] in the field of taxation entered into force. The Directive responded to the need for mutual assistance between Member States when tackling problems linked to the mobility of taxpayers, cross-border transactions and the internationalisation of financial instruments. Given the large losses caused by tax evasion the EU moved to expand automatic information exchange[53] to cover items such as dividends, capital gains, other financial revenues and account balances. This should to all intents and purposes put an end to banking secrecy. The expanded automatic information exchange should begin to operate from 1 January 2015. Five European countries (France, Italy, Germany, Spain and Great Britain) agreed with the USA on the provision of information on accounts abroad for tax purposes. This agreement should be the cornerstone for promoting the automatic information exchange system globally.

In July 2013 the Council adopted two Directives amending the Directive on the common system of VAT[54]. The first concerns the "Quick Reaction Mechanism"[55], i.e. a quick decision by the Commission to permit exceptions from the reverse charge (from the provider of taxable goods and services to the recipient) in cases of sudden and massive fraud. The second Directive[56] makes it possible to apply the reverse charge mechanism to listed types of goods and services with a high risk of fraud. The Directive applies for a limited period until the end of 2018 and its purpose is to prevent VAT fraud.

In line with the Action Plan for the fight against fraud, in November 2013 a revision of the Council Directive on the taxation of parent companies and subsidiaries[57] was proposed that would prevent the abuse of differences between EU countries in the approach to taxing transfers of money between parent companies and their subsidiaries. The Commission is also preparing a revision of the Directive on the taxation of savings income (Council Directive 2003/48/EC) that should also apply to incomes from investment funds, innovative financial instruments, trusts or foundations, and a revision of the Third Money Laundering Directive (Directive 2005/60/EC of the European Parliament and of the Council).

In the CR proposed measures for the fight against tax evasion and tax fraud were incorporated into the Act on VAT[58] mainly by Act No. 502/2012.[59] This "technical amendment" introduced, with effect from 1 January 2013, the obligation to disclose bank accounts used for economic activity, a basic monthly taxation period, the addition of suppliers' tax identification numbers to the records for VAT purposes, the institute of unreliable payer[60], the taxable goods and services recipient's guarantee for the supply of fuels[61] and the guarantee of authorised recipient[62]. In connection with the deferred effect, since 1 January 2014

51 EUROFISC is a network for the swift exchange of targeted information between Member States.

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

53 Proposal for a Council Directive of 12 June 2013 amending Directive 2011/16/EU as regards mandatory automatic information exchange in the field of taxation, COM(2013) 348.

54 Council Directive 2006/112/EC on a common system of value added tax.

55 Council Directive 2013/42/EU amending Directive 2006/112/EC on the common system of value added tax as regards a quick reaction mechanism against VAT fraud.

56 Council Directive 2013/43/EU amending Directive 2006/112/EC on the common system of value added tax, as regards an optional and temporary application of the reverse charge mechanism in relation to supplies of certain goods and services susceptible to fraud.

57 Proposal for a Council Directive of 25 November 2013 amending Directive 2011/96/EU on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States, COM(2013) 814.

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

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

60 This identifies a taxpayer in serious breach of an obligation linked to the payment of VAT whose registration the tax administrator cannot cancel.

61 The recipient guarantees the unpaid VAT if information that the provider is registered with the Customs Administrator of the CR as a distributor of fuels is not published in the prescribed manner.

62 The VAT is guaranteed by the authorised recipient who incurred an obligation to declare and pay VAT in connection with the receipt of goods subject to excise duty. The authorised recipient guarantees VAT that was not paid by the person which acquired these goods for him from another EU Member State.

VAT payers have had the obligation to submit tax returns, a VAT registration application and notifications on changes to the registration data.

Another amendment of the Act on VAT implemented by Act No. 344/2013[63] specifies in greater detail the guarantee of the recipient of taxable goods and services. Now the recipient acts as guarantor if the payment for taxable goods and services is more than double the statutory limit for payments in cash, i.e. CZK 700,000. The recipient's guarantee would be restricted by this amendment to cases of increased risk of non-payment of VAT and potential negative impacts on the revenues of public budgets.

B.2 Common Agricultural Policy and Common Fisheries Policy

Both policies are financed out of the EU's budget heading *Preservation and Management of Natural Resources.* According to data published by the Commission[64], this heading accounted for 42.7% of total expenditure in 2012, making it the second largest. Compared to EU budgets in previous years, for the first time in history it was replaced by *Sustainable Growth* as financially the largest budget heading and this trend continued in 2013.

Spending on the CAP is paid out of the *European Agricultural Guarantee Fund* (direct payments and CMO subsidies) and out of the *European Agricultural Fund for Rural Development* (RDP subsidies). The CFP is funded by the *European Fisheries Fund*.

B.2.1 The CAP and CFP in the CR

According to the SAIF, CZK 32.59 billion was paid out under the CAP in the CR in 2013; EU finances accounted for approx. CZK 28.4 billion of that amount and the national share was almost CZK 4.2 billion. Spending on the CAP has been falling gradually since 2010. Direct payments remain the biggest area of expenditure, followed by the RDP, on which spending has been falling in the past three years. Expenditure in the different areas of the CAP for 2013 is shown in the following table. CZK 77.33 billion was paid out on the implementation of OP *Fisheries 2007–2013*.

Table 5 – Overview of funds paid out for the main areas of the CAP for 2013 (CZK thousand)

Expenditure area	CR	EU	Total
Direct payments	450 581	19 364 180	19 814 761
Common market organisation	640 752	363 757	1 004 509
Rural development programme inclusive the instalment SGFFF for RDP	3 090 577	8 627 717	11 718 294
Horizontal Rural Development Plan	12 635	39 419	52 054
Total	**4 194 545**	**28 395 073**	**32 589 618**

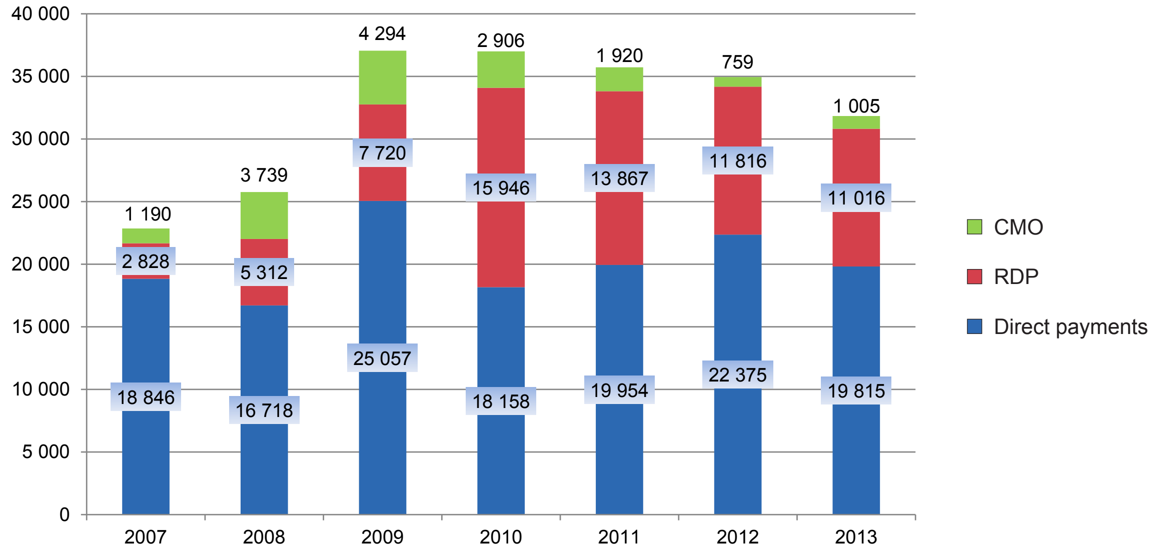
Source: SAIF materials.

The following graph summarises the amount paid out in subsidies under the CAP in the CR in the years 2007 to 2013.

63 *Legal measure of the Senate of 10 October 2013 amending the tax laws in connection with the recodification of private law and amending certain acts.*

64 EU Budget 2012, financial report, Commission 2013.

Graph 9 – Funds paid out under the CAP in the years 2007–2013 (CZK million)



Source: SAIF annual reports for the years 2007 to 2012, SAIF materials – overview of SAIF funds paid out for the main areas of the CAP in 2013.

B.2.1.1 Direct payments

Direct payments are the most significant category of support heading into Czech agriculture from the EU in terms of the quantity of funds paid out. The biggest part of direct payments is the Single Area Payment Scheme (SAPS), which are paid out per hectare of utilised agricultural land registered in the Land Parcel Identification System (LPIS) and are fully funded by the EU. Up to 2013 the CR gradually increased direct payments from national sources in the form of Top-Ups to the level of direct payments provided in EU states that joined before 2004. In 2013 the CR thus reached (including the national Top-Up payments) 100% of the level of payments provided in these Member States (EU 15).

Table 6 shows a breakdown of the funds paid out in the CR in 2013 on direct payments.

Table 6 – Overview of funds paid out on direct payments in 2013 **(CZK thousand)**

Direct payments	CR	EU	Total
SAPS	0	18 498 805	18 498 805
Top-Up	450 581	0	450 581
Separate sugar payment	0	84 207	84 207
Separate tomato payment	0	4 430	4 430
Extra support	0	776 738	776 738
Total	**450 581**	**19 364 180**	**19 814 761**

Source: SAIF materials.

Compared to 2012 there was a CZK 2.56 billion fall in spending on direct payments, affecting all types of this support. The biggest reduction was recorded in decoupled payments, i.e. decoupled payments for sugar and tomatoes, and national Top-Up payments.

B.2.1.2 Common market organisation (CMO)

The CMO applies to agricultural primary production and products after primary processing. Its purpose is to prevent fluctuations in the prices paid by the processor or end consumer for these products. To achieve this it uses various mechanisms such as financial support, subsidies, production quotas, intervention purchasing, aid for storage, and support for the promotion of agricultural products.

Table 7 – Overview of funds paid out for CMO in 2013 (CZK thousand)

CMO measure	CR	EU	Total
Financial support	119 653	208 875	328 528
Subsidies and levies	258 804	131 444	390 248
Export subvention	0	489	489
Intervention purchases[65]	250 000	0	250 000
Support of agricultural products marketing	11 126	18 545	29 671
Other related expenditure[66]	1 169	4 404	5 573
Total	**640 752**	**363 757**	**1 004 509**

Source: SAIF materials.

Expenditure for the CMO increased by approx. CZK 245 million from 2012 to 2013, but after deducting the instalment on a loan for intervention purchasing that was paid by the SAIF payments to beneficiaries were comparable to last year. The most significant measures are subsidies and payments, financial support provided in particular to the "Fruit in Schools" and "Promotion of the Consumption of School Milk" programmes and on the CMO with wine and collected payment of financial allowances from sugar.

B.2.1.3 Rural Development Programme

The implementation of the five priority axes of the RDP went ahead in 2013. Table 8 gives an overview of RDP subsidies paid out in 2013. There has been a fall in payments in the RDP since 2011. This is the result of the completion of projects and the exhaustion of the allocation in certain measures, particularly in axis 2 of the RDP.

Table 8 – Overview of funds paid out for RDP in 2013 (CZK thousand)

Axis RDP	CR	EU	Total
I – *Improving competitiveness of agriculture and forestry*	379 635	1 138 899	1 518 534
II – *Improving environment and landscape*	1 299 623	5 198 327	6 497 950
IIII – *Quality of life in rural areas and diversification of rural economy*	531 824	1 595 472	2 127 296
IV – *Leader*	162 535	650 139	812 674
V – *Technical assistance*	14 960	44 880	59 840
Total	**2 388 577**	**8 627 717**	**11 016 294**

Source: SAIF materials.

The fact that 79% of the total allocation for the RDP had been paid out as at 31 December 2013 can be rated positively. The commitment rate[67] stood at 91% as of that date. The following table presents an overview of the drawdown of the RDP as at the end of 2013.

Table 9 – Overview of drawdown in individual axes of the RDP as at 31.12.2013

RDP Axis	RDP budget 2007–2013	Paid out	
	€ million	€ million	%
Axis I	873.5	616.1	71
Axis II	1 931.0	1 684.8	87
Axis III	641.8	454.6	71
Axis IV	205.8	144.3	70
Axis V	18.0	8.2	46
Total	**3 670.1**	**2 908.0**	**79**

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

65 Intervention purchases were not realised in 2013. The expenditure of CZK 250 mill. is instalment of aa loan for intervention purchases.

66 Other expenditure related to CMO are mainly expenditures on distribution of food to the poorest and deposti returns.

67 The term "commitment rate" represents the proportion of the total allocation accounted for by the financial volume of concluded contracts.

B.2.1.4 OP *Fisheries 2007–2013*

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

Table 10 – Overview of funds paid out for OP *Fisheries 2007–2013* in 2013 (CZK thousand)

Axis OP *Fisheries*	CR	EU	Total
II – *Aquaculture, processing and marketing of fish products and aquaculture*	10 930	32 800	43 730
III – *Common interest measures*	6 960	20 870	27 830
V – *Technical assistance*	1 440	4 330	5 770
Total	**19 330**	**58 000**	**77 330**

Source: MoA materials.

