Czech Republic
Supreme Audit Office

EU REPORT 2016

REPORT ON THE EU FINANCIAL MANAGEMENT IN THE CZECH REPUBLIC

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Editor's note:

The editorial deadline for *EU Report 2016* was set at 15 April 2016. The information and numerical overviews taken from Czech sources reflect the situation in 2015, possibly with data from the start of 2016. The information on activities linked to the management and audit of the European Union (EU) budget by the relevant authorities and institutions covers 2014 and 2015. With a few exceptions, the latest available data officially published by the European Commission ("the Commission") and other EU institutions in annual reports and statistical overviews apply to the financial year 2014. The results of Supreme Audit Office (SAO) audits comprise findings from audit conclusions approved in the period from 1 April 2015 to 31 March 2016 (the Monitored period).

Opening message from the president of the Supreme Audit Office

Dear readers,

I am presenting a regular report of the Supreme Audit Office on the financial management of the EU funds. The previous issues sought answers to questions related to our ten-year membership in the EU and its benefits to our citizens, and how we used the opportunity which the membership provides, where we made mistakes, and what added value the EU funds brought.

This issue strives to compare the current programming period 2014 – 2020 with the past period. We describe how we learnt from past mistakes, and how we prepared ourselves for the new programming period.

Two years of the new programming period 2014 -2020 have passed. How do we do? We draw down European subsidies with delays, many times just because of an exception, and clear and measurable objectives, which we would like to reach with the help of EU funds, are missing again.

Drawdown of European funds has been delayed which is in our conditions unprecedented. There is hardly something to add, as we had enormous difficulties with drawdown of EU funds already in the programming period 2007 -2013.

While all operational programmes, with one exception, where approved at the end of 2007, at the end of 2014 there was no approved operational programme. The most significant difference between the two programming periods was found by our auditors in the Operational Programme *Transport*. Whereas at the end of 2008 the programme demonstrated the highest rate of amounts based on legal provisions for subsidy drawdown, at the end of 2015, i.e. comparable time point in the current programming period, the managing authority has not approved a single project yet.

For that matter, it is exactly the Operational Programme *Transport* which is endangered the most by the disagreement between Czech and European legal provisions in the area of environmental impact assessment (EIA). Remissness of Czech politicians and officials, and the feeling that, in the end, it can be always rectified by negotiating in Brussels, resulted in a situation that even after ten years, the appropriate directive was not properly transposed into the Czech legal system. Despite of the partial success of deliberations with the European Commission, there is a great risk that the funds earmarked for large infrastructural projects will not be drawn in time.

Not only the SAO, but also the European Court of Auditors (ECA), has repeatedly pointed out that the EU objectives are not reflected in clearer operational objectives at lower levels, and their benefits cannot be assessed. Recently, the ECA for example stated that the supported projects had not properly set indicators which could help to assess whether the project brought expected results and impacts. Czech response? Managing authorities have repeatedly questioned and challenged these findings despite the fact that several projects did not and will not bring any results.

Looking at the Europe today, one may feel anxious. The British decision to leave the EU was a shock. It would be advisable to become aware of the fact that our deeds also contributed to "Brexit". Our indifferent and many times careless approach to billions, which are at our disposal thanks to European tax payers, is the benchmark according to which citizens assess the EU. It is difficult to be proud of a membership in a community which does not fulfil its objectives, works in a slow pace and ponderously, and moreover pours money down the drain. Such impression cannot be changed by any amount of resources for promotion of the EU, not even the most passionate speeches of the leaders.

It is our task to steer in the right direction, learn from past lessons, and become responsible. The projects should have most importantly meaningful and measurable objective which really fulfils the policy which is supposed to be endorsed by the given subsidy. It is the best way how to express our support and respect to the European project.

Miloslav Kala,
President of the SAO

List of abbreviations

7th RFP Seventh Research Framework Programme
AB Audit Body (Division 52 of the Ministry of Finance)
Agreement *Partnership Agreement for the 2014-2020 Programming Period*
CAP *Common Agricultural Policy*
CAS Czech Accounting Standard
CC Contact Committee
CCCTB Common Consolidated Corporate Tax Base
CF *Cohesion Fund*
CFP *Common Fisheries Policy*
CJEU Court of Justice of the European Union
CMO Common Market Organisation
Cohesion Policy *EU Economic, Social and Territorial Cohesion Policy*
Commission European Commission
Council Council of the European Union
CNB Czech National Bank
CR Czech Republic
CSO Czech Statistical Office
DAS statement of assurance (Déclaration d'assurance)
EAFRD *European Agricultural Fund for Rural Development*
EAGF *European Agricultural Guarantee Fund*
EBF *External Borders Fund 2007-2013*
EC European Communities
ECA European Court of Auditors
EIA Environmental Impact Assessment
ERDF *European Regional Development Fund*
EMFF *European Maritime and Fisheries Fund*
EP European Parliament
ERF European Refugee Fund 2008-2013
ESF *European Social Fund*
ESIF European Structural and Investment Funds
EU European Union EUSF European Union Solidarity Fund
GDP gross domestic product
GNI gross national income
Growth survey 2015 Annual growth survey 2015
IB intermediate body INTERREG CR-PR *INTERREG V-A – Czech Republic – Poland*
IOP *Integrated OP*
IROP *Integrated Regional Operational Programme*
IS Information system
MS2014+ ESI Funds Information System
LPIS Land Parcel Identification System
MA managing authority
MCS management and control system
MFF Multiannual Financial
Framework MFF14+ Multiannual Financial Framework 2014-2020
MfRD Ministry for Regional Development
MoA Ministry of Agriculture
MoD Ministry of Transport
MoE Ministry of the Environment
MoEYS Ministry of Education, Youth and Sports
MoF Ministry of Finance
MoIT Ministry of Industry and Trade
MoLSA Ministry of Labour and Social Affairs
Monitored period Period from 1 April 2015 to 31 March 2016
NCA National Coordinating Authority
NIEPP *National Infrastructure for Electronic Public Procurement*
NSRF National Strategic Reference Frameworks
OFI Other financial instrument of the EU
OLAF European Anti-Fraud Office
OP operational programme
OPE07+ OP *Environment* (2007-2013 programming period)
OPEC OP *Education for Competitiveness*

OPEIC	OP *Enterprise and Innovation for Competitiveness*
OPF07+	OP *Fisheries 2007–2013*
OPF14+	OP *Fisheries 2014–2020*
OP HRE	OP *Human Resources and Employment*
OPP GP	OP *Prague – Growth Pole*
OP RDI	OP *Research and Development for Innovation*
OPT07+	OP *Transport* (2007-2013 programming period)
OPT14+	OP *Transport* (2014-2020 programming period)
OUS	organisational unit of the state
PCA	Paying and Certifying Agency
PMG	Prague municipal government
R&D	research and development
RDP	*Rural Development Programme*
RDP07+	*Rural Development Programme for 2007–2013*
Report 2016	*Report on the CR 2016*
RDP14+	*Rural Development Programme for 2014–2020*
ROP	regional operational programme
ROP SW	*Regional Operational Programme NUTS II South-West*
SAI	supreme audit institution
SAIF	State Agricultural Intervention Fund
SAO	Supreme Audit Office
SAPS	Single Area Payment Scheme
SF	structural funds
SLO	State Land Office
Solidarity programme	*Solidarity and Management of Migration Flows* general programme
TAXE	Special Committee on Tax Rulings and Other Measures Similar in Nature or Effect
TEN-T	Trans-European Transport Network
TFEU	*Treaty on the Functioning of the European Union*
VAT	value added tax
YEI	Youth Employment Initiative

EU Member States

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

Section I

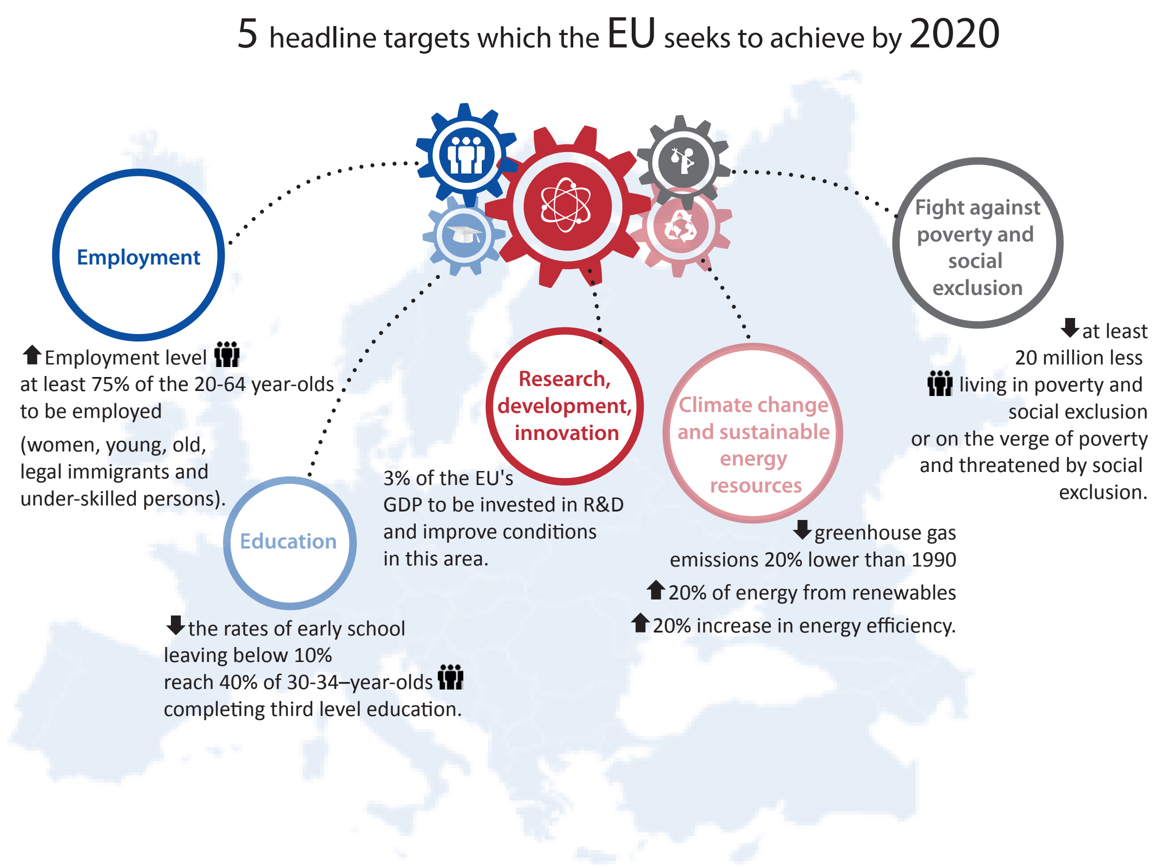
European Union Programming Period 2014–2020

A. Goals of the European Union

A.1 *Europe 2020* policy

One of the EU's long-term goals is stable economic growth with a high rate of employment. To achieve this, the Commission devised the ten-year ***Europe 2020***[1] strategy, which it started to actively implement in conjunction with Member States in 2010. In addition to the goal mentioned above, this strategy should help resolve the deficiencies ensuing from the long-term economic crisis and put in place the right conditions for **strengthening the three basic priorities of the strategy: smart growth, sustainable growth, inclusive growth**.

Europe 2020 contained **five headline targets** which the EU seeks to achieve by 2020. These targets are to be achieved through **seven flagship initiatives** (see subheading A.1.1) that allow the EU authorities and the internal authorities of Member States to combine their efforts. In addition, the EU uses other instruments such as the European single market, the EU budget and the EU common foreign-policy programme to achieve the defined priorities.



1 Commission communication: *EUROPE 2020 A strategy for smart, sustainable and inclusive growth*, COM(2010) 2020, final wording of 3 March 2010.

The implementation and monitoring of *Europe 2020* takes place in the context of the "European semester" (see subheading C.1.1).

In March 2014 the Commission issued a communication[2] in which it evaluated the strategy four years after its adoption. A month later a public consultation was launched as a basis for reviewing the strategy at the half-way point.

A.1.1 Key priorities and flagship initiatives of *Europe 2020*

In line with the goals of *Europe 2020*, the EU defined new sources of growth and jobs, describing them in detail in seven flagship initiatives divided into three key priorities:

Smart growth – economic growth based on knowledge and innovation

- The objective is to improve the EU in the following areas:
  - education
  - research and innovation
  - the digital society
- **Three flagship initiatives** were set out in this area:
  1. **A Digital Agenda for Europe** (goal: to create a Digital Single Market based on fast and ultrafast internet and interoperable applications).
  2. **Innovation Union** (goal: to re-focus research and development and innovation policy on the challenges facing our society, i.e. climate change, energy and resource efficiency, health and demographic change, and to strengthen every link in the innovation chain, from "blue sky" research to commercialisation).
  3. **Youth on the Move** (goal: to enable students and trainees to study abroad, to prepare young people for the requirements of the job market, to enhance the performance and international attractiveness of European universities, and to raise the overall quality of all levels of education and training).

Sustainable growth – a more resource-efficient, competitive and greener economy

- The objective is:
  - to create a more competitive, low-carbon economy;
  - to protect the environment;
  - to exploit Europe's leadership in the race to develop new green technologies;
  - to roll out high-performance and smart electricity grids;
  - to exploit EU-scale networks;
  - to enhance the business environment, especially for small and medium-sized enterprises (SMEs);
  - to enable consumers to make the best possible decisions based on sufficient information;
- **Two flagship initiatives** were set out in this area:
  1. **Resource-efficient Europe** (goal: to support the shift to a low-carbon economy that is efficient in the way it uses all resources – reducing carbon dioxide (CO_2) emissions, greater energy security and enhancing resource efficiency).
  2. **An Industrial Policy for the Globalisation Era** (goal: to establish an industrial policy that supports enterprises in the conditions of globalisation, helps tackle the economic crisis and helps in the transition to a low-carbon economy).

2 Communication of the Commission to the European Parliament, Council, European Economic and Social Committee and the Committee of the Regions: *Taking stock of the Europe 2020 strategy for smart, sustainable and inclusive growth*, COM(2014) 130, final wording of 5 March 2014.

Inclusive growth – an economy with high levels of employment delivering economic, social and territorial cohesion

- The objective is:
    - to increase the rate of employment in Europe (creating high-quality jobs, in particular for vulnerable groups);
    - to invest in education and the acquisition of professional qualifications;
    - to modernise labour markets and social security systems;
    - to ensure everyone benefits from economic growth.
- **Two flagship initiatives** were set out in this area:
    1. **An Agenda for New Skills and Jobs** (goal: to help people acquire new skills and successfully retrain for work in a different field and to modernise labour markets in order to increase employment, reduce unemployment, improve productivity and ensure social systems are sustainable).
    2. **European Platform against Poverty** (goal: to ensure economic, social and territorial cohesion, to guarantee compliance with the fundamental rights of persons living in poverty and social exclusion, and to acquire finances that help people integrate into the local community, acquire professional qualifications, find a job and gain entitlement to social benefits).

A.2 EU budget expenditure for Multiannual Financial Framework 2014-2020

Preparations for the 2014-2020 programming period began at EU level back in 2010. In June the following year the Commission presented the Multiannual Financial Framework for 2014-2020 (MFF14+), i.e. the draft EU budget for this period. This proposal did not garner the necessary support in European institutions, however, and the talks leading up to its definitive approval dragged on until November 2013. Negotiations on new legislation to implement *EU economic, social and territorial cohesion policy* (cohesion policy) in the years 2014-2020 also lasted over two years, specifically from 6 October 2011 to 20 November 2013, with some implementing regulations still being issued by the Commission during 2015.

Multiannual (usually seven-year) Financial Frameworks lay down the maximum annual amounts ("ceilings") the EU may spend on the most important political fields ("headings"). Multiannual Financial Frameworks translate the political priorities defined by the EU and its Member States into financial and legal time limits. Consequently, it is not the EU budget, but a planning tool and a guarantee of the predictability of EU spending.

The start of **MFF14+** brought a change in the structure of the expenditure side of the EU budget:

- **Heading 1: *Smart and Inclusive Growth*** comprises two subheadings, namely 1a *Competitiveness for jobs and growth* (which includes research, innovation and technological development, lifelong learning, support for SMEs and the development of transport, energy and digital networks for making the population of Europe better connected) and 1b *Economic, social and territorial cohesion* (comprises resources earmarked for building new infrastructure, for educational programmes and cross-border cooperation; these resources are invested with a view to enhancing economic, social and territorial cohesion and boosting the growth and development of regions that lag behind).
- **Heading 2: *Sustainable Growth: Natural Resources*** comprises finances earmarked for agriculture and food production, rural development, fisheries and environmental protection.
- **Heading 3: *Security and Citizenship*** covers spending on the fight against terrorism and crime,

on managing migration flows and creating a single asylum system, and on EU consumer protection and the promotion of European culture.

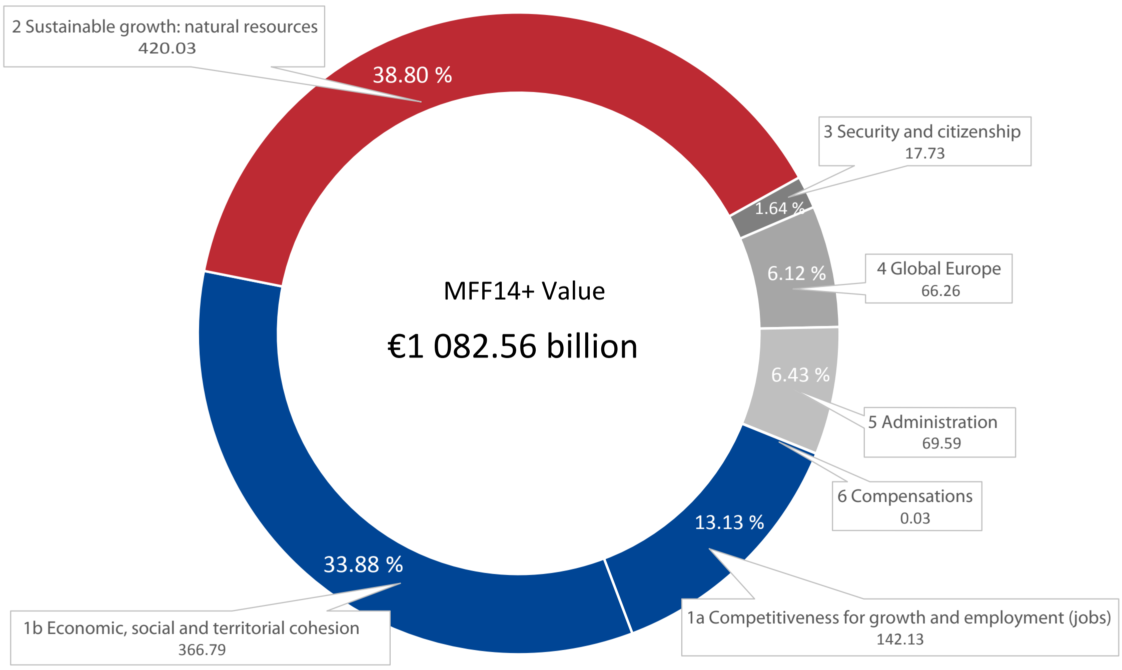
- **Heading 4: *Global Europe*** finances spending on the EU's external action, i.e. EU cross-border activities, EU enlargement, bilateral relations, humanitarian aid and development aid.
- **Heading 5: *Administration*** mainly covers the pay of EU employees and the management of EU institutions' buildings.
- **Heading 6: *Compensations*** comprise compensatory payments to new Member States (MFF14+ contains only payments to Croatia, which joined the EU in 2013).

Special Instruments and the European Development Fund (EDF)[3] stand outside the MFF14+ structure.

The value of MFF14+ as a whole is €1,082.56 billion. The **biggest heading** in financial terms is **Smart and Inclusive Growth *at €508.92 billion (47.01% of the total value of MFF14+)***, followed by **Sustainable Growth: Natural Resources *at €420.03 billion (38.80% of the total value of MFF14+)***. The remaining four headings of the EU budget are much smaller in terms of financial volume. Together they account for just 14.19% of MFF14+ expenditure, i.e. €153.6 billion.

The following graph shows the structure of the EU budget's expenditure side under MFF14+, broken down by headings.

Graph 1 – Financial values (€ billions) of expenditure headings and their share (in %) of the EU budget for MFF14+



Source: *Multiannual financial framework 2014–2020 and EU budget 2014 — The figures*, Commission 2013.

As mentioned above, MFF14+ does not cover funding for either ***special instruments*** or the **EDF.** The following table sets out the finances to be released out of the aforesaid sources in the years 2014-2020.

3 The fund is intended to provide development cooperation and aid to ACP countries (African, Caribbean and Pacific).

Table 1 – Finances for special instruments and the EDF in the years 2014-2020 (€ millions at current prices)

Resource	Total
Emergency Aid Reserve	2 209
European Globalisation Adjustment Fund	1 183
European Union Solidarity Fund	3 945
Flexibility instrument	3 716
Special instruments - total	**11 053**
EDF	**30 506**

Source: *Multiannual financial framework 2014–2020 and EU budget 2014 — The figures*, Commission 2013.

A.3 European structural and investment funds for period 2014 - 2020

In MFF14+ **a total of €453,850.17 million was earmarked for the European structural and investment funds (ESI Funds)** (including a performance reserve[4]). 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* is the common provisions regulation governing the ESI funds. The ESI Funds are also governed by other EU legislation. We reference the main ones in the relevant footnotes.

The earmarked finances were divided among the following funds:

***European Regional Development Fund* (ERDF)**[5]

The ERDF focuses investments on several key priority areas: innovation and research, the digital agenda, support for SMEs and the low-carbon economy. The ERDF resources allocated to these priorities depend on the category of region (i.e. its level of development). Furthermore, some ERDF resources must be channelled specifically towards low-carbon economy area.

4 The performance reserve is set at 5-7% of the finances allocated to each priority axis of a programme. The performance reserve is approved and allocated by the Commission if a given programme reaches its "milestones" (i.e. the required level of achievement of monitoring indicators) by 1 December 2018. For more details see Articles 20-22 of Regulation (EU) No 1303/2013 of the EP and of the Council of 17 December 2013 and the implementing Commission Regulation (EU) No 215/2014 of 7 March 2014.

5 Regulation (EU) No 1301/2013 of the EP and of the Council of 17 December 2013 *on the European Regional Development Fund and on specific provisions concerning the Investment for growth and jobs goal and repealing Regulation (EC) No 1080/2006* and Regulation (EU) No 1299/2013 of the EP and of the Council of 17 December 2013 on specific provisions for the support from the European Regional Development Fund to the European territorial cooperation goal.

***European Agricultural Fund for Rural Development* (EAFRD)**[6]

The EAFRD is a financial instrument for supporting rural development, which falls under the *EU Common Agricultural Policy* (CAP) and is part of the ESI Funds. EAFRD finances are used to make agriculture and forestry more competitive, to ameliorate the environment and the countryside or quality of life in rural areas and to diversify the rural economy. In the Czech Republic (CR), projects contained in the *Rural Development Programme for the Years 2014-2020* (RDP14+) are paid out of the EAFRD.

***European Social Fund* (ESF)**[7]

The ESF is the main European instrument for supporting jobs. It helps people get better jobs and ensures fairer job opportunities for all EU citizens. The EU's priorities in the area covered by the ESF are to boost the adaptability of workers, improve access to employment (vocational training and lifelong learning) and help people from disadvantaged groups get jobs.

***Cohesion Fund* (CF)**[8]

The *Cohesion Fund* is aimed at Member States whose Gross National Income (GNI) per inhabitant is less than 90 % of the EU average. It aims to reduce economic and social disparities and to promote sustainable development. For the 2014-2020 period, the CF concerns Bulgaria, Croatia, Cyprus, the Czech Republic (CR), Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia and Slovenia. The *Cohesion Fund* contributes to trans-European transport networks (TEN-T) and environmental projects.

***European Maritime and Fisheries Fund* (EMFF)**[9]

The EMFF is designed to fund projects linked to the EU's common fisheries policy (CFP) for the 2014-2020 period. It helps fisherman transition to sustainable fishing and keep aquaculture competitive; it supports coastal communities in diversifying their economies; it finances projects that improve quality of life in European coastal areas and create new jobs; and it makes it easier for target groups to access financing.

***Youth Employment Initiative* (YEI)**[10]

The aim of the YEI is to provide extra support to young people aged below 25 and living in regions where youth unemployment was higher than 25% in 2012. The YEI's total budget is €6.4 billion, with half of that sum coming from the ESF.

The following graph presents an overview of the volume of finances[11] allocated to the ESI Funds for MFF14+.

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6 Regulation (EU) No 1305/2013 of the EP and of the Council of 17 December 2013 *on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) and repealing Council Regulation (EC) No 1698/2005* and Regulation (EU) No 1306/2013 of the EP and of the Council of 17 December 2013 on the financing, management and monitoring of the common agricultural policy and repealing Council Regulations (EEC) No 352/78, (EC) No 165/94, (EC) No 2799/98, (EC) No 814/2000, (EC) No 1290/2005 and (EC) No 485/2008.

7 Regulation (EU) No 1304/2013 of the EP and of the Council of 17 December 2013 *on the European Social Fund and repealing Council Regulation (EC) No 1081/2006*.

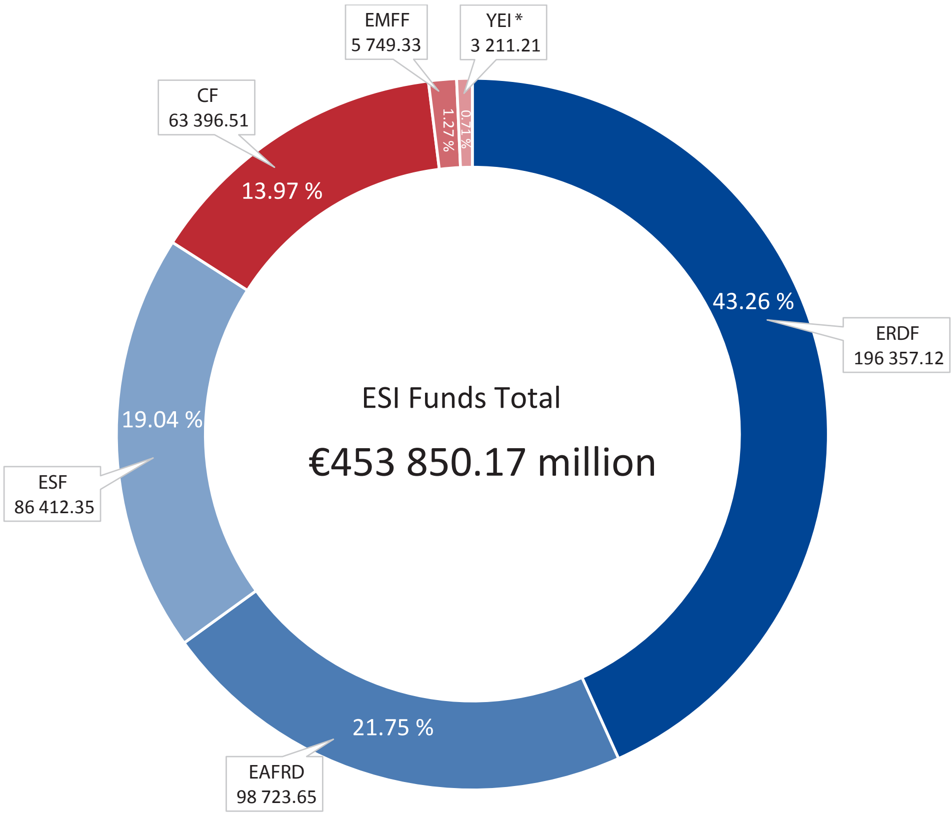
8 Regulation (EU) No 1300/2013 of the EP and of the Council of 17 December 2013 *on the Cohesion Fund and repealing Council Regulation (EC) No 1084/2006*.

9 Regulation (EU) No 508/2014 of the EP and of the Council of 15 May 2014 *on the European Maritime and Fisheries Fund and repealing Council Regulations (EC) No 2328/2003, (EC) No 861/2006, (EC) No 1198/2006 and (EC) No 791/2007 and Regulation (EU) No 1255/2011 of the European Parliament and of the Council*.

10 Regulation (EU) No 2015/779 of the EP and of the Council of 20 May 2015 *amending Regulation (EU) No 1304/2013, as regards an additional initial prefinancing amount paid to operational programmes supported by the Youth Employment Initiative*.

11 Finances of the *European Agricultural Guarantee Fund* (not one of the ESI Funds) earmarked for claim-based payments to farmers are not included in the volume of finances.

Graph 2 – Volumes of finances (€ millions) allocated to ESI Funds for MFF14+ and their relative sizes (%)



Source: Commission, 2016.

NB: * The same volume of finances (i.e. approx. €3,211 million) is earmarked for the YEI in the ESF.

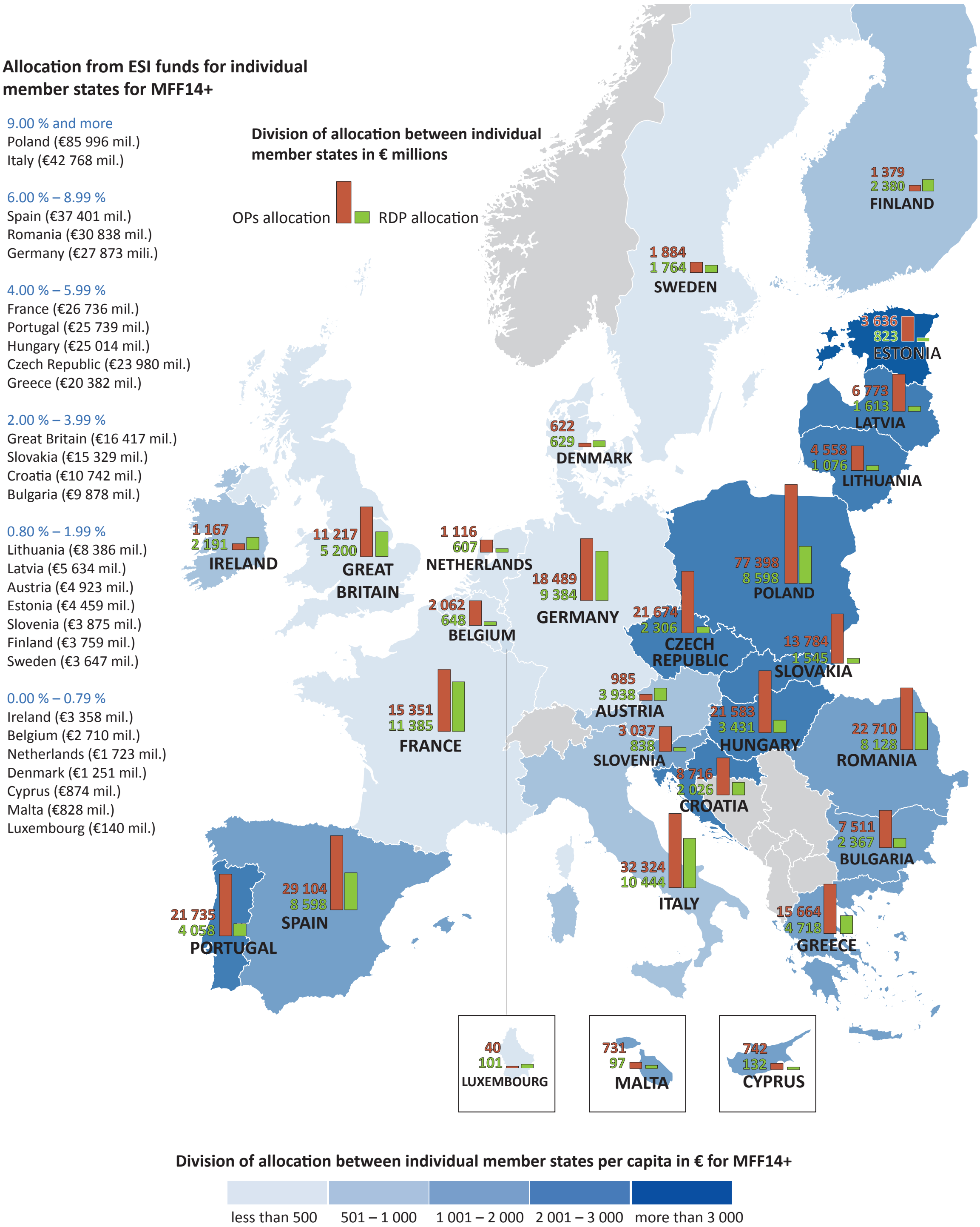
A.3.1 Budgeted allocations for EU Member States

The Commission signed partnership agreements with Member States for the 2014-2020 programming period, laying down their framework allocations for the entire new MFF.[12] The size of the allocation could be changed after the agreement was signed, which was also the case for the CR.

Out of the total allocation to ESI Funds for the 2014-2020 programming period, i.e. €453,850.17 million, almost €355,126.52 million is channelled into operational programmes (OPs) and *European Territorial Cooperation* programmes, with almost €98,723.65 going to rural development programmes (RDPs).

The illustration on page 18 shows how the total support from the ESI Funds for the 2014-2020 programming period (including the performance reserve) is divided between EU Member States and also compares the levels of this support in terms of their respective populations (colour scale). It also shows how the allocation was distributed among OPs (bar territorial cooperation programmes) and RDPs in individual Member States.

12 See subheading B.2 for more detailed information about the Partnership Agreement and allocation for the CR.



Source: Commission, https://cohesiondata.ec.europa.eu/, 2016 and Eurostat, 2016.

NB: The illustration does not show the amount of money earmarked for *European Territorial Cooperation* programmes (totalling more than €9,136 million). The group of programmes covers finances earmarked for cross-border cooperation programmes, among other things. In this area, Czech entities manage the *INTERREG V-A Czech Republic – Poland* cross-border cooperation programme.

A.3.2 EU Member States' programmes in the 2014-2020 programming period

Finances from the ESI Funds are distributed within Member States via OPs and RDPs. Territorial cooperation programmes are also supported from the same source (specifically from the

ERDF). The Commission approved the first programming documents, including the allocation, in mid 2014, but this process was still ongoing with certain Member States in December 2015[13] (Appendix 1). The programming documents submitted by the CR were gradually approved by the Commission between December 2014 and June 2015. The CR ranked among the EU Member States that fulfilled the necessary conditions in the shortest time. Despite this fact, when compared to the 2007-2013 programming period the CR's preparedness to draw down the EU finances allocated to it was approx. six months behind.