There has also been a significant reduction in payments in OP *Fisheries 2007–2013*, especially in axes 2 and 3, since 2011. As with the RDP, the reason is the completion of projects. An equivalent amount of funds was paid out under axis 5 *Technical Assistance* as in 2012.

Table 11 – Overview of drawdown from the OP *Fisheries 2007–2013* as of 31 December 2013

OP *Fisheries* Axis	OP *Fisheries* budget 2007–2013	Paid out	
	€ million	€ million	%
Axis II	19.23	13.34	69
Axis III	15.10	8.52	56
Axis V	1.81	0.85	47
Total	**36.14**	**22.71**	**63**

Source: *Materials for the 107th plenary session of the Council of Economic and Social Agreement of the CR on the Rural Development Programme and the Operational Programme Fisheries, MoA, March 2014.*

Within OP *Fisheries* 63% of the OP's budget had been paid out by the end of 2013 and decisions on the provision of subsidies had been issued for 1,009 projects, i.e. for 82% of the entire programme's allocation.

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

B.2.2.1 Assessment of audit work

In the years 2007 to 2013 the SAO conducted nine audits focusing on the CAP or CFP[68]. Four of them scrutinised project measures and five looked at claimed payments and other aid. The findings from the eight audits conducted from 2007 to 2012 were summarised and commented on in the EU Report 2013.

An audit of direct payments[69] was completed in 2013. The aim of the audit was to check whether state budget and EU finances earmarked for direct payments under the CAP were provided in line with the defined conditions. Another aim was to verify the operational effectiveness of the management and control systems for these claimed payments. 58 beneficiaries who submitted applications for one or more direct payments with a total value of over CZK 371 million were audited. Approx. 1.66% of the total funds paid out for direct payments in 2012 was thus audited.

The direct payments implementation and administration system was rated functional and effective for the audited period. Nevertheless, the SAO detected certain shortcomings, most notably in the area of the LPIS.

The SAO recommended improving the quality of the LPIS records, bringing the records of landscape elements into line with the European regulations and changing the MoA's approach to imposing penalties for users' failure to discharge their notification duty when the data on land blocks changes.

68 The audits were: audits nos. 07/11, 08/05, 08/25, 09/12, 10/01, 10/28, 10/29, 11/15 and 13/03.

69 Audit no. 13/03, audit conclusion published in volume 4/2013 of the SAO Bulletin.

B.2.2.2 Risk analysis results

The SAO regards shortcomings in the implementation authorities' audit work and legislative shortcomings as risk areas that are significant in terms of the frequency of their incidence and the seriousness of their impact. Shortcomings in project assessment and selection, shortcomings in the administration of applications, shortcomings in the financial area and shortcomings of contracts and decisions on the provision of aid have an intermediate frequency of incidence but a high impact risk. The expert estimate of seriousness of impact also rated certain other shortcomings that appeared in audit findings less often as highly significant. These include violations of contractual obligations by beneficiaries, shortcomings in public procurement and unsatisfactory programme results (whether partial or overall).

B.2.3 Audit work of the ECA

B.2.3.1 ECA annual report for the 2012 financial year

The principal information in the ECA's annual report on the EU budget for 2012 included:

- **Agriculture: Agriculture market support and direct support**

  The ECA audited a sample of 180 operations (140 of which came under the IACS[70]). It found errors in 41% of operations. The most likely error is 3.8%, in the ECA's estimate. Based on the results of its audit, the ECA reached the conclusion that payments for the financial year 2012 were materially affected by error and that the scrutinised supervisory and control systems were partially effective. In respect of the audited Member States the ECA recommended that the eligibility of land, in particular permanent pasture, should be properly recorded in the LPIS, especially in cases where areas are fully or partly covered with rocks or where land has been abandoned for several years. Applying this recommendation should make the database used for cross-checks more precise, which will make the IACS system more effective. The ECA also recommended that payments should be based on the results of inspections and that on-the-spot inspections should be of a sufficiently high quality to ensure a reliable determination of eligible area. Regarding the residual error rate according to the Commission's estimates, the ECA stated that only limited assurance can be gained from Member States' inspection statistics, from the declarations of the directors of paying agencies and from the work carried out by the certification bodies. It recommended that suitable measures be adopted to remedy the situation.

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

  The ECA looked at a sample of 177 operations and found errors in 63%. The most likely error is 7.9%, in the ECA's estimate. The ECA reached the conclusion that payments in this policy group for the financial year 2012 were materially affected by error and that the scrutinised supervisory and control systems were partially effective. The ECA recommended that Member States should carry out their administrative checks better and make use of all the relevant information available. One of its recommendations to the Commission was that it should more closely monitor areas where it found repeated shortcomings with a financial impact, ineffective checking of the procurement rules, shortcomings in administrative checks concerning primarily conditions of eligibility and commitments, insufficient assessment of the justification of costs and shortcomings in the application of reductions and recoveries. As regards the CAP, the ECA recommended that the Commission should ensure that legality checks are sufficient in scope and that it should address the detected shortcomings. It also recommended improving the method of determining financial corrections so as to take better account of the nature and gravity of the infringements detected.

B.2.3.2 ECA special reports published in 2013

In 2013 the ECA published six special reports focusing on agriculture and forestry. The CR was chosen to be part of an audited sample in three ECA audits and is therefore mentioned in special reports nos. 6/2013, 12/2013 and 18/2013.

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70 Integrated Administration and Control System.

In special report no. 1/2013[71] the ECA states that projects mostly improved the financial performance of the companies concerned and a number of the projects audited may result in some added value. That, however, could not be attributed to the design of the measure or the selection procedures used. There was a lack of evidence to demonstrate that the companies aided needed a subsidy, or to demonstrate the specific policy objectives that the subsidy was expected to achieve. The ECA concluded that the support had not been systematically directed to projects and effectively and efficiently added value to agricultural products.

In special report no. 6/2013[72] the ECA states that in the implementation of axis 3 of the RDP value for money was achieved only to a limited extent. The ECA finds the reasons for this state of affairs in the lack of clear needs for intervention and specific objectives set in the RDPs, the broad eligibility criteria adopted and selection criteria that did not choose the most effective projects. The ECA criticises the fact that at the start of the programming period the selection of projects was driven more by a need to spend the allocated budget than by the quality of the projects themselves. The ECA goes on to state that Member States did not sufficiently mitigate the risks of deadweight (a situation where a subsidised project would have been wholly or partly undertaken without the grant aid) and displacement (a situation where an activity supported by public aid is offset by reductions in activity elsewhere). Last but not least, the ECA recommends that effective monitoring systems should be devised that help assess the results of financing.

In special report no. 8/2013[73] the ECA states that the audit detected weaknesses in all aspects of the programme – design, implementation and monitoring. The ECA goes on to state that the Commission and Member States did not manage the audited aspects of the support for improving the economic value of forests effectively and efficiently and that no analysis of the forestry situation in the EU was performed that would justify the proposed financial support for improving the economic value of forests of private owners or municipalities.

In special report no. 10/2013[74] the ECA points out that Member States had a large degree of discretion in introducing direct coupled payments and the Commission had little control, which resulted in the specific support measures[75] not always being implemented in full alignment with the general principles of decoupling and simplification that currently govern the CAP. At the same time, Member States lack evidence that the specific support is necessary or relevant in terms of the need for the measures, the effectiveness of their design and the levels of aid made available.

In special report no. 12/2013[76] the ECA states that the objectives set for rural development were not sufficiently clear and that weaknesses in monitoring and evaluation meant that the information provided by Member States is not sufficiently reliable, consistent and relevant to the defined objectives. The ECA also declared that: *"There was insufficient information on and reporting of the results achieved to demonstrate the extent to which the objectives set have been met and that the EU's budget has been spent efficiently and effectively. The monitoring and evaluation information that is available has not sufficiently been used to improve the efficiency and effectiveness of the rural development expenditure."* The ECA went on to state: *"Member States and the European Commission focused too much on drawdown of the rural development budget and too little on effective attainment of results."*

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71 Special report no. 1/2013 – *Has the EU support to the food-processing industry been effective and efficient in adding value to agricultural products?*; EU 2013.

72 Special report no. 6/2013 – *Have the Member States and the Commission achieved value for money with the measures for diversifying the rural economy?*; EU 2013.

73 Special report no. 8/2013 – *Support for the improvement of the economic value of forests from the European Agricultural Fund for Rural Development*; EU 2013.

74 Special report no. 10/2013 – *Common Agricultural Policy: Is the specific support provided under Article 68 of Council Regulation (EC) No 73/2009 well designed and implemented?*; EU 2013.

75 Measures pursuant to Article 68 of Council Regulation (EC) No 73/2009, which enables Member States, in contravention of the general principles for decoupled direct payments, to retain coupled direct payments in clearly defined cases.

76 Special report no. 12/2013 – *Can the Commission and Member States show that the EU budget allocated to the Rural Development Policy is well spent?*; EU 2013.

In special report no. 18/2013[77] the ECA states that reports on the results of administrative checks and on-the-spot checks focusing on agricultural expenditure are not reliable, partly because of errors linked to the compilation of data and partly because the systems for performing checks are only partially effective in detecting irregular expenditure. In addition, the ECA found that the work carried out by the certification bodies did not provide sufficient assurance either on the adequacy of the on-the-spot checks or on the reliability of statistical reports. The ECA moreover considers that the information system at present available to the Commission does not effectively serve the Commission's needs, because some of the information is not fully relevant or is incomplete and inaccurate. The report contains recommendations targeting improvements in the reliability of Member States' reports. In particular, paying agencies should conduct administrative and on-the-spot checks more rigorously, the quality of the LPIS databases should be improved, and the Commission should clarify the guidelines for implementing adequate control systems and compiling reports.

B.2.3.3 Comparison of the findings of the SAO and of the ECA

When comparing the results of audits by the ECA and by the SAO, the methodological differences in the selection of operations to be audited and the partial differences in audit procedures have to be considered. The ECA selects operations for the audit sample using statistical methods for a specific financial year. By contrast, the SAO selects the audit sample by a multi-criteria method and as a rule for an audited period of longer than a single financial year.

Even though the SAO's audits in the field of agriculture, rural development and fisheries generally focus on checking legality, **the SAO's auditors made the same findings in certain cases and reached equivalent conclusions to those of the ECA**. The findings from audits carried out in the years 2007 to 2012 are presented in detail in the EU Report 2013.

Analysis of the ECA's outputs and the SAO's findings make it possible to define the following risk areas:

<u>In the case of the RDP:</u>

- **Control systems do not satisfy the requirements laid down by the regulations and do not function effectively. Cases of infringements will therefore not be detected at the individual levels of control in the Member State and will not be remedied.**
- **The implementation authorities' control work focuses mainly on the fulfilment of formal requirements and less on the actual benefits of projects.**
- **Projects that do not satisfy the eligibility conditions and do not conform to the public procurement regulations are also financed.**
- **Projects that are not necessary or are unsustainable in the long term are also financed.**
- **Support may be provided for overstated or ineligible expenditure.**

<u>In the case of direct payments:</u>

- **There is a risk that aid will be paid out for an ineligible area and to ineligible beneficiaries and that claims will be calculated incorrectly.**
- **Insufficient design and functioning of the *Integrated Administration and Control System* (IACS), which is the basic tool for ensuring that EAGF direct payment operations are correct.**
- **Inaccurate and out-of-date data in databases used to verify information presented in applications for subsidies.**
- **Unsuitable and unreliable control systems that are not capable to reduce sufficiently the risk of subsidies being provided for the same purpose or providing a subsidy to two or more beneficiaries for the same parcel of land.**
- **Non-compliance with the often complicated rules and eligibility conditions and conditionality on the part of the subsidy beneficiaries, which may result in ineligible expenditure being paid.**

77 Special report no. 18/2013 – *The reliability of the results of the Member States' checks of the agricultural expenditure*; EU 2013.

The results of ECA and SAO audits show the following recommendations for the new programming period 2014–2020:

- **Simplify the implementation systems and subsidy provision processes.**
- **Simplify the regulations and rules for providing subsidies; reduce the paperwork.**
- **Correctly set strategies and define areas that should be invested in.**
- **Analyse the needs for targeting aid.**
- **Set better specific and measurable targets respecting the need for support.**
- **Focus project selection and funding more on effectiveness and efficiency.**
- **Projects must display value for money.**
- **Improve control systems; focus control work on verifying benefits, necessity, and compliance with the principles of economy, efficiency and effectiveness; do not focus solely on formal errors that then nonsensically reduce the subsidies to applicants.**
- **Set up better-quality monitoring systems with the emphasis on the achievement of results and impacts.**

B.2.4 Reform of the Common Agricultural Policy and Common Fisheries Policy

In June 2013 the Agriculture and Fisheries Council reached agreement in Luxembourg on a new form of the CAP, which was endorsed in December 2013 by the Council of Agriculture Ministers. The agreement brings fundamental changes in the agriculture rules, including financial aid, on which the EU spends roughly € 55 billion per year (approx. CZK 1.4 trillion). The reform comprises four regulations: on direct payments, on rural development, on the common market organisation; and on the financing of the CAP. In addition, a regulation on transitional measures for the year 2014 was adopted, but these measures will be part of the 2014–2020 financial framework. The transitional rules roughly correspond to how the CAP has been applied to date. The reform proper will not enter into force until 2015. The new rules should be fairer, simpler and “greener”. The EU should give greater support to young and small farmers and those who observe green farming standards.