The following graphic shows how the total MFF14+ allocation is divided up in Member States between OPs (red scale) and RDPs (green scale), indicating the numbers of these programmes. The graphic does not include territorial cooperation programmes.

Division of allocation from OPs and RDP for the programming period 2014–2020

Operational Programmes (€ million)			Rural Development Programmes (€ million)		
Luxembourg	2	39.56	Malta	1	97.33
Slovenia	2	3 036.71	Luxembourg	1	100.57
Estonia	2	3 635.53	Cyprus	1	132.24
Latvia	2	4 558.07	Netherlands	1	607.31
Lithuania	2	6 772.83	Denmark	1	629.40
Denmark	3	621.59	Estonia	1	823.34
Cyprus	3	742.12	Slovenia	1	837.85
Austria	3	985.31	Latvia	1	1 075.60
Finland	3	1 378.85	Slovakia	1	1 545.27
Croatia	3	8 715.90	Lithuania	1	1 613.09
Malta	4	730.62	Sweden	1	1 763.57
Ireland	4	1 167.39	Croatia	1	2 026.22
Netherlands	6	1 116.16	Ireland	1	2 190.59
Romania	7	22 709.53	Czech Republic	1	2 305.67
Belgium	8	2 062.49	Bulgaria	1	2 366.72
Slovakia	8	13 784.10	Hungary	1	3 430.66
Hungary	8	21 583.21	Austria	1	3 937.55
Bulgaria	9	7 510.86	Greece	1	4 718.29
Czech Republic	9	21 674.33	Romania	1	8 128.00
Sweden	12	1 883.67	Poland	1	8 598.28
Great Britain	13	11 217.42	Belgium	2	647.80
Portugal	13	21 735.03	Finland	2	2 380.41
Greece	19	15 664.03	Portugal	3	4 057.79
Poland	23	77 397.68	Great Britain	4	5 199.67
Germany	33	18 489.06	Germany	14	9 383.81
France	41	15 351.16	Spain	17	8 297.39
Spain	46	29 103.57	Italy	23	10 444.38
Italy	52	32 323.52	France	29	11 384.84

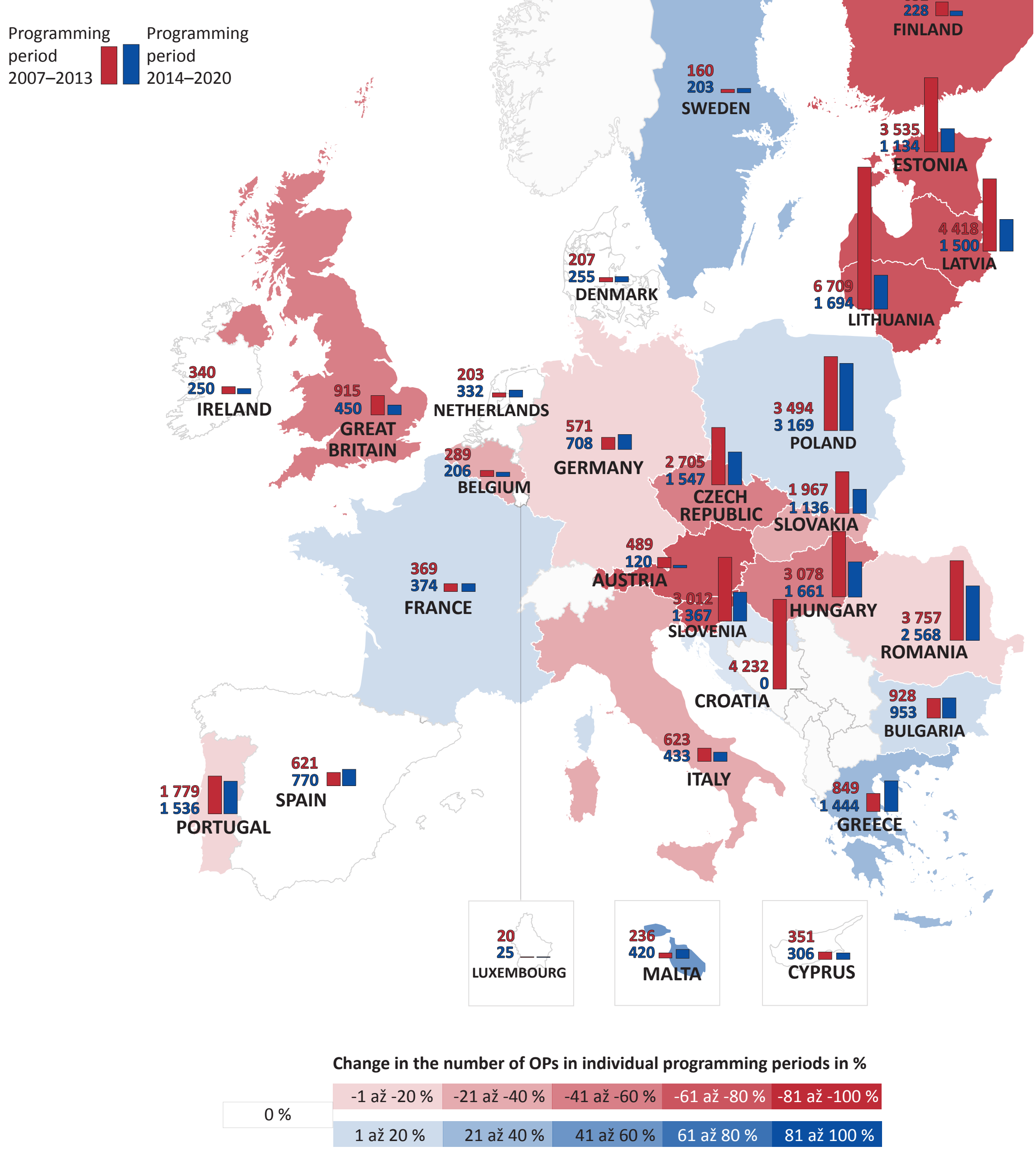
Source: Commission, https://cohesiondata.ec.europa.eu/, 2016.

The next graphic compares the average allocation to Cohesion Policy OPs[14] (bar territorial cooperation programmes) in every Member State in the 2007-2013 and 2014-2020 programming periods. The colour scale shows the percentage change in the number of OPs in the individual Member States between the two periods. The actual numbers of OPs in individual countries in these programming periods are shown in the bottom part of the graphic.

13 Annex IV *Timing of submission and adoption of partnership agreements and programmes* of Commission Communication Investing in jobs and growth – maximising the contribution of European Investment and Structural Funds, COM(2015) 639, final wording, 14 December 2015.

14 The graphic does not cover the CAP and *Common Fisheries Policy*.

Average allocation to OPs in individual member states (€ million)



Number of OPs in individual programming periods

	AT	BE	BG	CY	CZ	DE	DK	EE	ES	FI	FR	GR	HR	HU	IE	IT	LT	LU	LV	MT	NL	PL	PT	RO	SE	SI	SK	UK	Total
2007–2013	10	10	7	2	17	36	2	3	45	7	36	14	-	15	3	66	4	2	3	2	5	21	14	7	8	3	10	22	374
2014–2020	2	7	8	2	8	32	2	1	45	2	40	18	2	7	3	51	1	2	1	3	5	22	12	6	11	1	7	12	313

Source: *Cohesion Policy 2007-13, National Strategic Reference Frameworks*, Office for Official Publications of the European Communities, January 2007, https://cohesiondata.ec.europa.eu/, Commission, 2016.

The graphic shows that the number of OPs only increased in six Member States, with an increase of more than one in just three of them (three more OPs in Sweden, four more in France and Greece). The total number of OPs in the European Union fell by 63 for the new programming period, however, i.e. by almost 17%. There was a particularly marked fall in the number of OPs in Italy (15 fewer), Great Britain (10 fewer), in the CR (9 fewer) and in Hungary and Austria (8 fewer).

It is also interesting that almost all “new” member states (with the exception of Bulgaria, and also Cyprus and Malta whose size, however, means they have a minimal overall allocation) and Portugal opted for the path of a relatively large volume of allocated finances per OP (€1.78-6.71 billion), whereas OPs in other Member States have a much smaller allocation on average (€0.02-0.93 billion).

One reason for this is that the EU urged that Member States preparing for the new programming period should mainly strive to simplify administration and reduce red tape for beneficiaries. That is why the CR, for example, made several changes[15] designed to reduce the administrative burden. One of these was to cut the number of OPs, thus also reducing the number of managing authorities (MAs) and intermediate bodies (IBs).

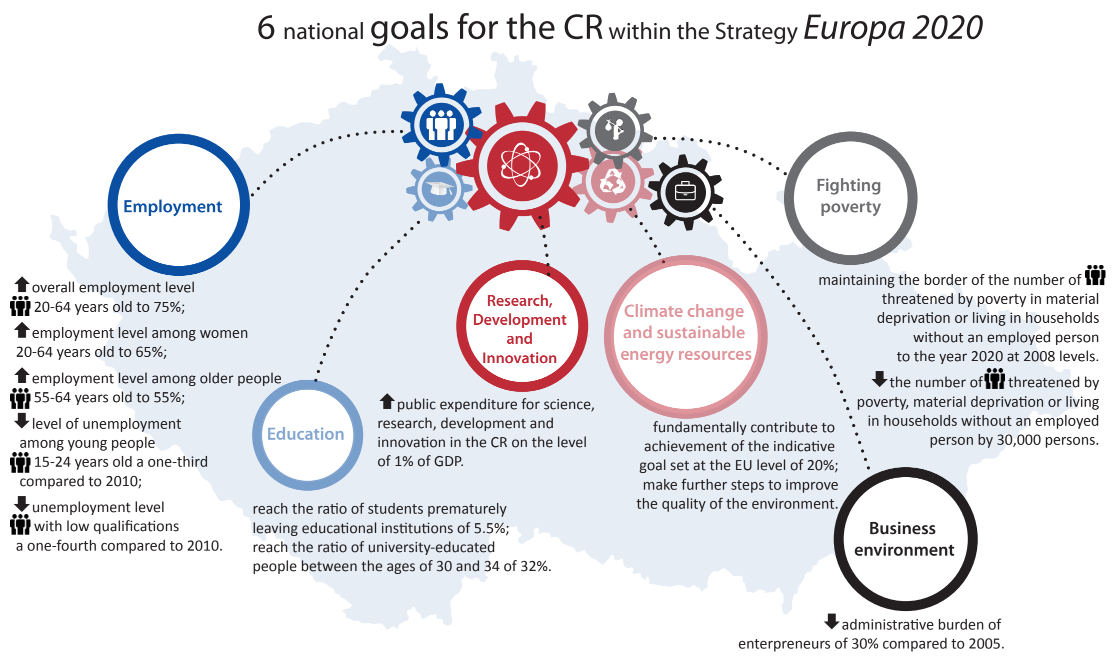
15 Resolution of the Government of the Czech Republic No. 867 of 28 November 2012.

B. Goals of the Czech Republic

B.1 Goals of the Czech Republic related to *Europe 2020*

At the same time as the Europe 2020 *strategy was being approved*, at its June 2010 session the European Council called on Member States to define their national goals. At national level, the planning of objectives designed to deliver smart, sustainable and inclusive growth and a competitive Europe takes place via what are known as national reform programmes. The implementation of *Europe 2020* is coordinated with Member States' economic policies within the framework of the European semester, which resulted in the *Europe 2020* strategy being interlinked with the *Stability and Growth Pact*[16].

The Czech government first tackled the question of how to transpose the commitments based on the main targets of *Europe 2020* (see subheading A.1) in June 2010[17], when it approved partial national goals, but in view of the approaching parliamentary elections it left it to the new government to concretise certain commitments. The new government dealt with the issue of national goals in April 2011[18], when it approved the ***National Reform Programme of the Czech Republic 2011***, which was given the introductory title of ***Investing in European Competitiveness: the Contribution of the Czech Republic to the Europe 2020 Strategy***. In this programming material the Czech government identified the following specific national goals, aligned with the main directions of *Europe 2020* and tackling the principal obstacles identified as hindering the achievement of common goals:



Some of the goals, especially those linked to energy efficiency, were originally defined as indicative, without any quantitative targets. The government justified this by claiming a detailed and realistic analysis of the national economy's capacity for energy savings was required in terms of the long-term sustainability of its competitiveness and in connection with the adoption of a new state energy concept.

16 The Pact was adopted by resolution at the Amsterdam meeting of the European Council on the Stability and Growth Pact of 17 June 1997 (Official Journal C 236 of 2 August 1997). It was subsequently modified repeatedly (most recently in 2015).

17 Resolution of the Government of the Czech Republic No. 434 of 7 June 2010.

18 Resolution of the Government of the Czech Republic No. 314 of 27 April 2011.

In the course of the first half of the ten-year period for achieving the *Europe 2020* targets, the indicative national goals of the CR were concretised and some other national goals were increased, partly because they would be achieved before the target year 2020. The *National Reform Programme of the Czech Republic for 2015*[19] states that the target concerning the proportion of people leaving school early has been reached. This proportion already amounted to 5.4% in 2013 (the 2020 target was 5.5%). In the case of the national goal of reducing the number of people at risk of poverty and exclusion, in 2015 the CR set a goal for reducing the overall number of at-risk people by 100,000, as the original goal (cutting the number by 30,000) had been achieved in 2013.

The current state of progress towards the national goals is made clear by the following overview.

Table 2 – Progress towards the Czech Republic's *Europe 2020* targets[20,21]

Area	National target	Benchmark value (reference year)	Current state of progress (year)
Employment	Increasing the rate of employment among persons aged 20-64 to 75%	**70.4 %** (2010)	**75.1 %** (3Q 2015)
Fighting poverty and social exclusion	Reducing the number of people at risk of poverty or material deprivation or living in households with very low work intensity by 100,000 compared to 2008	**1,566,000** (2008)	**1,532,000** reduction of **34,000** persons (2014)
Education	Ensuring at least 32% of the population aged 30-34 has tertiary education	**20.4 %** (2010)	**30.1 %** (2015)
	Reducing the number of persons leaving education early to 5.5 %	**4.9 %** (2010)	**6.2 %** (2015)
Research, development and innovation	Increasing public spending on science, research, development and innovation to 1 % of GDP	**0.62 %** (2010)	**0.64 %** (2014) (**2 %** when private sector expenditure is included)
Climate and energy policy[20]	Reducing greenhouse gas emissions – maximum permissible increase in non-EU ETS emissions by 9 %[21]	**+1.3 %** (2005)	**-0.9 %** (2012)
	Increasing the proportion of gross final energy consumption derived from renewables (to 13 %) and the share of renewables in transport (to 10 %)	**6.0 %** **0.1 %** (2005)	**13.9 %** (2013) **5.6 %** (2012)
	Increasing energy efficiency – saving 47.78 PJ (13.27 TWh) in final energy consumption	–	Not currently quantifiable

Source: *National Reform Programme of the Czech Republic for 2015*; *Country Report Czech Republic 2016*, Eurostat, Commission website, 2016.

The development curves of progress towards the implementation of *Europe 2020* in the CR and forecasts for the development of the CR's economy in the medium-term outlook

19 National Reform Programme of the Czech Republic for 2015 drawn up by the Office of the Government of the Czech Republic and approved by the government of the CR on 29 April 2015.

20 The reduction in greenhouse gas emissions and improvement in energy efficiency are defined by Directive 2009/28/EC on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC and by Directive 2012/27/EU on energy efficiency. The goal of cutting greenhouse gas emissions outside the emission credits trading scheme is defined by Decision 406/2009/EC on the effort of Member States to reduce their greenhouse gas emissions to meet the Community's greenhouse gas emission reduction commitments up to 2020.

21 *The EU Emissions Trading System* – an international system for greenhouse gas emission credits trading.

drawn up by Eurostat[22] make it a reasonable assumption that the CR will not only achieve its national goals for employment, poverty fight and social inclusion, but will significantly exceed them. In addition, the national goal for tertiary education, which was set at a lower level than the EU goal, should be achieved before 2020. In these areas the CR could achieve the percentage targets set in the *Europe 2020* strategy for the EU as a whole. The target percentage share of gross national product (GDP) set aside for expenditure on science, research and innovation can also be achieved, especially if private sector spending is included in the total, in line with the Commission's definition of this indicator. In 2014 the CR attained a relatively good standing in this indicator compared to other EU Member States (9*th*[23] place) and the Commission working document published as the Country Report Czech Republic 2016 projects that the GDP percentage in 2020 will be 2.9%, just below the EU target (3% of GDP). In energy efficiency, the Czech economy, which is still relatively energy-intensive and carbon-intensive, registered a falling trend in final energy consumption between 2005 and 2013. If this trend continues and other sources of financing are secured[24], it is a realistic assumption that the CR could also achieve its guideline national goals in this area, in compliance with the national energy efficiency action plan. The CR's outlook for approaching the EU's defined target of 20% of energy sources from renewables (national target set at 13% in 2020) is also very favourable, as renewables already accounted for 13.9% of gross final energy consumption[25] in 2013.

B.2 Preparation for the 2014-2020 programming period in the CR

In the Czech Republic the springboard for steps leading up to the new programming period 2014-2020 was a document entitled *Draft Summary Focus of the Future EU Cohesion Policy in 2013 in the Czech Republic*, which the Czech government noted[26] in August 2011. This document also contains the National Development Priorities (NDPs) for support from ESI Funds after 2013.

B.2.1 National Development Priorities

The basis of the NDPs is an overview of macroeconomic conditions in the CR. The Ministry for Regional Development (MfRD) based the priorities on analyses of the CR's competitiveness and development requirements and on strategic documents on both European and national level.

The common goal of these NDPs was to steer the programming process for the period after 2013 towards areas that are to put in place the right conditions in the CR for the creation of a high-quality business environment and an inclusive society where all groups of the population can fully realise themselves. The National Development Priorities were not decisive for the focus of individual OPs, however, which were created subsequently with a view to fulfilling the NDPs.

Five NDPs were defined and divided further into separate thematic areas:

- **Boosting the economy's competitiveness**

The aim of this priority is to support the CR's economic growth founded on the pillars of a knowledge economy, the expansion of enterprise activities and a qualified and flexible workforce with the help of the following:

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22 Eurostat is a statistical office or the European Union. It is an organisational unit of the Commission at a level of Directorat General.

23 SWD(2016) 73, final wording of 26 February 2016.

24 See the SAO audit conclusion from audit no. 15/02 – *Financial resources provided by the state to promote energy savings*.

25 Gross final energy consumption is the total volume of energy commodities transfered to all entities including energy and heat consumption used for generation of energy, and also including energy and heat losses during the distribution.

26 Resolution of the Government of the Czech Republic No. 650 of 31 August 2011.

- Enterprise support.
- Promoting growth based on innovation and the research and development.
- A functioning labour market as a prerequisite for a competitive economy.
- Improving the standard of education.

- **Developing backbone infrastructure**

  The primary aim is to create effectively functioning transport, information, energy and environmental infrastructure that will improve both the economy's competitiveness and the population's quality of life with the help of the following:

  - Supporting competitiveness by improving transport infrastructure.
  - Developing electronic communications infrastructure.
  - Improving energy networks.
  - Developing environmental infrastructure.

- **Improving the quality and effectiveness of public administration.**

  The aim of the priority is to provide high-quality services to citizens and help build a competitive economy based on enterprise and innovation through properly functioning institutions with the help of the following:

  - Improving the legislative and regulatory environment.
  - Supporting the optimisation of processes in public administration.
  - Creating and developing standards for public services.
  - Launching and expanding the digitisation of the agendas of public administration.
  - Improving qualifications in public administration.

- **Supporting social inclusion, the fight against poverty and the healthcare system**

  The main aim is to reduce social exclusion (especially among vulnerable population groups) on the labour market (women, youth, elderly, legal immigrants and people with low qualification), and improving lifestyles and the health of the population with the help of the following:

  - Supporting social inclusion and the fight against poverty.
  - Supporting the healthcare system.

- **Integrated territorial development**

  The main task is to ensure the balanced development of areas of the CR, help lessen regional differences and enable the exploitation of potential for boosting the regions' competitiveness and territorial development, with consideration for the quality of the environment with the help of the following:

  - Boosting regional competitiveness.
  - Promoting territorial cohesion.
  - Improving the quality of the environment.

B.2.2 Partnership Agreement and the CR's total allocation

The preparation and signing of partnership agreements between EU Member States and the Commission is a new essential condition enshrined in Articles 14-17 of Chapter II of Regulation (EU) No 1303/2013 of the European Parliament and of the Council, which forms the basic legal framework for the 2014-2020 programming period. The signing of a partnership agreement is a necessary condition for utilising support from ESI Funds.

Preparation of the agreement adoption in the Czech Republic was commenced in 2011. The MfRD was entrusted with negotiating the text of the *Partnership Agreement for the*

2014-2020 Programming Period[27] (the Agreement) with the Commission. The Czech government discussed and noted the draft Partnership Agreement in June 2013[28] and sent it to the Commission for informal assessment. In October 2013 the MfRD received the Commission's comments on the draft Agreement, which were then dealt with. The Czech government approved the final wording of the Agreement[29] in April 2014 and the Commission signed the Agreement on 26 August 2014.

A sum of €23.84 billion was allocated to the Czech Republic for working towards the common objectives of *Europe 2020* and the national objectives formulated in the National Reform Programme. One integral part of the document is the **ex ante conditionalities**, which is a package of measures set by the Commission that have to be implemented before the CR can utilise finances from the ESI Funds. The ex ante conditionalities are divided into general conditions that cut across programmes (e.g. non-discrimination, equal opportunities, public tenders, environmental impact assessments (EIAs)) and thematic conditions, which are specified within a specific programme (e.g. effective public administration, energy, education, or research and development). The MAs of individual programmes play a fundamental role in the implementation of ex ante conditionalities, as it is they who identify and determine the relevant ex ante conditionalities for a given programme and also for a given priority axis or EU priority of the programmes, within the individual ESI Funds programmes.

The Agreement states that the Czech Republic sees the creation of the concept of ex ante conditionalities as a step towards making the interventions from ESI Funds more effective, as this strengthens the link between the financing of interventions under Cohesion Policy and the execution of reforms, legislative changes or the adoption of strategic documents. These requirements of the Commission do not always simply correspond to the institutional arrangements, legislative environment or processes requiring interdepartmental coordination in the Czech Republic. For that reason the fulfilment of the ex ante conditionalities is awaited in varying time frames. These are also reasons why certain ex ante conditionalities of the Czech Republic are perceived as risky.

Besides the risks associated with making changes in the legislation or in the reforms, the ongoing transposition and implementation process of some of the directives can be generally considered as a significant risk. Most of the ex ante conditionalities are also focused on the existence of strategic documents. The risk concerning strategic documents lies in the timing of their approval, in their sufficient content coverage of the requirements arising from the ex ante conditionalities, their application for the entire 2014-2020 period etc. All risks are addressed through measures proposed in the action plans for partially fulfilled or unfulfilled ex ante conditionalities.

Article 19(2) of Regulation (EU) 1303/2013 of the European Parliament and of the Council provides that all ex ante conditionalities must be fulfilled by 31 December 2016 at the latest and the Commission must be informed of their fulfilment at the latest in the annual report on implementation of the programmes for the ERDF, ESF and CF and in the annual implementation report for the EAFRD and EMFF by the deadline established in the Fund-specific rules in 2017.

The current state of fulfilment of the conditionalities is presented in Appendix 2.

The Agreement covers Cohesion Policy OPs (objective[30] Investing in Growth and Employment and the objective European Territorial Cooperation*), the CAP Rural Development Programme* and the OP under the EU Common Fisheries Policy *(CFP).*

27 The Agreement is a strategic document laying down goals and priorities for the effective use of the ESI Funds with a view to implementing the Europe 2020 strategy by means of defined national priorities.

28 Resolution of the Government of the Czech Republic No. 447 of 12 June 2013.

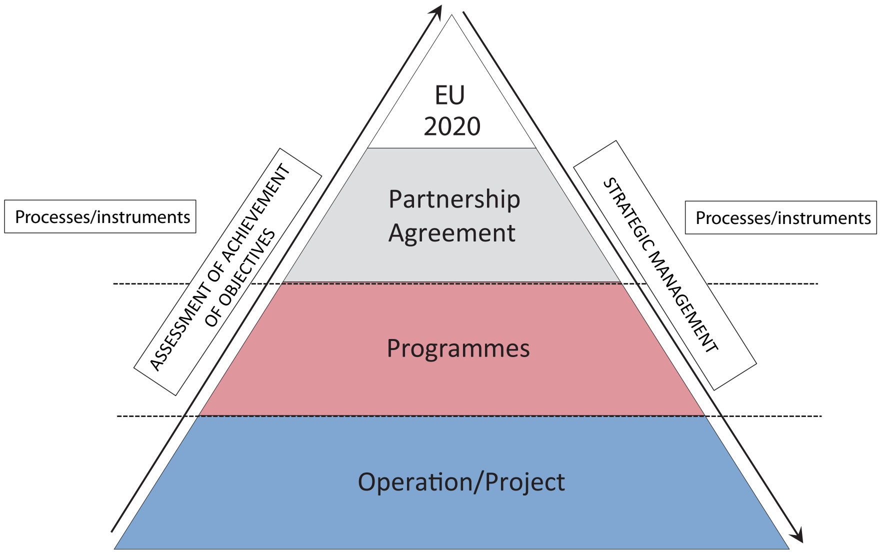
29 Resolution of the Government of the Czech Republic No. 242 of 9 April 2014.

30 The Agreement does not contain detailed information on programmes. Matters linked to the working of individual programmes are set out in greater detail in the actual programming documents.

In the context of the Agreement, five areas of concern where the CR must make significant improvements are identified. The areas of concern were elaborated into specific development needs in these areas, with eight funding priorities based on these development needs and elaborated into what are known as expected results.

In total, 10 programmes[31] with a direct link to achieving the goals (expected results) of the Agreement were defined for the 2014-2020 programming period. The emphasis in the utilisation of support is placed on results, which are monitored by means of indicators and financial indicators and evaluated using the Evaluation Plan in accordance with the 3E principle[32]. The fulfilment of the programmes' defined goals is based on the performance of managed activities through specific operations, projects and interventions. The following diagram shows the links between the various levels in terms of objectives and management.

Diagram 1 – Structure of the implementation of the *Europe 2020* Strategy in terms of objectives and management



Source: *Partnership Agreement Management and Coordination Rules in the 2014-2020 Programming Period*, MfRD, January 2016.

As the programming documents for some programmes were not approved until long after the Agreement was signed (the last programme was approved in June 2015, i.e. ten months after the Agreement was signed), it was essential to bring them all into alignment. That was done by a technical revision of the Agreement, the main outcome of which was that the total allocation was raised to **€23.98 billion**[33]. By agreement between the two sides, this revision did not apply to Section 2.3 *Assessment of the fulfilment of ex ante conditionalities* and Annex 5.1 *Assessment of the fulfilment of ex ante conditionalities*. The technical revision of the Agreement was discussed by the Czech Republic on 20 November 2015. The Commission confirmed the updated Agreement on 13 April 2016.

Besides the Agreement, in the 2014-2020 programming period the CR can also utilise finances

31 In addition to the ten programmes named in the Agreement, entities in the CR can also utilise finances under territorial cooperation programmes. In the case of one of these, *INTERREG V-A Czech Republic – Poland*, the MfRD is the managing authority.

32 Economy, Efficiency, Effectiveness.

33 The RDP14+ allocation was increased by over €135 million by means of a change to Annex 1 of Commission Regulation 1378/2014 of 17 October 2014 amending Annex I to Regulation (EU) No 1305/2013 of the EP and of the Council (see subheading A.3). Annex No 1 contains a *Breakdown of Union Support for Rural Development (2014 to 2020)*.

allocated by the Commission for 11 territorial cooperation programmes[34]. The managing authority is an entity based in the CR (MfRD) in only one of these programmes, however. This is the *INTERREG V-A Czech Republic – Poland* (INTERREG CR-PR) cross-border cooperation programme, which can draw on almost €0.23 billion.

B.2.3 Programmes, their financial frameworks and implementation structure

Compared to the preceding programming period, the 2014-2020 programming period has significantly fewer programmes managed by the CR (see subheading A.3.2) under shared management with the Commission. In particular, seven regional operational programmes (ROPs) ended and one new programme (*Integrated Regional Operational Programme* – IROP) was established; the number of OPs for the capital, Prague, was reduced from two to one, namely OP *Prague – Growth Pole* (OPP GP). In the field of research and development and education, which comes under the authority of the Ministry of Education, Youth and Sports (MoEYS), the number of OPs was also reduced from two to one (OP RDE). The ESI Funds, however, also finance measures from RDP14+, OP *Fisheries 2014-2020* (OP F14+) and projects under the *INTERREG CR-PR* territorial cooperation programme.

Programming documents were approved by the Czech government in June and July 2014 and were then officially sent to the Commission, thereby initiating the process of formal negotiations on their final wording. The Commission raised comments which the Czech side acted on. The Commission gradually approved each programme, completing the approval process in June 2015. The following table gives an overview of the approved programmes for the 2014-2020 programming period to be implemented in the CR, along with the financing ESI Funds, MA and respective allocation.

Table 3 – Programmes financed out of ESI Funds in the 2014-2020 programming period and managed by Czech authorities

Programme title	Date of Commission´s approval	Financed from ESI funds	Managing authority	Allocation (€ million)
OP Transport	11 May 2015	ERDF, CF	MoT	4 695.77
Integrated Regional Operational Programme	4 June 2015	ERDF	MfRD	4 640.70
OP Enterprise and Innovation for Competitiveness	29 April 2015	ERDF	MoIT	4 331.06
OP Research, Development and Education	13 May 2015	ERDF, ESF	MoEYS	2 768.06
OP Environment	30 April 2015	ERDF, CF	MoE	2 636.59
Rural Develpment Programme 2014–2020	18 May 2015	EAFRD	MoA	2 305.67
OP Employment	6 May 2015	ESF, YEI	MoLSA	2 145.74
OP Technical Assistance	11 June 2015	CF	MfRD	223.70
OP Prague – Growth Pole CR	11 June 2015	ERDF, ESF	PMG	201.59
OP Fisheries 2014–2020	4 June 2015	EMFF	MoA	31.11
INTERREG V-A Czech Republic - Poland	23 June 2015	ERDF	MfRD	226.22
CR allocation total				**24 206.21**

Sources: *Partnership Agreement for the 2014–2020 Programming Period*; approved programming documents.

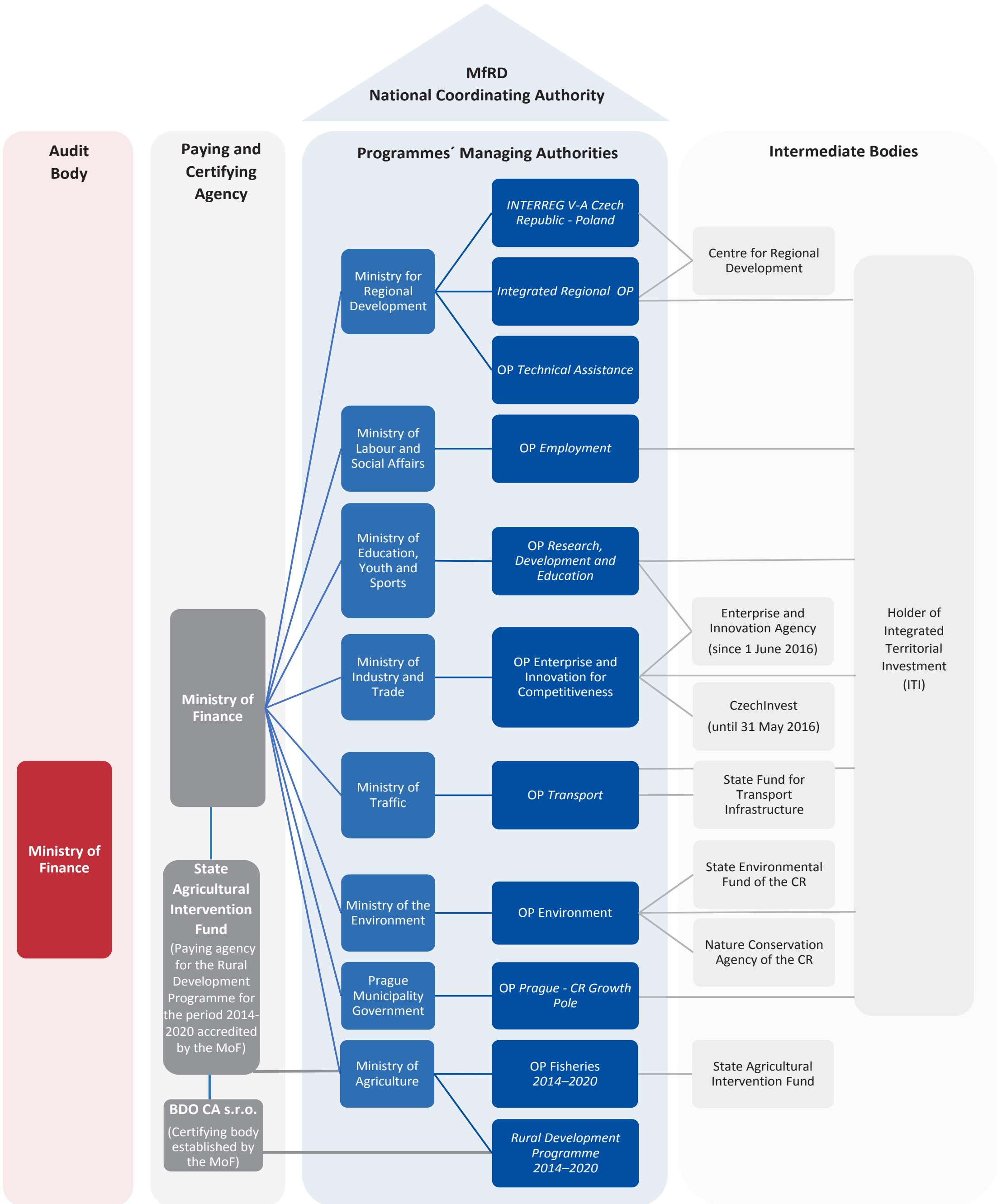
34 European Territorial Cooperation covers the following areas:
- cross-border cooperation (INTERREG V-A) – out of a total number of 88 programmes, entities from the CR can drawdown EU budget funding in five programmes (CR – Poland, CR – Saxony, CR – Bavaria, CR – Austria and CR – Slovakia);
- transnational cooperation (INTERREG V-B) – the CR is covered by two of the total of 15 programmes (*Interreg CENTRAL EUROPE and* Interreg DANUBE) and
- interregional cooperation (INTERREG V-C) – the CR is covered by all four programmes (*INTERREG EUROPE*, *URBACT III*, *ESPON 2020* and *INTERRACT III*).