The main elements of the new CAP include the “greening” of direct payments[78]. Another important aspect of the reform is the capping of direct payments[79], which is voluntary for Member States. In addition, coupling payments intended for sensitive or at-risk sectors will be increased. Support for young farmers up to the age of 40, who will be entitled to 25% higher direct payments, is also significant. “Historical references” will no longer be considered and businesses not linked with agriculture, such as golf clubs, airports and real estate offices, will be excluded.

Six priorities[80] (instead of the existing four) have been defined for rural development. Most of the measures will continue, but greater demands will be placed on innovation, knowledge transfer, consultancy, climate change impacts and soil conservation. The role of the Leader initiative and the options for greater involvement by local action groups in rural development will be enhanced. Support for less favoured areas will be retained.

Agricultural policy has traditionally represented one of the biggest items in the EU budget. For the 2014–2020 period its share of the budget is 39%. Nevertheless, the budget for the new CAP will be reduced slightly compared to the previous programming period. € 277.85 billion has been earmarked in

78 “Greening” means the obligation for farmers to maintain permanent grassland, cultivate at least three crops on arable land (of which the main crop must not exceed 75% and the sum of two crops must not exceed 95% of the total arable land area) and maintain an “ecological focus area” of at least 5% of the arable land. This measure does not apply to permanent cultures like orchards and vineyards, however. Land areas with protein crops are included, however. As much as 30% of the funding a farmer may obtain under income support will go on greening.

79 The reduction of direct payments to large farms. Payments over € 2,000 will be annually reduced by a certain rate.

80 Newly defined EU priorities under the RDP:
1. Fostering knowledge transfer and innovation in agriculture, forestry and rural areas.
2. Enhancing farm viability and competitiveness of all types of agriculture.
3. Promoting food chain organisation and risk management in agriculture.
4. Restoring, preserving and enhancing ecosystems related to agriculture and forestry.
5. Promoting resource efficiency and supporting the shift towards a low carbon and climate resilient economy in agriculture, food and forestry sectors.
6. Promoting social inclusion, poverty reduction and economic development in rural areas.

the EU budget for direct payments and market measures and € 84.94 billion for rural development for the 2014–2020 period.

In 2012 the MoA drew up 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 objectives that should underpin the MoA's key decisions when implementing the CAP in the CR in the 2014–2020 period, in particular the structuring and distribution of direct payments and support under the RDP[81].

The CFP is also undergoing reform. In May 2013, after two years of negotiations, the European Parliament and the Council agreed on the outline of the CFP reform. The aim is to make this policy more effective so that European fishing fleets are economically viable, fish populations are not decimated, fisheries policy is linked to maritime policy and consumers are guaranteed high-quality food products. The reform is designed to stop overfishing and to redirect subsidies worth billions of euros away from destructive industrial fishing and towards sustainable fishing and fish farming.

In March 2014 the Czech government adopted a *Multiannual National Strategic Plan for Aquaculture*. The document drawn up by the MoA defines the conditions for implementing the CFP in the CR. In the coming years Czech aquaculture, i.e. fish farming, should produce roughly the same quantity of fish from fishponds and more fish from special fish farming facilities. The sector's development should be steered towards boosting competitiveness, making use of new technologies and investing in the modernisation of fish farming facilities, and achieving greater diversity of products. Support for the plan's priorities will be funded mainly out of OP *Fisheries 2014–2020*. The allocation for this OP has not been defined yet. The CR expects a similar level of aquaculture support for 2014 to 2020 as in the 2007–2013 period, however, i.e. € 36 million, with € 27 million coming from the EU budget.

B.2.5 Changes to legislation on agriculture and on the State Agricultural Intervention Fund

For drawing down European subsidies in the years 2014 to 2020 it has been deemed necessary to amend Act No. 252/1997, on agriculture, and Act No. 256/2000, on the State Agricultural Intervention Fund and on amendments of other acts. Changes to these acts were approved by the Czech government in January 2014. The new legislation reacts to the proposed new regulations of the European Parliament and of the Council. The administration of CAP and CFP instruments in the CR for 2014–2020, and especially subsidy measures, would not be possible without these changes.

The changes in the act on agriculture are intended to make more precise the general provisions on the common market organisations, direct payments, the RDP and OP *Fisheries* and to align them with the requirements of the new draft EU regulations. The amendment of the act on agriculture also changes the operation of the LPIS. Previously, the MoA had been the administrator of the LPIS and its operator was the Agency for Agriculture and the Countryside of the MoA. In future the operator would be the SAIF, with the MoA continuing to be the LPIS administrator. Changes are also made to the records of land, records of landscape elements and records of buildings and the way they are updated, including transferring some provisions into a government implementing regulation (definition of agricultural cultures, definition of landscape elements, definition of buildings, specification of the way land blocks and parts thereof are divided and expansion of the list of data kept on land blocks and parts thereof) to meet the requirements of the new draft EU regulations. The amendment of the act on agriculture also simplifies the records of agricultural businesses with regard to the adopted changes in the law on trades and responds to new circumstances brought about by changes in the act on basic registers.

The main changes in the act on the SAIF are modifications of the formulations of provisions on its financing, the addition of provisions on national subsidies based on an authorisation from the MoA by means of an agreement on the provision of a subsidy, the addition of provisions on the possibility of electronic submissions, and making more precise the provisions on export subventions, intervention purchasing and sales, production quotas of milk, sugar and starch and on sugar levies.

81 *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

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

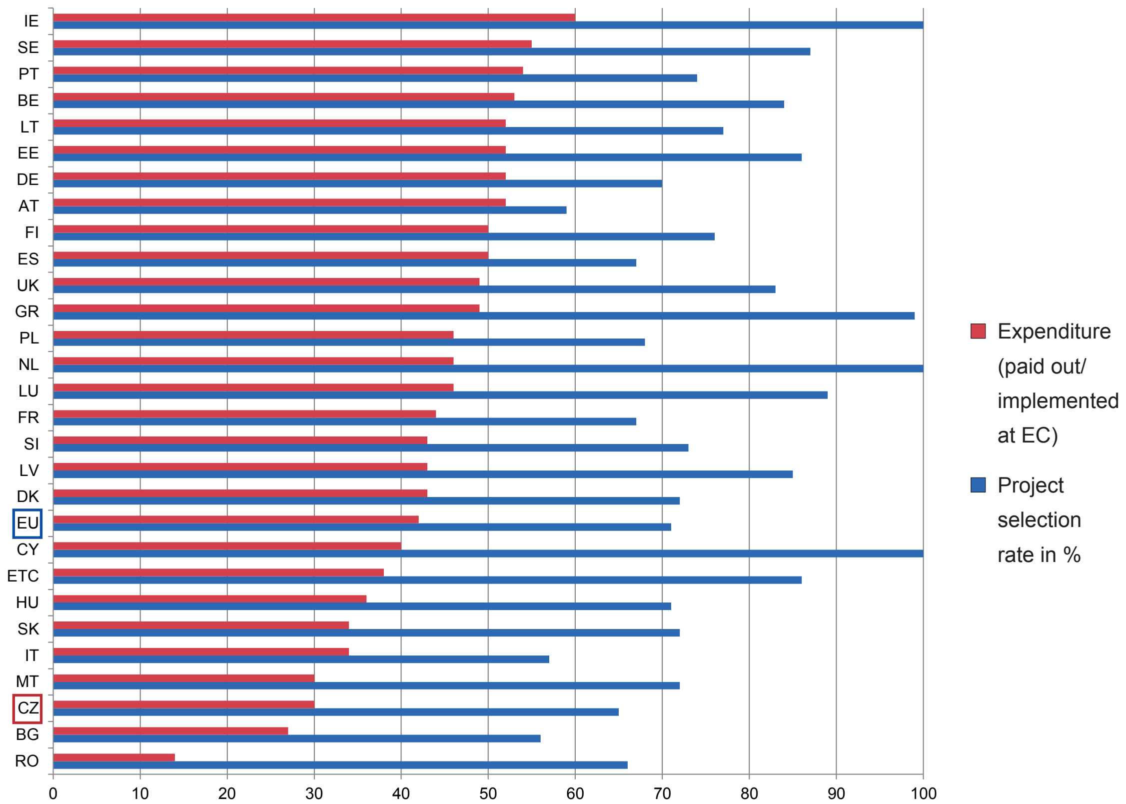
B.3.1.1 Drawdown of the allocation for the 2007–2013 programming period

Almost € 350 billion was earmarked in the SF and CF for achieving the goals of Cohesion Policy for the EU as a whole for the seven-year programming period, with € 26.76 billion of that earmarked for the CR. Under this policy, finances are drawn down from three funds.[82]

State of drawdown of the allocation and fulfilment of the n+3/n+2 rule[83]

In absorption terms the CR ranked among the four least successful Member States up to the end of 2012. The Commission put together the following graph (here graph No 10) which compared Member States in terms of both the rate of project selection (share of contractual commitments relative to the allocation) in percentages as at 31 December 2011 and the rate of drawdown of funding claimed from the Commission up to January 2013.

Graph 10 – Aggregate rates of project selection (2007–2011) and payments declared by Member States (2007–2013)



Source: REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS – Cohesion Policy: Strategic report 2013 on programme implementation 2007–2013, COM(2013) 210, final wording from 18 April 2013.

Abbreviations: See the legend under Graph 2 (p. 11); ETC – European Territorial Cooperation; EU – EU average.

82 ERDF – supports investment projects such as support for starting-out entrepreneurs, investments in infrastructure and cooperation in cross-border regions. ESF – supports non-investment projects such as programmes for disadvantaged population groups, educational programmes, retraining for the unemployed etc. CF – finances key infrastructure projects in the fields of transport and the environment.

83 The n+3/n+2 rule is 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 for 2008, 2009 and 2010. The n+2 rule applies to the allocations for 2011 and 2012. The part of the budget commitments still open as of 31 December 2015, i.e. the allocation for 2013, will be automatically cancelled if the Commission does not receive an acceptable payment application for it by 31 March 2017 within the meaning of Article 93(3) of Council Directive (EC) No 1083/2006. 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.

During 2013 the situation with the drawdown of the allocation (i.e. certified and submitted to the Commission) improved significantly. According to MoF figures, from the start of the programming period, i.e. from 2007, until 31 December 2013, the CR had drawn down a total of € 14.4 billion under the ERDF, ESF and CF, i.e. 53.9% of the total allocation. Projects worth CZK 738.7 billion had been approved in the form of a contractual commitment, i.e. 91.4% of the total allocation. The state of drawdown of the allocation in individual OPs is shown in the table in Appendix 1 of this report.

2013 was a high-risk year in terms of the drawdown of the allocation, because the n+3 rule for the 2010 allocation and the n+2 rule for the 2011 allocation, plus 2/6 of the 2007 allocation, were supposed to be fulfilled by year-end.[84] To avoid the automatic cancellation of commitments, certified expenditure, or payment applications sent to the Commission, had to attain approx. 65%[85] of the total OP allocation for the 2007–2013 programming period. Without the use of preliminary payments, the drawdown limit was fulfilled in 2013 by OP *Transport* (ERDF), ROP *Southeast*, OP *Enterprise and Innovation*, ROP *Northeast*, OP *Cross-border Cooperation CR – Poland,* and ROP *Central Bohemia*. With the use of preliminary payments, the drawdown limit was fulfilled in 2013 by OP *Human Resources and Employment* (Objective 1), ROP *Southwest*, OP *Prague–Adaptability*, ROP *Moravia-Silesia*, OP *Prague–Competitiveness*, ROP *Northwest* and ROP *Central Moravia*. With the use of preliminary payments and also annual commitments of major projects submitted to the Commission for approval, the drawdown limit was fulfilled in 2013 by IOP (Objective 1), OP *Research and Development for Innovation* and OP *Transport (CF*).

Even though over CZK 150 billion was drawn down from the SF and CF in 2013, which is a larger amount than in previous years, the drawdown of the allocation for the 2007–2013 programming period did not attain the required approx. 65% but only approx. 54%.

Despite all the efforts made, five OPs fell short of the drawdown limit in 2013. These are IOP (Objective 2), OP *Human Resources and Employment* (Objective 2), OP *Education for Competitiveness,* OP *Technical Assistance* and OP *Environment*.

It is a reasonable assumption that the failure to fulfil the n+3 and n+2 rules (for the 2010 and 2011 allocations) in 2013 **will be punished by the automatic cancellation of the commitment in the amount of CZK 9 to 12 billion**[86].

Risks for drawdown of the allocation for the 2007–2013 programming period in 2014 and 2015

For the years 2014 and 2015 the MfRD identified the following principal risks for the drawdown of the allocation of SF finances in the 2007–2013 programming period:

- **Human resources** – 2014 is a specific year in that the work of the managing authority for the 2007–2013 period will come to an end, with the work of the managing authority for 2014–2020 beginning on 1 January 2014. If staffing is not suitably ensured for the closure of the 2007–2013 period, problems and errors may occur that could lead to financial corrections being imposed by the Commission (with an impact on the state budget).
- **Project phasing-in** – the Commission permits "phasing-in" for Member States. This is a relatively demanding procedure, as before a proposed project is officially submitted it has to be constantly negotiated with the Commission. Another risk is that if an irregularity emerges in the second

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

85 The limit varies from OP to OP, ranging from 62.5–69.3%. The exception is OP *Education for Competitiveness*, where the limit is 83.8% for Objective 2 as a result of the change in the total OP allocation after the reallocation of finances in 2012.