More detailed information about the objectives and focus of programmes financed out of the ESI Funds and an overview of the implementing authorities can be found in Appendix 3.

Implementation structure

The Czech government an implementation structure for the preparation and implementation of support from the ESI Funds through programmes. The structure is shown in the following diagram.

Diagram 2 – Implementation structure of programmes financed out of ESI Funds in the 2014-2020 programming period



Source: *Partnership Agreement for the 2014–2020 Programming Period*; approved programmes.

It is clear from the diagram that the Ministry of Finance carries out the role of Audit Body (AB)[35] and Paying and Certifying Agency (PCA)[36]; the MfRD carries out the role of National Coordinating Authority (NCA)[37]. The diagram also shows the MAs and IBs of the programmes and the paying agencies.

Concept of a single methodological environment

The need to ensure coordination and proper, effective and efficient management at all levels of the utilisation of ESI Funds in the CR led to the setting of common rules for all entities involved in implementing the Agreement. The main purpose of the "single methodological environment" is to help put in place an effective, transparent and enforceable system of management and control of support provision. Working with the MoF and representatives of the implementation structure, the NCA put together a set of methodological documents relating to the key areas of the ESI Funds implementation[38]. These methodological documents and recommendations were gradually approved by the Czech government from 2013, mainly in the form of government resolutions, which make them binding (the entities covered by the resolutions are bound to comply with them; compliance is recommended for territorial corporations).

As the RDP14+ implementation system differs considerably from that of the other programmes (in terms of both implementing entities and their functions and the administration and control of the provided support), the single methodological environment comprising the MfRD's methodological instructions are not binding on the Ministry of Agriculture (MoA) and State Agricultural Intervention Fund (SAIF), merely recommended. The MoA and SAIF implement RDP14+ in line with a methodological document entitled *Procedures Linked to the Preparation, Management, Implementation, Monitoring and Assessment of the Rural Development Programme for the Years 2014 to 2020*, which was approved by the Czech government[39]. The MfRD, as the single methodological environment authority, helped draw up this document to entire the rules were basically the same across all programmes.

The operational programme *Fisheries 2014-2020* is included in the single methodological environment, and the instructions issued by the MfRD and MoF are, with certain exemptions, binding on its implementation.

MS2014+ ESI Funds information system

A new information system called MS2014+ is used to monitor the use of financial aid from the ESI Funds and assess the implementation of OPs at national level for the 2014-2020 programming period. This information system provides a single database for sharing information linked to the preparation and implementation of the Agreement. The system should directly administer and monitor all support provided from the EU budget in the 2014-2020 programming period apart from subsidies for agriculture and fisheries.

Subsidies from RDP14+ and OP F14+ are administered (from the receipt of applications to

35 The Audit Body is an authority responsible for ensuring the performance of audits to check the effective working of programmes' management and control systems and for carrying out activities in accordance with the General Regulation. In the Czech Republic this role is fulfilled by the Ministry of Finance and its division 52 – Audit Body.

36 The Paying and Certifying Authority of the CR for cohesion policy is the Ministry of Finance and its division 55 – National Fund. The PCA is the authority responsible for the overall financial management of finances provided to the Czech Republic out of the EU budget and for certifying expenditure in accordance with Article 126 of Regulation (EU) No 1303/2013 of the European Parliament and of the Council.

37 The National Coordinating Authority is the central methodological and coordinating authority for the implementation of programmes co-financed out of the ESI Funds in the Czech Republic in the 2014-2020 programming period.In this field it is the Commission's partner in the CR; it sees to the management of the Agreement at national level; it is the administrator of the MS2014+ monitoring system; and it is the methodological authority in the field of implementation and the central authority for publicity. The NCA is part of the MfRD.

38 All approved methodological documents are accessible at www.dotaceEU.cz.

39 Resolution of the Government of the Czech Republic No. 540 of 8 July 2015.

the payment of subsidies and data reporting) in the SAIF information system (SAIF IS). Data transmission between SAIF IS and MS2014+ will take place via an interface between these two systems[40]. Information provided by the Ministry of Agriculture reveals that data transmission between the two systems currently display some teething problems.

B.3 Risks for the 2014–2020 programming period

B.3.1 Risks identified by the Supreme Audit Office

Based on the results of its audit work and analyses, the Supreme Audit Office identified a number of risks that may be repeated in some form in the 2014-2020 programming period.

General risks:

- complicated programme strategies;
- high diversity and fragmentation of programme goals;
- complicated programming documents;
- deficiencies in information systems for managing programmes and assessing the progress made;
- deficient legislation – shortcomings in the transposition of EU regulations (see subheading E.1.2 for details), legal uncertainty etc.;
- high fluctuation in employees responsible for managing ESI Funds programmes;
- complicated and confusing "territorial dimension" system; large number of instruments and entities involved in territorial development; risk of uncoordinated cooperation between these entities and risk of incorrect and unfair decision-making on the selection and financing of territorial development projects; risk of dual administration;
- errors in the design and working of control systems;
- shortcomings in the design of the irregularities management system and gaps in the penalisation system;
- frequent changes to the conditions and rules for subsidy provision (giving rise to a risk of errors in the administration and implementation of projects, incomprehensible rules);
- failure to fulfil the ex ante conditionalities defined by the Agreement (see chapter B.2.2.).

Risks of project-managed measures:

- incorrect assessment and selection of projects; lack of emphasis on qualitative assessment of projects and assessment of the need for projects and their pan-societal or regional benefits;
- insufficiently defined goals of programmes and measures – goals not defined in SMART[41] terms;
- errors in the design of monitoring systems (missing indicators, indicators providing insufficient factual information or hard to measure), insufficient monitoring and evaluation of progress towards the goals of measures and programmes;
- insufficient drawdown linked to the risk of falling short of milestones at the end of 2018 and thus the risk that performance reserves will not be attained;

40 Information on the design and use of the MoA, or SAIF, information system for managing and monitoring RDP14+ of 18 March 2016.

41 SMART goals are specific, measurable, attainable, realistic and time-related.

- failure to utilise the first calls allocation – there is a risk that at the end of the programming period full drawdown will take precedence over the quality of projects and the effectiveness and efficiency of the provided support;
- control work done by programme implementation bodies does not sufficiently target the proportionateness and economy of spending and the benefits and outcomes of projects;
- insufficient absorption capacity in some project measures as a result of erroneous estimates of actual requirements.

Risks in CAP entitlement-based support (RDP flat-rate measures and direct payments)

- the effect of the new conditions and administrative procedures for the provision of direct payments and RDP flat-rate measures, in particular the status, definition and control of the fulfilment of the active farmer condition, greening[42] conditions etc.;
- shortcomings in the information system of *Records of the Use of Agricultural Land* – in particular discrepancies between registered area sizes and the actual state;
- administrative difficulty and complexity of the control system, causing delays in the provision of subsidies;
- non-compliance with the “mandatory requirements” for farming and with “good agricultural and environmental state” by beneficiaries in the context of the system of conditionality for claim-based support.

Based on information on the preparation of the 2014-2020 programming period available from the Commission’s databases, on analysis of data in the information systems of the SAO, MoF and MfRD and on materials submitted for sessions of the Czech government, the SAO has identified two potentially significant risk areas. One of these risks is that the errors when the programming period was being launched, which resulted in an overall delay in the implementation of programmes, will be repeated; the other is the problem with officially valid opinions on environmental impact assessments issued according to regulations that do not meet the requirements of the EU legislation.

Risk of repetition of errors at the start of the programming period

EU Member States signed partnership agreements between June and December 2014. The first agreements signed were with Poland, Germany, Denmark and Greece. Spain and Ireland were the last to sign. The Agreement for the Czech Republic was definitively signed by the Commission on 26 August 2014, around the average for Member States.

The first programmes for the 2014-2020 programming period were approved by the Commission for Lithuania, Finland and the Netherlands. The last programmes were approved for Italy and Spain. The CR was around the Member States average in the case of programme approval as well.

Appendix 1 contains a timetable showing when partnership agreements were submitted and adopted in EU Member States.

In the 2007-2013 programming period the CR’s operational programmes were approved from October[43] to December[44] 2007, i.e. most of them only at the end of the first year of implementation. The slow start of the programme implementation process (inter alia delayed legislation, frequent

42 Compliance with farming techniques favourable to the climate and the environment.

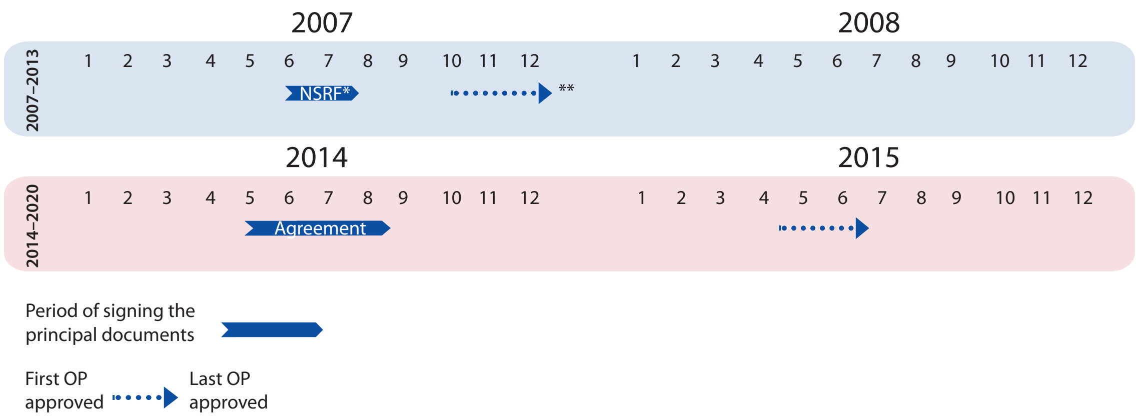
43 The first OP from the 2007-2013 programming period (OP *Education for Competitiveness*) was approved by the Commission on 12 October 2007.

44 The last OP from the 2007-2013 programming period (OP *Technical Assistance*) was approved by the Commission on 27 December 2007.The exception was OP Research and Development for Innovation, which was only approved by the Commission on 1 October 2008.

rule changes, long intervals between the submission of applications and provision of support etc.) was one of the reasons why the allocated resources were not fully drawn down at the end of this programming period.

The situation was repeated in the new programming period 2014-2020, with programmes not approved until the middle of the second year of the programming period. Regardless of the fact that the CR's programmes were approved at a similar time as other Member States', the Czech Republic should therefore avoid repeating the errors from the previous programming period and should in good time define suitable acceleratory measures to ensure all the allocated finances are utilised.[45] Furthermore, milestones were put in place for the year 2018 and Member States must achieve these milestones in order not to lose part of the allocation. In the case of the CR this could involve as much as CZK 38.7 billion, i.e. 6% of the total allocation of CZK 648.2 billion.

Diagram 3 – Approval of programmes in the CR in the 2007-2013 and 2014-2020 programming periods



* National Strategic Reference Framework CR 2007–2013.
** OP RDI is an exception as it was approved by the Commission on 1 October 2008.

Source: Annex IV *Timing of submission and adoption of partnership agreements and programmes* of Commission Communication *Investing in jobs and growth – maximising the contribution of European Investment and Structural Funds*, COM(2015) 639, final wording, 14 December 2015; SAO, 2016.

Risk linked to insufficient transposition of EU law on EIAs

Absent or insufficient or incorrect implementation and application of EU law is a serious category of risks for the state's financial management (see subheading E.1.2).

One of the biggest and most serious risks in this category currently jeopardising the utilisation of finances from ESI Funds is the legislation governing environmental impact assessments. In this case the Czech Republic failed for 10 years to properly transpose the relevant EU directives into Czech law.

An amendment of Act No. 100/2001 Coll., on environmental impact assessment, only entered into effect on 1 April 2015 through Act No. 39/2015 Coll., which properly effected the transposition.

Transitory provisions imposed an obligation, starting on the effective date, to check every opinion issued prior to the effective date of Act No. 39/2015 Coll. in terms of compliance with the requirements of the legal regulations transposing Directive 2011/92/EU of the EP and of the Council of the 13 December 2011 on assessment of influence of public and private interests on the environment. If an opinion is not compliant with the directive, a new environmental impact assessment must take place. This will take around 300 days in an ideal situation.

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45 At the time of the editorial deadline of *EU Report 2016* the MfRD was preparing the Annual Report on the Implementation of the Partnership Agreement in the 2014-2020 Programming Period for 2015, which covers programme risk management, for discussion by the government.

The government is trying to negotiate an exemption with the Commission, but this matter had not been resolved by the editorial deadline of *EU Report 2016*. Yet the Czech Republic had at least one year to bring past opinions issued in EIAs into line with the applicable regulations.

A new EIA could delay the implementation of certain objectives that could be important in terms of the European or national priorities; instead, less important objectives will be financed. The most debated objectives are transport construction projects, including those addressing the TEN-T as a European priority. Delays will increase the cost of implementation and further losses will result from the impacts of these objectives arriving later.

B.3.2 Audit Body of the CR: Assessment of the 2007-2013 programming period

When drawing up this report the Supreme Audit Office asked for cooperation from representatives of the MoF's Audit Body division, so that it could assess their experiences with audits from the previous programming period in order to define risk areas for the new programming period 2014-2020. The text written by the AB is presented in the following subheading.

The comprehensive reorganisation of the Audit Body done in 2012 put in place the fundamental conditions for the AB, now a part of the MoF's organisational structure as Division 52, to devote itself effectively to its core mission, i.e. the function of an independent audit authority for programmes financed out of the ESI Funds, the European Economic Area and the Norwegian funds, the *Asylum, Migration and Integration Fund* and the *Internal Security Fund*.

The essence of the AB's work is to plan and carry out audits of the utilisation of finances from the sources listed above and to coordinate and cooperate with the auditors of the Commission and other concerned authorities.

The audit work is done independently of all activities of state administration authorities and of all legal and natural persons involved in the management, control and use of finances from European funds.

In the 2007-2013 programming period the AB's principal activities focused on assessing the functionality and effectiveness of the management and control systems of OPs (system audits) and auditing operations.

The audits of operations sought to verify the accuracy of the reported expenditure, compliance with EU and Czech law, whether the relevant monitoring indicators were fulfilled and whether the prescribed publicity rules were followed.

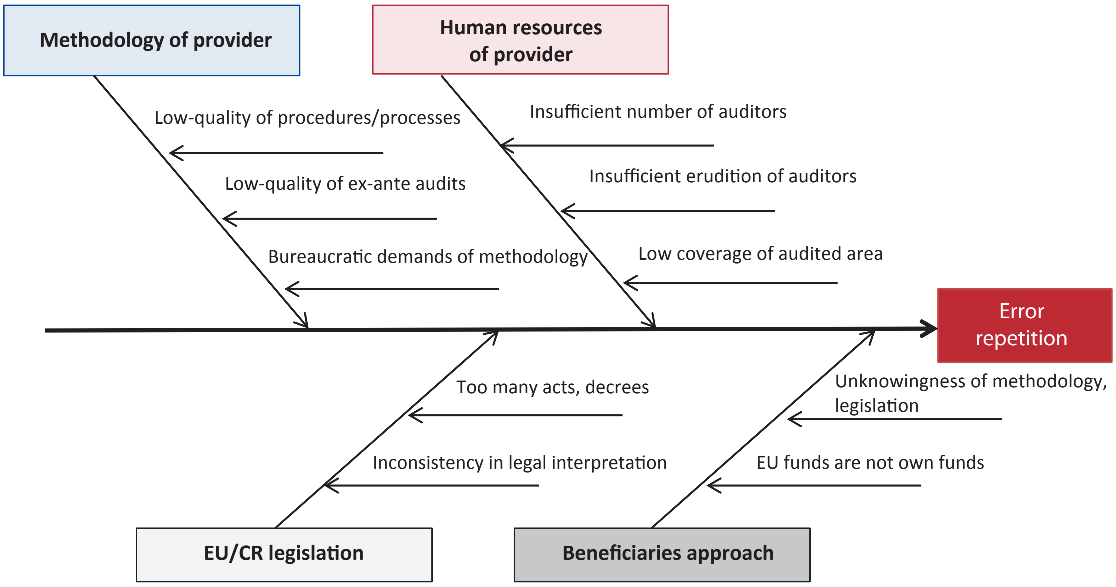
To illustrate, in 2015 alone the Audit Body conducted 723 planned audits of operations, seven system audits in the context of various OPs, four exceptionally comprehensive audit investigations at the request of the Commission and 15 other audit investigations done on an ad hoc basis off the audit plan.

When carrying out their audit work during the 2007-2013 programming period, the AB's auditors were often exposed to situations where they identified risks and subsequently formulated their findings based on situations or states of affairs that displayed similar symptoms.

As a rule, these symptoms shared the same reason (independent of the audit subject or audited OP), the same type of risk differing only in the degree of exposure and the gravity of the potential impact – from consequences that could be eliminated fairly easily or resolved by proposing a financial correction to consequences of considerable significance that could cause the CR substantial harm or result in a failure to fully utilise the money available from European funds. Another frequent common feature was the fact that the main causes of negative phenomena tended to be closely linked and synergetic.

The following Ishikawa diagram shows the areas most frequently dogged by negative influences in the 2007-2013 programming period according to the AB auditors' findings and their causes.

Diagram 4 – Areas and most common causes of errors in the 2007-2013 programming period

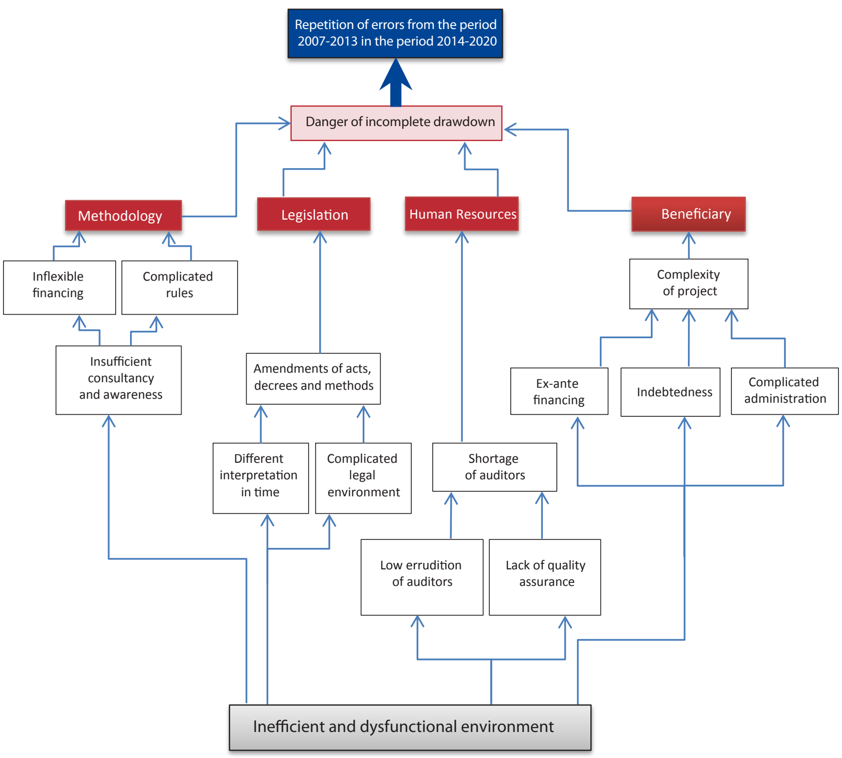


Source: AB, April 2016.

The areas identified as the sources and most common causes of negative phenomena that tend to be the subject of findings with a high or intermediate degree of seriousness are presented in Appendix 4.

The factors influencing the likelihood of the shortcomings from the 2007-2013 programming period being repeated, their mutual interaction and the relationship between the dysfunctional control environment and the risk of failing to utilise funding fully are set out in the following diagram.

Diagram 5 – Factors influencing the risk of shortcomings from previous periods being repeated



Source: AB, April 2016.

To conclude, it is fair to say that the biggest problems which the Audit Body repeatedly encountered in its work during the 2007-2013 programming period and were reflected in audit findings in almost all audit reports were shortcomings on the part of contracting authorities during (public) procurement.

Almost 50% of all detected shortcomings and almost 75% of all identified ineligible expenditure are linked to the public procurement process.

In most of the identified cases, deficiencies of this type were caused by a lack of due professional care on the part of the organisations holding public tenders and/or by violations of Act No. 137/2006 Coll., on public procurement, either through ignorance or negligence.

As these are shortcomings of the same type and with the same causes, they are highly likely to be repeated in the 2014-2020 programming period.

If we want to avoid the problems of the previous programming period in the new one, efforts must be made to ensure that the areas flagged up as the sources and most common causes of negative phenomena are as risk-free as possible. In practice, that means minimising the potential causes and entirely eliminating the impact of potential problems, or at least lessening the impact to an acceptable level.

In the new programming period it will be necessary to place constant emphasis on devising and modernising the tools for managing, remedying and eliminating irregularities, conflicts of interest, corrupt conduct and fraud.

The Audit Body has little capacity to restrict negative phenomena itself, i.e. merely through the performance of audit work, mainly because the AB's work is done ex post (after finances are paid out from the EU budget) and not ex ante, which is essentially a more effective form of control.

Although the text makes clear some possible ways to incorporate preventive measures into the AB's work, preventive measures undertaken in isolation, without the cooperation of other bodies of the implementation structure, have a minimal chance of success in practice.

Success will only come from effective cooperation between all the entities involved.

Section II

Report on the Financial Management of EU Finances in the Czech Republic for 2015

Summary of Section II

General information

- The start of 2015 saw the beginning of the **European semester**, primarily representing the outcome of the **Commission's** assessment of current progress in the implementation of structural reforms in Member States in 2014. The Commission identified **three main pillars** of economic and social policy for 2015 to speed up the growth of national economies and the EU as a whole:
    - **coordinated support for investment** (investment plan for Europe);
    - **a renewed commitment to structural reforms** (putting in place the right conditions for long-term investment);
    - **responsible fiscal policies** (long-term control over budget deficits and debt levels).
- The **Czech Republic** submitted its **2015 national reform programme** and its medium-term **convergence programme for 2015-2018** to the Commission for assessment and to the Council for recommendations for 2016. The **Council recommendations** on the convergence programme of the CR are aimed at fiscal correction, cost-effective healthcare, a simpler tax system, the fight against corruption, reducing the tax burden of physical persons and tertiary education reform. In February 2016 the **Commission declared that the CR had made progress** towards fulfilling the recommendations for 2015 and judged the country to be on track to achieve its national strategies in the context of **Europe 2020**.
- The **European Court of Auditors** (ECA), as the EU's external auditor, issued statements on the budget for the 2014 financial year, issuing **a positive statement on the reliability of the EU's financial statements. Its** statement on the legality and accuracy **of revenues was also** positive**, but its statement on** payments**, as in previous years,** was negative, as it found that they were materially affected by errors.
- In 2014 the **Czech Republic** continued to be rigorous in submitting reports of irregularities to the OLAF[46]. The Czech authorities reported a total of **1,074 irregularities** concerning expenditure worth over **€330 million**. **42 of these cases** concerned **suspicion of fraud** worth a total of almost **€37 million.** No suspicion **of fraud was reported** in the revenues area.
- The **2014 EU budget** comprised **revenues** totalling over **€143.9 billion** and **expenditure** totalling over **€138.7 billion. The** Czech Republic drew down **almost** €4.4 billion **from the EU budget (with more than 70% going into cohesion policy) and** contributed **more than €1.5 billion to the EU budget. The** net position **for 2014 was just under** €2.9 billion**, less than in 2012 and 2013. By contrast, the net position for 2015 (according to MoF data from 2016) reached a record high of almost** €5.6 billion.

46 Office européen de lutte antifraude.

Sector matters

European Union budget revenues

- In the years 2014 and 2015 the **Czech Republic adopted** and executed **a number of measures to implement the national reform programme**, e.g. an organisation called **"Tax Cobra"** was set up to combat tax fraud; an **act on electronic sales records** was passed; a draft act on tax on gambling games was put into the legislative process; and a three-year plan for **gradually increasing of tax rates on tobacco products** was adopted.
- In 2015 several important changes to the act on value added tax (VAT) **were adopted**; an **act on excise duties** , and **Act No. 307/2012 Coll., on compulsory labelling of liquor**.
- In the period under scrutiny, i.e. from April 2015 to March 2016, the **Supreme Audit Office published two audit conclusions from audits targeting the administration of taxes**.
- **In the audit of the administration of VAT** the Office stated that **the effect of the new mechanisms of the act on VAT did not materialise** to the extent that the VAT gap (the difference between expected and actually collected revenues) was reduced. In fact, **tax evasion** increasing the VAT gap **grew from CZK 92 to 105 billion** from 2011 to 2013.
- **In its audit of excise duties** the SAO focused on **excise duty on liquor and excise duty on tobacco products.** It stated that some new measures to combat unregistered and untaxed liquor introduced at the end of 2013 or after 2013 are not entirely effective.

Economic, social and territorial cohesion policy

- **In 2015 the drawdown of finances** for cohesion policy measures sped up considerably, with 21% of the total allocation for the 2007-2013 programming period drawn down in that year alone. According to the NCA's estimate from January 2016, a total of CZK 29.8-34.1 billion, i.e. 4% of the total allocation for the entire 2007-2013 programming period, could remain unutilised (i.e. finances not drawn down in 2013 and 2014).The overall result could still be positively influenced by certain new approaches (e.g. retrospective support for selected projects); on the other hand, **intense concentration on drawdown brings a risk that insufficient consideration is given to economy, efficiency and effectiveness**.
- In total, almost €453.9 billion is earmarked in the EU budget for financing the **ESI Funds** in the **2014-2020** programming period, with **€24.2 billion** of that amount **set aside for the CR** (approx. CZK 648.2 billion).
- **In 2015 the OP managing authorities issued the first calls and started to receive the first applications for the new programming period.** Compared to the start of the 2007-2013 programming period the approval of OPs for the 2014-2020 period was delayed, thus in turn delaying the process of implementing measures by about six months. On the other hand, the n+2 rule will be replaced by n+3, so the time limit for utilising the annual allocation will be one year longer.
- The Supreme Audit Office published audit conclusions from **12 audits** conducted in the period under scrutiny and focusing on the implementation of cohesion policy measures. As in previous years, the audits detected errors in the selection of projects for financing, the setting of uncheckable objectives, errors in the monitoring of progress towards goals, failure to achieve the goals of projects and programmes, errors in public procurement, ineligible expenditure and shortcomings in the control system. **The measures to remedy these errors have therefore long been inadequate.**
- **The SAO's findings** basically **correspond to the findings of other audit bodies.** For example:
    - in 2015 the Audit Body issued an opinion with reservation on the management and control systems of 10 OPs;

- in 2014 the **European Court of Auditors** estimated **an error rate far above the 2% limit in the following headings:**
  - *Competitiveness for Growth and Employment* and,
  - *Economic, social and territorial cohesion*.

EU Common Agricultural Policy and Common Fisheries Policy

- **In 2015** over **CZK 33 billion** was paid out in the CR under the **CAP**, which is roughly CZK 4.4 billion less than in 2014. Under the **CFP** more than **CZK 208 million** was paid out, i.e. CZK 130 million more than in the previous year.
- **The CR's drawdown of the CAP and CFP allocation for 2007-2013 for was successful.** As of 31 December 2015, more than 99% of the allocation under the *Rural Development Programme for the Years 2007-2013* (RDP07+) was drawn down and 92% in the case of *OP Fisheries 2007-2013* (OP F07+).
- **In 2015 the MoA, or SAIF, commenced the receipt of applications under the new 2014-2020 programming period.** Farmers received both subsidies for RDP flat-rate measures and direct payments in 2015. No finances had been drawn down from the allocation for RDP14+ project measures and from the allocation for OP F14+ by the end of January 2016.
- The Supreme Audit Office conducted **two audits** targeting the CAP in 2015:
  - The first **audit concerned RDP07+ investment projects** and scrutinised the management and achievement of the objectives of the programme and whether selected projects achieved their goals and were sustainable. The SAO found that the rules put in place to govern the provision of subsidies made it possible to finance projects in an uneconomical and inefficient manner and that projects did not always contribute to rural development and agriculture. The MoA also had difficulty setting and achieving the objectives of RDP07+: in particular, it set unrealistic targets for the outputs and outcomes of certain measures or did not set any targets at all.
  - The SAO also completed an **audit scrutinising land consolidation co-financed out of RDP07+.** The SAO found the performance of land consolidation to be very slow and of limited scope, which endangers the very purpose and goals of land consolidation. The MoA failed to assess the effectiveness of the land consolidation undertaken, mainly because of a badly designed system of indicators for monitoring and evaluating progress towards the goals.

Other EU financial instruments and expenditure

- **Other financial instruments** (OFI) mainly comprise the group of **Community programmes**, whose finances the Commission allocates, bar a few exceptions, by public tender directly to applicants, who have to succeed in international competition. Other sources for financing expenditure are special-purpose funds for implementing migration and asylum policy under the general programme entitled ***Solidarity and Management of Migration Flows*** (Solidarity programme) and the ***European Union Solidarity Fund*** (EUSF), intended to finance expenditure linked to responding to natural disasters.
- **Entities from the CR** received more than **€170 million** in 2014, a marked improvement over previous years. That represents a per capita sum of **€16.32**.
- The SAO completed **two audits** targeting **the use of OFI resources** in the period under scrutiny:
  - In April 2015 the SAO published the audit conclusion from **an audit of finances provided to the CR from the EUSF** to deal with the consequences of catastrophic flooding that hit the CR in 2010.The audit showed that the administration of the CR's applications

for support took a relatively long time (up to 14 months) and the binding methodology for implementing the assistance did not categorically define eligible expenditure in the various levels of project documentation for infrastructure repair.

- The second audit was devoted to **the financing of migration and asylum policy goals** under the Solidarity programme. The audit results showed that the reliability of the system for tracking monitoring indicators at project level was low, because the beneficiaries did not keep data on the date of birth of their clients, which was essential for any subsequent verification of a foreign national's identity and residence status in information systems. The SAO also detected ineligible expenditure. In the audit, the control system was rated only partially effective even though the rate of ineligible expenditure did not exceed the defined threshold of 2% of the volume of scrutinised finances.

Other activities related to the EU's financial management

Legal matters

- In 2015 the SAO submitted specific comments to 57 **draft legal regulations for assessment in the interdepartmental consulting process. Most of the SAO´s** comments**, stemming primarily from audit findings,** were taken into consideration by the legislator.

- **Regarding deficiencies in the transposition of EU law the CR does not deviate from the average** of Member States in terms of either the **transposition deficit** or the **number of proceedings against the CR for breaches of EU law.** One significant risk **for the financing of** major transport projects **in particular, financed from the ESI Funds, is the fact that in the time between joining the EU and 2015 (10 years) the CR failed to properly transpose the EU directive on environmental impact assessment.** Satisfying the requirements of the EIA directive **was included by the Commission among the** ex ante conditionalities **that the CR must fulfil before it can utilise EU budget finances for the 2014-2020 period also after 2016.** With effect from 1 April 2015 **the problem of transposing the EU EIA directive was** resolved by the adoption of Act No. 39/2015 Coll. Bringing past assessments (issued under the previous Act No. 244/1992 Coll.) into line with the requirements of the EU's valid directives will take 6 to 18 months, which could lead to delays in the start of major transport projects. At the time of editorial deadline of *EU Report 2016* the Czech Republic was negotiating with the Commission on ways to simplify this process.

Accounting for and reporting EU finances in the CR

- **Accounting for and reporting EU finances in the CR** was **unclear** in previous years, as Czech **accounting standard no. 703 did not precisely define the role of organisational components of the state** in the provision of transfers. This ambiguity resulting in reported data being incomparable was eliminated as of 1 January 2015.**The SAO's audit work revealed** certain **other systemic risks** concerning **the accounting for and reporting of** finances provided from the EU budget that could **undermine the informational value of data summarised in the areas of the state's accounting consolidation** (first for the year 2015), **accounting for preliminary payments** from abroad and **accounting for receivables from pre-financing**.

International activities of the SAO

- In 2015 the SAO went ahead with its broad range of activities, including participating in coordinated audits, holding seminars, its work in working groups and representation in international organisations and, last but not least, in its day-to-day sharing of information for external public control with other countries' supreme audit institutions.

- The most important international event in 2015 held at the SAO´s headquarters was the official **visit of ECA president** Vítor Caldeira to the CR. In addition to his working programme at the SAO, he met with the **president of the republic and the prime minister and attended a session of the Committee on Budgetary Control of the Chamber of Deputies of Parliament**.

C. General information

C.1 Current developments in the management of EU finances

C.1.1 Coordinated EU economic policy measures

The **European semester**[47], a tool for implementing reforms at the level of Member States and the entire EU, commenced for the first quarter of 2015 with the publication of the *Annual Growth Survey 2015*[48] (Growth Survey 2015). In it the Commission published the result of its examination of the state of public finances in Member States for 2014 and the result of its assessment of current progress in the implementation of structural reforms.

The Commission stated that, despite the considerable efforts to overcome the financial and economic crisis, the revival in the European economy in 2014 was not as strong as had been expected in 2013. Economic growth began to slow down and a social crisis accompanied by high unemployment emerged. There were considerable differences between Member States, and righting the macroeconomic imbalance was hampered by low work productivity, inadequate investment and high structural unemployment. The Commission went on to say that, given the differences between Member States, the public authorities' approach to tackling economic and social differences at all levels would have to differ, though it would remain part of a common, integrated approach.

In the Growth Survey 2015 the Commission defined **three main pillars of economic and social policy for 2015**:

- **A coordinated boost to investment –** the Commission put forward an Investment Plan for Europe that should mobilise at least €315 billion of additional public and private investment in the years 2015-2017 (the *European Fund for Strategic Investments* was set up) and improve the overall investment environment.
- **A renewed commitment to structural reforms –** this is essential for countries to grow out of debt and to stimulate the creation of jobs. Supporting economic growth and job creation in areas like services, energy, telecoms and the digital economy is dependent on in improving conditions for business. That means cutting "red tape" and adopting legislation to create a suitable regulatory environment for long-term investment.
- **Pursuing fiscal responsibility –** despite considerable progress in fiscal consolidation, Member States still need to secure long term control over deficit and debt levels. They should encourage domestic demand, with a particular emphasis on making investment expenditure more efficient and making the tax system more supportive of investment. Fundamental measures should be adopted to prevent tax fraud and evasion. The framework formulated in the *Stability and Growth Pact* and its updates, known as "packs", is to be used to deliver long-term growth in the context of sustainable public finances.

In April 2015 the Czech government approved the National Reform Programme for 2015[49] and

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47 The EU's political timetable according to which Member States negotiate on their budgetary and economic plans. Within its framework the Commission monitors whether Member States are working on measures to implement the *Europe 2020* growth strategy, among other things.

48 Communication of the Commission to the European Parliament, the Council,the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank: *Annual Growth Survey 2015*, COM(2014) 902, final wording of 28 November 2014.

49 National Reform Programme of the Czech Republic drawn up by the Office of the Government of the Czech Republic and approved by the government of the CR on 29 April 2015.

the Convergence Programme of the Czech Republic[50] for 2015-2018, which it submitted jointly to the Commission on 30 April 2015.Based on the Commission's assessment[51] issued in the context of the European semester, the Council issued recommendations[52] on both documents simultaneously. Having assessed the convergence programme and taking into account the Commission's forecast, the Council stated that it was of the opinion that the CR should broadly comply with the provisions of the *Stability and Growth Pact* (i.e. total government sector deficit and the public debt to GDP ratio). The Council discussed the Convergence Programme and reflected its opinion in the following **recommendations for 2015-2016**:

- Achieve a fiscal adjustment[53] of 0.5 % of GDP in 2016. Further improve the cost-effectiveness and governance of the healthcare sector.
- Fight tax evasion, simplify the tax system and implement the anti-corruption plan, take measures to increase the transparency and efficiency of public procurement, in particular by establishing a central register of public contracts and strengthening guidance and supervision.
- Reduce the high level of taxation levied on low-income earners, by shifting taxation to other areas. Further improve the availability of affordable childcare.
- Adopt the higher education reform. Ensure adequate training for teachers, support poorly performing schools and take measures to increase participation among disadvantaged children, including Roma.

C.1.2 Implementation of the Convergence Programme of the Czech Republic

In February 2016 Commission staff published a working document[54] (2016 Report) assessing the CR's economy in the light of the Annual Growth Survey. The 2016 Report states that the CR has experienced a strong economic rebound in the last two years to emerge from a prolonged period of low growth after the global financial crisis. The 2016 Report also characterises the results of structural reforms leading to a more modern economy and assesses the following two areas:

Economic situation and outlook

- **Growth in gross domestic product –** real GDP growth in 2015 is estimated at 4.5%[55], with public investment expected to have grown strongly on the back of increased drawing of funds available under the previous programming period 2007-2013.The government deficit should fall below 1.6% and government debt will be significantly lower than 60% of GDP[56]. Real GDP growth should reach 2.3% in 2016 while the underlying dynamics of the economy remain strong, and in 2017 real GDP growth should reach 2.7%, driven by greater investment and increasing household consumption.[57]

50 Convergence Programme of the Czech Republic, April 2015, drawn up by the MoF and approved by government of the CR resolution no. 319 of 29 April 2015.

51 Country Report Czech Republic 2015, Commission staff working document SWD(2015) 23, final wording of 26 February 2015.

52 Council recommendation of 14 July 2015 on the National Reform Programme of the Czech Republic for 2015 and delivering a Council opinion on the Convergence Programme of the Czech Republic, 2015, Official Journal C 272/09, 18 August 2015, p. 32.

53 Reduce government debt.

54 Country Report Czech Republic 2016, Commission staff working document SWD(2016) 73, final wording of 26 February 2016.

55 The Czech National Bank estimated GDP growth in 2015 at as much as 4.7% (https://www.cnb.cz/cs/menova_politika/prognoza/index.html?cnb_css=true#HDP).

56 Assessment of the Fulfilment of the Maastricht Convergence Criteria and Degree of Economic Alignment of the Czech Republic with the Euro Area, which defines the maximum government deficit as 3% and the maximum government debt as 60% of GDP. According to MoF figures published on 1 April 2016, the government deficit for 2015 was CZK 18.7 billion, i.e. 0.4% of GDP. The government deficit was CZK 1,836 billion, i.e. 41.1% of GDP.

57 The Czech National Bank estimated GDP growth in 2.7% in 2016 and 3.0% in 2017 (https://www.cnb.cz/cs/menova_politika/prognoza/index.html?cnb_css=true#HDP).

- **Investment** – after previous reductions in the context of fiscal consolidation, investment rebounded in 2014, rising by over CZK 25.5 billion (0.6% of GDP), and in 2015 investment should amount to CZK 64.0 billion (1.4% of GDP). That is expected to be followed by a fall in public investment caused by a slowdown in the drawdown of EU funds, while private investment remains buoyant, so total investment growth will be zero.
- **Inflation –** the outlook for 2015 envisaged a further fall in inflation to 0.3%, mainly as a result of falling energy prices. The rate of inflation is expected to move closer to the 2% inflation target of the Czech National Bank (CNB) in 2017.
- **Labour market** – unemployment fell to 4.9% in the 3rd quarter of 2015, one of the lowest rates of all Member States. Long-term unemployment and youth unemployment are also below the EU average.
- **Financial sector –** the banking sector is very stable. The banks have steadily increased their capital buffers and shown a high ability to withstand liquidity shocks. Credit flows accelerated in 2015, with total bank lending increasing by 8.1% year-on-year, driven by strong growth in housing loans.
- **Public finances –** the 2016 Report envisages a fall in the government deficit to 1.6% of GDP in 2015 on the back of improved tax collection and to 1.1% in 2016 as a result of the expected decline in public investment spending. The government debt to GDP ratio will continue to fall in the coming years. However, the upward trend in spending on healthcare and pensions in connection with population ageing is a risk for the long-term sustainability of public finances.

Structural issues

- **Tax system and tax burden –** tax evasion, especially in VAT, was rated as relatively high, albeit lower than in other countries in the region. The cost of tax compliance also remained high, even though this is one of the priorities of the government's programme. The 2016 Report states that the Czech government plans to introduce VAT control statements[58], recording all VAT transactions, at the start of 2016 and electronic evidence of sales in the course of the year as new weapons in the fight against tax evasion. Taxation on labour remained relatively high in 2015 and diversification into other areas (real estate taxes, consumption taxes) was minimal.
- **Fiscal framework and long-term fiscal sustainability** – the Report 2016 rates the CR's fiscal framework as weak and flags up the delay in the reform of public finances[59], which had not been ratified by parliament when the report was published. According to the analysis, the CR is exposed to a medium risk in terms of the long-term sustainability of public finances, as stability is jeopardised by the expected increase in public spending on healthcare and pensions in connection with population ageing. The governance and cost-effectiveness of healthcare also needs addressing by increasing the proportion of outpatient services compared to inpatient care.
- **Labour market and education –** the 2016 Report states that the labour market situation continues to improve and the rate of employment has risen constantly for five years. In the third quarter of 2015 it reached 75.1% (20-64 age group), well above the EU average (70.6%). Low wage and labour costs growth has aided competitiveness. The 2016 Report goes on to say that stable growth will require increased economic activity among underrepresented groups, such as the low-skilled, young workers, Roma and mothers with young children. In 2014 the CR recorded the lowest level of people at risk of poverty or social exclusion in the whole EU (14.8% versus the European average of 24.4%). Educational outcomes and the employability of school-leavers are generally good. The early school-leaving rate is also among the lowest in the EU (5.5% in 2014). One persisting problem is the low attractiveness

58 Established with effect from 1 January 2016 by Act No. 360/2014 Coll., amending Act No. 235/2004 Coll., on value added tax.

59 Within the meaning of Council Directive 2011/85/EU of 8 November 2011 *on requirements for budgetary frameworks of the Member States*, Member States were required to ensure that the legal and administrative regulations necessary for compliance with this directive were in place by 31 December 2013.

of the teaching profession, mainly due to low pay. Expenditure on tertiary education is among the lowest in the EU, however (0.6% of GDP in 2013). The tertiary education attainment rate in the CR stood at 28.2 % in 2014, compared with an EU average of 37.9 %.

- **Competitiveness –** the CR's competitiveness has improved, as evidenced by an increased share of the export market in 2014, mostly in goods and less in services. Czech exports are dominated by high-tech products (especially automobiles), and the CR is highly integrated into global supply chains. The 2016 Report states that public procurement procedures have so far not been compliant with EU best practice, but transparency improved after the Contracts Register Act was passed[60]. The 2016 Report analyses negative influences on the business environment, with various administrative and regulatory barriers among the most significant. The low quality of public administration, with problem factors such as government bureaucracy and corruption, also plays a major role. On the other hand, the 2016 Report points to positive results consisting in the implementation of measures of the anti-corruption plan from 2015, the Civil Service Act[61] and its implementing regulations entering into effect, and the adoption of the Contracts Register Act. A new Public Procurement Act[62] transposing the applicable EU legislation[63] is also being drawn up.
- **Long-term growth drivers and resource efficiency** – research and development (R&D) intensity has increased significantly in recent years, mainly through funding from foreign-owned firms and EU funds. In 2014 it reached 2% of GDP (which is also the EU average), with an increase to 2.9% expected in 2020 (EU target of 3%). However, uncertainty remains over the sustainability of public spending on R&D infrastructure. In terms of the results achieved by the R&D system, the CR is rated a moderate innovator and outcomes in terms of patents filed are weak. Governance reform of the R&D system is continuing. Compared to the EU, the Czech Republic still has shortcomings in transport infrastructure, especially the road network, though increased investment in recent years is gradually closing the gap. The energy and carbon intensity of the economy remains high.

Overall, the 2016 Report states that the CR has made some progress in addressing the 2015 country-specific Convergence Programme recommendations. The report goes on to state that the CR has reached the defined national targets in the context of the *Europe 2020* strategy or is making good progress towards its targets on employment, R&D investment, tertiary education and reducing early school leaving.

C.1.3 Annual reports of the European Court of Auditors for the financial year 2014

In line with the *Treaty on the Functioning of the European Union* (TFEU)[64] and the regulation on the financial rules of the EU general budget[65], the ECA, as the EU's external auditor, adopted annual reports for the 2014 financial year at its session of 10 September 2015.These reports, along with the responses of the relevant authorities to the ECA's comments, are the basis on which the European Parliament ("EP") issues a statement confirming that the Commission has properly discharged its duties in implementing the budget.

60 Act No. 340/2015 Coll., on special conditions of the effectiveness of certain contracts, the publishing of such contracts and a register of contracts (Act on the Register of Contracts) of 24 November 2015 (valid from 14 December 2015, effective from 1 July 2016).

61 Act No. 234/2014 Coll., on the civil service, of 1 October 2014 (valid from 6 November 2014, effective from 1 January 2015).

62 Act No. 134/2016 Coll., on public procurement, promulgated after the editorial deadline of EU Report 2016.

63 Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC.

64 Article 287(1) and (4) of the consolidated version of the Treaty on the Functioning of the EU, Official Journal of the EU, C 115 of 9 May 2008.

65 Articles 148(1) and 162(1) of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012.

The core of the *Annual Report on the Implementation of the Budget*[66] is the ECA's statement of assurance (DAS) concerning the reliability of the EU's annual financial accounts and statements on the legality and accuracy of the operations underpinning these accounts.

Based on its audit, the ECA issued an opinion stating *"that the EU accounts for 2014 are a faithful representation, in all material respects, of the European Union's financial situation as of 31 December 2014 and that the results of its activities, its cash flows and changes in net assets for the year are in compliance with the Financial Regulation and with the accounting rules based on internationally recognised public-sector accounting standards"*.

As regards the legality and accuracy of revenues, the ECA declared that *"the revenues underpinning the financial statements for the financial year 2014 are legal and accurate in all material respects"*.

As in previous years, the ECA issued a negative statement on the legality and accuracy of payments, as *"the payments underpinning the financial statements for the financial year 2014 are materially affected by errors"*. The ECA estimated that the total error rate in this area was 4.4%.

In the *Annual Report on the Implementation of the Budget for 2014* the ECA altered the structure of expenditure headings in line with MFF14+. The following table summarises the results of audited operations and the overall assessment of the degree to which the various areas of the MFF are materially affected by error.

Table 4 – Summary of the results of the audit of accuracy of operations for 2014 and assessment of the error rate in expenditure headings[6768]

Annual report heading	Basic audited file	Number of tested payments	Total estimated error rate (%)	Error frequency[67]	Affected by principal (material) error rate
Competitiveness for Growth and Employment	13.0	160	5.6	48	yes
Economic, Social and Territorial Cohesion	55.7	331	5.7	41	yes
Sustainable growth-natural resources	57.5	359	3.6	49	yes
Global Europe	7.4	172	2.7	43	yes
Administration	8.8	129	0.5	20	no
Other[68]	2.1	-	-	-	-
Total audited payments	**144.5**	**1 151**	**4.4**	**-**	**yes**
Total audited revenues	**143.9**	**55**	**0.0**	**0**	**no**

Source: *ECA Annual Report on the Implementation of the Budget* for the Financial Year 2014, ECA 2015.

66 The Official Journal of the European Union of 10 November 2015, Part IV *Notices from European Union institutions, bodies, offices and agencies*, C 373/3.

67 Error frequency states how big portion of the audited sample is affected by quantifiable or non-quantifible errors.

68 For example heading Mff Security and Citizenship or Compensations, also instruments outside this framework as SFEU or European Fund for Globalisation Adjustment.

For the purpose of year-on-year comparison, the ECA reclassified the total estimated error rates for 2013 to match the new budget headings structure. This reclassification also took into account the new approach to quantification of public procurement errors.

Year-on-year comparison of audit results shows that the estimated error rate of the audited payments as a whole fell slightly from 2013 to 2014 from the reclassified value of 4.5% to 4.4%. In the MFF heading *Natural Resources* the error rate fell (from 4.4% to 3.6%), with the same trend evident in *Economic, Social and Territorial Cohesion* (from 5.9% to 5.7%) and *Administration* (1.1% to 0.5%). Conversely, the total estimated error rates in *Competitiveness* and *Global Europe* increased (from 4.0% to 5.6% and from 2.1% to 2.7% respectively). According to the ECA's analysis, the biggest factor in the total estimated error rate is findings linked to the claiming of ineligible expenditure and serious errors in public procurement. In addition, over-declarations of land areas by farmers also contributed to the error rate in 2014.

C.1.4 Current developments in the protection of the EU's financial interests

In July 2015 the Commission published its annual report for 2014 on measures to protect the EU's financial interests and combat fraud.[69] The Commission submits this report in collaboration with Member States to the EP and Council every year within the meaning of Article 325 of the TFEU. The report informs about measures taken by the Commission and Member States in the fight against fraud and other unlawful conduct harming the EU's financial interests and presents the results achieved in the year in question. It also sets out conclusions and recommendations based on the analyses done.

The Commission regards the completion of the priority actions of its multi-annual Anti-Fraud Strategy (CAFS)[70] as the greatest achievement of 2014, as all Commission services and agencies now have an anti-fraud strategy in place. The European Parliament and the Council discussed two proposed regulations to reinforce and increase the efficiency of criminal law regarding the protection of the EU's financial interests. One was a draft directive on the fight against fraud by means of criminal law, which should remove loopholes in Member States' anti-fraud legislation that impede the effective prosecution of fraudsters. The other was a draft regulation on the establishment of a European Public Prosecutor's Office, under which European prosecutors would operate at the decentralised level, i.e. in individual Member States. Besides these regulations, amendments were made in 2014 to the public procurement directive and public utilities directive with a view to enhancing the transparency of processes and introducing new obligations for contracting organisations in order to curb irregularities.

According to the data in the annual report, in 2014 Member States reported **a total of 16,473 irregularities** [71](both fraudulent and non-fraudulent) to the Commission, or OLAF, **with a total financial impact of €3.24 billion**, of which **more than €2.26 billion concerned expenditure** (corresponding to 1.8% of total payments) and **approx. €0.98 billion concerned revenues** (4.46% of selected gross total traditional own resources). Compared to 2013, the number of irregularities detected increased by 48% and the corresponding financial amounts saw an increase of 36 %. Of the number given above, **fraudulent irregularities** (i.e. suspected fraud and established fraud) accounted for **a total of 1,649 cases involving €538.2 million** (covering both expenditure and revenue). In comparison with 2013, the number of fraudulent irregularities reported in 2014 increased by 2%, while their financial impact increased by 68%. The increase in the total number of reported cases of fraud was driven by fraud in the revenues sector[72], while a slight fall was

69 Report from the Commission to the European Parliament and the Council: *Protection of the European Union's financial interests – Fight against Fraud 2014 Annual Report*, COM(2015) 386, final wording of 31 July 2015.

70 Commission Anti-Fraud Strategy, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, and the Committee of the Regions and the Court of Auditors *On the Commission Anti-fraud Strategy*, COM(2011) 376, final wording of 24 June 2011.

71 Member States have a duty to report to the Commission any suspicion of fraud and all irregularities exceeding €10,000 from EU sources.

72 In 2014 40% of cases of fraud were detected by customs inspections and 36% by control work done by anti-fraud units.

registered in the expenditure sector. Both the revenue and expenditure sectors contributed to the increased financial impact (year-on-year increases of 190% and 50% respectively).

Member States, which manage approx. 80% of EU budget spending under shared management, report both fraudulent and non-fraudulent irregularities via the Irregularity Management System (IMS)[73]. Irregularities concerning direct expenditure managed by the Commission under direct management of the budget are reported via the Commission's ABAC accounting system[74]. Compared to 2013 the total number of irregularities reported in ABAC fell slightly, but their financial impact increased slightly.

The following table No. 5 shows the numbers and aggregate amounts of the reported irregularities, broken down by expenditure areas and revenues.

Table 5 – Numbers and amounts of cases of suspicion of fraud and non-fraudulent irregularities reported by EU Member States in 2014 and the amounts involved

Budget sector (expenditure/revenues)			Number of fraud suspicions	Volume of fraud suspicion (€ million)	Number of other irregularities	Volume of other irregularities (€ million)
Natural resources	Agriculture (market support and direct payments)	EU	166	48.5	1 162	108.0
		out of which CR	4	0.3	48	2.6
	Rural development	EU	335	13.7	2 112	120.2
		out of which CR	*	*	*	*
	Fisheries	EU	11	2.1	91	6.6
		out of which CR	0	0.0	2	0.1
	Other	EU	7	4.3	53	2.7
		out of which CR	*	*	*	*
Cohesion Policy 2007–2013 and 2000–2006		EU	306	274.2	4 977	1 561.3
		out of which CR	38	36.4	982	290.8
Pre accession assistance 2007–2013 and 2000–2006		EU	31	14.5	140	9.2
		out of which CR	0	0.0	0	0.0
Direct expenditure		EU	83	4.7	1 814	96.1
Total expenditure		**EU**	**939**	**362.0**	**10 349**	**1 904.1**
		out of which CR	**42**	**36.7**	**1 032**	**293.5**
Total revenues		**EU**	**710**	**176.2**	**4 475**	**802.4**
		out of which CR	**0**	**0.0**	**83**	**11.6**
Total		**EU**	**1 649**	**538.2**	**14 824**	**2 706.5**
		out of which CR	**42**	**36.7**	**1 115**	**305.1**

Source: Report from the Commission to the European Parliament and the Council: *Protection of the European Union's financial interests – Fight against Fraud 2014 Annual Report*

NB: * The figure is not quantified by Member State in the report.

73 Irregularities Management System.

74 Accrual Based Accounting.

The annual report remarks on the overall trend in fraudulent irregularities between 2010 and 2014. **The total number of reported cases of fraud fell significantly between 2010 and 2011, but the constantly upward trend was confirmed in the following years. The 2014 level was still below the 2010 starting point, however. The related financial impacts fell gradually between 2010 and 2013, with a sharp reverse only coming in 2014. In this case, too, however, 2014 remained below the 2010 level.**

Data on suspicions of fraud reported for 2014 via the Anti-Fraud Coordination Services (AFCOS) of individual Member States are given in annex 1 of the annual report.[75] The overview reveals that **during 2014 the CR reported 42 cases of suspicion of fraud affecting expenditure with a total impact of €36,668,091, but no cases of suspicion of fraud affecting revenues.** Compared to 2013, the number of reported cases concerning expenditure grew only slightly, but the financial impact was almost three times higher. Cohesion policy was the key area in both the number of reported cases and the quantified financial impact.

Annex 2 of the annual report, which contains data on irregularities that were not reported as suspected fraud, shows that **in 2014 the CR reported 1,032 irregularities affecting expenditure with a total impact of €293,508,822**, with cohesion policy again being the predominant area in both the number of cases and the total reported financial impact. The number of reported non-fraudulent irregularities and their financial impact were down slightly compared to 2013.

According to data obtained from the MoF[76], the following four MAs featured most strongly in the total number of **1,074** irregularities reported for 2014 and in their related financial impacts amounting to **€330,176,913** in the CR:

- The Ministry of Education, Youth and Sports (MoEYS) as the managing authority of OP *Research and Development for Innovation* (OP RDI) and OP *Education for Competitiveness* (OP EC) reported a total of 387 irregularities amounting to €67,218,954.
- The Ministry of Labour and Social Affairs (MoLSA) as the managing authority of OP *Human Resources and Employment* (OP HRE) reported 106 irregularities amounting to €62,343,109.
- The Ministry of Industry and Trade (MoIT) as the managing authority of OP *Enterprise and Innovation* reported 101 irregularities amounting to €16,015,772.
- The Ministry of Environment (MoE) as the managing authority of OP *Environment* (OPE07+) reported 67 irregularities amounting to €15,122,410.

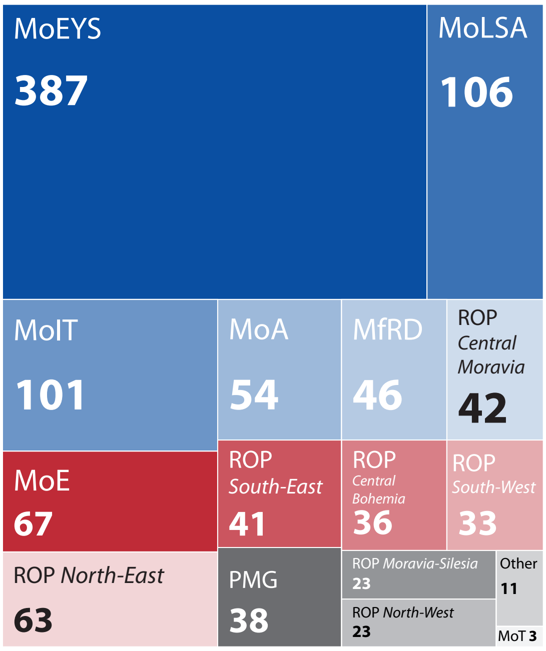
These MAs accounted for almost 66% of all reported irregularities and approx. 44% of the total financial impact.

The following graphic gives a clear overview of the numbers of fraudulent and non-fraudulent irregularities reported for the CR as a whole in 2014 and their financial impacts.

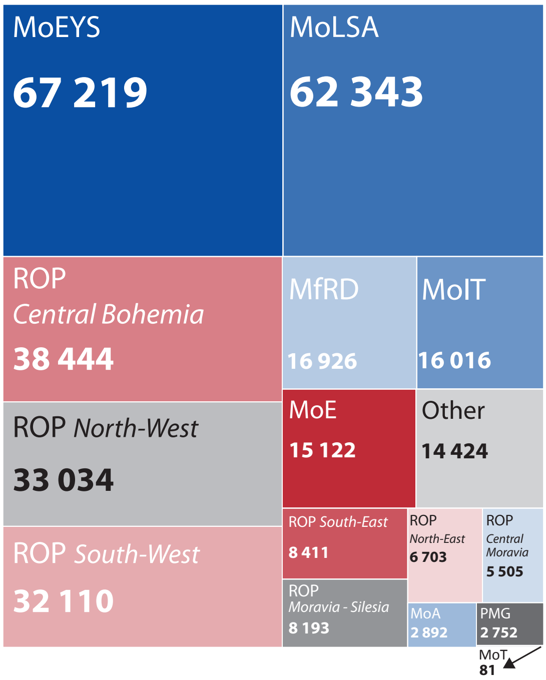
75 Anti-Fraud Coordinating Structure. Coordinating services were set up in all Member States in 2014.

76 The role of AFCOS central contact point in the CR fulfils MoF, respectively its unit 6901.

Number of irregularities reported in the CR in 2014



Amounts related to number of irregularities reported in the CR in 2014 (€ thousands)



Source: MoF – AFCOS, February 2016.

C.2 European Union budget and its relation to the Czech Republic

C.2.1 European Union budget revenues

While the expenditure side of the EU experienced certain changes in the new MFF (see subheading A.2), there was minimal modification of the revenue side in 2014. Revenues mainly derive from **own resources**, which account for over 92% of all EU budget revenues. Own resources[77] are divided into **traditional own resources**[78] (which Member States collect on behalf of the EU and then pay into the EU budget) and the **VAT-based resource**[79] and the GNI-based resource, which are financed out of Member States' national budgets. Other sources are **other revenues**[80] and the **budget surplus** from the previous year.

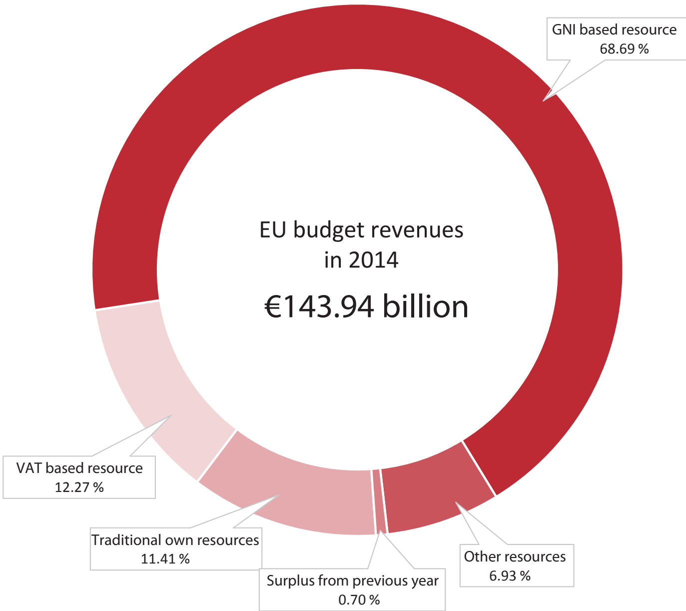
77 Traditional own resources are customs duties collected on products imported from non-EU states and also agricultural and sugar levies. Member states pay 75% of the funds thus acquired into the European Union budget, keeping the rest to cover the costs associated with collecting the funds.

78 The VAT-based resource derives from a uniform rate of 0.3% levied on the harmonised VAT base of each Member State. The VAT base to be taxed is capped at 50% of GNI for each Member State.

79 The GNI-based resource is a variable resource. It is used to settle the difference between revenues and expenditure in the EU budget so that the budget as a whole is balanced. A single percentage rate is applied to all Member States. In 2014 this rate was more than 0.70%.

80 Other revenues comprise e.g. revenues from fines imposed for breaches of competition rules or other regulations, income taxes and other employee contributions from employees of EU institutions or contributions to EU programmes from non-member states.

Graph 3 – Structure of the EU budget and shares of the individual sources of financing in 2014



Source: *EU Budget 2014 – Financial Report*, Commission 2015.

Revenues from the sources based on VAT and GNI are influenced by **correction mechanisms** under which certain Member States contribute reduced payments to the EU budget from these sources. The main reasons for this reduction is to compensate for a pronounced budgetary imbalance between payments into the EU budget[81] and revenues from the EU budget and certain Member States' non-participation in selected EU policies[82]. The costs of these measures are borne by other Member States according to their share of the GNI of the EU as a whole, with the burden of financing this mechanism reduced for certain Member States[83].

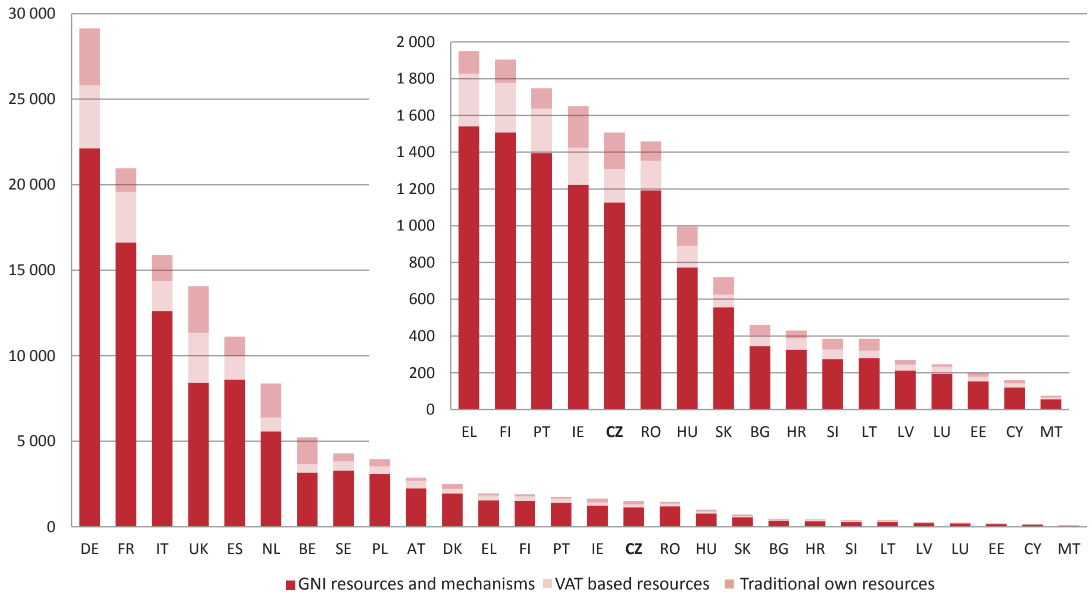
The following graph shows the structure of EU budget revenues by Member State, making allowance for correction mechanisms.

81 In 2014 only the UK rebate worth almost €6.07 billion was applied in this area.

82 Denmark's, Ireland's and the UK's payments are reduced in connection with their refusal to participate in certain areas of legal and security cooperation. The total value of this reduction in 2014 was almost €58.67 million.

83 For Austria, Germany, the Netherlands and Sweden, the financing of the UK rebate was reduced to one quarter of their share. The remaining three quarters of their share is covered by the other Member States according to the ratio of their GNI to the GNI of the European Union as a whole.

Graph 4 – Member states' contributions to the EU budget in 2014 (with close-up section) **(€ million)**



Source: *EU*

C.2.2 European Union budget expenditure

EU budget expenditure is used to cover the needs of the EU's policies and defray the costs associated with the working of European institutions. **EU expenditure in 2014 was almost €138.7 billion** (including contributions to EFTA[84] worth €284 million). This amount does not include **assigned revenues**[85] worth almost €3.8 billion, however.

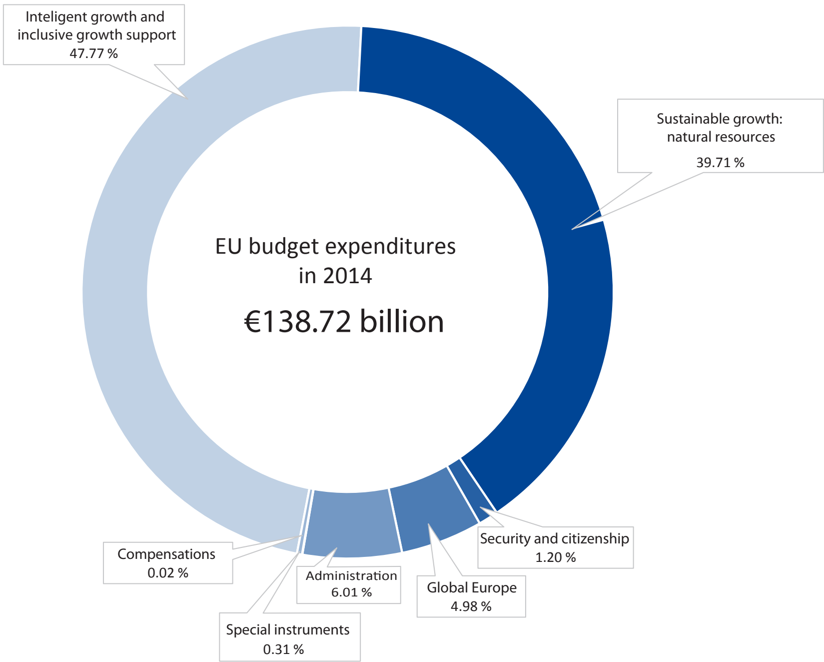
The following graph shows the structure of the EU budget's expenditure side[86] in the financial year 2014, broken down by budget headings.

84 European Free Trade Association.

85 Assigned revenue is revenue (under the terms of Article 43 of Regulation (EU) No 1306/2013 of the European Parliament and of the Council of 17 December 2013) arising from financial corrections according to decisions on financial statements and decisions on conformity approval. from irregularities and from milk levies. The revenue is assigned to finance expenditure of the *European Agricultural Guarantee Fund*.

86 More detailed information on the structure of the expenditure side of the EU budget is given in subheading A.2.

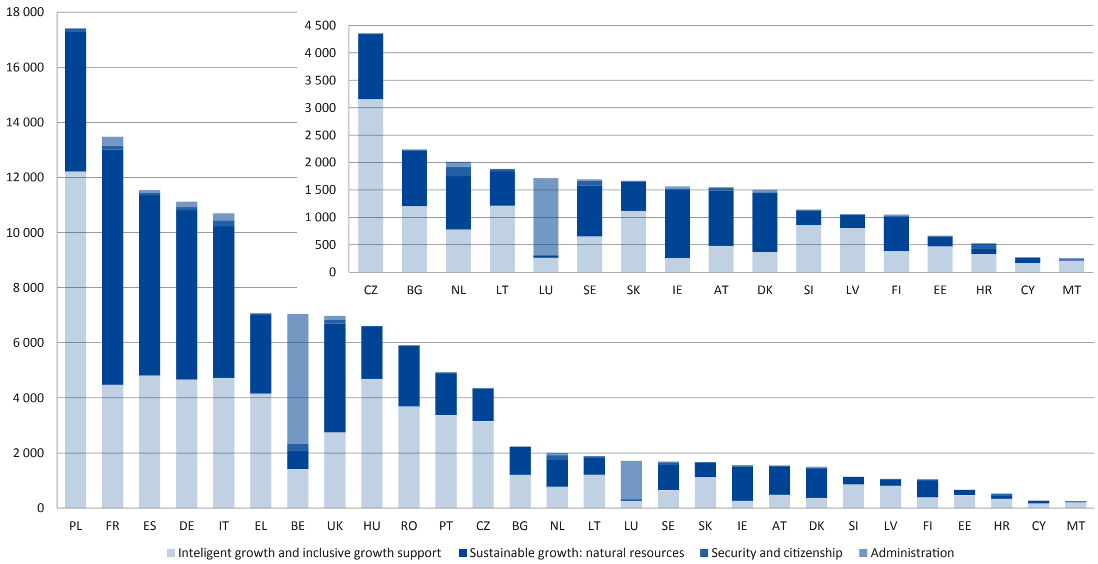
Graph 5 – Share of expenditure headings in the EU budget in 2014



Source: *EU Budget 2014 – Financial Report*, Commission 2015.