86 For the CR as a whole the non-drawdown may reach a level below € 436.8 million; converted into CZK after the Czech National Bank intervention that makes CZK 12.0 billion. In the case of several OPs, MfRD-NCB is striving to make use of Articles 95 and 96 of the General Regulation, i.e. that when assessing the drawdown limit in 2013 the Commission make allowance for the delay in projects affected by floods or the financial crisis and long-term suspended projects due to on-going court and administrative proceedings (e.g. including projects being assessed by the Office for the Protection of Competition). The Commission will judge the relevance of applying these Articles in the first half of 2014. The ultimate level of the automatic cancellation of the commitment will thus only be known after the Commission has reached a decision. Should the Commission recognise all the cases sent to it by the MfRD for assessment in this regard, the level of non-drawdown could fall to € 327.1 million (equivalent to CZK 9.0 billion using the Czech National Bank exchange rate in January 2014).

phase the first phase can also be affected. At this point phasing-in is being considered for all OPs encompassing "major projects" (i.e. projects with a budget over € 50 million). The first pilot project for phasing-in was submitted to the Commission by the Managing Authority of OP *Research and Development for Innovation* in 2012.

- **Drawdown requirements up to the end of the 2007–2013 programming period** – applications amounting to over € 12 billion (CZK 329.8 billion) still have to be sent to the Commission before the end of the programming period. The managing authorities of operational programmes have to expend considerable efforts to exhaust their allocation. In some cases a political decision will be required whether to reimburse projects (e.g. out of the state budget) that are under investigation by the control authorities or the police.
- **Decisions of the Office for the Protection of Competition** – one of the persisting problems at OP level is public procurement, whether that concerns the quality of contract award procedures and compliance with the rules by beneficiaries or the substantial number of appeals lodged with the Office by unsuccessful applicants. Managing authorities are not informed by the Office about petitions for the commencement of proceedings in cases affecting support beneficiaries. The very existence and the duration of administrative proceedings conducted by the Office pose a significant risk.
- **Checks and audits** – the system for sharing experiences with conducted checks and audits needs to be optimised. If a finding by the managing authority is not confirmed by the financial authorities, the affected amount might not be recovered (the managing authority thus has no legal mechanism for recovering sums affected by irregularities). The lack of a uniform approach to applying financial corrections for breach of the public procurement rules in individual OPs is a significant risk for control and audit work in the context of respecting the Commission's minimum requirements and rules, including the considerable interpretational discretion on the part of control authorities and support providers.
- **Allocation management and budgetary impacts** – the Commission Regulation for the 2007–2013 period was updated in December 2013. This change introduces the option of using "flexibility". Seeing that the 2007–2013 programming period is approaching its final phase, a suitable strategy for drawing down the remaining OP finances needs to be chosen so that the total allocation is not exceeded and there is no impact on the state budget. The Czech National Bank's foreign exchange interventions and resulting exchange rate changes present a risk in this context.
- **Environmental Impact Assessment** (EIA) – on 25 March 2013 the Commission opened infringement proceedings (proceedings concerning breach of obligations under the Treaty on the Functioning of the EU) against the CR in the matter of incorrect transposition of the EIA Directive. After detailed analysis, in August 2013 a statement defending the CR's interests was sent to prevent the continuation of the infringement proceedings, i.e. the issuance of a reasoned opinion that would in all likelihood present a risk that EU funding for projects for which EIAs have already been conducted would be stopped. The risks stemming from EIA infringements are not restricted to a possible future condemnatory verdict by the Court of Justice of the European Union and the imposition of a financial penalty: there is also the risk that the Commission will suspend payments from EU funds for projects for which EIAs have already been conducted.

In 2014 the CR will continue to face problems associated with non-drawdown of the allocation and the risk of automatic cancellation of the commitment, as the following table makes clear.

Table 12 – Estimated level of non-drawdown of the allocation for 2014

Operational Programme	Fund	Amount of non-drawdown of allocation 2014 (CZK million)
OP *Environment*	ERDF	13 000
OP Research and Development for Innovation	ERDF	7 420
OP *Enterprises and Innovations*	ERDF	1 500
ROP North-West	ERDF	1 311
Integrated Operational Programme	ERDF	780
OP *Technical Assistance*	ERDF	550
OP *Prague–Adaptability*	ESF	55
Total		**24 616**

Source: Presentation report for the *Analysis of the State of European Funds in the 2007–2013 of the Minister for Regional Development* (material for a session of the Czech government on 10 February 2014 – resolution no. 94), February 2014.

In 2014 and 2015 the CR must strive to fulfil further drawdown limits (the allocations for the years 2012 and 2013), otherwise it may irrevocably lose further funding from the EU budget. In February 2014[87] the OP managing authorities estimated that non-drawdown of the allocation earmarked for 2012 alone could amount to a total of CZK 24.6 billion.

In addition, at the start of 2014 OPs of the 2007–2013 programming period were analysed[88] in terms of risk and the main risks for 2014 and 2015 were assessed. The following table sets out the result of the assessment of the OPs.

Table 13 – Overview of OPs 2007–2013 in terms of risk of non-drawdown of the allocation

OP with high risk	*Integrated Operational Programme* OP *Research and Development for Innovation* OP *Technical Assistance* OP *Environment* ROP *North-West*
OP with medium risk	OP *Transport* OP *Prague-Adaptability* OP *Enterprises and Innovations* OP *Prague-Competitiveness* OP *Education for Competitiveness* ROP *South-West* ROP *Moravia Silesia* ROP *Central Bohemia* ROP *Central Moravia*
OP with low risk	OP *Human Resources and Employment* ROP *South-East* ROP *North-East*

Source: *Analysis of the State of European Funds,* material for a government session[89] drawn up by the MfRD, February 2014, page 18.

87 See the presentation report for the Analysis of the State of European Funds in the 2007–2013 of the Minister for Regional Development (material for a session of the Czech government on 10 February 2014 – resolution no. 94).

88 See the Analysis of the State of European Funds in the 2007–2013 of the Minister for Regional Development (material for a session of the Czech government on 10 February 2014 – resolution no. 94).

89 Approved by Resolution of the Government of the Czech Republic no. 94 of 10 April 2014.

B.3.1.2 SAO audits completed in 2013

During 2013 the SAO completed[90] ten audits dealing with finances from the SF and CF.

1. **These included six audits focusing on the implementation of transport infrastructure construction and modernisation projects (audits nos. 12/11, 12/18 and 13/14) co-funded by the EU and the State Fund for Transport Infrastructure; on the acquisition and operation of the data box system (audit no. 12/36); on the creation of the Labour Office of the CR (audit no. 12/35); and on the preparation, implementation and operation of the basic registers systems (audit no. 13/12).**

   These audits found that support beneficiaries violated the regulations on public procurement.

   In audit no. 12/18, for example, the SAO audited 38 public contracts awarded by the Road and Motorway Directorate with a total value of CZK 6,395 million linked to the preparation and implementation of works on motorways and high-speed roads. Non-compliance with the law was detected in 21 public contracts with a total value of CZK 4,303 million.

   In audits nos. 12/11 and 13/14 the SAO found that conceptual materials for the modernisation of railway buildings were incomplete and there was no strategic document concretising the priorities of rail network modernisation. Nor were there any documents making it clear whether and how the provider performed feasibility studies for the projects and their economic evaluations. In both audits it was found that the financial and time parameters changed significantly during the decision-making on their preparation and implementation, without any assessment of the reasons for and impacts of these changes.

   The system of monitoring indicators was judged to be unreliable for objective assessment of the effectiveness and efficiency of the support provided under OP *Transport*.

2. **The remaining four audits focused on the priorities of OP *Technical Assistance* (audit no. 12/13), OP *Human Resources and Employment* (audit no. 12/19), OP *Research and Development for Innovation* (audit no. 12/21) and OP *Cross-border Cooperation Czech Republic and Poland 2007–2013* (audit no. 13/04). These audits assessed the OPs' internal management and control systems and the legality and regularity of transactions in a selected sample of projects. The nature and frequency of the detected errors was the same as in previous years[91].**

   a) Setting and achieving the objectives of OPs

   Some objectives of operational programmes cannot be defined as SMART[92]: it is hard to assess whether they are achieved or not; in many cases monitoring indicators are not properly defined, causing monitoring to fail; and in some cases the projects' goals do not contribute towards achieving the objectives of programmes or the project's goals were not achieved.

   For example, the objective of projects of the beneficiary, the MfRD, in OP *Human Resources and Employment* was to strongly motivate administrative staff and stabilise the personnel situation in the MfRD and the Centre for Regional Development, whereby this stabilisation was primarily intended to be assessed using an indicator referred to as *"number of full-time implementation structure workers"*. According to the defined monitoring indicators, the projects were intended to retain just 20 workers out of a total of 110 (i.e. 18.2%) over three years, which is a requirement that can have little impact on achieving the objective.

   b) Management and control systems

   The SAO tested key elements of the management and control systems of the operational programmes in four of the ten audits (audits nos. 12/13, 12/19, 12/21 and 13/04). It rated two systems as effective and two as partially effective.

90 Audit conclusions approved and published.

91 See EU Report 2013 – available at http://www.nku.cz/cz/publikace/eu-report.htm.

92 S – Specific, M – Measurable, A – Attainable, R – Relevant, T - Time-bound.

For example, the insufficient separation of functions in one division of the MfRD made it possible for one organisational unit of the ministry to carry out simultaneously two incompatible functions, i.e. that of managing authority and that of beneficiary. This kind of organisational arrangement, with departments of the same division performing two roles simultaneously, presents a risk for the proper working and operation of the management and control system in the implementation of OP *Technical Assistance*.

In view of the higher error rate the management and control systems were rated as only partially effective in the case of OP *Human Resources and Employment* and OP *Cross-border Cooperation CR–Poland*.

c) Project selection

The mechanisms for selecting projects for financing often fail, which sometimes leads to violations of the principle of sound financial management, i.e. insufficient assurance of effectiveness, efficiency and economy.

In the case of OP *Human Resources and Employment*, for example:

- the system for substantive assessment of projects was based on assessment criteria that were highly subjective. That resulted in differences in the results of assessments done by different assessors. Criteria relating to economy, efficiency and effectiveness accounted for just 20% of the assessment criteria as a whole. Five of the eight audited projects were then implemented in a way resulting in a difference of on average CZK 12 million between the original and the final approved budget. In practice this meant that the projects were implemented for approx. 68% of the original budget, even though these budgets had been rated as proportionate by the assessors;
- the objective of support area 2.1 of OP *Human Resources and Employment* was to increase the employability of unemployed persons or vulnerable persons on the labour market. However, wage contributions also supported persons who were employed at that moment in time, were not at risk on the labour market, ran a business or were the statutory representatives of civic associations engaged in the project. In some cases these persons even employed themselves.

d) Public procurement

Public procurement continues to display errors in compliance with the regulations on this activity (most notably Act No. 137/2006), particularly in the application of the principles of transparency, non-discrimination and equal treatment.

In the case of OP *Human Resources and Employment*, for example:

- In the award procedure for a supplier under the National System of Occupations II project, the MoLSA, in contravention of the act on public procurement, did not exclude the only candidate, even though it did not satisfy the qualification requirements, and selected this candidate as the winner. The outcome was a breach of budgetary discipline amounting to as much as CZK 148,790,400 and irregularities amounting to CZK 126,471,840.
- Another support beneficiary, in contravention of the act on public procurement, excluded one of the two candidates. This exclusion could have had an influence on the selection of the most suitable offer. The irregularity in this case was valued at CZK 13,682,677.96.

e) Ineligible expenditure

Ineligible expenditure forms the largest group of errors detected by the SAO when auditing programmes and projects financed out of the SF and CF. This includes expenditure claimed by beneficiaries for supplies and services that were delivered in insufficient scope or quality or were not supplied at all.

Under OP *Human Resources and Employment*, for example, one beneficiary paid a total of CZK 201,800 for holding three press conferences that were only attended by the beneficiary's representatives and representatives of the project's general contractor. The first press conference was attended by a single journalist and the next two by none, so the money was spent uneconomically. Another beneficiary used the subsidy to pay for expenditure on various courses that the presented documents showed were held at the same time and with identical participants. It is not possible that these activities took place with the same participants at the same time, so the related spending cannot be regarded as proven or, consequently, eligible.

In the case of OP *Cross-border Cooperation CR – Poland*, for example, the SAO found that one beneficiary had wrongfully paid invoices made out by a mandatory on the basis of a framework contract for the organisation of public contracts. The beneficiary even reimbursed expenditure on cancelled contract award procedures to the full amount of the price for the given type of contract award procedure, although under the contract for work the mandatory was only entitled to part of the price according to the set rules. This irregularity affected 13 contract award procedures in total.