As the graph shows, the two largest headings (*Smart Growth and Inclusive Growth* and *Sustainable Growth: Natural Resources*) together account for almost 87.48% of all EU budget spending, a sum of over €121.3 billion. Unlike in previous years, the *Special Instruments* heading is reported separately (see subheading A.2).

Graph 6 – Drawdown from the EU budget in Member States in 2014 (with close-up section) (€ million)



Source: *EU Budget 2014 – Financial Report*, Commission 2015.

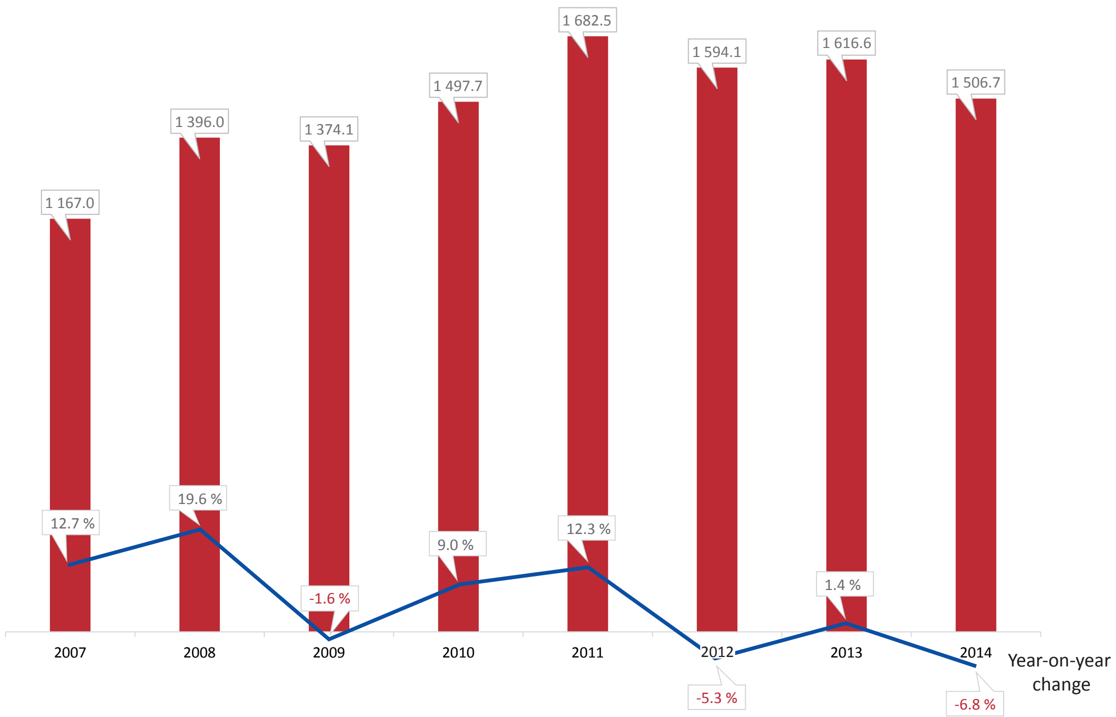
C.2.3 The EU budget in relation to the CR

All Member States contribute to the EU budget and have the right to utilise finances from EU funds. In keeping with tradition, the CR mainly draws down finances under cohesion policy and the CAP.

Contributions of the CR to the EU budget

From 2004, when the CR joined the EU, to the end of 2014 the CR's contributions to the EU budget exceeded €14.4 billion, with the cumulative contribution for the 2007-2013 programming period alone amounting to €10.3 billion.

Graph 7 – Overview of Czech contributions to the EU budget (€ million) and year-on-year changes (%) in the years 2007 to 2014

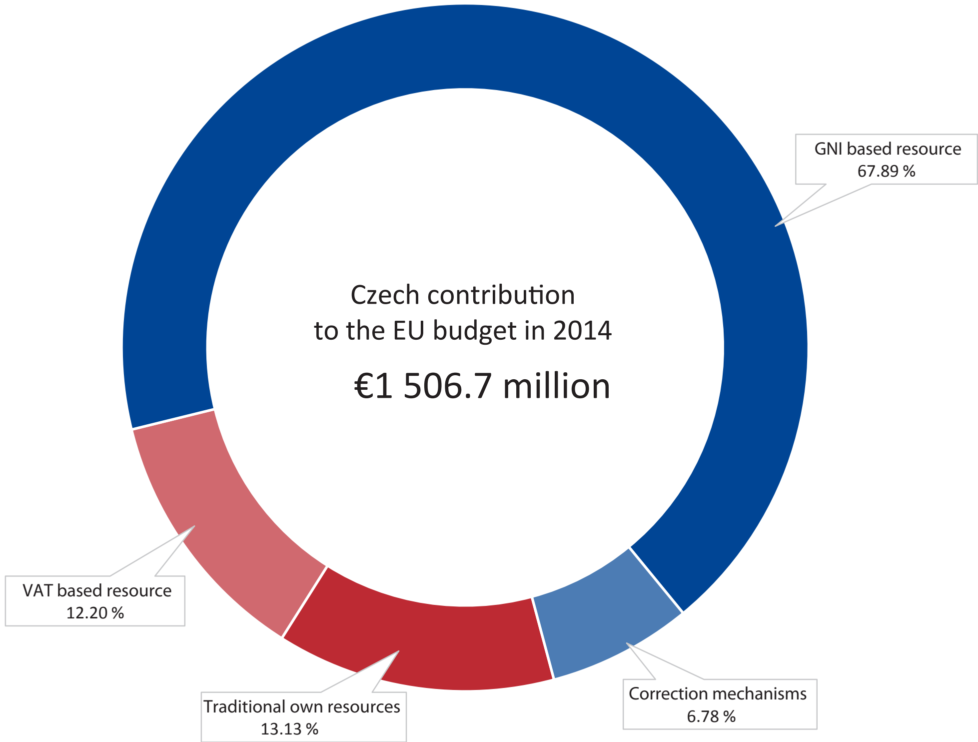


Source: *EU budget 2014 – Financial Report* and previous reports on the EU budget, Commission 2008–2015.

In 2014 the CR's contribution to the EU budget was in excess of €1.5 billion. The CR's contribution fell year-on-year by almost €110.0 million, a fall of 6.8%, while the total contributions of all Member States decreased on average by just 4.9%. The greater decrease in the CR's contributions compared to the European average is not caused by the Czech economy's bad performance. It is a consequence of the weakening Czech koruna, a policy the CNB adopted in November 2013 in the form of direct interventions on the foreign exchange market. Through this policy the CNB has since kept the koruna exchange rate close to 27.00 CZK/€, i.e. approx. 1.00 CZK/€ (just under 4%) below the exchange rate before the start of the interventions.

The following graph shows the structure of the CR's contributions to the EU budget in 2014 in percentage terms.

Graph 8 – Structure of Czech contributions to the EU budget in 2014

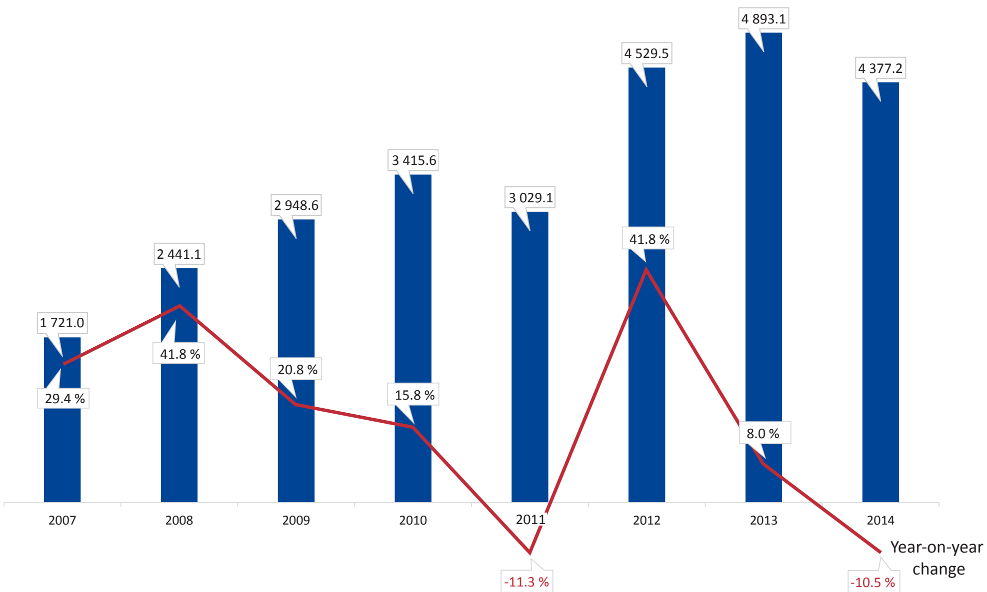


Source: *EU Budget 2014 – Financial Report*, Commission 2015.

The CR's revenues from the EU budget

Between 2004 and the end of 2014 the Czech Republic received almost €30.6 billion in total from the EU budget, almost €23.0 billion of that coming during the 2007-2013 period. The development over the individual years and yearly changes are shown in Graph 9.

Graph 9 – CR's revenues from the EU budget (€ million) and year-on-year changes (%) in the years 2007 to 2014

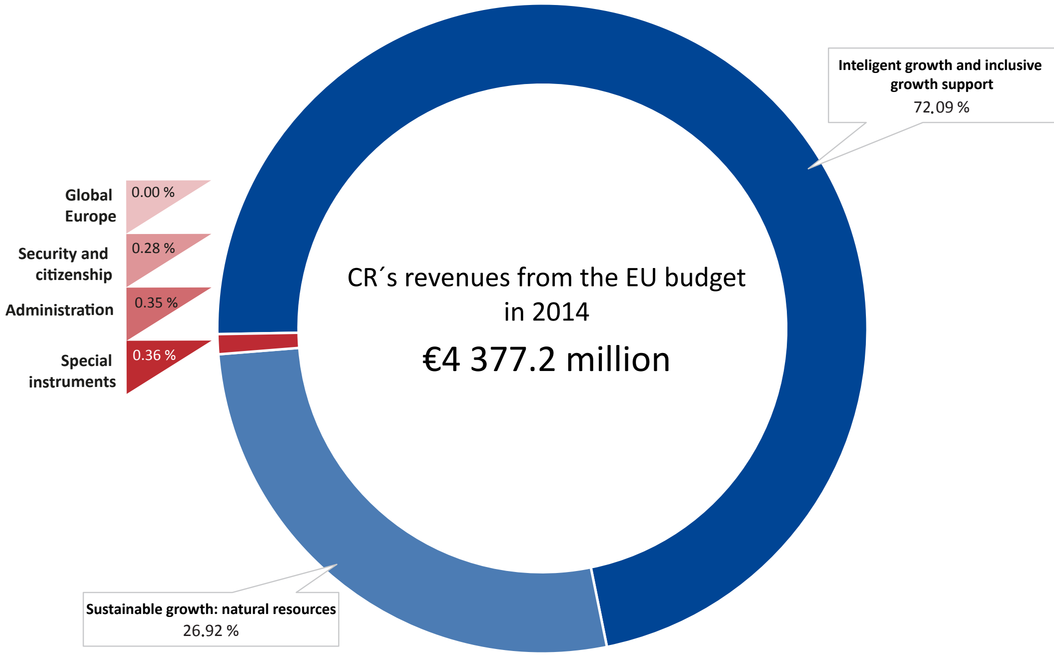


Source: *EU budget 2014 – Financial Report* and previous reports on the EU budget, Commission 2008–2015.

In 2014 the CR's total revenues from the EU budget stood at almost €4.4 billion, a year-on-year fall of approx. 10%. The fall need not have been so marked. The CR's revenues could have been more than €0.3 billion higher, but the CR's failure to comply with the n+3 rule in 2014 led to the Commission decommitting that amount in line with Council Regulation (EC) No 1083/2006 (General Regulation).

The following graph shows the percentage structure of the CR's revenues from the EU budget in 2014

Graph 10 – Structure of the CR's revenues from the EU budget in 2014



Source: *EU Budget 2014 – Financial Report*, Commission 2015.

Graph 10 shows clearly that the CR's biggest revenue from the EU budget comes from the Smart and Inclusive Growth heading, which funds **Economic, Territorial and Social Cohesion Policy**. In 2014 the figure was almost €3.16 billion.

The second most important policy in terms of the finances acquired is the ***Common Agricultural Policy*** (funded out of the heading *Sustainable Growth: Natural Resources*), which accounted for almost €1.18 billion.

Finances obtained under these two policies again accounted for over 99% of the CR's total drawdown from the EU.

Net position of the CR in the EU

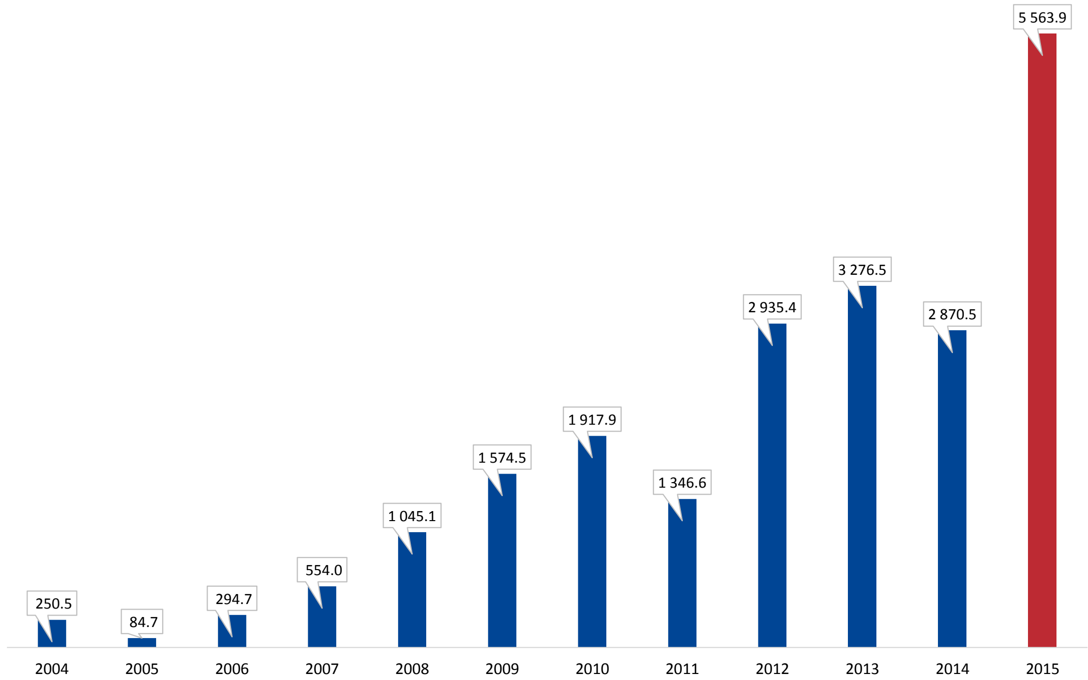
Since joining the EU the CR has been a **net beneficiary**, i.e. it is one of those Member States whose revenues from the EU budget exceed its contributions. In total, **the CR's net position for 2004-2014 amounted to almost €16.15 billion**, the equivalent of almost CZK 444.66 billion[87].

In 2014 the CR's net position was €2.87 billion, a year-on-year fall of over 12% and essentially a return to the net position in 2012. This fall was mainly caused by the large quantity of payment applications not defrayed by the Commission that accumulated at the end of 2014 (they became a revenue of 2015 and had a significant impact on the 2015 net position) and the drop in revenues that was linked to automatic decommitting by the Commission to the tune of €0.31 billion.

87 The CNB's monthly cumulative average of the foreign exchange market rate for January to December 2014 was used for the conversion: 27.533 CZK/€.

Graph 11, which is based on official Commission sources for the 2004–2014 period, illustrates the evolution of the CR's net position (administrative expenditure not excluded). The last column in the graph shows the net position for 2015 according to data from the MoF.

Graph 11 – Net position of the CR 2004-2014 (with the MoF figure for 2015) (€ million)



Source: *EU budget 2014 – Financial Report* and previous reports on the EU budget, Commission 2005–2015; MoF data for 2015 published in February 2016.

In February 2016 the MoF published data[88] showing that the CR's net position for the 2015 financial year had reached a record level of almost €5.6 billion[89]. These data had not been published by the Commission by the *EU Report 2016* print deadline, but it is a reasonable assumption that the official EU data will not differ significantly from the MoF figures. That would mean that **the cumulative net position of the Czech Republic for 2004-2015 exceeded €21.7 billion**.

According to the same MoF report, total revenues from the EU budget were CZK 193.7 billion (€7.1 billion) in 2015, with total contributions to the EU budget amounting to CZK 41.9 billion (€1.5 billion). The CR's pronounced positive balance relative to the EU budget was mainly driven by the increased drawdown from the Structural Funds (SF)[90] and CF in the 2007-2013 programming period. This increase was mainly linked to the acceleration of drawdown from these funds as the end of the drawdown period approached.

88 The press release entitled *Net Position of the Czech Republic Relative to the EU Budget for 2015* was published on 9 February 2016 at http://www.mfcr.cz/cs/aktualne/tiskove-zpravy/2016/cista-pozice-ceske-republiky-vuci-rozpoc-23947.

89 The CNB's monthly cumulative average of the foreign exchange market rate for January to December 2015 was used for the conversion: 27.283 CZK/€.

90 In the programming period 2007-2013, ERDF, ESF and EMFF belonged among structural funds.

D. Sector matters

D.1 European Union budget revenues

D.1.1 Current developments in budget revenues in the CR

In response to the recommendations issued by the Council of the European Union[91] on programming documents for 2014, the Czech Republic implemented the following measures in 2014 and 2015:

- The "Tax Cobra"[92] became a new control and methodological work mechanism in the administration of tax from 2014. This unit reinforces cooperation between the financial administration, the customs administration and the police and also international cooperation in the field of tax. According to the results to date, the unit has mainly worked in consumer taxes and VAT, where it had rescued approx. CZK 4.1 billion for the state budget by the end of 2015, according to figures published by the MoF.
- With effect from 2015, the VAT reverse charge mechanism was extended to the supply of certain goods and the provision of selected services with a high risk of tax fraud.
- With effect from 2016, it was made obligatory for VAT payers to electronically send the Financial Administration of the CR control statements, listing taxable supply transactions and the providers and the customers of such supply, together with their tax returns. By tallying these two reports, the tax administration should be able to exert greater control over the eligibility of excessive VAT deductions and reduce the level of VAT evasion.
- As a mechanism for preventing tax evasion, the introduction of electronic evidence of sales began its journey through the legislative process in 2015. Known as online sales reports, these are immediately reported to the Financial Administration of the CR electronically.
- To reduce the high tax burden on labour, the possibility of claiming a discount on natural persons' income tax was reintroduced, including for working pensioners, in 2014 and a gradual increase in tax relief for a second and subsequent child was introduced in 2015.
- To increase the ratio of indirect taxation, a draft act on tax on gambling games was put before parliament and in 2015 a three-year plan for the gradual increasing of tax rates on tobacco products (from 2016) was adopted.
- Since 2015 the capping of flat-rate expenditure allowances for the self-employed for deduction from natural persons' income tax has been in place.

On 26 February 2015 Commission staff published the *Country Report Czech Republic 2015*[93], which analysed the CR's economy in 2014 and assessed it in the light of the Annual Growth Survey 2015. The Commission staff stated that the existing fiscal framework does not always deliver sustainable and effective fiscal outcomes. Overall, however, the CR displayed limited progress in fulfilling the recommendations from 2014.

91 Council recommendation of 8 July 2014 on the National Reform Programme of the Czech Republic for 2014 and delivering a Council opinion on the Convergence Programme of the Czech Republic, 2014, EU Official Journal 2014/C 247/03, 29 July 2014.

92 "Tax Cobra" is a joint team of the Corruption Detection and Financial Crime Unit (a unit of the Police of the CR), the General Financial Directorate and the General Directorate of Customs.

93 *Country Report Czech Republic 2015*, Commission staff working document SWD(2015) 23, final wording of 26 February 2015.

The Council based its recommendations[94] regarding the CR's programming documents for 2015 on the Commission staff's analysis. The Council identified tax evasion and making tax collection less costly and time-consuming for both taxpayers and the tax authorities as the principal tasks. The Council stated that the cost of tax collection remained very high and that the tax system would be benefited by unifying the tax bases for natural persons' income tax and contributions to health and social security. The Council also stated that the changes to tax returns and the use of pre-filled forms were unsystematic and that the taxation on labour remained high in the CR. The measures effective from 2015 reduce the tax on labour to a certain extent but only for certain groups; their overall impact will be limited. But property taxes and green taxes are low, offering room for a shift in the tax burden. For that reason the Council made the following tax-related recommendations for 2015 and 2016:

- fight tax evasion, simplify the tax system and implement the anti-corruption plan;
- reduce the high level of taxation levied on low-income earners by shifting taxation to other areas.

The Commission declared similar priorities for the entire EU's fiscal policy in its communication[95] regarding the Annual Growth Survey 2016. According to the Commission, it is important to make taxation systems more effective and fairer, i.e. to put in place effective growth-friendly tax systems (inter alia by shifting taxes away from labour), tackle the preferential tax treatment of debt and focus on reducing aggressive tax planning and fighting tax fraud and evasion.

D.1.2 European Union regulations in the field of Member States' revenues

Own resources contributions

The size of own resources contributions to be paid by individual Member States is defined by the EU budget for the given financial year.

Contributions based on the approved legislation for the own resources system for the 2014-2020 period will not be set until the ratification process is finished (envisaged during 2016); also, Member States' contributions paid in since 1 January 2014 will be recalculated according to this legislation. This involves the following legislation:[96]

- Council Decision of 26 May 2014 on the system of own resources of the EU (2014/335/EU, Euratom);
- Council Regulation (EU, Euratom) No 608/2014 of 26 May 2014 laying down implementing measures for the system of own resources of the EU;
- Council Regulation (EU, Euratom) No 609/2014 of 26 May 2014 on the methods and procedure for making available the traditional, VAT and GNI-based own resources and on the measures to meet cash requirements.

In September 2015 the Commission proposed an amendment[97] of Council Regulation No 609/2014 in which it proposed a revision of the procedure for calculating the interest on amounts made available belatedly, a procedure for the annual adjustment of the VAT and

94 Council recommendation of 14 July 2015 on the National Reform Programme of the Czech Republic for 2015 and delivering a Council opinion on the Convergence Programme of the Czech Republic, 2015, EU Official Journal (2015/C 272/09), 18 August 2015, p. 32.

95 Communication of the Commission to the European Parliament, the Council,the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank: *Annual Growth Survey 2016, Strengthening the recovery and fostering convergence*, COM(2015) 690, 26 November 2015.

96 For more details see *EU Report 2015*.

97 Proposal for a council regulation amending Council Regulation (EU, Euratom) No 609/2014 of 2015 May 447, 14 on the methods and procedure for making available the traditional, VAT and GNI-based own resources and on the measures to meet cash requirements, COM(2015) 447, 14 September 2015.

GNI-based own resources and further clarification and improvement of the existing procedure as regards accounts for own resources.

In December 2015 the ECA issued an opinion[98] on this proposal in which, as in its previous opinions[99], it expressed dissatisfaction with the complexity and insufficient transparency of the system of own resources. The ECA also stated that the proposed modifications do not significantly change the system in place, but they should improve the current situation as regards the process of making available the amounts requested.

The Council ended the process of the revision of Regulation No 609/2014 by issuing Regulation No 804/2016, adopted on 21 May 2016.

According to an EP report[100], the loss of VAT revenue in the member states caused by non-compliance with the tax regulations or by non-collection of tax reached €177 billion. The EP therefore defined three priority areas that should contribute to improved collection of revenues in the EU:

- boosting the benefits of the internal market through taxation policy;
- fighting tax fraud, tax evasion and aggressive tax planning and tax havens; and
- promoting viable tax coordination for a long-term, growth-oriented economic policy.

The European Parliament also called on the Commission to initiate a change of the outdated system and put forward concrete proposals for fighting tax fraud and tax evasion.

Reverse charge mechanism

The Ministry of Finance regards the reverse charge mechanism as one of the most effective tools in the fight against VAT evasion, and for that reason it advocates wider application at EU level[101]. However, in 2015 the Commission recommended that the CR should focus instead on improving the functioning of the tax administration and information exchange with other Member States. It saw risks for the internal market from wider application of the reverse charge mechanism and expressed concerns about the possible impact on neighbouring Member States.

According to the effective EU legislation, the reverse charge mechanism is considered an unconventional tool whose use is permitted only for certain commodities in domestic supply and in the following cases:

- for certain categories of goods and services explicitly listed in the VAT Directive[102];
- under an individual exemption granted by the Council and solely within the framework of the prescribed procedure further to a request from a Member State, whereby the permission is granted for a limited period of 2-3 years;
- for a temporary period of 9 months under the "rapid reaction mechanism" in the case of sudden and extensive fraud.

In 2011 and 2012, when the rapid reaction mechanism was being discussed, Germany and Great Britain sought to bring about an "optional reverse charge mechanism", i.e. a weakening of the Commission's role in deciding on the granting of individual exemptions. The Commission did not support the introduction of the reverse charge mechanism across the board, however.

In June 2015 Bulgaria, the CR, Austria and Slovakia requested permission to extend the use of the reverse charge mechanism to all supplies of goods or services worth over

98 Opinion No. 7/2015 on the proposal for a council regulation amending Council Regulation (EU, Euratom) No 609/2014 on the methods and procedure for making available the traditional, VAT and GNI-based own resources and on the measures to meet cash requirements, 11 November 2015.

99 ECA Opinions Nos. 7/2014, 2/2012, 2/2008 and 2/2006.

100 Annual Tax Report (2014/2144(INI), 3 March 2015.

101 Information on procedure when promoting the CR's initiative for wider application of the reverse charge mechanism, ref. no. MF-2150/2015/25-1, MoF.

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

€10,000 with a view to make combating fraud more efficient. The Commission[103] rejected the request with reference to the jurisprudence of the European Court of Justice. The Commission gave a similar justification[104] when it rejected Italy's request for permission to use the reverse charge mechanism for supplies to "large retailers", i.e. hypermarkets, supermarkets and discount stores.

The Commission takes a very reserved attitude to the question of the wider or blanket application of the reverse charge mechanism both in the short term (permitting individual derogations for Member States) and in the long term in the context of work on the definitive VAT system in the EU.

Tax on legal persons

In June 2015 the Commission issued a communication[105] to the EP and the Council stating that the current rules for corporate taxation no longer fit the modern context. Certain companies are exploiting this situation to artificially shift profits to the lowest tax jurisdictions and minimise their overall tax contribution. At the same time, other companies are still subject to double taxation of their income by more than one Member State Complex and intransparent tax rules are inefficient.

In this communication the Commission proposed an action plan of five key areas with a view to re-establishing the link between taxation and where economic activity takes place, creating a competitive and growth-friendly corporate tax environment for the EU and protecting the single market. This action plan sets out the following measures to create a more coordinated corporate tax environment:

- Establishing a Common Consolidated Corporate Tax Base (CCCTB), which the Commission proposed (as optional) in 2011[106]. The action plan proposes making it mandatory, at least for multinationals. The Commission goes on to propose a step-by-step approach to agreeing on the different elements of the CCCTB, with the emphasis on securing the common tax base.
- Ensuring effective taxation where profits are generated, improving the EU transfer pricing framework[107] and linking preferential regimes to where value is generated.
- Adopting additional measures for a better tax environment for business, e.g. enabling cross-border loss offset until full CCCTB consolidation is introduced and improving double taxation dispute resolution mechanisms.
- Improving tax transparency, e.g. ensuring a more common approach to third-country non-cooperative tax jurisdictions or the option of country-by-country reporting.
- Improving coordination between Member States on tax audits and reforming the *Code of Conduct for Business Taxation Group* and the *Platform on Tax Good Governance*.

Information exchange in the field of taxation

In December 2015 the Council issued a directive[108] amending Directive 2011/16/EU as regards mandatory exchange of information in the field of taxation. The problems caused by cross-border tax avoidance, aggressive tax planning and harmful tax competition reduce Member States' tax revenues. The Council declared that efficient exchange of information in respect

103 Communication from the Commission to the Council in accordance with Article 395 of Council Directive 2006/112/EC, COM(2015) 538, 28 October 2015.

104 Communication from the Commission to the Council in accordance with Article 395 of Council Directive 2006/112/EC, COM(2015) 214, 22 May 2015.

105 Communication from the Commission to the European Parliament and the Council – A Fair and Efficient Corporate Tax System in the European Union: 5 Key Areas for Action, COM(2015) 302, 17 June 2015.

106 Proposal for a Council Directive on a Common Consolidated Corporate Tax Base (CCCTB), COM(2011) 121/4, 16 March 2011.

107 Transfer prices are prices used in the transfer of goods or provision of services between companies.

108 Council Directive (EU) 2015/2376 of 8 December 2015 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation, EU Official Journal L 332, 18 December 2015, p. 1.

of advance cross-border rulings and advance pricing arrangements is hindered by several important practical difficulties, such as the discretion permitted to the issuing Member State to decide which other Member States should be informed. The new directive requires Member States to automatically exchange information about advance cross-border rulings[109] and advance pricing arrangements[110].

The new rules should apply from January 2017.Member States receiving tax information will be able to request additional information where necessary. Every six months, national tax authorities will have to send all other Member States a brief report on all cross-border tax rulings they issued. The Commission will operate a secure central directory to store the exchanged information.

For the new legal framework to function, in December 2015 the Commission issued an implementing regulation[111] laying down rules for standard forms and computerised formats and practical measures for the exchange of information among Member States.

Changes in tax on tobacco products

In April 2014 the EP and the Council adopted the Tobacco Products Directive[112]. This directive brought a substantial change in the duties of manufacturers, importers and distributors of tobacco products and related products. It has brought a significant harmonisation of the rules for manufacture, sale and presentation of these products. Now these measures also apply to electronic cigarettes and their refill containers and to herbal cigarettes. If a product falls into various categories with different obligations, the stricter obligations apply. An approval process before these products are placed on the market has been introduced.

One particularly important change is the obligation imposed on Member States to ensure all tobacco products are marked with a unique identifier. In order to ensure the integrity of the unique identifier, it must be irremovably printed or affixed, indelible and not hidden or interrupted in any form, including through tax stamps or price marks, or by the opening of the packet. The unique identifier must make it possible to determine all the details, from manufacture to sale to the first retail outlet (e.g. machine used in manufacture, actual shipment route including all warehouses used, date of shipment, destination, identity of all buyers etc.).

Member States must ensure that selected data are accessible in electronic form by means of a link to the unique identifier. Member States must enact the legal and administrative regulations necessary for compliance with this directive by 20 May 2016.

In May 2015 the Council drew up a proposal for a decision[113] making the *Protocol to Eliminate Illicit Trade in Tobacco Products to the World Health Organisation's Framework Convention on Tobacco Control* part of EU law. According to the explanatory memorandum to this proposal, it is estimated that more than €10 billion is lost in revenues annually to the EU and Member

109 A tax ruling is a kind of pledge a tax authority gives a taxpayer regarding the manner in which certain tax matters will be resolved in a particular case.

110 A preliminary assessment of transfer pricing is a kind of tax ruling which a tax authority issues in order to specify methods and other important elements for setting prices that are to be used in the transfer of goods or provision of services between companies.

111 Commission Implementing Regulation (EU) 2015/2378 of 15 December 2015 laying down detailed rules for implementing certain provisions of Council Directive 2011/16/EU on administrative cooperation in the field of taxation and repealing Implementing Regulation (EU) No 1156/2012 , EU Official Journal L 332, 18 December 2015.

112 Directive 2014/40/EU of the European Parliament and of the Council of 3 April 2014 on the approximation of the laws, regulations and administrative provisions of the Member States concerning the manufacture, presentation and sale of tobacco and related products and repealing Directive 2001/37/EC, EU Official Journal, L 127, 29 April 2014.

113 Proposal for a Council Decision of 4 May 2015 on the conclusion of the *Protocol to Eliminate Illicit Trade in Tobacco Products* to the World Health Organisation's Framework Convention on Tobacco Control, in so far as the provisions of the Protocol which do not fall under Title V of Part III of the *Treaty on the Functioning of the European Union* are concerned, COM(2015 194, final wording 2015/0101 (NLE).

States. The Protocol consists of core provisions on the control of the supply chain of tobacco products and of equipment for manufacturing those products.

Register of economic operators and tax warehouses

An amended implementing regulation[114] of the Commission on the operation of a register of economic operators and tax warehouses has been effective since February 2015. The information contained in the national registers concerning economic operators engaged in moving excise goods under duty suspension arrangements is to be automatically exchanged through a central register of economic operators. The Central Register is to be operated by the Commission as provided for in Article 19(4) of Regulation (EU) No 389/2012.

Mandatory information exchange between tax administrators

In November 2015 the Council repealed the directive[115] on taxation of savings income that from 2005 had allowed tax administrators better access to information on private savers. The decision to repeal this directive came after measures preventing tax evasion were reinforced. In December 2014 the Council adopted a directive[116] amending the provisions on mandatory automatic exchange of information between tax administrators. This directive widens the scope of this exchange to include interest, dividends and other types of income that were not covered under the previous directive. The directive entered into effect on 1 January 2016.

D.1.3 Current developments in the legislation on revenues in the CR

Changes to the Act on VAT

Since 1 January 2015, the Act on VAT[117] was amended to include a second reduced VAT rate of 10% applicable to medicines, books and irreplaceable children's nutrition[118].

A government resolution[119] extended the reverse charge mechanism to the following goods:

- transfers of emissions credits from 1 January 2015;
- cereals and technical crops (maize only), selected metals, mobile telephones, notebooks and tablets, integrated circuits and video-game consoles from 1 April 2015;
- other cereals and technical crops from 1 July 2015;
- sugar beet from 1 September 2015.

An amendment of the Act on VAT requiring VAT payers to submit control statements[120] has been effective since 1 January 2016. Control statements must be submitted by all VAT payers who received taxable domestic supply or claimed a VAT deduction in the given year. They must be submitted electronically to the electronic address of the submissions office published by the tax administrator, in a format and structure prescribed by the tax administrator and in a manner enabling remote access. Legal persons must submit control statements on a monthly

114 Commission Implementing Regulation (EU) 2015/272 of 19 February 2015 amending Implementing Regulation (EU) No 612/2013 on the operation of the register of economic operators and tax warehouses, related statistics and reporting pursuant to Council Regulation (EU) No 389/2012 on administrative cooperation in the field of excise duties, Official Journal L 47, 20 February 2015.

115 Council Directive 2003/48/EC of 3 June 2003 on taxation of savings income in the form of interest payments, Official Journal L 157, 26 June 2003.

116 Council Directive 2014/107/EU of 9 December 2014 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation, Official Journal L 359, 16 December 2014.

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

118 Act No. 262/2014 Coll., amending Act No. 235/2004 Coll., on value added tax, as amended, and other related acts.

119 Government regulation no. 361/2014, on the stipulation of the supply of goods or provision of services for the use of the reverse charge mechanism, 22 December 2014.

120 Act No. 360/2014 Coll., amending Act No. 235/2004 Coll., on value added tax, as amended, and other related acts.

basis (even if they pay VAT quarterly); natural persons monthly or quarterly, depending on the length of the taxable period. This measure was introduced in order to improve tax collection and as an effective and flexible tool for combating tax fraud. The expert estimate of the increase in tax revenues following the introduction of this measure is CZK 5-10 billion per annum.

This amendment also scrapped the exemption from the electronic form of VAT return submission for natural persons whose turnover in the previous 12 calendar months did not exceed CZK 6 million. Consequently, all VAT payers now have to submit VAT returns in electronic form only.

With effect from 1 January 2016 the reverse charge mechanism was extended to the supply of real estate to a payer, if the payer supplying the item of real estate applied tax pursuant to Section 56(5) of the Act on VAT.

Changes in the Act on Consumer Taxes

An amendment of the Act on Consumer Taxes[121] effective from 1 January 2015 has fundamentally altered permission proceedings, placing the emphasis on the applicant's reliability, non-indebtedness and economic stability[122]. With effect from 1 July 2015, taxpayers have additional obligations when handling raw tobacco, which is now subject to supervision by the customs authorities. A person warehousing raw tobacco must apply for registration, keep records and report the handling of raw tobacco. A new tax on raw tobacco has also been established. Another change is a new, stricter definition of the equipment required in a tax warehouse for warehousing mineral oils.

The amendment of the Act on Consumer Taxes also introduced a gradual increase in excise duty on cigarettes and other tobacco products based on an approved three-year plan[123]. The rates increased for the first time as of 1 January 2016 and will rise further at the start of the following two years. In consequence of the need to fulfil the requirement of the Council Directive regarding the minimum tax on cigarettes, the increase in excise duty on cigarettes in 2016 is approx. CZK 3.00 per pack, to be followed in 2017 and 2018 by increases of CZK 0.90 to 1.00 and CZK 1.20 per pack respectively.

Since 1 January 2015 an amendment of Act No. 307/2012 Coll., on the obligatory labelling of liquor, has made it necessary to report information on the quantity and identification of liquor in consumer packs put into free tax circulation. There are detailed rules on the type of information to be reported and the reporting time (the day after the liquor is put into free circulation). The deposit for the liquor labeller was also increased.

With effect from 1 July 2015, the option of applying for a 50% reduction in the basic deposit for the distribution of propellants was incorporated into Act No. 311/2006 Coll., on fuels. This is conditional on the legally required minimum and maximum volume of fuels, fulfilment of the registration conditions and the applicant's reliability and economic stability.

D.1.4 Audit work in the field of revenues in 2015

In 2015 the Supreme Audit Office completed two audits targeting the administration of taxes: an audit of the administration of value added tax[124] and an audit of the administration of excise duties[125].

121 Act No. 353/2003 Coll., on excise duties.

122 Act No. 157/2015 Coll., amending Act No. 353/2003 Coll., on excise duties, as amended, and Act No. 311/2006 Coll., on fuels and fuel filling stations and amending certain related acts, as amended.

123 Act No. 315/2015 Coll., amending Act No. 353/2003 Coll., on excise duties, as amended.

124 Audit no. 14/17 – *Value added tax administration and the impacts of legislative amendments for the state budget revenues*. The results of this audit were described in detail in *EU Report 2015*.

125 Audit no. 14/28 – *Spirit and tobacco excise tax administration and administration of revenues from the sales of tobacco duty stamps, including the management of these duty stamps*.

In the audit of VAT administration the SAO found that the new mechanisms added to the Act on VAT with a view to restricting tax evasion were not sufficiently effective in the years 2011 to 2013 to reduce the VAT gap[126]. On the contrary, the level of tax evasion rose to a value of around CZK 100 billion in these years. The following were among the new mechanisms the SAO scrutinised: publishing of bank accounts used for economic activity; reverse charge mechanism; decisions on payer unreliability; surety of recipient of taxable supply; special method for securing tax; and ensuring payment for non-due or as yet unspecified tax. The methodological and technical preparation of new measures was negatively influenced, for example, by the fact that the amendments of the Act on VAT entered into effect a few days after they were adopted. The introduction of the reverse charge mechanism for selected commodities had a positive impact on reducing tax evasion. Inadequate control reduced the effectiveness of this mechanism, however. By the end of 2014 the financial administration had only published 156 unreliable VAT payers, so the objectives of the unreliable payer mechanism were not achieved. The financial administration put in place soft conditions for using the mechanism, only tightening the criteria for designating an entity as an unreliable payer from 1 January 2015 so that additionally non-monetary violations of obligations linked to tax administration could be penalised. In January 2016 the financial administration had published the identities of 3,701 unreliable VAT payers. The mechanism of surety by the recipient of taxable supply was only utilised by the financial authorities in 16 cases in the years 2011 to 2014. The General Financial Directorate did not put in place the right conditions for wider use of this mechanism. The introduction of a special provision on ensuring payment towards tax not yet due or not yet specified in the form of a “security order” under the Act on VAT proved to be a more effective tool in the fight against tax evasion.

In its audit of the administration of excise duties the SAO focused on excise duty on liquor and excise duty on tobacco and tobacco products. The SAO found that deficiencies in the legislation, in the customs offices’ control work, in the customs administration’s internal control and in the methodological and supervisory work of the General Directorate of Customs made it possible to evade consumer taxes on liquor and tobacco products up to 2013. According to calculations by the General Directorate of Customs), tax loopholes meant that the collection of excise duties on liquor fell short by approx. CZK 1-2 billion per annum. The pre-stocking of tobacco products and their sale at the “old” rate of excise duty caused state budget revenues to be reduced by approx. CZK 1.4 billion in total in the years 2012 to 2014. The legislation on the distribution of tobacco products in the event of a change in the tax rate was unsystematic until the Act on Consumer Taxes was amended with effect from 1 December 2014. After the “methanol affair”, positive changes were made to the legislation governing records of the handling of liquor, the taxation of liquor and the work of the customs administration. Some new measures to combat “illegal liquor” rolled out after 2013 are not entirely effective, however:

a) Control strips are meant to fulfil the function of tax designation and guarantee safe alcoholic beverages. Although the new specimen control strips fulfil the function of tax designation, it is still impossible for consumers or tax administrators to check whether an alcoholic beverage is labelled with a control strip that was reported as destroyed, stolen or lost, i.e. whether the beverage was made from untaxed alcohol.

   The new control strip’s fulfilment of the consumer protection function is limited, as tax subjects are not obliged to keep records of the unique codes of all control strips and the control strips register does not state the manufacturer of the alcoholic beverage but the entity that ordered the control strip. Although the act introduced penalties for disproportionate destruction or loss of control strips, a legal entity is not guilty of an administrative offence if it can prove that it did everything that could reasonably be demanded of it to prevent the violation of the legal obligation.

126 The VAT gap is the difference between expected VAT revenues and the amount the state authorities actually collected.

b) Introducing a blanket obligation to fit places where spirits are labelled with monitoring apparatus was meant to enhance supervision over the production and labelling of spirits and cut the cost of tax administration by eliminating the need for a tax administrator to be permanently present at the tax subject. This obligation did not deliver the expected effect for the administration of excise duty on liquor, however. The SAO also found that at least in six audited customs offices the recordings from monitoring apparatus are hard to use because of insufficient data transmission functionality.

c) Including selling liquor among licensed trades was meant to bring clarity to the business environment and make the administration of excise duty on liquor more effective. The SAO found that the customs authorities did not have a complete overview of legal points of sale of spirits at the time of the audit.

One long-term task of the financial and customs administration of the CR is the fight against tax evasion, which is reflected in the introduction of numerous new obligations for taxpayers. In the SAO's opinion, however, there has been no comprehensive assessment of the effectiveness of these changes taking into account both direct and indirect costs and the deadweight effect. The negative situation persists whereby tax administration is burdened down by the paperwork of processing tax statements and information technologies are not fully exploited, even though considerable amounts have been invested in them.

D.1.5 ECA audit work in the field of revenues

Special Report No. 24/2015[127]

The ECA's Special Report looked at how successfully the EU is in the fight against intra-Community VAT fraud. It stated that the system is not sufficiently effective and certain measures should be strengthened or applied more consistently. The EU loses billions of euro in tax revenues every year as a result of organised crime. The intra-Community VAT system is often abused in "missing trader" intra-Community fraud[128]. The upshot is a loss of revenue for the country in question and the EU.

Based on its findings, the ECA made the following recommendations:

- coordinate efforts to establish a common system for estimating the size of intra-Community VAT fraud;
- the Commission should monitor the timeliness of Member States' responses to requests for information, the reliability of VIES[129] and the speed at which multilateral controls are performed;
- introduce a common risk analysis and take steps to address the deficiencies in the use of *Eurofisc*[130];
- Member States should empower the Commission to negotiate on cooperation with non-member states;
- the Commission should propose to amend the VAT directive with a view to achieving further harmonisation of Member States' VAT reporting requirements for intra-Community supplies of goods and services;

127 ECA Special Report No. 24/2015 – *Tackling intra-Community VAT fraud: More action*.
128 Misssing Trader Intra-Community Fraud – MTIC.
129 VIES is an electronic system enabling transfer of information related to VAT registration within EU. It supplies the member state administration with information about goods registration.
130 Member States exchange operational information on cross-border fraud and other matters via the *Eurofisc* network.

- Member States should ensure their customs authorities send data on imports under customs procedure 42[131] to the tax authorities.
- The Commission should encourage Member States to better coordinate their policies on reverse charges. The Commission did not accept this recommendation, but given the problems with the frequent application of the reverse charge mechanism it will deal with this issue as part of a VAT action plan.
- The ECA rated the reverse charge as a useful tool to fight against VAT fraud provided that all Member States apply it consistently in high-risk sectors.
- Selected EU authorities (OLAF and Europol[132]) should have access to VIES and *Eurofisc* data and VAT should be included within the scope of the directive on the fight against fraud (the PIF directive) and the European Public Prosecutor's Office regulation.

The ECA's findings mostly correspond to the findings from previous SAO audits or international audits done in collaboration with the BRH[133].

D.1.6 Protection of the EU's financial interests and the fight against fraud

The Commission and Member States are trying to push through strict rules against tax evasion and tax avoidance on an international footing as well. This is linked to a project to reformulate the rules against tax avoidance by international companies.

On 12 February 2015 the European Parliament issued a decision[134] on setting up a special committee on tax rulings and other measures similar in nature or effect (TAXE). It was given the task of examining how EU legal regulations on state aid and taxes are implemented in relation to tax rulings and similar measures by Member States. The special committee had 45 members and its term of office was six months. The committee was set up following the LuxLeaks scandal, in which more than 500 private tax arrangements were signed between the Luxembourg tax administration and more than 300 multinationals between 2002 and 2010 with a view to radically reducing their tax payments.

Based on the TAXE committee's work, in November 2015 the EP adopted a resolution[135] on tax rulings, reaching the conclusion that Member States did not comply with the relevant provisions of the TFEU and did not fulfil the obligations laid down in Directive 2011/16/EU[136]. The results of TAXE's work and the estimate put on the EU's losses (€160-190 billion) from corporations avoiding their tax obligations showed that legislative measures needed to be introduced at EU level to improve the transparency, coordination and convergence of tax policies as regards corporation tax.

In the light of these facts, the EP made recommendations[137] to the Commission, asking it to put forward at least one legislative proposal reflecting the recommendations listed above by June 2016.

131 Custom measures 42 is a regime which an economic entity can use in cases when the VAT is not paid as the goods are transported into a different member state.
132 Abbreviation from European Police Office which fights organized crime at the EU level.
133 Supreme audit institution of the Federal Republic of Germany (Bundesrechnungshof).
134 European Parliament decision of 12 February 2015 on setting up a special committee on tax rulings and other measures similar in nature or effect, its powers, numerical strength and term of office (2015/2566(RSO)).
135 European Parliament resolution of 25 November 2015 on tax rulings and other measures similar in nature or effect (2015/2066(INI)).
136 Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC, Official Journal L 64, 11 March 2011.
137 *Report with recommendations to the Commission on bringing transparency, coordination and convergence to Corporate Tax policies in the Union* (2015/2010(INL)), 2 December 2015.

Regarding transparency it recommended the following:

- introduce mandatory and public reporting by multinationals in all sectors on their activities in individual countries;
- introduce a voluntary *Fair Tax Payer* label for companies using proper tax practices;
- create a harmonised methodology for estimating corporations' tax gaps and publish the estimated direct and indirect tax gap twice a year;
- submit a legislative proposal for whistleblower protection.

Regarding coordination it recommended the following:

- submit a legislative proposal establishing a common consolidated corporation tax base and establish it by the end of 2017 at the latest;
- submit a draft amendment of Directive 2011/16/EU to make tax audits and controls more effective;
- submit a proposal for the establishment of a common European Tax Identification Number (ETIN).

Regarding convergence it recommended the following:

- submit, in collaboration with the OECD[138] and UN[139], a proposal under which strict criteria would be set for defining "tax havens";
- submit by summer 2016 a proposal for establishing a withholding tax or a measure of similar effect to prevent untaxed profits flowing out of the EU.

On 2 December 2015 the EP set up a new special committee[140] on tax rulings (TAXE 2). This committee will follow up the work of the previous committee, focusing on the Commission's activities in the fields of state aid and tax, on Member States' implementation of the tax legislation and on aggressive tax planning. The new committee will also take a closer look at how Member States and EU institutions are following the first committee's recommendations.

In May 2015 the Committee on Economic and Monetary Affairs of the EP issued an opinion[141] in which it called on Member States to agree swiftly to a CCCTB and calls on the Commission to propose changes to EU company law to effectively ban shell companies and similar entities.

In July 2015 the Commission issued its annual report on the protection of the EU's financial interests[142]. The Commission stated in the report that significant progress was made on the revenue side of the budget in 2014 to protect the EU's financial interests. A database on goods entering the EU, transiting the EU and leaving the EU has been created. Member States have actively continued to implement the action plan on stepping up the fight against cigarette smuggling. Additionally in 2014, a *Eurofisc* project to analyse cross-border fraud network took place. A project group was set up to gather best practice from national tax administrations in electronic commerce.

138 Organisation for Economic Co-operation and Development.

139 United Nations.

140 European Parliament decision of 2 December 2015 on setting up a special committee on tax rulings and other measures similar in nature or effect (TAXE 2), its powers, numerical strength and term of office (2015/3005(RSO)).

141 Opinion of the Committee on Economic and Currency Affairs for the Committee on Development on *Tax avoidance and tax evasion as challenges for governance, social protection and development in developing countries* (2015/2058(INI)), 8 May 2015.

142 Commission Report to the European Parliament and the Council *Protection of the European Union's financial interests – Fight against Fraud 2014 Annual Report*, COM(2015) 386, 31 July 2015.

The *Hercule III*[143] programme was successfully launched and financed technical assistance to Member States in its first year. The technical assistance measures included the purchase of X-ray scanners deployed at the EU's external borders to examine containers, trucks and other vehicles. The scanners helped to detect substantial amounts of smuggled and counterfeit cigarettes and tobacco and also revealed the presence of liquor, drugs and arms.

[144]Topics discussed at a meeting of the Advisory Committee for Coordination of Fraud Prevention (COCOLAF) included the main developments regarding the fight against illicit trade in tobacco products, and the reporting of irregularities in relation to the use of EU funds in FF14+.

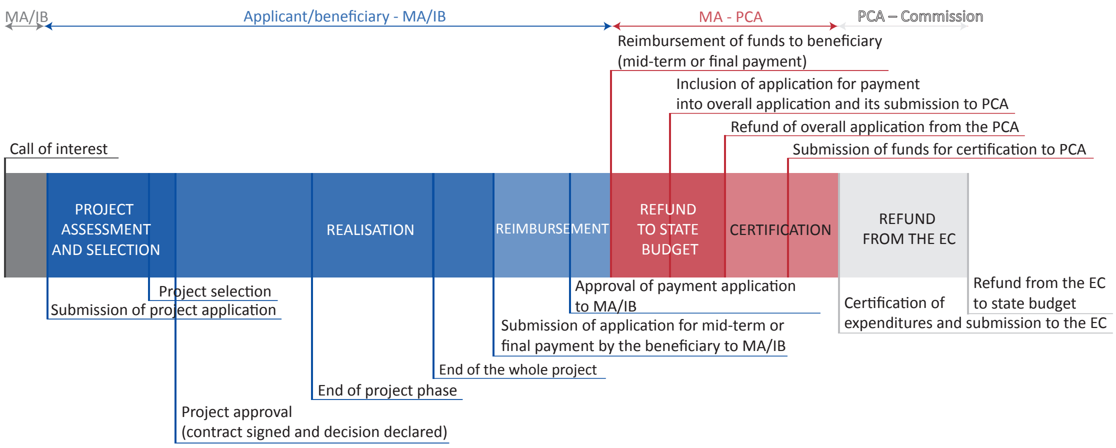
D.2 EU Economic, Social and Territorial Cohesion Policy

D.2.1 Current developments in *Cohesion Policy*

Drawdown of the 2007–2013 programming period allocation

More than €347 billion was earmarked for financing cohesion policy in the 2007-2013 programming period for all Member States. That was roughly a third of the European budget for this seven-year budgetary period. The Czech Republic could utilise almost €26.7 billion of that sum via three funds[145]. As the EU took on a commitment to fund at most 85% of expenditure on activities done as part of cohesion policy, the CR had to contribute at least a further 15%, i.e. approx. €4 billion. The total allocation from the EU budget for cohesion policy minus the amount not utilised from 2013 and 2014 and not including the allocation for [146]Operational Programme Cross-Border Cooperation Czech Republic – Poland 2007-2013 *(OP CR-Poland)* was approx. CZK 676.3 billion, according to figures published by the MfRD in the quarterly monitoring report for 4Q 2015.[147]

Diagram 6 – Utilisation of financial resources from EU funds

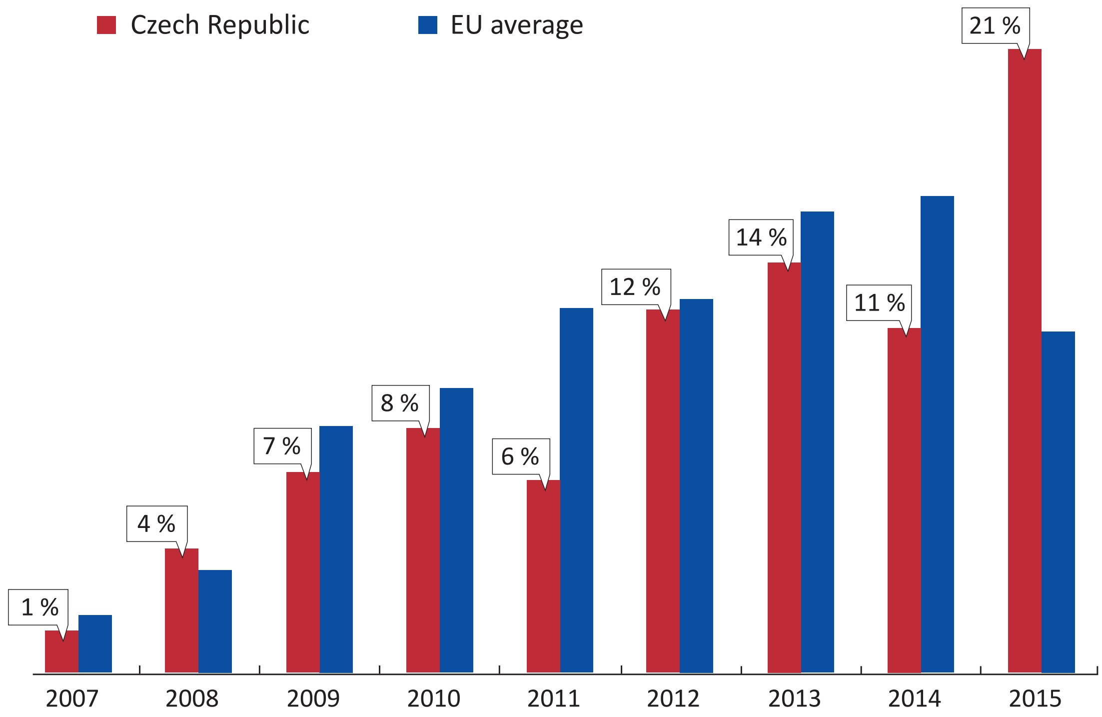


Source: NCA, March 2016

143 Regulation (EU) No 250/2014 of the European Parliament and of the Council of 26 February 2014.
144 Established by Commission Decision 94/140/EC, wording of 25 February 2005.
145 The EFRD focuses on the modernisation and strengthening of the economy. The ESF supports activities in the field of employment and human resources development. The CF supports investment projects targeting large-scale transport infrastructure, environmental conservation and energy efficiency and renewables.
146 In connection with the failure to comply with the n+2/n+3 rules within the meaning of Council Regulation (EC) No 1083/2006 the Commission decommitted €411 million for 2013 and €309 million for 2014; in total that is the equivalent of approx. CZK 19.9 billion.
147 Quarterly Monitoring Report on Drawdown from the Structural Funds and Cohesion Fund in the Programming Period 2007–2013, NCA, 1 February 2016.

The following graph shows the ratio between the finances paid out by the Commission and the CR's total allocation in individual years. The relative figures presented by Commission[148] staff include spending on RDP07+ and OPF07+ compared to the EU average, as well as finances paid out for cohesion policy measures (the overwhelmingly dominant component). Expenditure thus defined is financed out of ESI Funds in the 2014-2020 programming period.

Graph 12 – Rate of drawdown of finances from EU funds in the 2007-2013 programming period



Taken from: *Country Report Czech Republic 2016*, Commission staff working document, 26 February 2016.

As the graph shows, in the first years of the 2007-2013 programming period the CR, like other Member States, drew down minimal funds. From 2009 to the end of 2014, however, the CR lagged a long way behind the EU average in utilising the allocation. The worst year in that regard was 2011, when the certification of expenditure on projects was suspended following unsatisfactory results from audits by the EU's audit authorities. While the rate of drawdown (the ratio between the money actually paid out and the total EU allocation) in most EU countries peaked in 2013 and 2014, the CR did not achieve its highest rate of drawdown until the final year of the programming period.

Article 56 of the General Regulation[149] provides that expenditure, including for major projects, is eligible until 31 December 2015. At the start of 2015 the CR still had roughly one third of the 2007-2013 allocation to draw down. By the end of 2015 applications for interim payments (**certified expenditure**) amounting to almost **80% of the allocation** had been sent to the Commission, according to data from the MoF (PCA).[150]

The development of drawdown relative to the total CR allocation for cohesion policy is evident

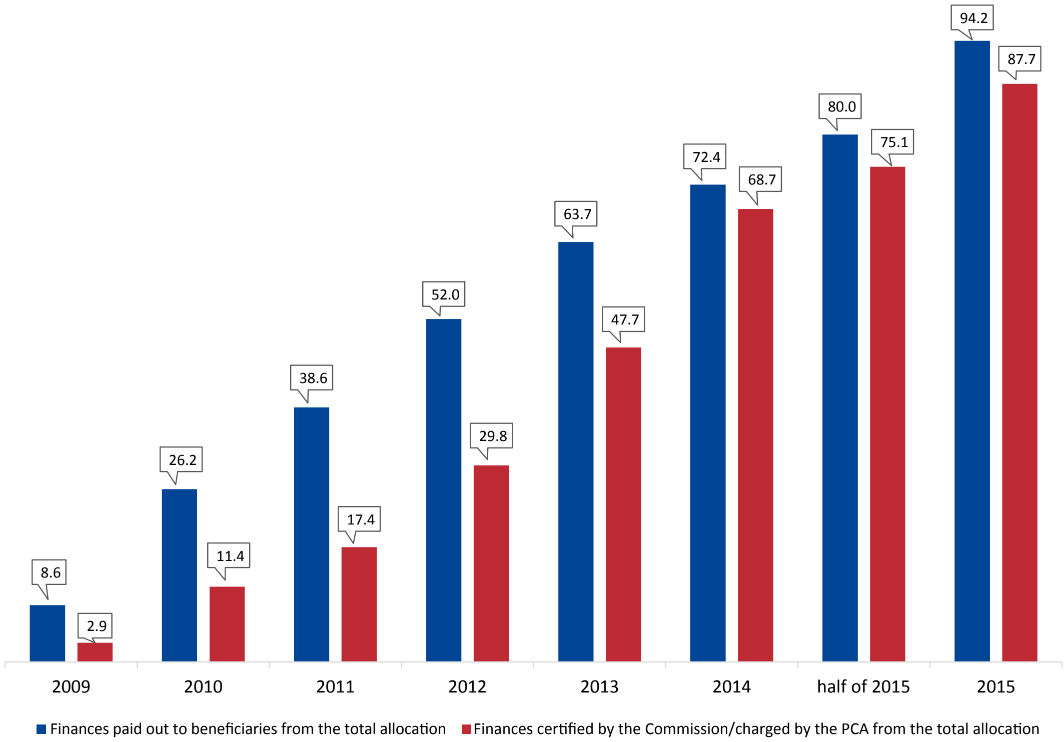
148 *Country Report Czech Republic 2015*, Commission staff working document SWD(2016) 73, final wording of 26 February 2016.

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

150 According to information from the PCA, not all certified expenditure was claimed from the Commission. Finances exceeding 95% of the allocation for individual OPs will only be claimed as part of the final payment application in March 2017.

from the graph, which shows both **finances paid out to beneficiaries** and **finances charged in summary applications** sent to the PCA.

Graph 13 – Overview of finances from the total cohesion policy allocation paid and charged in individual years of the 2007-2013 programming period (%)



Source: NCA – Brief overviews of drawdown for 2011-2015; Monthly Monitoring Report on the State of Implementation of the Structural Funds, the Cohesion Fund and National Co-financing in the 2007-2013 Programming Period, years 2008-2010.

NB: The graph does not show the values of paid and charged sums in 2007 and 2008 because they were so low. The graph does not show drawdown under OP CR-Poland.

In January 2016 the managing authorities estimated that the amount of the allocation not utilised could reach CZK 26.4-28.0 billion for the programming period as a whole. According to the NCA's estimate, a total of CZK 29.8-34.1 billion could be unutilised. The estimates of the shortfall in drawdown of the allocation as made by the managing authorities and NCA include finances not utilised in 2013 and 2014, by which the allocation was reduced. The NCA's estimate of unused funds represents around 4% of the total allocation for the entire 2007-2013 programming period. The amount of potential unutilised finances fell during 2015 as major projects affected by the EIA issue (see subheading B.3.1), which has a significant impact on the drawdown shortfall, were approved.

According to NCA figures[151] from 6 April 2016, the lowest rates of finances paid to beneficiaries were found in OP RDI under the authority of the MoEYS, ROP *Moravia-Silesia* under the authority of the relevant cohesion region regional council, the *Integrated Operational Programme* (IOP) under the authority of the MfRD, and OP Prague – Adaptability under the authority of the City of Prague. By contrast, the best results were achieved by OP *Enterprise and Innovation* (OP EI) under the authority of the MoIT, ROP *South-West* (ROP SW) under the authority of the relevant cohesion region regional council and OP E07+ under the authority of the MoE.

151 **Source:** MSC2007 – monitoring system for the 2007-2013 programming period.

More precise information about the rate of drawdown under individual OPs will only be available once the last summary applications are sent to the PCA, i.e. at the end of the first half of 2016. The maximum EU funds drawdown rate will be specified even more precisely once the last interim payment applications are sent to the Commission – the deadline is 31 August 2016.

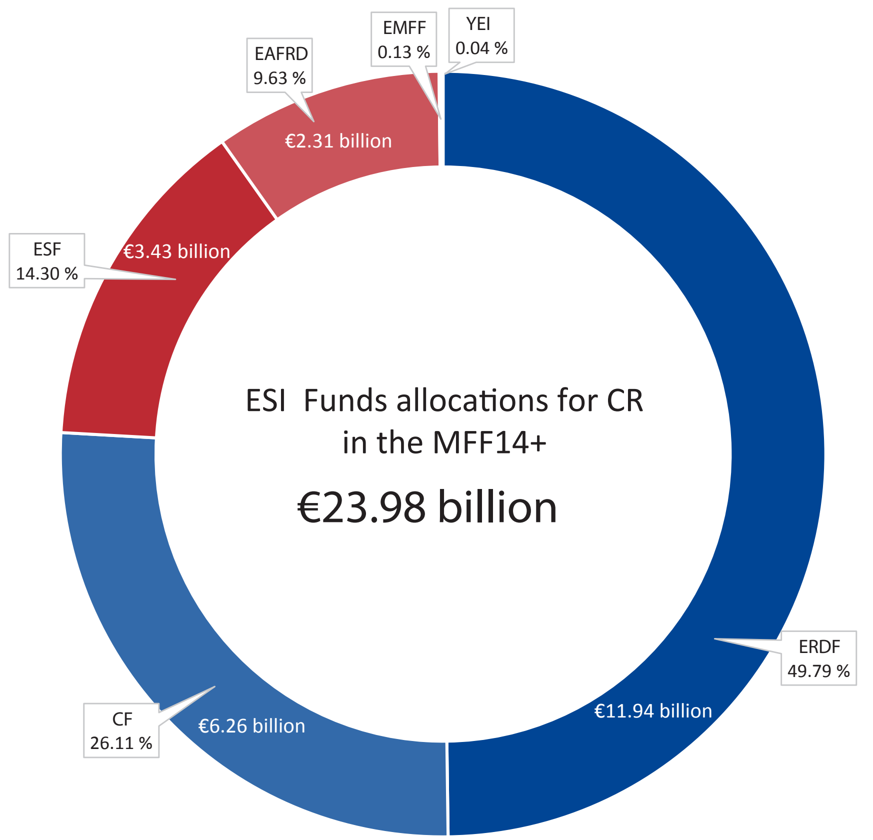
The resultant drawdown could in future be impacted by the findings of audits done by the Commission, ECA or AB, possibly leading to corrections, and other unresolved or new discrepancies at project level. The final values of drawdown under individual programmes will not be available until 2017 at the earliest, and most likely later as a result of action taken in response to audits and identified discrepancies.

2014–2020 programming period allocation

In addition to the CF and former SF which finance cohesion policy programmes, the ESI Funds also include the EAFRD, out of which support for RDP14+ programme measures are financed. For that reason the data presented in this point also include information going beyond the cohesion policy framework.

A total of €453.85 billion is prepared in the EU budget for financing the ESI Funds in the 2014-2020 programming period. Of that amount, the envisaged sum for the CR is €23.98 billion[152] (see subheadings B.2.2 and B.2.3), which is the equivalent of roughly CZK 648.16 billion[153] which includes the performance reserve of 6% (see subheading A.3).

Graph 14 – Finances allocated from individual ESI Funds for the CR for MFF14+



Source: Technical revision of the *Partnership Agreement for the 2014-2020 Programming Period* of 13 April 2016.

NB: The EMFF allocation is approx. €31.11 million and the YEI allocation €13.60 million.
The graph does not include the INTERREG CR-PR allocation.

152 Not Including the allocation for INTERREG CR-PR.

153 The conversion used MfRD data contained in the *Quarterly Report on the Implementation of the ESI Funds in the Czech Republic in the 2014-2020 Programming Period*, exchange rate of 27.029 CZK/€ from January 2016.

Compared to the previous programming period there were several changes in the drawdown system. The main ones include:

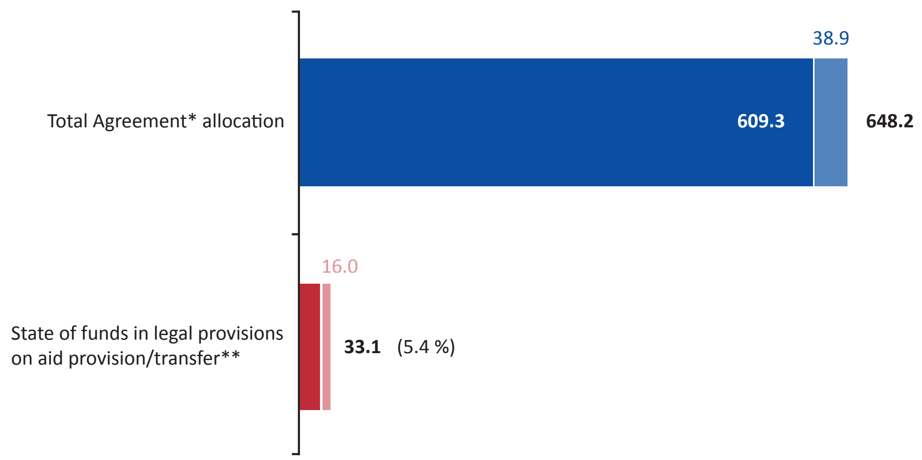
- reduction in the total number of programmes (see subheading B.2.3);
- reduction in the number of intermediate bodies;
- establishment of a single MS2014+ monitoring system;
- establishment of a single methodological environment to ensure the same rules govern the entire ESI Funds implementation system;
- reduced paperwork resulting from the computerisation of the OPs agenda;
- increased use of simplified expenditure reporting methods;
- the introduction of a territorial dimension and the involvement of municipalities, towns and partners in the implementation of integrated territorial development instruments, including the earmarking of a certain minimum share of the allocation of certain programmes to the territorial dimension.

Fulfilment of the ex ante conditionalities (see subheading B.2.2) is one key precondition for effective drawdown from the ESI Funds. If the Commission regards their fulfilment as inadequate, this could result in the affected part of the programme not being launched or its interim payments being suspended. The system for managing all interim payments at national level is coordinated by the NCA.