Based on the results of audits conducted in 2012 and 2013 the SAO filed nine notifications of suspicions of crimes to the criminal justice authorities that concerned 20 audited entities. Suspicions of harming the EU's financial interests in the field of cohesion policy were the second most common subject of notifications.

B.3.1.3 Comparison of the findings of the SAO and ECA

Even though any comparison of the results of ECA and SAO audits in the field of Structural Policy has to contend with the same methodological differences as in the case of CAP audits, the two audit institutions arrive at similar results.

Chapters 5 and 6 of the ECA annual report on the implementation of the EU budget 2012 contain detailed audit findings concerning expenditure in the policy groups *Regional Policy, Energy and Transport* and *Employment and Social Affairs*. The ECA's audit planning centred on the following **risks**:

- Member States did not implement management and control systems meeting the requirements of the General Regulation, so these systems do not function effectively, i.e. cases of non-compliance with the regulations of the EU and Member States are not detected or corrected at the individual levels of control in the Member State or by checks by the Commission.
- Projects are financed which do not conform to the EU regulations or national regulations on public procurement or do not meet the eligibility conditions.
- The endeavour to draw down allocated EU funds is potentially in conflict with the requirement for a system ensuring their optimal use. In practice this endeavour may be in conflict with rigorous application of effective controls.
- Risks for ESF expenditure linked to the intangible nature of investments in human capital.

Analysis of the ECA's outputs and the SAO's findings make it possible to define the following risk areas:

- **The control system does not satisfy the requirements of Council Regulation (EC) No 1083/2006 and does not function effectively, i.e. cases of non-compliance are not detected or corrected at the individual levels of audit in the Member State.**
- **Projects that do not satisfy the eligibility conditions and do not conform to the public procurement regulations are financed.**
- **There is a conflict of priorities when audit and supervisory systems have to ensure the regularity and optimal use of funds, but it is also desirable for all the allocated EU finances to be used up. In practice this endeavour may be in conflict with rigorous application of effective audits.**
- **Ineligible beneficiaries received ESF support.**

Results of audit of operations' regularity[93]

The ECA annual report for 2012 is based mainly on the results of testing the regularity of operations and on an assessment of the effectiveness of the principal supervisory and audit systems covering the relevant

93 Source: articles 5.26 – 5.36 of ECA Annual Report 2012.

revenues and expenditure. The report does not mention the CR or Czech legal persons and natural persons in connection with the errors detected in Structural Policy groups (see Chapters 5 and 6) and the effectiveness of the work of the audit authority of the CR was not tested in 2012. Nevertheless, comparing the results of audits is informative.

Policy group – Regional Policy, Energy and Transport

88 of the 180 audited transactions (49%) were affected by error. Based on the errors it quantified, the ECA estimates the most likely error rate at 6.8%. In 56% of the transactions affected by error (both quantifiable and non-quantifiable), sufficient information was available to the Member State authorities to have detected and corrected at least one or more of the errors prior to certifying the expenditure to the Commission. As in 2011, in the case of ERDF and the Cohesion Fund the shortcomings lay in verifications by the national authorities, above all in "first-level checks" done by the managing authorities and intermediate bodies. The errors concerned:

a) non-compliance with the public procurement rules (in 31% of tested transactions);
b) claiming ineligible costs (in 9% of tested transactions);
c) incorrect calculation of the financing gap[94] for revenue-generating projects (in 8% of tested transactions);
d) non-compliance with the state aid rules (in 3% of tested transactions).

Policy group – Employment and Social Affairs[95]

63 of the 180 audited transactions (35%) were affected by error. Based on the errors it quantified in 31 transactions, the ECA estimates the most likely error rate at 3.2%. The results of audits point to weaknesses chiefly in "first-level checks" of expenditure, which aim to prevent, detect and correct irregularities and verify the actual implementation of projects. These checks are the responsibility of the managing authorities and intermediate bodies in the Member States. In 67% of transactions affected by error (both quantifiable and non-quantifiable), sufficient information was available for the Member State authority to have detected and corrected at least one or more of the errors prior to certifying the expenditure to the Commission. The majority of errors concerned:

a) ineligible projects and expenditure (in 11% of tested transactions);
b) inclusion of ineligible participants in projects co-financed by the ESF (in 6% of tested transactions);
c) non-compliance with the public procurement rules (in 5% of tested transactions);
d) numerous failures to observe procedural requirements; in eight cases the ECA considered this failure to be a serious issue of non-compliance.

The results of audits of transactions by the SAO and ECA are very similar in the case of ineligible projects, ineligible expenditure or participants, and non-compliance with the public procurement rules. The SAO's findings regarding state aid and project revenues are less frequent.

B.3.2 2014–2020 programming period

At national level, preparatory work on the ***Partnership Agreement for the 2014–2020 Programming Period*** has been taking place since 2010. This is the key document defining cooperation between the Commission and the Member State. The Partnership Agreement will set out the strategy, priorities and measures for the effective and efficient use of ESI funds[96] in order to achieve the *Europe 2020* objectives. In the CR, the MfRD is tasked with preparing the Partnership Agreement and negotiating on it with the Commission. In 2013 the Partnership Agreement was discussed at national level and in informal dialogue

94 Article 5.37 of ECA Annual Report 2012: under the ERD and CF the level of EU support provided for a project depends on the project's investment costs and the estimated level of net revenues generated by the project. In the case of revenue-generating projects an analysis of future revenues and investment costs needs to be performed before the project is approved: the "financing gap" is defined as investment costs minus the total of net revenues the project is expected to generate during a specific reference project and the residual value of the project.

95 Source: articles 6.11 – 6.18 of ECA Annual Report 2012.

96 ESI funds comprise ERDF, ESF, CF, EAFRD and EMFF (European Maritime and Fisheries Fund).

with the Commission. The government approved the Partnership Agreement on 9 April 2014 and a deadline of 22 April 2014 was set for sending it to the Commission to initiate official negotiations.

Among other things, the Partnership Agreement defines the fundamental features of the following programmes financed from ESI funds:

1. The objective of OP *Enterprise and Innovation for Competitiveness* (**OP EIC**) is to deliver a competitive and sustainable economy based on knowledge and innovation.
2. The main objective of OP *Research, Development and Education* (**OP RDE**) is to invest in the development of human potential, which is one of the most important forms of public investment. The vision of the operational programme is to contribute to a structural shift in the CR towards an economy based on an educated, motivated and creative workforce and on the delivery of high-quality research results.
3. The objective of OP *Employment* (**OP Emp**) is to improve the human capital of the Czech population and public administration in the CR, i.e. the cornerstones of competitiveness. The CR has to pay close attention to these areas if it wants to perform well in today's complex world.
4. The main objective of OP *Transport* (**OP T**) is to ensure high-quality transport infrastructure throughout the CR, including gradually closing the quality gap between the transport networks in the CR and in "old" EU countries. The transport sector is one of the important areas of the national economy and influences practically all areas of public and private life and business.
5. The main objective of OP *Environment* (**OP Env)** is to improve the environment in all its main components and to deliver high-quality environmental infrastructure. The environment is a significant factor in quality of life and a good state of the environment is also a necessary condition of sustainable development.
6. The Integrated Regional Operational Programme (**IROP**) follows up the seven ROPs and partly also the IOP from the 2007–2013 programming period. The priority of the IROP is to enable balanced development of territories, improve public services and public administration and ensure sustainable development in municipalities, towns and regions.
7. OP *Prague – Growth Pole of the CR* (**OP PGP**) aims to ensure that Prague remains a dynamic and competitive city, whose functions will fulfil all the aspects of the capital of the CR as its important growth pole impacting on the entire region of Central Europe.
8. The global objective of OP *Fisheries 2014–2020* (**OP Fisheries**) is sustainable and competitive aquaculture based on innovation, competitiveness, knowledge and more effective use of resources. The goal is to develop sustainable fish farming in the CR and to ensure evenly balanced supplies of freshwater fish throughout the year to the domestic market, including developing the non-production functions of fishponds. It is essential to develop traditional and tried-and-tested forms of aquaculture (fishpond-keeping) to ensure production of carp while simultaneously introducing modern, intensive farming systems to ensure year-round supplies of fish onto the market.
9. The Rural Development Programme for the 2014–2020 Period (**RDP**) is an instrument for drawing down subsidies from the European Agricultural Fund for Rural Development.
10. The purpose of OP *Technical Assistance* (**OP TA**) is to finance the administration structure and support absorption and administrative capacity and supplementary functions necessary for the successful working of the entire system of drawing from ESI funds in the 2014–2020 programming period. OP TA will be crucial for ensuring the successful work of the National Coordination Authority and other bodies. The goal of OP TA is that finances from ESI funds are used to the greatest possible extent and as efficiently as possible.

Article 26 of Regulation (EU) of the European Parliament and of the Council No 1303/2013 provides that the CR is to present the draft programmes to the Commission at the latest three months after submitting the Partnership Agreement, i.e. by 22 July 2014.

The table in Appendix 3 sets out guideline figures for the allocations to the programmes as stated in the draft Partnership Agreement presented to the government on 9 April 2014.

B.4. Other EU financial instruments

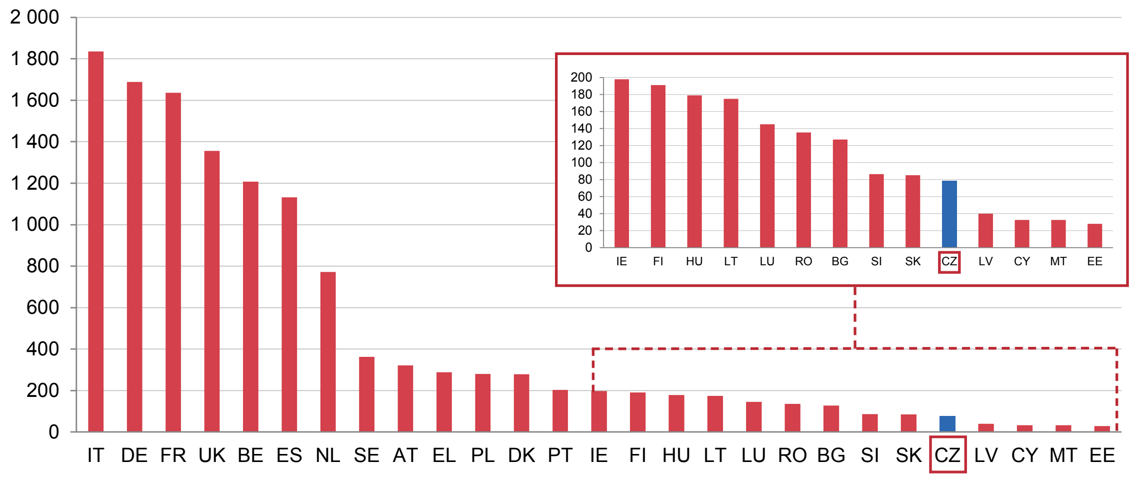
Other EU financial instruments include finances allocated from the EU budget directly to applicants by **public tender**, i.e. not through the individual Member States. If applicants want to succeed, they have to ensure their projects are successful in the face of direct international competition. The aim of the support provided under other financial instruments is to tackle more effectively common problems in the EU's various policies and to increase the extent of cooperation between Member States and their entities. Two essential conditions for gaining support are that **a partnership between entities** from different states has to be established and **European added value** has to be created by projects declaring a supranational significance.

Other financial instruments represent just a small part of total EU budget spending and are mostly covered by the headings *Sustainable Growth*, *Citizenship, Freedom, Security and Justice* and *The EU as a Global Player.* Expenditure is mainly provided through a broad range of **Community programmes**; other sources of financing include the **IPA**, the **Cohesion Fund** and funds for the EU's migration and asylum policy under the programme *Solidarity and management of migration flow.*

Other 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 Member States. There are exceptions to this rule, however, such as the programmes *Lifelong Learning* and *Youth in Action*, which are implemented indirectly through national agencies that are entities of the Member States.

In 2012 the greatest quantities of finances under other financial instruments were drawn down by Italy (€ 1.84 billion), Germany (€ 1.67 billion) and France (€ 1.64 billion). **The CR, along with Slovenia and Slovakia, belongs to a group of states with a drawdown of around € 80 million.** The least funding was received by entities in Cyprus and Malta (both € 33 million) and Estonia (€ 28 million). The following graph shows the drawdown of finances from other financial instruments in EU Member States in 2012.

Graph 11 – Drawdown of finances from other financial instruments in EU Member States in 2012 with close-up section (€ million)

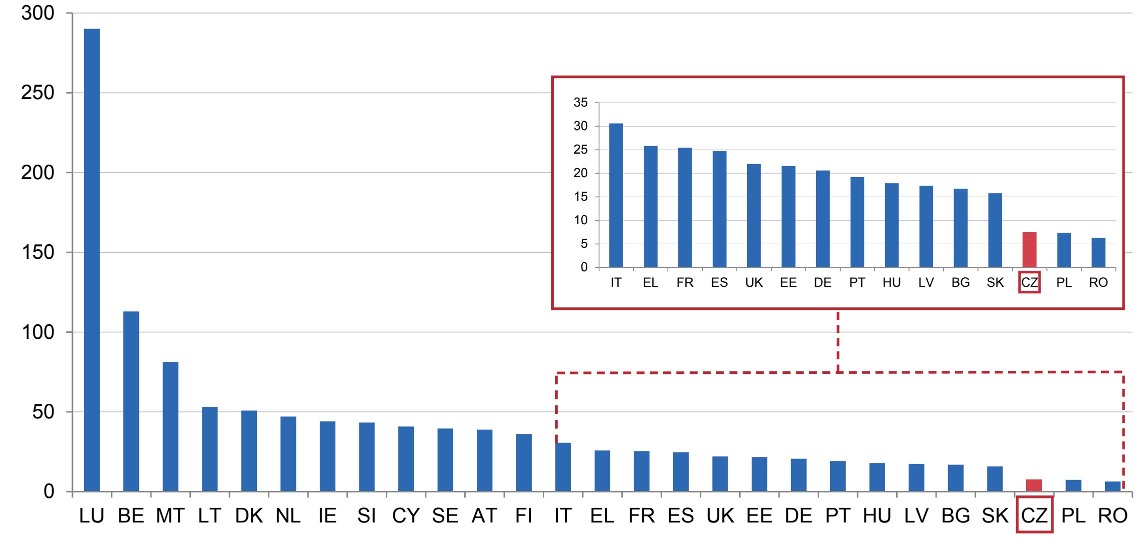


Source: *EU Budget 2012 – Financial Report*, European Commission 2013, http://ec.europa.eu/budget/figures/interactive/index_en.cfm.

Abbreviations: See the legend under Graph 2 (p. 11).

Graph 13 also offers an interesting view of the use of other EU financial instruments, showing the drawdown of these finances in Member States converted to a per capita value.

Graph 12 – Drawdown of finances from other financial instruments converted to Member State per capita values in 2012, with close-up section (€)



Source: *EU Budget 2012 – Financial Report*, European Commission 2013,
http://ec.europa.eu/budget/figures/interactive/index_en.cfm,
http://europa.eu/about-eu/countries/member-countries/index_cs.htm.

Abbreviations: See the legend under Graph 2 (p. 11).

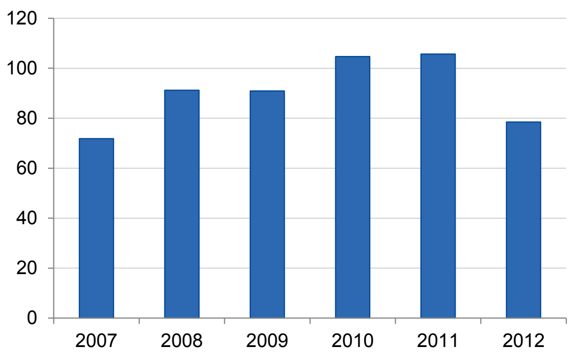
The graph comparing the drawdown of expenditure from other financial instruments converted to a per capita value in Member States shows that the CR, along with Poland and Romania, lag far behind in the ability to utilise other financial instruments. In **per capita terms the CR receives just approx. € 7.50**, whereas the average value for this indicator is approx. € 43. Far out in front is Luxembourg with approx. € 290 per capita.

B.4.1 Other EU financial instruments in the CR

In 2012 beneficiaries in the CR[97] **obtained in total approx. € 78.5 million** (i.e. approx. CZK 2.0 billion[98]) under other financial instruments, which is significantly less than in 2011 (€ 105.7 million). This result is **the second worst since 2007** and is testimony to the low success rate of Czech participants in public tenders for support provided out of other financial instruments.

The following graph shows the development in drawdown of other EU financial instruments in the CR from 2007 to 2011.

Graph 13 – Drawdown of finances from other financial instruments in the CR in 2007–2012 (€ million)



Source: *EU Budget – Financial Reports* for 2007–2013, European Commission 2008–2013.

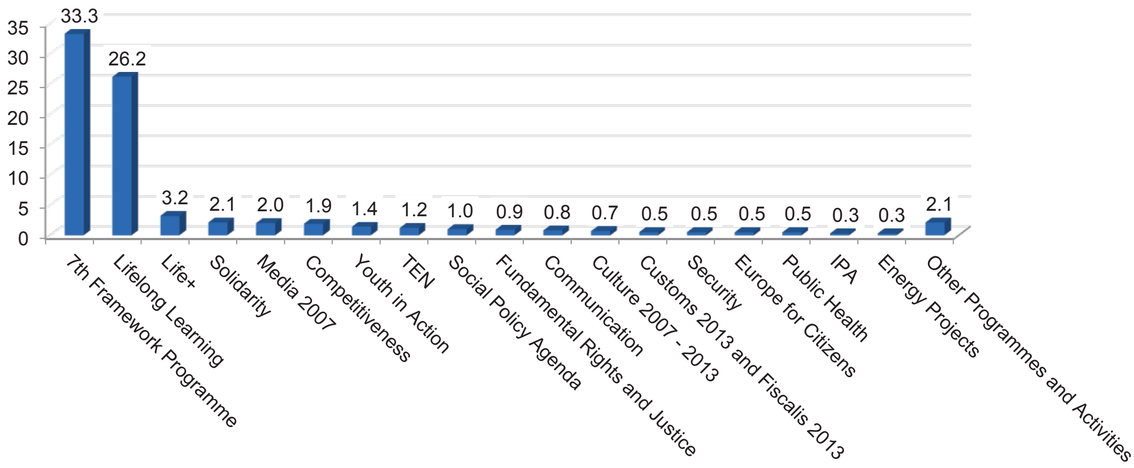
97 *EU Budget 2012 – Financial Report*, European Commission 2013, http://ec.europa.eu/budget/figures/interactive/index_en.cfm.

98 The Czech National Bank's average exchange rate for 2012 was used for the conversion: 25.974 CZK/€.

It is clear that after a gradual increase in drawdown of these resources by entities in the CR in the years 2007 and 2008, after 2009 there was a gradual stagnation (around a value of € 100 million), and 2012 even brought the significant fall mentioned above. The CR's share of the drawdown of other financial instruments in the EU as a whole fell from approx. 1% to just 0.6%.

The following graph details the structure of the use of other financial instruments in the CR in 2012.

Graph 14 – Utilisation of other financial instruments in the CR in 2012 **(€ million)**



Source: *EU Budget 2012 – Financial Report,* European Commission 2013, http://ec.europa.eu/budget/figures/interactive/index_en.cfm.

Full names of the financial instruments abbreviated in the graph: 7th Framework Programme – *Seventh Framework Programme for Research, Technological Development and Demonstration Activities*; Energy Projects – *Energy Projects for European Economic Recovery*; Solidarity – *Solidarity and the Management of Migration Flows*; Competitiveness – *Competitiveness and Innovation*; Public Health – *Public Health and Consumer Protection*; IPA – pre-accession instrument; Security – *Security and Protection of Freedoms*.

B.4.2 Financial management and audit

In June 2013 the ECA issued special report no. 2/2013[99], which is an output from a performance audit focusing on the *Seventh Framework Programme for Research, Technological Development and Demonstration*. In the field of research, technological development and demonstration activities this separate programme works towards the *Europe 2020* goals and is one of the Union's key instruments in the group of other EU financial instruments[100]. The vast majority of the budget is spent by the Commission directorates-general in the form of grants under direct management. The results of the audit showed that although the Commission simplified the rules for participation in the programme, beneficiaries are faced with inconsistencies relating to some aspects of the rules for participation. The Commission's management of FP7 processes is less strong as regards tools and resources. The ECA found that too many staff resources are used for the implementation of certain areas of the programme.

In 2012 the SAO completed an audit of the programme *Solidarity and management of migration flow*, whose results were presented in last year's EU Report[101]. In line with the audit plan, in September 2014 the SAO will begin work on an audit focusing on the use of finances from the *EU Solidarity Fund* provided for tackling the consequences of the destructive floods that hit the CR in 2010–2013.

99 *Has the Commission ensured efficient implementation of the Seventh Framework Programme for Research?;* ECA 2013.

100 Over € 50 billion is to be spent on supporting research work for the 2007–2013 period through the budget of FP7.

101 EU Report 2013, p. 40, item B.4.2.1; SAO 2013.

B.4.3 Protection of the EU's financial interests

According to statistical data contained in a Commission working document[102], in 2012 a total of € 17,369 million was spent from the EU budget under centralised management. Analysis of the data kept in the ABAC[103] system revealed that 98% of that spending was channelled into the group of other financial instruments. In 2012 the Commission registered 1,674 cases qualified as irregularities with a total value of € 121.4 million. 26 of these cases amounting to a value of € 2.7 million were reported as suspected fraud. From 2011 to 2012 the total sum of reported irregularities practically doubled.

In entities based in the CR 12 irregularities worth € 768,800 were identified; that sum represented approx. 1% of the expenditure reimbursed to these entities. No irregularity was qualified as suspected fraud in the CR.

102 Commission Staff Working Document *Statistical Evaluation of Irregularities Reported for 2012,* SWD(2013) 284, final wording of 24 July 2013, which is an accompanying document to the Report from the Commission to the European Parliament and the Council: *Protection of the European Union's financial interests – Fight against fraud – Annual Report for 2012.*

103 Accrual Based Accounting.

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

C.1 Legal matters

C.1.1 SAO recommendations on changes to the legal environment

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 audit, supervisory and inspection work. In 2013, however, these bodies did not file any formal requests making use of this authorisation. The SAO's findings regarding necessary legislative changes were presented in connection with the discussion of the SAO's audit conclusions at sessions of the Audit Committee of the Chamber of Deputies of the Parliament of the CR.

At the 4th session of the Senate of the Parliament of the CR on 31 January 2013 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 Act No. 166/1993, on the SAO, were not approved. A members' draft amendment of the Constitution of the CR widening the SAO's audit powers is currently being debated in the Chamber of Deputies of Parliament.

The dissolution of the Chamber of Deputies meant that the debate on the government draft act amending Act No. 250/2000, on the budgetary rules for territorial budgets, was not completed. The wording of the draft act took into account the SAO's comment which, further to the findings of audit no. 09/26, drew attention to the issue of Regional Council of the Cohesion regions grants provided under private-law contracts. The draft amendment provides that grants or returnable financial assistance are to be provided on the basis of public-law contracts.

The Chamber of Deputies also did not debate the government draft of an act amending Act No. 218/2000, on the budgetary rules. The aim of the draft amendment as regards subsidies co-financed out of the EU budget was to make it possible to prescribe reduced payments for breach of budgetary discipline using a fixed percentage, expanding the application of the provider's option to reduce a grant before paying it out to other cases than breach of the public procurement rules, and limiting the systematic waiving of payments for breach of budgetary discipline.

In line with Government Resolution no. 49 of 15 January 2014 on reducing the legislative and non-legislative barriers to implementation of the European structural and investment funds in the 2014–2020 programming period, by 31 March 2014 the minister of finance drew up the drafts of both these acts, which were then sent out for the consultation process.

In addition, the debate was not completed on the government draft of a constitutional act on fiscal responsibility and the related draft act on the rules of fiscal responsibility, which was meant to partially transpose into Czech law Council Directive 2011/85/EU of 8 November 2011, on requirements for budgetary frameworks of Member States.

In the interdepartmental consultation process under the government's legislative rules the SAO gave its opinion on the draft legislation that affected it as an organisational component of the state or was linked to its competence. In 2013 the SAO received 132 draft regulations for assessment. It put forward specific comments, based mainly on the findings of its audit work, on 53 of them.

For example, the SAO presented a number of specific comments on the government draft act on the management and control system in public administration, which is intended to replace the existing act on financial audit. The main aim of the proposed legislation is to simplify in legal terms the regulatory framework of the management and control system in the CR's public administration by introducing common principles for distributing and dividing responsibilities for two key parts of the management and control system at all levels of public administration: the financial management and control system and the independent internal audit system. Another aim is to ensure central harmonisation, including supervision over the roll-out of the management and control systems of the administrators of public budgets by the Ministry of Finance. As far as the issue of financial management and control of foreign resources is concerned, separate rules were included in the draft on the competence of the individual bodies authorised to perform financial management and control of finances provided to the CR for the implementation of programmes co-funded out of European Union budgets, including explicit rules on the possibility of tasking intermediate bodies with the exercise of control. The draft thus contains a solution to an issue whose insufficient legislation has repeatedly been flagged up by the SAO, for example in EU Reports for previous periods. Nevertheless, the draft act on the management and control system in public administration was not discussed by the government during 2013.

C.1.2 Legal regulations on reporting

Relations with the EU are an important part of state budget management in the CR. Two information systems are used to monitor this area: the financial reporting system and the accounting system, whose outputs are published.

Financial reporting is governed by the budgetary rules and the related regulations. Reporting is always done for a given financial year and presents revenues and expenditure relative to the EU budget in the relevant analytical structure. Financial reporting thus depicts the state at the moment of a revenue or an expenditure and is not able to show any subsequent changes. Consequently, finances of the Czech state budget earmarked for pre-financing expenditure that is to be covered out of EU budget funds are registered as finances originating from abroad. The expenditure reporting is not able to capture any change consisting in, for example, a decision not to submit an application to the National Fund for payment of pre-financed expenditure that is executed in the following periods. The sums involved are often significant, however.