The most finances from the EU budget are earmarked in the CR for projects under OP *Transport* (OP T14+), IROP and OP *Enterprise and Innovation for Competitiveness* (OP EIC).

According to NCA figures[154] as of 31 March 2016, legal documents on the provision of support totalling CZK 33.1 billion, i.e. 5.4% of the total allocation, had been signed since the start of the 2014-2020 programming period. CZK 8.4 billion of that sum had been paid to beneficiaries (i.e. 1.4% of the allocation) and applications worth CZK 6.2 billion had been sent to the Commission for payment (1.0% of the allocation). Payment of the first finances began very slowly, even though this is already the third year of implementation of the 2014-2020 programming period.

Graph 15 – State of drawdown under the Agreement as at the end of March 2016 (CZK billion)



*Total allocation consists of main allocation and performance reserve:
■ Main Agreement allocation,
■ Performance reserve which programmes reach by fulfilment of milestones in 2018.
**state of funds in legal provisions on aid provision/transfer is related to the main programme allocation.
■ Amount growth in the first quarter of 2016.

Source: MS2014+ and SAIF IS, data as at 31 March 2016.

154 **Source:** MSC2014+ and SAIF IS.

As at the end of March 2016 it was the RDP14+ that was most successful, with 40,708 legal documents on the provision of flat-rate measure support worth almost CZK 7.0 billion signed. OP Employment was another successful programme, with 162 legal documents worth almost CZK 17.2 billion signed. By contrast, no legal document on support provision had been signed for a single project in OPT14+, OPP GP and OPF14+.

Table 6 – Number and volume of calls and signed legal documents by programme (EU contribution) as at 31 March 2016

Programme period 2014-2020	Approved calls of interest		Project with legal provisions on aid provision/ aid	
	Number	CZK billions	Number**	CZK billions
OP Enterprise and Innovation for Competitiveness	40	26.7	15	0.9
OP Research, Development and Education	19	42.8	6	2.6
OP Employment	46	48.0	162	17.2
OP Transport	4	70.9	0	0.0
OP Environment	20	22.7	14	3.0
Integrated Regional Operational Programme	33	64.0	13	0.5
OP Prague – Growth Pole CR	10	2.5	0	0.0
OP Technical Assistance	3	7.2	50	1.9
*Rural Development Programme 2014–2020**	3	3.5	40 708	7.0
OP Fisheries 2014–2020	4	0.2	0	0.0
INTERREG V-A Czech Republic - Poland	4	0.1	0	0.0
Total	**186**	**288.6**	**40 968**	**33.1**

Source: *Quarterly Report on the Implementation of the ESI Funds in the Czech Republic in the 2014-2020 Programming Period, 1Q 2016*. data generated on 1 April 2016.

NB: * In the case of RDP14+, applications for six flat-rate measures were received in 2015 in addition to the seven calls for project measures.
** Flat-rate measures (commitments from previous years) to be implemented under the RDP are included in the total number of projects with a legal document regarding the provision / transfer of support.

D.2.2 The SAO's audit work in the field of *Cohesion Policy* in the period under scrutiny

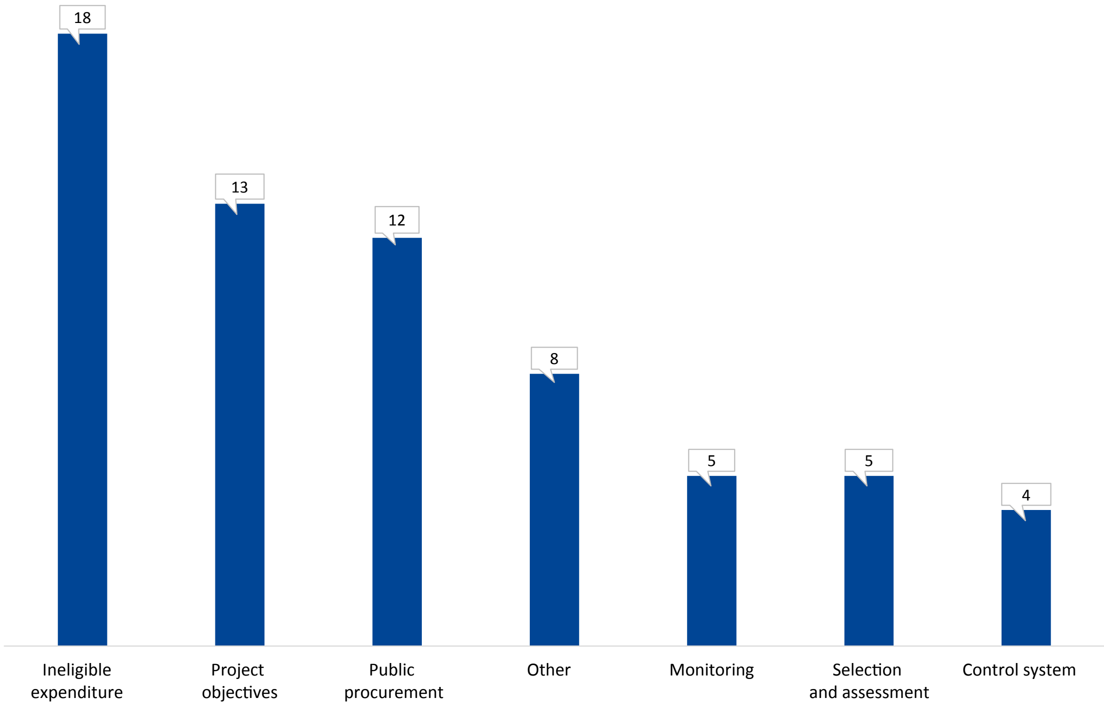
The Supreme Audit Office published in the *SAO Bulletin* the audit conclusions of 12 audits[155] completed in the period under scrutiny and targeting, exclusively or at least partially, drawdown

155 Audits nos. **14/15 –** Funds spent on the projects and measures for support and fulfilment of efficient public administration including savings of expenditures implementation; *14/22* – Funds earmarked for the infrastructure of university education; **14/24** – EU and state budget funds provided for settlement of expenditures of national projects within the Operational Programme Education for Competitiveness; *14/32* – Funds earmarked for the construction of line A of the Prague underground; **14/37** – State budget, EU budget funds and other funds acquired from abroad; *15/02* – State budget funds provided for support of energy savings; **15/03** – Funds earmarked for projects related to introduction of electronic public administration under the supervision of the Ministry of the Interior; *15/04* – Funds earmarked for the infrastructure of the project "Pilsen – European cultural capital 2015" under the Regional Operational Programme of Cohesion Region South-West for period 2007 – 2013; **15/06 –** State budget funds and EU structural funds earmarked for financing of operational programmes with respect to projects sustainability; *15/10* – Funds spent on the National Infrastructure for Electronic Public Procurement and its utilisation for purchase of selected commodities; **15/14** – Funds earmarked for modernisation of III. and IV. transit railway corridor; *15/18* – Funds earmarked for housing support.

from European funds under cohesion policy. These audits mostly assessed the legality and accuracy of transactions on a selected sample of projects; in some cases the effectiveness of OPs' management and control systems was also judged. Some of the audits were performance audits[156] or financial audits[157].

Compared to 2014 there was an increase in the number of errors in expenditure eligibility, the selection of contractors and the conclusion of contracts with contractors. Conversely, a slight fall in error rates was found when the control system was scrutinised. The SAO identified shortcomings in both the managing authorities of OPs and support beneficiaries.

Graph 16 – Nature and frequency of errors found by the SAO in cohesion policy



Source: analysis of errors in the SAO's audit conclusions.

Expenditure eligibility

Most common errors:

- **drawdown and use of finances in contravention of the law or OP rules;**
- **claiming and paying of ineligible expenditure (amounts claimed for payment in invoices were not properly documented, conflict with the expenditure eligibility rules detected etc.).**

- Audit no. 14/15 (OP HRE and IOP) – In the seven audited projects of the Ministry of the Interior (MoI) and Ministry of Industry and Trade (MoIT) public money was not spent effectively, as it was not used to cover essential requirements, i.e. requirements necessary for fulfilling the purpose of the project. The SAO judged this conduct to be a breach of budgetary discipline involving a total of over CZK 226 million. In one OP HRE project, for example, the MoI approved billing and accepted or paid invoices for activities which were not demonstrably performed and documented or whose factual content was not clear; moreover, the outputs of these services did not match the project's goals in terms of either quality or content.

156 Audits nos. 15/10 and 14/15.
157 Audit no. 14/37.

- Audit no. 14/22 (OP RDI) – Of the seven selected projects, there was one detected case of a suspicion of irregularities and breach of budgetary discipline owing to the reporting of ineligible expenditure worth CZK 221,000 and failure to comply with the target value of indicators.

  In one case the beneficiary did not comply with the Act on Accounting.

- Audit no. 14/24 (OP EC) – The provided finances were not always drawn down and utilised in compliance with the law and OP rules: shortcomings were identified in all three scrutinised projects[158]. As part of "indirect costs", for example, the cost of buying furniture and fittings was paid in contravention of the terms of Regulation (EC) 1081/2006 of the EP and of the Council. As part of direct costs, projection technology that was evidently not used in the project as it was still stored in its unopened original packaging when the project ended, was paid for, for example. Similar findings concerned the acquisition of furniture that was not required for the implementation of the project. In addition, trainees' accommodation and travel expenses on days when no training was taking place were paid. The value of inefficient and uneconomical expenditure was put at almost CZK 19 million.
- A support beneficiary (the Further Education Fund) was not founded by its founder (MoLSA) on the basis of a special legal regulation, as the Act No 219/2000 Coll., on State Property of the CR and its conduct in legal matters requires. The Commission may therefore find the beneficiary ineligible for support under OP EC and all its expenditure to date may be judged ineligible.
- Audit no. 15/02 (OP EI, OP EIC, OP E07+) – Ineligible expenditure totalling CZK 2,033,000 was detected in two audited projects. In the first case (OP E07+) this was payment for project documentation connected only partially with the project; in the second case (OP EI) this was money allegedly set aside for eliminating future defects arising when operating boiler technology.
- Audit no. 15/10 (IOP, *National Infrastructure for Electronic Public Procurement* – NIEPP) – In the case of one project the MfRD performed activities in conflict with the call and activities that were judged to be uneconomical. In addition, the MfRD did not comply with the Act No 320/2001 Coll., on Financial Control, as it did not adhere to the prescribed approval procedures in the case of preliminary control before and after the occurrence of the commitment.

Compliance with defined goals and project sustainability

Most common errors:
- **in some projects the use of the generated outputs during the sustainablity period is not sufficiently guaranteed, despite the high cost of obtaining these outputs;**
- **contrary to expectations, funding is not found for implementing project goals during the project's sustainability period.**

- Audit no. 14/15 (OP HRE and IOP) – Monitoring of the audited projects was not tied to the goals of the *Smart Administration* strategy. In the project applications the project implementers were not required to specify which goal of the strategy the project was supposed to contribute to. The projects were linked to the strategy goals retrospectively. These projects' monitoring indicators were chosen in compliance with the OP HRE rules but were merely formal and provided no information about the qualitative side of the projects in connection with the achievement of the projects' goals and the goals of the *Smart Administration* strategy. Seven of the eight audited projects did not achieve the defined goal.

158 This involved the following projects: *Trainees in Companies*, National System of Qualifications 2 and *Keys for Life*.

- Audit no. 14/24 (OP EC) – In the case of some projects, the use of the generated outputs after the completion of project activities is not sufficiently guaranteed, despite their systemic nature and high cost.

  In the *Trainees in Companies* project the MoEYS did not provide any guarantees detailing concrete sources of the funding necessary for further utilisation of the outputs, outcomes and activities of the performed training.

  The Supreme Audit Office considers the CZK 800 million of public money provided under this national project for one-off pilot testing activities to be disproportionate.

- Audit no. 15/06 (OP RDI, OP EC, IOP) – It was found that a project for building a multi-purpose sports facility for the general public supported out of the IOP did not comply with the project goal during its sustainability period. Even though the support was provided solely for a leisure facility that was meant to be used by the public, the renovated multi-purpose facility was mainly used by the project partner and organised groups, while public access was restricted.

  During the sustainability period, science and research centres built with OP RDI finances failed to garner funding for contractual research and international grants in line with the original expectations.

  Shortcomings in the use of project outcomes during the sustainability period were detected in statistical research projects of the MfRD targeting selected tourism segments as, contrary to the project goal, the public did not have access to part of the created database.

- Audit no. 15/10 (IOP) – For assessing and monitoring one project the MfRD chose a monitoring indicator that provided minimal information regarding the defined project goals and thus did not enable monitoring of the progress made. Moreover, the MfRD reported the monitoring indicator on the basis of unrealistic data, so the actual degree of fulfilment of the stipulated objectives in line with the binding IOP documents and conditions under which the funds were provided could not be quantified in this way. The MfRD did not achieve the monitoring indicator's target value by the completion of the project and furthermore did not achieve the defined project goals.

Public procurement and concluding contracts with contractors

Most common errors:

- **lack of transparency when assessing bids;**
- **wrongful use of negotiated procedure without publication;**
- **violation of the principles of non-discrimination and equal treatment;**
- **conclusion of contracts not conforming to the draft presented in the bid;**
- **changes to the subject of the contract during award procedures.**

- Audit no. 14/15 (OP HRE and IOP) – Beneficiaries (from OP HRE) flouted the Act No 137/2006 Coll., on Public Procurement primarily by not holding award procedures in cases where the law clearly requires them. In addition, there was a lack of transparency in the assessment of bids (OP HRE and IOP) or contracts were concluded that did not conform to the draft presented in the bid.

  The SAO also detected the use of funds in contravention of the concluded contract for a job of work.

- Audit no. 14/24 (OP EC) – In the case of an above-the-threshold public contract for "Innovation of the National System of Qualifications Information System", a breach of budgetary discipline involving over CZK 10 million was detected, as the assessment criteria for selecting the contractor were defined in a manner contrary to the transparency principle.

In the case of a public contract for "Purchase of Printed and Online Advertising" in the *Trainees in Companies* project, a breach of budgetary discipline involving almost CZK 1.8 million was detected: the failure to prolong the legal time limit for bids constituted a violation of the Act on Public Procurement.

- Audit no. 15/04 (ROP SW) – One beneficiary was found to display significant deficiencies in the design of assessment criteria for selecting contractors; in several other cases beneficiaries did not comply with legal time limits.
- Audit no. 15/10 (IOP, NIEPP) – The contracting organisation committed serious violations of the Act on Public Procurement: among other things, it failed to stipulate the anticipated value of the public contact in line with the law; when assessing bids from bidders it did not proceed transparently; and it used negotiated procedure without publication without justification and allowed substantial changes in the rights and obligations under the contract, violating the principles of equal treatment and non-discrimination.
- Audit no. 15/14 (OP T07+) – In the case of six construction projects the Railway Infrastructure Administration, state enterprise (RIA), commenced the award procedure at a time when building permission had yet not been issued or even applied for. That gave rise to cases where the valid building permits stipulated certain binding conditions that were not contained in the tender documentation. That frequently led to changes in the valid documents (e.g. projects or signed contracts). According to the RIA, the reason for this was an endeavour to accelerate the construction work, but in reality no acceleration took place, bar a few exceptions.
- Audit no. 15/14 (OP T07+) – In the case of one construction project, a failure to define work correctly meant that the RIA had to repeat the award procedure to select a contractor for additional building work with an expected value of CZK 2.4 million. Consequently, the award procedure commenced in October 2013 was only completed in June 2014. That was one of the reasons why the construction project completion deadline was put back one year.

Miscellaneous

Most common errors:
- **violation of the principles of economy, efficiency and effectiveness (3E principles);**
- **deficiencies in accounting and reporting;**
- **frequent changes to the defined rules;**
- **insufficient absorption capacity.**

- Audit no. 14/15 (OP OP HRE and IOP) – In the case of one project (supported from OP HRE) the MoI approved billing and accepted or paid invoices for activities which were not demonstrably performed and documented or whose factual content was not clear and had no link to the project goal.
- Audit no. 15/04 (ROP SW) – The projects' defined parameters gave insufficient information for assessing efficiency and economy. The managing authority did not use realistic unit prices for the projects' parameters (e.g. m^2 of building area) to define the size of the subsidy, so the provided subsidy amounts were badly out of line with the projects' budgets and paved the way for uneconomical spending.
- Audit no. 14/22 (OP RDI) – Although the MoEYS set very detailed rules for support beneficiaries, it often changed the rules. The changes increased the administrative burden on project management for both beneficiaries and MoEYS staff.

- Audit no. 14/24 (OP EC) – The MoLSA did not assess the economy, efficiency and effectiveness of money spent on the *Trainees in Companies* project.

  Although the allocation was reduced in priority axes 3 and 4 of OP EC during its implementation, the MoEYS failed to fill the hole in CZK billions of planned expenditure with other suitable projects. The amount allocated to priority axes 3 and 4 on the basis of an incorrect estimate was almost halved from the start of implementation to 2013.

- Audit no. 14/37 (OP RDI, OP EC, RDP07+) – Financial flows and the methods for identifying accounting cases were not uniform among the auditees. To a large extent the differences were linked to the different ways entities were involved in financial flows. If intermediate bodies were involved, for example, there were more frequent problems documenting the data necessary for entering certain items in the accounting of the audited ministry.

  The audit identified certain new or persisting systemic risks. These were risks linked to the accounting of conditional receivables from pre-financing, balance-sheet receivables from pre-financing, blanket corrections (financial corrections) and preliminary payments. The audit described problems linked to the reporting of foreign resources financed through the involvement of the reserve fund and drew attention to the low factual content of the information published about the actual cost of the EU's expenditure policies in the Czech Republic.

  Audit no. 15/10 (IOP, NIEPP) – The MfRD did not include costs linked to copyright supervision, training and SW and HW purchasing in the book value of the "National Electronic Tool"[159] information system asset, so the difference between the actual value of the asset and the value set down by the MfRD in account 013 – Software was more than CZK 169 million.

Monitoring and achieving the defined goals of programmes

Most common errors:

- **the actual benefit of projects was not monitored;**
- **no monitoring indicators were set for measuring the outcomes of projects during their sustainability period.**

- Audit no. 15/10 (IOP) – In the case of the project Setup of integrated component for connection of *NIEPP systems to ISBR*[160], the beneficiary used a monitoring indicator that did not provide relevant information for monitoring the project goal of "ensuring current and uniform information on entities in the affected NIEPP systems", which was one reason why the beneficiary did not monitor this project goal properly and did not assess the degree to which it was fulfilled. In addition, the SAO judged the failure to achieve the value of the chosen monitoring indicator *"Number of Non-editing Agenda Information Systems Connected to the Basic Registers"* as a breach of the conditions.
- Audit no. 14/22 (OP RDI) – The support improved the infrastructure of universities. In addition to improving the state of infrastructure the MoEYS set one general goal – putting in place the right conditions for increased and improved staffing for research, development, innovation and practical work. However, the MfRD did not monitor the projects' actual benefit for the quality of human resources for research, development and innovation.
- Audit no. 14/24 (OP EC) – The SAO rated the management and control system at MoEYS level as partially effective. There was only a limited possibility for assessing how the audited projects contributed to achieving objectives at the level of priority axes 3 and 4 of OP EC because relevant monitoring indicators did not exist.

159 National Electronic Tool is an information system designed for registration of public procurement for commodities which are difficult to standardize.

160 Information System of Basic Registers.

- Audit no. 14/32 (OP T07+) – The Ministry of Transport (MoT) defined the project goals without specifying factual content and timing; it did not specify how indicators were to be measured; and it paid no attention to the project's cost-effectiveness or the impact that postponing the completion deadlines of certain related projects would have on achieving the goals of the project itself. Consequently, the MoT failed to put in place the right conditions for objective assessment of the effectiveness and efficiency of support for the construction of the Prague metro.
- Audit no. 15/06 (OP RDI, OP EC, IOP) – The MoEYS did not sufficiently bind OP RDI support beneficiaries to ensure the sustainability of scientific research centres, as it defined no mandatory monitoring indicators for measuring the outcomes of projects during the sustainability period.

  The MoEYS has no information on how many new jobs in science and research were demonstrably created.

Project assessment and selection system

Most common errors:
- **when assessing projects managing authorities did not take into account the sustainability aspect,**
- **managing authorities did not ensure that the final overall assessment contained information linked to assessment of the proportionateness and economy of projects.**

- Audit no. 14/15 (OP RDI and IOP) – The selection and assessment of *Smart Administration* projects followed the OP RDI and IOP rules, but the selection process was not categorically linked to the goals of the *Smart Administration* strategy.
- Audit no. 14/22 – OP RDI – The MoEYS did not have a complete overview of the state and utilisation of existing devices, apparatus and technologies in individual universities that could be used to assess universities' applications for support for the acquisition of new equipment.
- Audit no. 14/24 (OP EC) – The MoEYS did not ensure that the drawn up substantive assessments of national projects was complete and contained information in the final overall assessment linked to the assessment of the projects' proportionateness and economy. When assessing national projects the MoEYS did not take into account the sustainability aspect.
- Audit no. 15/04 (ROP SW) – In some substantive assessments of projects there was no justification for the scores allotted by the assessors. Significant differences were found in the allocation of points by different assessors. The findings indicated that the projects were not assessed objectively.

Control system

Most common errors:
- **irregularities in the performance of administrative verifications and on-the-spot verifications by ministries and in the planning of control work.**

- Audit no. 14/24 (OP EC) - The MoEYS committed errors when performing administrative verifications and on-the-spot verifications, as it failed to detect public procurement shortcomings and ineligible expenditure (almost CZK 19 million in total). As the subsidy provider, the MoLSA completely failed to check on the finances it provided to support the *Trainees in Companies* project.
- Audit no. 15/06 (OP RDI, OP EC, IOP) – During the sustainability period the MoEYS did not perform any monitoring and control of scientific centres funded under OP RDI.

When planning sustainability checks under OP EC and OP RDI it did not perform suitable risk analysis for selecting project samples for sustainability checks and did not even draw up any specific procedures for these checks.

Progress in the adoption of corrective measures linked to the SAO's findings in the field of structural policy

In the case of all the SAO's audit conclusions discussed by the Czech government appropriate measures to remedy the detected shortcomings were adopted and the government instructed the responsible entities (ministries) to execute the measures.[161] In the SAO's estimate, 85% to 95% of the corrective measures were implemented. The SAO will conduct follow-up audits to check whether the shortcomings have actually been remedied.

Regarding the discussion of the audit conclusion from audit no. 14/32, the SAO had fundamental comments to make on the material the MoT put into external consultation. A meeting was therefore held between an SAO member, the audit coordinator and representatives of the MoT, at which corrective measures the SAO considers sufficient were agreed on.

In some cases auditees do not agree with the SAO's findings. It is very hard to resolve fundamental disagreements in the subsequent meetings held by the Czech government to discuss the audit conclusion. The previous period involved the audit conclusions from audits nos. 14/24 and 15/06, when agreements on the scope of corrective measures to be adopted were only reached after several working meetings.

In audit no. 15/06 the SAO regarded the fact that the outputs and outcomes of costly projects were not fully utilised as a serious error in the drawdown of European finances. The MoEYS was guilty of ineffective spending of public money to the tune of CZK 242 million in total under three systemic projects. Although the MoEYS did not agree with the SAO's opinion on the contentious utilisation of the implemented projects, it adopted corrective measures for the following programming period consisting in a fundamental change to how projects for implementation are assessed and approved. According to the ministry, projects with contentious purposes and impacts should no longer take place.

D.2.3 Annual reports and opinions of the Audit Body

In accordance with Article 123 of Regulation (EU) 1303/2013 of the EP and of the Council the Audit Body began its audit work for the 2014-2020 programming period with "designation audits"[162]. According to information provided by the AB in March 2016, no designation audit had been completed with a final report and pronouncement by that date. Most of the designation audits were at various stages of progress in March 2016. In one case a managing authority had not yet requested an audit. The rate of progress in designation audits differed from the original expectations partly because of the influence of the Commission: most notably its requirements for the period necessary for approving programmes and issuing the implementing legislation and methodological instructions for designing the related management and control systems and some Commission requirements for changes in entities in the implementation structure.

Another factor was the degree of readiness of some programme managing authorities, meaning the time necessary for bringing their management documentation into line with legislation of the European Union and Czech Republic and the single methodological environment for 2014-2020. In addition, the degree of readiness of the PCA and, in particular, the readiness of the MS2014+ monitoring system for performing designation audits played a significant role.

161 These were the audit conclusions of audits nos. 14/15, 14/22, 14/32, 14/37 and 15/02.

162 Based on Czech government resolution no. 612 of 21 July 2014, the Audit Body for the 2014-2020 programming period was established as an independent audit entity verifying managing and certifying authorities.

It is a reasonable assumption that the reports from designation audits and the results of the PCA audit and audit of the MS2014+ monitoring system will be sent to the Commission during the third quarter of 2016.

In the assessments of the OPs' management and control systems from the 2007-2013 programming period it was stated that these systems improved in 2015 over the previous year. An opinion with reservation was issued for ten OPs. In every case the reservation concerned **insufficient management control (Article 60(b) of Council Regulation (EC) 1083/2006 and Article 13(2) of Commission Regulation 1828/2006); in one case the reservation also concerned insufficient risk prevention and risk management.** In addition, the negative assessment of the administration of public procurement and ineligibility of expenditure continues to apply. One positive declared by the Audit Body is that measures based on recommendations from the audits are being adopted to remedy the situation.

The remaining nine OPs were signed off without reservation (in 2014 only five OPs received an opinion without reservation).

Table 7 - Results of the assessment of programmes' management and control systems for the 2007-2013 programming period by the Audit Body for 2015

Programmes in period 2007–2013	Opinion	Error rate (%)
OP *Technical Assistance*	With reservation	16.20
ROP *Central Moravia*	With reservation	9.25
ROP *South-West*	With reservation	5.45
OP *Prague-Competitiveness*	With reservation	4.03
OP *Fisheries 2007–2013*	With reservation	3.66
ROP *Central Bohemia*	With reservation	2.84
OP *Environment*	With reservation	2.62
ROP *North-West*	With reservation	2.61
OP *Enterprise and innovation*	With reservation	2.29
Intergrated Operational Programme	With reservation	1.69
ROP *South-East*	Without reservation	1.39
OP *Education for Competitiveness*	Without reservation	1.12
OP *Prague - Adaptability*	Without reservation	0.74
OP *Human Resources and Employment*	Without reservation	0.68
OP *Cross-border Cooperation Czech Republic - Poland 2007–2013*	Without reservation	0.63
ROP *North-East*	Without reservation	0.57
OP *Transport*	Without reservation	0.38
OP *Research and Development for Innovation*	Without reservation	0.16
ROP *Moravia-Silesia*	Without reservation	0.04

Source: Annual reports and opinions of the Audit Body for 2015 issued pursuant to Article 62(1)(d)(ii) of Council Regulation (EC) 1083/2006 and Article 18(2) of Commission Regulation (EC) 1828/2006.

D.2.4 Audit work by EU authorities in the CR

ECA Annual Report on the Implementation of the Budget for 2014

In the *Competitiveness for Growth and Jobs* and *Economic, Social and Territorial Cohesion* chapters of its Annual Report on the Implementation of the Budget the European Court of Auditors presented audit findings that correspond to the findings of audits done by the SAO in the field of structural policy in the CR. The ECA also gave examples of serious failings. Some of these are presented in the boxes[163] below.

***Competitiveness for Growth and Jobs* chapter**

Based on the quantified deficiencies the ECA estimated the error rate in 2014 at 5.6%, an increase of 1.6 of percentage point over 2013. In the field of research and innovation the ECA identified incorrectly calculated personnel costs and other ineligible direct costs, such as unsubstantiated travel expenses or equipment costs. It also found ineligible indirect costs based on erroneous overhead rates or including ineligible cost categories not linked to the project.

Example: significant errors in costs declared for reimbursement by an SME in a research and innovation project linked to the Seventh Research Framework Programme (7th RFP)

The ECA found that costs of €764,000 declared by an SME working with 16 partners on renewable energy project financed out of the 7th RFP were almost entirely ineligible. The SME owner charged an hourly rate well above the rate set in the Commission guidelines. The ECA also detected sub-contracting costs which were neither an eligible component of costs nor procured by means of a tendering procedure. The declared indirect costs included ineligible items, were based on estimates and could not be reconciled with the beneficiary's accounting records.

***Economic, social and territorial cohesion policy* chapter**

On the basis of the quantified errors the European Court of Auditors estimated the total error rate at 5.7%[164]. In this case there was a slight fall in the error rate of 0.2 of percentage point compared to 2013. For the employment and social affairs policy area the proportion of transactions with public procurement procedures is much lower than for regional and urban policy area. Errors in this policy area were mainly ineligible expenditures.

Errors concerning *Cohesion policy* as a whole stemmed mainly from breaches of the public procurement rules, which represented almost half the estimated error rate. These was followed by ineligible expenditure, infringements of the state aid rules and selection of ineligible projects. Examples of serious failures to comply with public procurement rules included first of all unjustified direct award of contracts, additional building works or services, unlawful exclusion of bidders and cases of conflict of interests and discriminatory selection criteria.

Example: unjustified direct award of a public contract for building work

In one project related to the reconstruction and upgrade of a motorway section of a TEN-T road network, the contracting authority negotiated directly a contract with one company without a prior call for competition. This procedure does not comply with either the EU rules or the national legislation on public procurement and the declared expenditure for this contract is thus ineligible.

Ineligible expenditure is another leading cause of errors. This includes expenditure declared outside the eligibility period, overcharged salaries, costs not related to the project, non-compliance with national eligibility rules and revenue generated by the project but not deducted.

Example: ineligible expenditures declared

In an ERDF project paid out in the Czech Republic related to the extension and reconstruction of a tramway track some of the invoices declared for co-financing were incurred and paid before the project's eligibility start date. A similar case was found in a different project in Germany.

163 The findings relating to the CR are in bold.

164 Includes *Regional and Urban Policy* with a total error rate of 6.1% (year-on-year fall of 0.9 percentage points) and Employment and Social Affairs with a 3.7% error rate (year-on-year increase of 0.6 percentage points.

ECA special reports

The following pages contained selected examples of findings from the ECA's special reports entirely or partially concerning the SF and CF and explicitly mentioning entities, projects or expenditure in the CR.

Special Report No. 2/2015[165]

The European Court of Auditors analysed progress in the implementation of the waste water treatment directive in the Danube basin (CR, Hungary, Romania and Slovakia) and, for a sample of 28 EU-co-financed waste water treatment plants, the performance of technology in treating waste water. It was found that at the end of 2013 in the CR, Hungary and Slovakia a large portion of the EU and national finances earmarked for funding investment in waste water treatment had not been committed (projects had not been approved). The slow implementation pace implies a risk that the EU funds available will not be fully absorbed by the end of 2015. In view of the significant differences between targets set and 2013 implementation levels, the ECA considered that some of the targets were clearly over optimistic. For example, in the case of the CR achievement of the indicator as at 31 December 2013 was just 27%, i.e. 94 out of 350 waste water treatment plants (number of new, rehabilitated and intensified plants).

Special Report No. 10/2015[166]

The European Court of Auditors examined whether the Commission and Member States are taking appropriate and effective actions to address the problem of public procurement errors in the area of cohesion policy. Errors could partly have stemmed from differences in the interpretation of the legislation. In the Czech Republic, for example, different interpretations of the same issue between different bodies (e.g. managing authorities, audit authorities, the SAO, public procurement offices, the Commission) led to differing audit results and legal uncertainty. Some Member States put in place rules at national level that go beyond the EU directives regarding certain aspects of public procurement. In the CR, for example, national law sets a 20 % limit for increasing the value of a contract due to unforeseeable circumstances, in contrast to the 50 % limit set in the EU directive. The report declared that 12 of the 28 Member States had not fulfilled the public procurement conditions at the start of 2015. That number included the CR which, because of shortcomings in its management and control systems, drew up an action plan as required by the Commission and made improvements.

Special Report No. 16/2015[167]

The European Court of Auditors found that the EU's objective of completing the internal energy market by 2014 was not reached. Energy infrastructure in Europe is generally not yet designed for fully integrated markets and therefore does not currently provide effective security of energy supply. One of the indicators for a well-functioning internal energy market would be relatively small wholesale price differences of energy between neighbouring countries and within regions. The electricity wholesale prices have not converged between Member States, however. The highest wholesale price is more than 85% higher than the lowest. Substantial differences can be noted between some neighbouring Member States, e.g. between the Czech Republic (€33/MWh) and Poland (€44/MWh).

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165 Special Report No. 2/2015 – *EU-funding of Urban Waste Water Treatment plants in the Danube river basin: further efforts needed in helping Member States to achieve EU waste water policy objectives*.

166 Special Report No 10/2015: *Efforts to address problems with public procurement in EU cohesion expenditure should be intensified.*

167 Special Report No. 16/2015 – *Improving the security of energy supply by developing the internal energy market: more efforts needed*.

Special Report No. 23/2015[168]

The ECA audit focused on four Member States in the Danube basin (CR, Hungary, Romania and Slovakia) to see whether the Member States' implementation of the water framework directive lead to an improvement in water quality. None of the four member states had measures targeting specific substances, but even so the progress in terms of secondary treatment of urban waste water from agglomerations equal to or above 2,000 over the period 2007-2012 was significant. At the end of 2012 99% of urban waste water from agglomerations in the CR fulfilled the emission limits set by the directive (an improvement of 73 percentage points).

It is clear from these examples that the ECA found shortcomings in the achievement of goals declared in connection with the supported activities..

Audit missions of the European Commission in the CR in 2014 and 2015

The relevant directorates general of the Commission conducted a total of nine missions in 2014 and 2015 to audit selected OPs[169] or the PCA. The principal purpose of these missions was to gain assurances about the effective working of the audited operational programmes' management and control systems.

The Commission identified deficiencies in connection with the declaration of ineligible expenditure in operational programmes. The Payment and Certifying Authority was found to have procedural shortcomings and disproportionate procedures in audit of the recovery of finances. The shortcomings the Commission identified in its previous years' audits in the CR were again repeated in 2014 and 2015. Annex 5 contains a list of the Commission's audit missions in the CR.