Accounting is covered by the act on accounting, the related decrees and accounting standards. Accounting reform intended to significantly boost the accrual aspect of public sector accounting was launched in 2010. Financing from the EU and the related relations were unsatisfactorily designed, and to this day the regulations do not sufficiently cover the full variability of relations linked to the financing of projects co-funded out of the EU budget.

The very process of switching to the new accounting system brought the first problems linked to insufficient identification of receivables and payables that are supposed to be portrayed in relation to the EU. An accounting standard covering transfers that include relations affecting the EU co-funding of projects was issued shortly before its entry into effect on 31 December 2009. This standard, however, did not stipulate specific procedures for pre-financing of expenditures co-funded out of the EU budget and their subsequent reimbursement through the National Fund. At the same time, the ambiguous formulation of the standard that resulted in various interpretations and, ultimately, various ways of representing the same facts in the compiled financial statements, proved to be a major problem.

The entities, mainly ministries, through which National Fund finances are provided to beneficiaries thus returned mutually incomparable data. Some ministries opted for the role of "intermediary" and only entered finances for projects co-funded by the EU on balance sheet accounts. Other ministries opted for the role of provider and beneficiary and displayed incoming and outgoing finances as costs and revenues with an impact on profit and loss. At the same time, ministries opted for different approaches to reporting the related receivables and payables (including off-balance-sheet receivables and payables). Consequently, the compiled financial statements do not provide consistent information about the total values of costs, revenues, receivables and payments linked to projects co-funded out of the EU budget.

The ambiguity in the accounting method is not the only problem with the accounting regulations, however. Uncertainty also surrounds the definition of the moment at which an accounting case takes place and thus also how it is displayed in accounts and reported in financial statements.

The SAO has drawn attention to this situation in its audit conclusions since 2011[104]. Even though the accounting standard on transfers has been amended, uncertainties remain. Another change, scheduled to enter into effect on 1 January 2015, is currently being prepared. That does nothing to change the fact that the data for 2010 to 2014 are marred by these ambiguities and are, to all intents and purposes, devalued.

In the SAO's opinion, one of the main reasons for this state of affairs is the process by which accounting regulations are created. The details of the accounting procedures are set out in accounting standards that do not undergo any consultation process. As a result, there is no way of commenting on the proposed solutions. Some inconsistency in the terminology used by the budgetary rules, related decrees and accounting regulations also presents a problem. The absence of an accounting framework defining fundamental concepts plays a major role in this.

Data from accounting and financial reporting are also used for government statistics. Shortcomings in the data can thus affect the aggregate data reported for the CR that are used to monitor and manage public finances and to evaluate financial relations with the EU.

C.2 International activities of the SAO

The SAO's international activities encompass a wide spectrum of activities whose principal objective is to acquire and share experience mainly within audit of the financial management system. The SAO shares with audit institutions abroad (hereinafter "SAIs") experience with the application of various audit techniques and examples of good practice that the SAIs gain thanks to their exceptional position as supreme external audit authorities and their political independence.

The CR's EU membership obligates all the responsible authorities and institutions to carry out tasks that go beyond the framework of national policies and to comply with globally adopted measures relating to their mandate. The SAO engages in this process as a source of important knowledge and professional procedures in the area of external audit; it shares its knowledge with other SAIs and takes part in joint audit programmes of international significance.

In 2013 the SAO took part in the work of Contact Committee[105] working groups and collaborated closely on coordinated audits with the SAIs of neighbouring states, specifically Poland and Germany. All these activities helped improve the SAO's position in the international arena and acquire the experience necessary to develop the expertise and professionalism required for fulfilling the role of independent external audit in the changing economic environment of the EU.

C.2.1 Audit work

C.2.1.1 Joint audits with the SAIs of EU Member States

In 2013 a parallel audit of the SAO and BRH focusing on procurement of public building and on prevention of corruption was completed. The results of the audit were published by both SAIs in November 2013[106]. The importance of the performed audit is evidenced by the financial volume of public contracts for construction work awarded in the two countries: in 2011, for example, these contracts were worth € 45.5 billion in Germany and € 4.7 billion in the CR[107].

The parallel audit performed under this joint audit of the SAO and BRH proved that the different prices in the two countries are a consequence of the way the system is set up, with particular regard to the type of selection procedure and the specification of the award criteria. For that reason, road construction products that are comparable in quantitative and qualitative terms come at a higher price in the Czech Republic than in Germany. In the CR a very limited range of contractors has emerged; along with a lack of pressure from

104 See audit conclusions of audits nos. 10/20, 11/29, 12/14, 12/15, 12/28 and 12/30.

105 The Contact Committee is a grouping of the leading representatives of the SAIs of EU Member States and the ECA. More at: www.contactcommittee.eu.

106 More at http://www.nku.cz/scripts/file.php?id=1459.

107 For the data from the joint report see http://www.nku.cz/scripts/file.php?id=1459.

those awarding contracts to bring down prices, this hinders any improvement in the current state of affairs. The audit results confirmed the importance of a systemic approach to stamping out corruption in public procurement generally and also the need to rigorously promote the proper application of procurement law.

On 27 February 2013, the signing of a cooperation agreement between the SAI of Poland (the NIK) and the SAO marked the start of a coordinated audit of the Operational Programme Cross-Border Cooperation Czech Republic – Poland 2007–2013. The SAO executed this agreement by performing audit no. 13/04 "Finances earmarked for funding projects implemented under the Operational Programme Cross-Border Cooperation Czech Republic – Poland 2007–2013". Under this programme funding is provided for activities targeting the needs of the border region, and in their coordinated national audits the two SAIs, in addition to using a common sample of projects, audited other projects funded out of the programme's resources, for which ERDF finances of € 219,459,344[108] were approved in total.

The aim of the cooperation in this audit was to check whether project implementation activities are performed according to the applicable legal regulations and programme agreements, whether all the involved authorities and administrators of funds have a properly designed management and control system and whether the projects contribute towards the objectives of the programme as a whole. The results of the parallel audit done by the NIK and SAO were summarised in a joint report and approved by the presidents of the SAO and NIK on 28 March 2014.

C.2.1.2 Audit missions of European institutions in the Czech Republic

The ECA fulfils the key role in external audit of EU budget finances. In 2013 the ECA undertook 12 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 addition, in selected cases the SAO assisted the ECA in acquiring materials for studies being drawn up in survey work or by verifying information. An overview of the ECA audit missions, including correspondence enquiries, is presented in Appendix 4.

SAO auditors did not take part in any Commission audit mission in 2013. The focus and times of the ten audit missions conducted by the Commission in the CR during 2013 are given in Appendix 5.

C.2.2 International cooperation in the context of the activities of the Contact Committee[109]

In 2013 the senior representatives of the SAIs of EU Member States and members of Contact Committee working groups concentrated on topics linked to the role of external audit in financial management in individual Member States. At its October 2013 session the Contact Committee adopted a resolution summarising the results of its working groups' work in the previous year and determining the form and extent of activities for the subsequent period. The SAO regularly takes part in sessions of the Contact Committee and SAO representatives play an active role in its working groups.

The Working Group on Structural Funds V dealt with measures designed to simplify the conditions for drawing from the SF and their implementation in Member States. It presented the results of its work in a final report at a session of the Contact Committee. The final report included recommendations for the implementation of these measures at national level. The report covers in detail measures applied in a wide spectrum of operational programmes and provides important information for future SAI audits and for the authorities responsible for the proper implementation of programme measures relating to the SF.

The members of the Task Force on the Tasks and Roles of the External Public Audit looked for other sources of information on external audit and the mandate of SAIs in the EU. The key task was to put in place communication processes and mechanisms ensuring timely information sharing on SAI activities. In view of the quick process of adopting legislative measures in EU institutions, the task force tried to find a solution for effective ways of sharing important reports and communications from the available information

108 Source: MfRD Monthly Monitoring Report about the implementation of structural funds, Cohesion Fund and national resources within the programming period 2007–2013, December 2013.

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

channels but also tried to design a new system, referred to as an early warning mechanism, that would draw attention to decision-making processes in the EU affecting external audit and would allow members of the Contact Committee to react sufficiently quickly.

In 2013 the Joint Working Group on Audit Activities, in collaboration with SIGMA[110], continued to provide technical support to countries seeking to join the EU. The SAO assisted in the preparation of a conference in Montenegro intended to map the possibilities for cooperation between the SAIs of candidate and potential candidate countries and their national parliaments. In addition, the working group played an active role in the preparations for and holding of an expert seminar on performance audit staged under the auspices of the Commission in Brussels.

The SAO has long taken part in the work of the Network on National SAI Reports on EU Financial Management, which is tasked with looking for reliable sources of information and ways of processing this information effectively. The SAIs in the network then use these sources for publishing national reports on EU financial management in their countries.

The SAI is also a member of the Working Group that assesses possible forms of cooperation between EU Member States' SAIs and Eurostat[111] and national statistical authorities, and the of the group dealing with the suitability of IPSAS (International Public Sector Accounting Standards) for the purposes of the EU's financial reporting. The SAO took part in the debate on the possibility of introducing uniform accounting standards for the public sector in the EU, or EPSAS (European Public Sector Accounting Standards). The Commission took the initial steps and started mapping the possibilities and assessing the suitability of EPSAS for the EU. Representatives of the SAO attended seminars and conferences dealing with the issue of IPSAS and EPSAS and subsequently, at the end of 2013, applied for membership of the incipient Contact Committee Working Group on EPSAS, which will monitor developments in the field of accounting standards for the public sector in the EU.

110 *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.

111 Eurostat is the EU statistics authority.

D. Literature and sources

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

4) Commission Recommendation for a Council Recommendation on the Czech Republic's 2013 national reform programme and delivering a Council opinion on the Czech Republic's convergence programme for 2012–2016, COM(2013) 353, final wording of 29 May 2013

5) *EU budget 2012 – Financial Report*, European Commission 2013

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7) *Convergence Programme of the Czech Republic (April 2013 update)* approved by Czech government resolution no. 290 of 24 April 2013

8) Audit no. 12/11 – Finances Earmarked for the Modernisation of Key Railway Hubs

9) Audit conclusion 12/13 – European Union and State Budget Finances Earmarked for the Implementation of Operational Programme Technical Assistance

10) Audit conclusion 12/15 – Closing Account of the Ministry of Agriculture State Budget Heading for 2011, Financial Statements and Financial Reports of the Ministry of Agriculture for 2011

11) Audit conclusion 12/18 – Finances Earmarked for the Construction of Motorways and High-speed Roads

12) Audit conclusion 12/19 – Finances Earmarked for the Implementation of Operational Programme Human Resources and Employment

13) Audit conclusion 12/21 – European Union and State Budget Finances Earmarked for the Implementation of Operational Programme Research and Development for Innovation

14) Audit conclusion 12/27 – Finances Earmarked for Flood-prevention Programmes

15) Audit conclusion 12/35 – The Creation of the Labour Office of the CR and Management of Property and Finances of the State Budget and European Union Linked to the Creation and Work of this Office and to the Preparation and Implementation of Projects in the field of Information Systems for the Pay-out of Social Benefits

16) Audit conclusion 12/36 – Finances Used to Acquire and Operate the Data Boxes System

17) Audit conclusion 13/02 – Unpaid Tax under the Administration of the Tax Offices

18) Audit conclusion 13/03 – Finances Earmarked for Direct Payments

19) Audit conclusion 13/04 – Finances Earmarked for Funding Projects Implemented under Operational Programme Cross-border Cooperation Czech Republic – Poland 2007–2013

20) Audit conclusion 13/12 – Finances Spent on Preparing, Implementing and Operating the Systems of Basic Registers

21) Audit conclusion 13/14 – Finances Earmarked for the Modernisation of Key Railway Hubs

22) Audit conclusion 13/15 – Administration of Payments for Breach of Budgetary Discipline

23) MfRD Monthly Monitoring Report about the implementation of structural funds, Cohesion Fund and national resources within the programming period 2007 – 2013, December 2013

24) Regulation (EU) No 539/2010 of the European Parliament and of the Council of 16 June 2010, which enacted an amendment of Council Regulation (EC) No 1083/2006 consisting in general regulations of the European Fund for Regional Development and Cohesion Fund in case that it concerns simplification of certain requirements and other regulation related to financial management

25) Regulation (EU) No 472/2013 of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability

26) Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 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

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

28) Council Regulation (EU, EUROATOM) No 1311/2013 of 2 December 2013 laying down the multiannual financial framework for the years 2014–2020

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30) Proposal for a Council Directive implementing enhanced cooperation in the area of financial transaction tax, COM (2013) 71 of 14 February 2013

31) Proposal for a Council Directive on a common system of financial transaction tax and amending Directive 2008/7/EC, COM (2011) 594 of 28 September 2011

32) Proposal for a Council Directive of 12 June 2013 amending Directive 2011/16/EU as regards mandatory automatic information exchange in the field of taxation, COM(2013) 348

33) Proposal for a Council Directive of 25 November 2013 amending Directive 2011/96/EU on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States, COM(2013) 814

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44) Resolution of the European Parliament in the document A7-0116/2013 of 17 April 2013

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

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51) Council Directive 2011/16/EU on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC

52) Council Directive 2013/42/EU amending Directive 2006/112/EC on the common system of value added tax as regards a quick reaction mechanism against VAT fraud

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E. Appendices

Appendix 1 – Overview of OP drawdown in the programming period 2007–2013 as of 31. 12. 2013

Operational Programme	Objective	Fund	Allocation 2007–2013	Spent (payment applications sent to the Commission from 1.7.2007 to 31.12.2013)	Spent from allocation	Amount to be spent until the end of programming period
			€	€	%	€
OP Transport	1	ERDF	1 217 852 810	950 666 463	78.1	267 186 347
		CF	4 603 637 553	2 297 697 340	49.9	2 305 940 213
OP Environment	1	ERDF	702 482 212	282 584 930	40.2	419 897 282
		CF	4 215 384 886	1 935 207 609	45.9	2 280 177 277
OP Enterprise and Innovation	1	ERDF	3 120 690 664	2 014 092 014	64.5	1 106 598 650
OP Human resources and Employment	1	ESF	1 877 261 368	1 024 950 398	54.6	852 310 970
	2	ESF	23 923 899	10 103 499	42.2	13 820 400
OP Research and Development for Innovation	1	ERDF	2 070 680 884	749 856 178	36.2	1 320 824 706
Integrated OP	1	ERDF	1 591 356 687	799 432 652	50.2	791 924 035
	2	ERDF	27 665 621	14 428 281	52.2	13 237 340
OP Education for competitiveness	1	ESF	1 759 704 740	891 998 648	50.7	867 706 092
	2	ESF	12 108 402	5 634 870	46.5	6 473 532
OP Technical assistance	1	ERDF	173 060 075	81 985 375	47.4	91 074 700
	2	ERDF	2 844 888	1 326 316	46.6	1 518 572
ROP North-West	1	ERDF	762 765 901	433 814 212	56.9	328 951 689
ROP Moravia Silesia	1	ERDF	750 981 748	449 751 041	59.9	301 230 707
ROP South-East	1	ERDF	720 363 547	498 728 927	69.2	221 634 620
ROP Central Moravia	1	ERDF	672 244 025	405 123 759	60.3	267 120 266
ROP North-East	1	ERDF	671 291 163	459 016 165	68.4	212 274 998
ROP South-West	1	ERDF	633 653 121	378 822 117	59.8	254 831 004
ROP Central Bohemia	1	ERDF	571 717 102	365 199 463	63.9	206 517 639
OP Prague–Competitiveness	2	ERDF	243 181 406	142 362 484	58.5	100 818 922
OP Prague–Adaptability	2	ESF	114 797 583	65 317 106	56.9	49 480 477
OP Cross-Border Cooperation CR-PL	3	ERDF	219 459 344	153 192 600	69.8	66 266 744
ERDF			14 152 291 198	8 180 382 977	57.8	5 971 908 221
ESF			3 787 795 992	1 998 004 521	52.7	1 789 791 471
CF			8 819 022 439	4 232 904 949	48.0	4 586 117 490
Total			**26 759 109 629**	**14 411 292 447**	**53.9**	**12 347 817 182**

Source: MoF, department National Fund, 2014

Appendix 2 – Overview of fulfilment of the rule n+3/n+2 for the allocation of 2009 as of 31. 12. 2013

Operational Programme	Objective	Cumulative limit for rule in 2013	Advance payments	Payment applications sent in 2007-2013	Allocation of large projects	Rule fulfilment rate in 2013	Amount of automatic cancelled commitment	Amount of automatic cancelled commitment in case of approved exceptions
		€ million	€ million	€ million	€ million	%	€ million	€ million
OP Transport	1	765	105	951	30	100	0	0
		2 953	483	2 298	1 216	100	0	0
OP Environment	1	449	63	283	0	77	103	99
		2 704	443	1 935	131	93	195	93
OP Enterprise and Innovation	1	1 978	274	2 014		100	0	0
OP Human resources and Employment	1	1 166	163	1 025		100	0	0
	2	17	2	10		74	4	4
OP Research and Development for Innovation	1	1 327	186	750	511	100	0	0
Integrated OP	1	1 001	140	799	98	100	0	0
	2	19	3	14		89	2	1
OP Education for competitiveness	1	1 162	163	892		91	106	106
	2	11	2	6		65	4	4
OP Technical assistance	1	125	22	82		83	21	20
	2	2	0.4	1		81	0.4	0.4
ROP North-West	1	487	67	434		100	0	0
ROP Moravia Silesia	1	467	64	450		100	0	0
ROP South-East	1	460	63	499		100	0	0
ROP Central Moravia	1	429	59	405		100	0	0
ROP North-East	1	428	59	459		100	0	0
ROP South-West	1	404	56	379		100	0	0
ROP Central Bohemia	1	365	50	365		100	0	0
OP Prague–Competitiveness	2	156	21	142		100	0	0
OP Prague–Adaptability	2	71	10	65		100	0	0
OP Cross-Border Cooperation CR-PL	3	143	20	153		100	0	0
ERDF		9 007	1 254	8 180	638	99	127	120
ESF		2 426	340	1 998	0	95	115	115
CF		5 656	926	4 233	1 347	97	195	93
Total		**17 089**	**2 519**	**14 411**	**1 985**	**97**	**437**	**327**

Source: MoF, department National Fund, 2014.

Appendix 3 – Estimated allocation of funds of the programmes financed from the European Structural and Intervention funds (ESI) in 2014–2020 (€ million)

Operational programme	ESI funds	Total	2014	2015	2016	2017	2018	2019	2020
OP Enterprise and Innovation for Competitiveness		**4 170**	**561**	**572**	**584**	**595**	**607**	**619**	**632**
	ERDF	4 170	561	572	584	595	607	619	632
OP Research, Development and Education		**2 780**	**374**	**381**	**389**	**397**	**405**	**413**	**421**
	ERDF	1 548	208	212	217	221	225	230	234
	ESF	1 232	166	169	172	176	179	183	187
OP Environment		**2 565**	**343**	**351**	**359**	**367**	**374**	**382**	**389**
	ERDF	375	50	51	52	54	55	56	57
	CF	2 191	292	300	307	313	320	326	332
OP Transport		**4 696**	**628**	**643**	**657**	**672**	**685**	**700**	**712**
	ERDF	627	84	86	88	90	91	93	95
	CF	4 068	543	556	570	582	594	606	617
Integrated OP		**4 871**	**655**	**668**	**682**	**695**	**709**	**723**	**738**
	ERDF	4 871	655	668	682	695	709	723	738
OP Technical Assistance		**224**	**30**	**31**	**31**	**32**	**33**	**33**	**34**
	ERDF	224	30	31	31	32	33	33	34
OP Human resources and Employment		**2 136**	**293**	**297**	**297**	**303**	**309**	**315**	**321**
	ESF	2 122	285	291	297	303	309	315	321
	YEM	14	8	6	0	0	0	0	0
OP Prague – growth of CR		**202**	**27**	**28**	**28**	**29**	**29**	**30**	**30**
	ERDF	154	21	21	21	22	22	23	23
	ESF	48	6	7	7	7	7	7	7
Rural Development Programme		**2 170**	**314**	**313**	**312**	**310**	**309**	**307**	**306**
	EAFRD	2 170	314	313	312	310	309	307	306
OP Fisheries		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
	EMFF	0	0	0	0	0	0	0	0
Total		**23 814**	**3 225**	**3 284**	**3 339**	**3 400**	**3 460**	**3 523**	**3 583**

Source: Draft Partnership Agreement adopted by CR Government on 9 April 2014.

Appendix 4 – Overview of the ECA audit missions in 2012 and 2013

Year		Date of execution	Audit subject (programme)	Audit type	Audit form
2012	1	13.2.-2.3.	European Regional Development Fund: OP Enterprise and Innovation	DAS	on-the-spot
	2	14.-16.5. 18.-22.6.	Measures aimed at diversification of the rural economy	Performance audit	on-the-spot
	3	1.-10.10.	European Regional Development Fund: Measures supporting business incubators	Performance audit	on-the-spot
	4	22.-26.10.	European Agriculture fund for Rural Development: Support for Rural Development (first quarter payments 2012)	DAS	on-the-spot
	5	5.-8.11.	Lifelong Learning Programme	DAS	on-the-spot
	6	5.-9.11.	European Agriculture fund for Rural Development: Support for Rural Development (second quarter payments 2012)	DAS	on-the-spot
	7	4.-6.12.	Statistics of the results of administrative and on-the-spot checks for rural development measures and direct aid schemes	Data reliability audit	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

Year		Date of execution	Audit subject (programme)	Audit type	Audit form
2013	1	10.-14.12.2012 21.-25.1. 4.-8.2.	European Regional Development Fund, Operational Programme Environment	DAS	on-the-spot
	2	27.-29.1.	European fisheries fund	DAS	on-the-spot
	3	4.-8.3.	European Agricultural Guarantee Fund	DAS	on-the-spot
	4	18.-25.2.	Biodiversity projects co-financed by the European fund of regional development within Priority 6 of the Operational Programme Environment	Performance audit	on-the-spot
	5	2.-9.4. 29.-31.10.	Water quality in the Danube river basin	Performance audit	on-the-spot
	6	19.-30.8.	European Agricultural Guarantee Fund	DAS	on-the-spot
	7	27.8.-5.9.	European Social Fund, OP Education for Competitiveness	DAS	on-the-spot
	8	9.-13.9.	Rural development support from the European Agricultural Fund for Rural Development	DAS	on-the-spot
	9	30.9.-4.10.	Infrastructure projects of inland water transport co-financed from cohesion policy funds and TEN-T funds.	Performance audit	on-the-spot
	10	19.-22.11.	European Social Fund, Operational Programme Human Resources and Employment	DAS	on-the-spot
	11	25.11.-5.12.	European Regional Development Fund, Operational Programme Transport	DAS	on-the-spot
	12	11.-15.11.	Rural development support from the European Agricultural Fund for Rural Development	DAS	on-the-spot
		February	Information request: monitoring and assessment of RDP		questionnaire
		May	Survey of projects co-financed from ERDF within 2007–2013 in the area of brownfields revitalisation		questionnaire
		July	Audit of EU approach to apiculture and bee health		questionnaire
		November	Audit of procedures implemented by EU states with a view to ensure reasonable costs for rural development programmes		questionnaire

Source: SAO, international relations department.

Appendix 5 – Overview of Commission´s audit and verification missions in 2012 and 2013

Year	Audit mission	Audit Subject	Audit Type	Final report
2012	DG EMPL	OP Human resources and Employment	System audit with operations sample	Yes
	DG REGIO	OP Research and Development for Innovation	System audit/operations audit	Yes
	DG REGIO	ROP North-West	System audit/operations audit	Yes Correction 10% for calls of interest and 12.41% for expenditure
	DG REGIO	OP Transport	Operations audit	Yes Correction 10% for all payments 1.1.2007-31.8.2012
	DG REGIO	OP Environment	System audit/operations audit	Yes Correction 5% for all payments 1.1.2007-31.8.2012
2013	DG EMPL	OP Prague–Adaptability		Yes
	DG MARE	OP Fisheries		No
	DG REGIO	ROP Central Bohemia		No
	DG REGIO	National Coordinating Body, Paying and Certification Authority, AB + thematic OP – OP Transport, Integrated OP		No
	DG REGIO	OP Enterprise and Innovation		No
	DG REGIO	ROP North-East		No
	DG REGIO	National Coordinating Body, Paying and Certification Authority, AB + regional OP – ROP Moravia Silesia + OP Fisheries		No
	DG REGIO	ROP North Moravia		No
	DG REGIO	Payment and certification authority		No
	DG REGIO	Performance audit – technical assistance		No

Source: MoF (department 52 – audit authority), information from 19 February 2014.

Appendix 6 – Overview of the SAO audits completed in 2012–2013 focused partly or completely on EU funds

Audit No.	Audit subject	Published in the SAO Bulletin (Issue/Year)
12/11	Funds earmarked for modernization of important railway junctions	1/2013
12/13	EU and state funds earmarked for the realization of the Operational Programme Technical Assistance	1/2013
12/15	Closing account of the state budget chapter Ministry of Agriculture for the year 2011, their financial statements and financial records for 2011	2/2013
12/18	Funds earmarked for the construction of motorways and high-speed roads	3/2013
12/19	Funds earmarked for the implementation of the Operational Programme Human Resources and Employment	2/2013
12/21	EU and state funds earmarked for the implementation of the Operational Programme Research and Development for Innovation	3/2013
12/27	Funds earmarked for anti-flood prevention programmes	3/2013
12/35	Establishment of the Labour Office of the Czech Republic and management of state budget's and the EU's property and funds related to the establishment and activity of this office and to preparation and implementation of projects in the area of welfare disbursement information systems	3/2013
12/36	Funds spent on the purchase and operation of the system of data boxes	3/2013
13/02	Tax arrears administered by tax offices	1/2014
13/03	Funds earmarked for direct payments	4/2013
13/04	Funds earmarked for the funding of projects implemented within the Operational Programme Cross-Border Cooperation the Czech Republic - Poland 2007–2013	4/2013
13/12	Funds spent on preparations, implementation and operating of information system of basic registers	4/2013
13/14	Funds earmarked for the modernisation of railway system	1/2014
13/15	Administration of levies from the breach of budgetary discipline	4/2013

Source: SAO Bulletin.

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