D.3 EU Common Agricultural Policy and Common Fisheries Policy

D.3.1 Current developments in Common Agricultural Policy

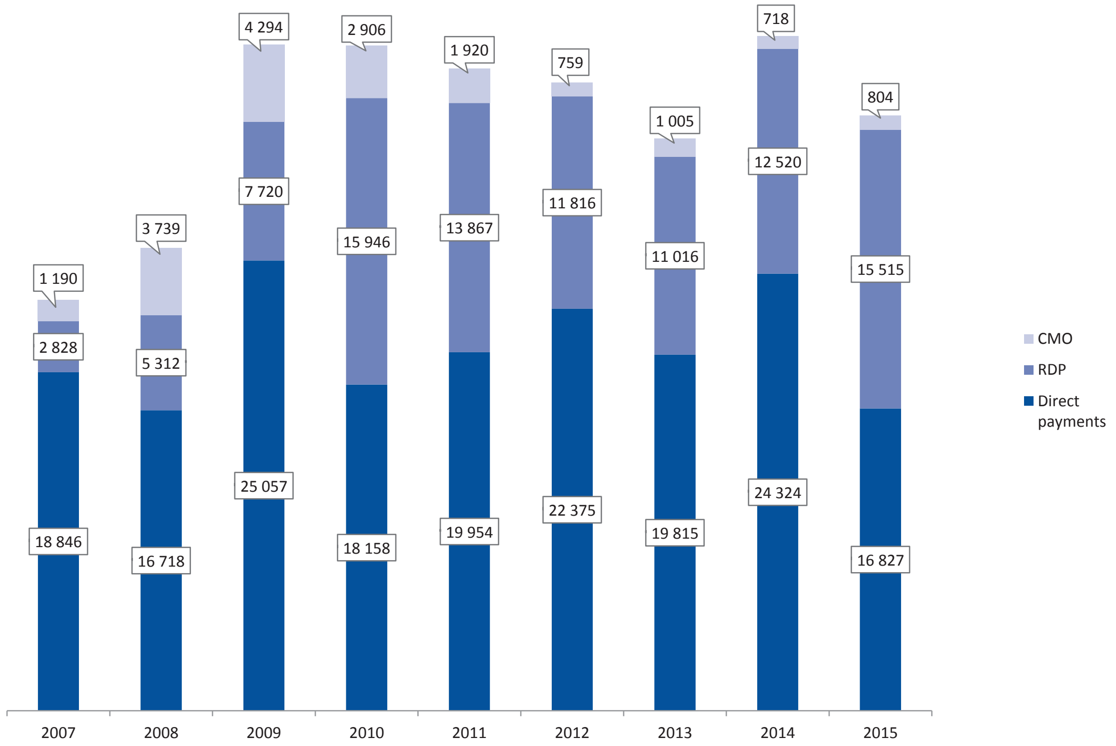
Approximately 40% of the EU budget goes on the CAP. The main reason for such a large share is the fact that the CAP is predominantly financed by the European Union and not by national budgets. Spending on the CAP is financed out of the *European Agricultural Guarantee Fund* (direct payments and common market organisation) and *European Agricultural Fund for Rural Development* (RDP subsidies).

The amount paid out in subsidies in the CR in the main areas of the CAP for the years 2007–2015 is shown in the following graph.

168 Special Report No. 23/2015 – *Water quality in the Danube river basin: progress in implementing the water framework directive but still some way to go*.

169 The audits targeted ROP South-West and ROP *Moravia-Silesia* (Commission Directorate General for Regional and Urban Policy) and OP F07+ (Commission Directorate General for Fisheries).

Graph 17 – Finances paid out under the CAP in the years 2007–2015 (CZK million)



Source: SAIF annual reports for the years 2007-2014; SAIF materials, March 2016 – CAP Budget for 2015 and Drawdown as at 31 December 2015.

NB: The amounts do not include payments under the *Horizontal Rural Development Plan* (the precursor to the RDP in the 2004-2006 programming period).

As the graph shows, since 2009 the total amount of subsidies paid out for the CAP has ranged from CZK 32 billion to 37 billion per annum. Direct payments are the biggest category of support in financial terms. They range from CZK 17 billion to 25 billion. In second place in the volume of CAP subsidies disbursed in the CR is the rural development area, in which flat-rate measures, i.e. claim-based support, take up the most funding.

According to SAIF data, **in 2015** almost CZK 33.19 billion was paid out in the CR under the CAP, with EU funding accounting for the equivalent of approx. CZK 28.21 billion of that and the national share standing at CZK 4.98 billion.

Table 8 – Overview of finances paid out in the main areas of the CAP for 2015 (CZK million)

Expenditure area	CR	EU	Total
Direct payments	846.28	15 980.25	16 826.53
Common Market Organisation	350.44	453.89	804.33
Rural Development Programme*	3 772.63	11 742.61	15 515.24
Horizontal Rural Development Plan	9.51	30.12	39.63
Total	**4 978.86**	**28 206.87**	**33 185.73**

Source: SAIF materials, March 2016 – CAP Budget for 2015 and Drawdown as at 31 December 2015.

NB: * Including claim-based payments disbursed out of the RDP14+, i.e. CZK 1,129.6 million.

Direct payments

In terms of the amount of finances paid out, direct payments have been the biggest category of funding that is channelled into Czech agriculture from the EU since 2004.

Since 2015 there have been changes in the disbursement of direct payments linked to the CAP reform from 2013. The reform comprises a number of new elements, such as the active farmer criterion, which are intended to ensure payments are only provided to entities that actually perform farming. At the same time, the nature of direct payments is changing into a multi-component payment including both compulsory payments and voluntary payments. The biggest compulsory component in terms of volume (at least 50% of the annual envelope[170]) remains the single area payment scheme (SAPS), which is paid out to farmers per hectare of farmed land registered in the *Land Parcel Identification System* and is fully covered by EU funding. Other compulsory components of direct payments are the payment for farming practices beneficial to the climate and environment, known as greening, which makes up 30% of the envelope for direct payments, and the payment for young farmers, which is paid out as a 25% bonus on top of the SAPS payment. Coupled support provided to sensitive sectors of plant and animal production is a voluntary component. From the state budget farmers receive transitory national aid to top up the level of direct payments in new Member States for selected commodities that are disadvantaged in SAPS. This payment replaces the former national Top-Up payment. The provision of direct payments is dependent on compliance with good agricultural and environmental conditions and statutory management requirements.

Almost €5.2 billion is earmarked for direct payments for the 2015-2020 period. The annual envelope for direct payments is the equivalent of roughly CZK 23 billion. Now Member States are allowed to adjust the envelope defined for direct payments in favour of the RDP, i.e. to transfer to the RDP as much as 15% of the direct payments envelope. The Czech Republic made use of this option, deciding to transfer on average 2.5% per annum to RDP14+ for the years 2015-2019. The value of this transfer in 2015 was CZK 800 million.

In 2015 farmers received both direct payments based on applications from previous years (including the now abolished separate sugar payment and separate payments for tomatoes) and payments based on applications from 2015. These were advances of up to 70% on the SAPS payment.

Table 9 – Overview of finances paid out on direct payments in 2015 **(CZK million)**

Direct payments	CR	EU	Total
SAPS	0	12 663.07	12 663.07*
Separate sugar payment	0	1 198.36	1 198.36
Separate tomato payment	0	11.24	11.24
Extra support	0	1 529.10	1 529.10
Temporary inner-state support	846.28	0	846.28
Financial compensation[171]	0	578.49	578.49
Total	846.28	15 980.26	16 826.54

Source: SAIF materials, March 2016.

NB: * CZK 11,483.3 million was paid out to applications from 2015 and CZK 1,179.8 million to applications from previous years.

Compared to 2014, spending on direct payments in 2015 was CZK 7.5 billion lower, a reduction of over 30%. The reason for that is the changes to and new conditions of the CAP that impacted

170 Annual framework allocation for direct payments.

171 Financial discipline compensation. Paid out of financial reserve which was gained in 2014 out of applications for 2014. Roughly 18,000 beneficiaries were paid out of this reserve.

on the administration of support and the subsequent delay in payments to farmers. Payments to young farmers, greening payments and transitory national aid were not paid out until the start of 2016. There was a pronounced reduction in SAPS payments compared to 2014. While the MoA provided roughly CZK 22.4 billion for SAPS in 2014, in 2015 the figure was CZK 12.6 billion.

The total volume of direct payments remains roughly the same however, because the lower SAPS amount is topped up by the newly established payments.

Penalties

In 2015 the Commission penalised the Czech Republic (imposing a financial correction) based on the result of a completed audit. The penalty of almost €29.49 million, i.e. approx. CZK 810 million, was for inadequate direct payments cross-compliance conditions. According to the Commission, from 2010 to 2013 the MoA insufficiently checked compliance with certain conditions for the provision of subsidies in the fields of the environment, health and good animal living conditions. The Commission audit found, for example, that Czech supervisory authority inspectors did not check whether farmers were updating their registers of farm animals and announce transfers of animals in good time. The Czech Republic used its right to file a petition for conciliatory proceedings, which were held in October 2015. The Commission has stuck to its original opinion, however, and is demanding the CR pay back the money. The Ministry of Agriculture is preparing an action for the declaration of the financial correction as null and void in collaboration with the Office of the Agent for the Czech Republic before the European Court of Justice.

Common Market Organisation

Common Market Organisation (CMO) applies to agricultural primary produce and products of first-stage processing and is intended mainly to stabilise agricultural produce markets and secure incomes for farmers. Various instruments are used to this end, such as financial aid, subsidies, production quotas, intervention purchasing, aid for storage and support for the promotion of agricultural products.

Quota-based regulation of the milk market ended on 31 March 2015. With the expiry of the milk quotas system, a process to put in place a new system for monitoring the market production of milk in the EU was launched. In this context, since 1 April 2015 all entities doing business in the CR and buying milk from producers have been obliged to register with the SAIF as “first buyers”. First buyers are obliged to monitor and keep records of supplies of milk from producers and must inform the SAIF monthly about executed supplies. Because of the expiry of milk quotas, temporary extraordinary measures for the milk and dairy products sector were adopted in 2015 in the form of buying-in and private storage of butter and dried skimmed milk and temporary aid for dairy cow breeders designed to compensate for the low purchase prices of milk.

Following the announcement of the Russian embargo on imports of selected agricultural products from the EU, in 2015 an exceptional safety-net measure was adopted to mitigate the harm to certain exporters in the fruit and vegetables, dairy products and cattle and pig breeders and is introducing measures for private pigmeat storage.

Like other Member States, the Czech Republic makes use of support from EU funds to promote its own agricultural products. These are promotional programmes designed to improve the marketing and sales of agricultural and food industry products. In 2015 programmes were run to promote milk and rape-seed oil consumption in the CR, to promote the protected designation of origin in the CR and Slovakia and to promote high-quality European dairy products in Russia and Ukraine.

The largest amount of CMO finances go on financial aid, however, most notably under the programmes *Fruit and Vegetables in Schools, Support for School Milk Consumption* and *Improving the Production of Apiculture Products and Placing Them on the Market*.

Table 10 – Overview of finances paid out on CMO in 2015 **(CZK million)**

CMO measures	CR	EU	Total
Financial support	121.14	278.97	400.11
Subsidies and levies	122.94	142.96	265.90
Export subvention	0.00	0.00	0.00
Intervention purchases [172]	87.15	0.00	87.15
Support of agricultural products	19.18	31.96	51.14
Other related expenditure [173]	0.03	0.00	0.03
Total	**350.44**	**453.89**	**804.33**

Source: SAIF materials, March 2016.

Compared to 2014, spending on CMO increased by roughly CZK 86 million. This mainly involved increased aid to fruit and vegetables producers. The adoption of temporary exceptional support in the area of the milk and dairy products market, the pigmeat market and the fruit and vegetables market will not have a financial impact until 2016.

Rural Development Programme

Rural Development Programme of the CR for 2007–2013

Implementation of RDP07+ and the phasing-out of the programme with the primary objective of utilising the full allocation went ahead in 2015. In October 2015 the MoA, with the Commission's consent, performed the 12th modification of the programme in order to reallocate finances from measures where the financial allocation was not fully utilised to measures where the budget had already been used up. In particular, flat-rate measures under axis II were financially strengthened. Spring 2015 brought the last round of receipt of applications in an endeavour to utilise the full allocation, mainly in investment in agricultural property. The eligibility of expenditure from the RDP07+ budget expired on 31 December 2015.

All commitments for which there was not a sufficient allocation in RDP07+ and payment applications submitted in 2014 for agri-environmental measures (AEMs) were disbursed out of the RDP14+ budget in 2015. Payment applications in less favourable areas (LFAs) submitted in 2014 were partially reimbursed out of the RDP07+ budget in 2015 and, after that was exhausted, out of RDP14+.

Table 11 – Overview of finances paid out of RDP07+ in 2015 **(CZK million)**

Axis RDP		CR	EU	Total
I.	**Improving competitiveness of agriculture and forestry**	1 263.22	3 683.56	4 946.78
II.	**Improving environment and landscape***	1 266.24	3 798.72	5 064.96
III.	**Quality of life in rural areas and diversification of rural economy**	413.82	1 651.48	2 065.30
		398.60	1 195.78	1 594.38
IV.	**Leader**	123.32	490.79	614.11
V.	**Technical assistance**	25.04	75.12	100.16
Total		**3 490.24**	**10 895.45**	**14 385.69**

Source: SAIF materials, March 2016.

NB: *reimbursement of single applications in 2014 out of the RDP financial envelope for the RDP14+.

172 In the case of intervention purchases and private storage of milk products and pig meat, receipt of applications was carried out at the end of 2015 and the beginning of 2016. The expenditures have not been realised yet. The expenditure CZK 87.15 million is a repayment of a loan for intervention purchases.

173 Other expenditure related to CMO is transfer of expired share from returned subsidies.

In total, there were 23 rounds of receipt of applications during the RDP07+ implementation period. The last two rounds were aimed at investment projects that could implemented in the shortest possible time so that the maximum volume of available finances was utilised. The total allocation was almost fully committed and paid out at the end of 2015.

Thanks to support under RDP07+, more than CZK 95 billion was disbursed to beneficiaries for both investment and flat-rate measures combined.

The following tables present a more detailed overview of subsidies paid out to beneficiaries under RDP07+ as at 31 December 2015 and an overview of RDP07+ drawdown.

Table 12 – Overview of finances paid out to beneficiaries under RDP07+ in the years 2007-2015 **(CZK million)**

Axis RDP	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total in 2007-2015
I	100.00	781.50	2 607.36	3 706.63	3 583.76	3 165.48	1 518.53	2 077.90	4 946.78	**22 487.93**
II	2 727.54	4 064.92	2 968.43	8 277.18	7 054.69	5 756.26	6 497.95	7 399.31	7 130.26	**51 876.52**
III	0.00	451.28	1 977.18	3 218.14	2 117.17	1 945.51	2 127.30	2 116.61	1 594.38	**15 547.57**
IV	0.00	8.41	141.46	710.40	1 069.84	903.17	812.67	870.45	614.11	**5 130.50**
V	0.00	6.13	25.17	34.16	41.22	45.15	59.84	55.73	100.16	**367.55**
Total	**2 827.54**	**5 312.24**	**7 719.60**	**15 946.50**	**13 866.67**	**11 815.56**	**11 016.29**	**12 520.00**	**14 385.69**	**95 410.07**

Source: SAIF materials, March 2016.

Table 13 – Overview of total value of allocation drawdown in the axes of RDP07+ as of 31 December 2015

Axis RDP	Allocation RDP07+ (EU ratio)	Paid out to beneficiaries (EU ratio)	
	(€ thousands)	(€ thousands)	%
Axis I.	654 691.47	654 629.85	99.99
Axis II.	1 590 276.43	1 588 462.12	99.89
Axis III.	442 365.05	442 043.06	99.93
Axis IV.	159 673.38	158 805.53	99.46
Axis V.	10 500.02	10 458.45	99.60
Total	**2 857 506.35**	**2 854 399.01**	**99.89**

Source: MoA materials, March 2016.

In collaboration with the Commission, the CR managed to ensure that over 99% of the programme allocation was utilised. The closure of the programme, in other words the sending of the RDP07+ closure declaration, must be done by 30 June 2016. The same deadline applies to the submission of the last annual progress report. The MoA must send the Commission an ex-post assessment by 31 December 2016. The Commission blocks 5% of the RDP07+ budget until the programming period is closed. The remaining amount is expected to be sent in April 2017.

Rural Development Programme for 2014–2020

In May 2015 the Commission approved the RDP14+ programming period, which targets rural development, innovation by agricultural enterprises, support for young people entering farming and improving the environment through the renewal, preservation and enhancement of ecosystems linked to agriculture and forestry.

A total of €3.07 billion was allocated to the implementation of RDP14+ in the CR, with the EAFRD contributing almost €2.31 billion of that. Consequently, Czech agriculture and rural areas can obtain roughly CZK 97 billion over a seven-year period, CZK 63 billion of that from the European Union. Roughly €2 billion is earmarked for flat-rate measures (claim-based payments), i.e. 65% of the RDP14+ budget. Remaining approx. €1.07 billion goes towards project measures.

The first round of receipt of subsidy applications took place in September 2015. It concerned **project measures** focusing on investments in tangible assets, investments in the development of forestry areas and improving the viability of forests and support for the development of new products and agricultural product processing techniques and technologies under *Cooperation* measures. In total, 3,040 applications for subsidies amounting to almost CZK 11 billion were submitted. The greatest interest was in measure 4.1.1 *Investment in Agricultural Enterprises*. The SAIF recommended a total of 2,446 applications worth CZK 7.24 billion for co-financing.

The allocation for the first round of receipt of applications totalled CZK 5.39 billion, with CZK 3.28 billion going towards measure 4.1.1. Because of the large overhang of submitted applications, especially in measures 4.1.1 and 4.2.1, the total allocation was increased to CZK 7.46 billion.

Table 14 – Overview of applications for subsidies from RDP14+ submitted in the first round (projects)

Measure/ operation / project	Registered applications		Recommended applications	
	Number	Subsidy amount (CZK million)	Number	Subsidy amount (CZK million)
4.1.1 *Investment in agricultural enterprises*	2 233	7 961.0	1 746	4 553.0
4.2.1 *Processing of agricultural products and their introduction to the market*	420	1 172.4	396	1 109.0
4.3.2a *Forest infrastructure- investment into forest pathways*	186	568.5	107	343.7
8.6.1a *Technique and technology for forest industry – machinery purchase*	167	115.5	167	115.5
16.2.2 *Support for development of new products. procedures and technology for processing of agricultural products and their introduction to the market (Food innovation)*	34	1 155.2	30	1 123.3
Total	**3 040**	**10 972.6**	**2 446**	**7 244.5**

Source: MoA materials, March 2016.

Administrative verification and the awarding of points to the submitted applications is currently (as of April 2016) taking place, with approval expected in August 2016. No payment applications under RDP14+ were therefore paid in 2015.

The receipt of applications for RDP14+ **flat-rate measures** submitted in the form of a single application took place in May 2015. In total, almost 34,000 applications (figure from March 2016) were submitted, requesting more than CZK 8 billion. Applications for agri-environment-climate measures (AECMs) and measures for areas with natural or other specific constraints (less favoured areas, LFAs) made up most of the submitted applications.

Table 15 – Overview of applications submitted for RDP14+ flat-rate measures in 2015

Measure	Number of submitted applications	Requested subsidy (CZK million)
M08 *Forestation*	35	3.6
M10 *Agri-environmental climate measures*	14 818	3 438.0
M11 *Ecological agriculture*	4 100	1 397.0
M12 *Payments within Natura 2000 network and according to directive on water*	424	118.0
M13 *Payments for areas with natural or other special restrictions*	13 808	2 434.0
M14 *Fair living conditions for animals*	812	751.0
Total	**33 997**	**8 141.6**

Source: MoA materials, March 2016.

CZK 1.13 billion was paid out in total on RDP14+ flat-rate measures in 2015. At the same time, ongoing RDP07+ commitments from the previous period are being financed out of budget allocated for this period.

D.3.2 The SAO's audit work in the field of the CAP in the period under scrutiny

In 2015 the SAO performed **audit of rural development programme projects**[174] in which it focused on progress towards the RDP07+ objectives, programme management and its influence on the effective implementation of projects, and the achievement of the purpose and sustainability of 120 selected investment projects that received over CZK 375 million in subsidies.

The Supreme Audit Office scrutinised the defined conditions for the provision and use of subsidies and found that the designed rules made it possible to finance certain projects in an uneconomical and inefficient manner. Projects that did not modernise agricultural enterprises and did not promote enterprise, tourism development and the renewal and development of villages were supported. For example, RDP07+ subsidies were used to build biomass boilers in houses (where the subsidiary beneficiary could moreover, after a five-year sustainability period, offer the owners of houses the buy-back of boilers with a purchase price in the hundreds of thousands of koruna for the token price of CZK 10), and money earmarked mainly for educational trails was in some cases used to build observation towers or arbours. The Ministry of Agriculture (or SAIF) also paid for the construction of a silage channel that was never used for animal production and was never meant to. The MoA also funded the construction of buildings for animal production without checking whether the applicants' requirements for the size and capacity of the buildings matched their actual needs.

The MoA put in place poorly designed conditions for subsidy drawdown, as it made it possible to support projects that in some cases did not contribute to the development of enterprise and in no way served the development of rural areas and agriculture.

The conditions for project selection were primarily based on effectiveness or economy. When selecting projects, however, the MoA in some cases overlooked their effectiveness and did not take into account applicants' real requirements and the quality and subsequent benefit of projects. The SAO's audit conclusion indicated that the MoA should pay closer attention to defining eligible expenditure in connection with the nature of the measure and the level of the individual outlays done by beneficiaries.

Besides poorly designed conditions for subsidy provision, the MoA also set unrealistic key indicator values for the programme's outputs and outcomes and had to adjust them significantly

174 Audit no. 14/26 – *Funds spent on the projects of the Rural Development Programme*.

(e.g. it hugely cut the number of jobs created indicator from 22,000 to 2,020). Furthermore, the MoA did not possess sufficient and sufficiently timely information for assessing the programme's progress and effectiveness, so it was unable to assess the effectiveness of the subsidies and adjust its strategy as necessary.

The SAO recommended that the MoA modify the subsidy conditions for the 2014-2020 programming period so that they enabled the selection of high-quality and beneficial projects that would support rural development and so that the risks of uneconomical and inefficient use of public money and its misuse by beneficiaries were minimised.

In addition, the SAO found shortcomings in the SAIF's control work when administering subsidy applications and payment applications. The SAO rated the SAIF's control system as partially effective as regards the audited sample of projects. As a result of incorrectly performed control work the SAIF reimbursed beneficiaries for ineligible expenditure worth CZK 8.5 million, which was reported to the relevant financial office as a suspected breach of budgetary discipline. The error rate in the SAIF's control work amounted to 2.28% of the audited volume.

In the case of subsidy beneficiaries it was found that two of them did not conserve the project outcomes throughout the sustainability period and one beneficiary was reimbursed for a significantly greater quantity of building material than could have been used in reality and for other building material than that invoiced.

Based on the audit conclusion from this audit, **the MoA and SAIF adopted measures to eliminate the identified shortcomings, including deadlines for their execution**. When discussing the audit conclusion the government instructed[175] the agriculture minister to execute the adopted measures and to inform the government about their execution by 31 March 2017. **The adopted measures are mainly systemic and relate to the 2014-2020 programming period.** The measures largely concern changes in the rules for providing subsidies out of RDP14+ in the sense of abolishing certain measures and certain specific conditions (e.g. scrapping financing in the form of leasing, preventing the submission of several subsidy applications for one operation in one round). Other changes are intended to help improve the assessment of practicality, necessity and effectiveness when selecting projects, the limits on eligible expenditure, public procurement conditions and penalties. In addition, the MoA undertook to adopt measures in RDP management, most notably in risk management, the design and monitoring of output and outcome indicators, assessing progress towards the RDP measures' goals and continuous assessment of the programme's progress and effectiveness.

In 2015 the SAO also conducted an **audit**[176] **targeting the procedure and results of the MoA and SAIF when performing land consolidation** co-financed out of RDP07+. In the years 2007-2014 the MoA spent a total of CZK 13 billion from EU sources and the state budget on land consolidation (EU funding accounted for 34% of the total investment in land consolidation). The audit results showed that RDP finances were not drawn down evenly across the programming period, which slowed down the execution of the approved land consolidation. The uneven drawdown was mainly caused by the poorly designed rules for providing subsidies out of the RDP and by institutional changes.

The actual execution of the proposed land consolidation has long been very slow in the Czech Republic. Since 1995, only 9% of the proposed measures (measures intended to make land accessible, protect the soil from erosion, conserve the soil fund, water management measures and environmental protection and landscaping measures) have been completed. Their completion could take several decades more, given the progress to date. The SAO pointed out that roughly 50% of arable land in the CR is under threat from water erosion and almost 10% from wind erosion. The majority of the vulnerable land is thus not systematically protected and there is a

175 Resolution of the Government of the Czech Republic No. 1000 of 7 December 2015.

176 Audit no. 14/40 – *Funds earmarked for remittance of costs for land area amendments*.

constant decrease in arable land. Failure to execute all the proposed measures endangers the achievement of the purpose and goals of land consolidation and also makes it impossible to assess the benefits of these measures.

The execution of land consolidation in the CR is very slow and incomplete. The possibilities for achieving the goals of comprehensive land consolidation have remained almost unused. This puts the purpose and objective of land consolidation at risk.

Money spent on land consolidation was effectively used to settle ownership of agricultural land and to integrate the soil fund.

The Ministry of Agriculture does not assess the effectiveness of the undertaken comprehensive land consolidation as the defined goals are long-term and hard to measure.

The Supreme Audit Office judged that the goals of land consolidation as defined in the rural development programme are very long-term and hard to measure, which makes it difficult to assess them. What is more, the Ministry put in place indicators that give no meaningful information about the implementation of the proposed measures and the effectiveness of the performed land consolidation.

The MoA and State Land Office (SLO) issued a statement on the audit conclusion from this audit. The statement was discussed by the Czech government. In the context of this statement the **MoA and SLO adopted measures to remedy the identified shortcomings, including deadlines for executing the measures**. The government instructed[177] the agriculture minister to execute the adopted measures and to inform the government about their execution by 31 March 2017. **The adopted measures relate to the new programming period 2014-2020.** A large part of the measures concerns the setting of objectives and their monitoring and assessment by means of outcome, output and impact indicators: the MoA quantified new goals and put in place new indicators that should improve the monitoring of achievement of the goals and effectiveness of the performed land consolidation. Another adopted measure is the stipulation of new or modified conditions governing the provision of subsidies for land consolidation: these concern criteria for the selection of cadastral regions or beneficiaries' obligations, for example.

D.3.3 Current developments in Common Fisheries Policy

2007–2013 programming period

In the 2007-2013 period the CR had the possibility of drawing down €36.14 million, i.e. CZK 976 million[178], for the implementation of the Common Fisheries Policy, out of which the EU's contribution was €27.11 million, with the state budget providing €9.03 million.

More than CZK 208 million was disbursed to applicants under OP F07+ in 2015.

Table 16 – Overview of disbursed OP F07+ subsidies in 2015 (CZK million)

Axis OP F07+		CR	EU	Total
II.	Aquaculture, processing and marketing of fish products and aquaculture	33.67	101.01	134.68
III.	Common interest measures	15.08	45.24	60.32
V.	Technical assistance	3.30	9.90	13.20
Total		**52.05**	**156.15**	**208.20**

Source: materials of the MoA, March 2016

177 Resolution of the Government of the Czech Republic No. 999 of 7 December 2015.
178 Exchange rate of 27 CZK/€.

Spending increased by over CZK 130 million from 2014. The reason for the increase was the endeavour to utilise as much of the programme allocation as possible before the 31 December 2015 deadline for the eligibility of expenditure on projects. By the end of 2015, more than €33 million, i.e. almost CZK 900 million[179], had been disbursed to beneficiaries. 92% of the financial framework of OP F07+, amounting to almost one billion koruna, had been drawn down as at 31 December 2015.

Table 17 – Total OP F07+ drawdown as at 31 December 2015

Axis OP F07+	OP budget for 2007–2013 (total resources)	Paid out	
	(€ thousand)	(€ thousand)	%
Axis II.	21 561.50	21 248.62	98.55
Axis III.	12 773.62	10 746.85	84.13
Axis V.	1 807.11	1 233.74	68.27
Total	**36 142.23**	**33 229.21**	**91.94**

Source: MoA materials, March 2016.

NB: Corrections and discrepancies are factored into the course of drawdown.

2014–2020 programming period

The operational programme *Fisheries 2014-2020* is an instrument through which the CR can implement the Common Fisheries Policy in the new programming period. It follows on from the previous programme for 2007-2013 and its global objective is sustainable and competitive aquaculture based on innovation, competitiveness, knowledge and more efficient use of resources.

The allocation for the entire 2014-2020 period is €41.2 million, €31.1 million of which will be funded out of the EMFF and €10.1 million from national sources.

Three calls for subsidy applications were held in 2015. An unnumbered call (continuous call) was held for technical assistance projects and the following two calls were for projects targeting investment in aquaculture, product processing, innovation and recirculating systems and on the reintroduction of the European eel. Roughly CZK 280 million was earmarked from the EMFF for these two calls. In the first and second rounds of receipt of applications, which took place between 21 October and 18 November 2015, 100 applications (projects) with a total requested value of over CZK 130 million were recommended.

Table 18 – Overview of recommended OP F14+ applications in the 1st and 2nd rounds of calls

Measures	Recommended applications	
	Number	Amount of subsidy in CZK thousands
2.1 *Innovations*	3	2 214.85
2.2 *Productive investment into aqaculture*	77	68 957.19
2.4 *Recirculating equipment and run-through systems of cleaning*	13	54 470.89
2.5 *Aquacultures providing environmental services*	4	4 001.00
5.3 *Investment into product processing*	3	791.50
Total	**100**	**130 435.43**

Source: data from MoA website, April 2016

NB: No information is available on the number of approved applications in technical assistance area.

179 Exchange rate of 27 CZK/€.

No finances were disbursed to applicants under OP F14+ in 2015. All that took place was the receipt of applications and their initial administration.

D.3.4 Audit work by the EU authorities in field of the CAP and CFP

ECA annual report for 2014

The ECA annual report on the implementation of the budget for 2014 contains the following key information: 359 operations were tested in the *Sustainable Growth: Natural Resources* heading as a whole. 177 of these operations, i.e. 49%, were affected by error. Based on 129 quantified errors, the ECA estimated the error rate in *Sustainable Growth: Natural Resources* as a whole at 3.6%.

The Czech Republic is mentioned in the ECA report for 2014 in connection with the declaring of ineligible land and ineligible expenditure, for example, and specifically expenditure declared outside the eligibility period. The criticism of the Czech Republic in the report is comparable to that levelled at other Member States.

Agriculture: market support and direct aid

These subsidies are paid out from the European Agriculture Guarantee Fund (EAGF) which does not belong among ESI funds.

In 2014 the EAGF audit sample of payments included subsidies paid out in17 Member States, including the CR. In this audit the ECA examined a sample of 183 operations (one of which, done in Croatia, came under the IACS[180]). 93 of these operations, i.e. 51%, were affected by error. Based on 88 quantified errors the ECA estimates the most likely error rate at 2.9%. The ECA reached the conclusion that payments for 2014 in this area were materially affected by error.

The most common errors were the overstatement of agricultural land and declaration of ineligible land. Land was incorrectly declared as arable land, for example, or aid was paid out for land declared as permanent pasture even though it was partly or wholly covered by ineligible vegetation. The ECA also detected cross-compliance infringements in 27% of the tested operations.

In respect of the audited Member States and others the ECA recommended that Member States make further efforts to ensure that their LPIS databases contain reliable and up-to-date information and make use of all the available information in order to avoid payments for ineligible land.

Rural development, the environment, fisheries and health

In its audit work the ECA looked at a sample of 176 operations, 84 of which (48%) were affected by error. Based on 41 quantified errors the ECA estimates the most likely error rate at 6.2%. The ECA reached the conclusion that payments for 2014 in this policy heading were materially affected by error.

The main reasons for the errors were ineligible beneficiaries, projects or expenditure and non-compliance with agri-environment commitments. For example, it was found that new entities had been artificially created to fulfil the eligibility and selection criteria in order to obtain aid and the proportionateness of project implementation costs was inadequately documented. In the area of fisheries, deficiencies were found in the management and documentation of control actions and verification of eligibility conditions.

In the area of rural development, the ECA recommended that the Commission should take suitable measures to strengthen Member States' action plans and tackle the common causes of

180 *Integrated Administration and Control System.*

errors and should revise the strategy for its rural development conformity audits. The ECA also recommends that the Commission ensure, in the case of both the EAGF and rural development, that the new assurance procedure (mandatory from 2015) is correctly applied and reliable. In the area of fisheries it recommends more thorough on-the-spot controls and improved audit documentation.

ECA special reports issued in 2015

The European Court of Auditors published six special reports focusing on agriculture, fisheries and forestry in 2015. The Czech Republic was not part of the audited sample in any of these audits.

Special Report No. 4/2015[181]

The audit focused on the use of technical assistance in the field of agriculture and rural development in the 2007-2013 period. The European Court of Auditors found that the Commission and Member States have taken full advantage of the regulatory flexibility in this area but this has resulted in a lack of rigour about the goals of funding and how technical assistance can be used. "Rural networks" offered the greatest potential for acceptable use of technical assistance in rural development policy. The majority of expenditure of technical assistance topped up general administrative budgets, in particular to cover payroll costs. The ECA thus reached the conclusion that the absence of a suitable performance framework for technical assistance expenditure in agriculture and rural development meant that neither the Commission nor the Member States were able to demonstrate how well technical assistance has contributed to the general policy objectives of the CAP.

Special Report No. 5/2015[182]

In this audit the European Court of Auditors asked the question whether financial instruments[183] are a successful and promising tool in the rural development area. It concluded that financial instruments (credit and guarantee funds) had been unsuccessful in the field of rural development and it will be a considerable challenge to achieve the desired impact in the coming period. According to the ECA, no clear case had been made for setting up the financial instruments, actual needs were not proven and the instruments were overcapitalised. The audit results also indicate that the financial instruments had not worked as expected. Neither the Commission nor Member States had introduced appropriate monitoring systems to provide reliable data to show whether the instruments had achieved their objectives effectively.

Special Report No. 11/2015[184]

This audit targeted fisheries agreements for which a financial contribution is paid out of the EU budget. In the audit the European Court of Auditors examined four of the twelve agreements in force at the time of the audit. It concluded that fisheries partnership agreements are generally well managed by the Commission, but that there are still several areas for improvement, as regards the negotiation process and the implementation of the protocols. The procedures for negotiating and renewing the agreements are often complex and lengthy. The ECA also found that the actual unit cost paid for a tonne of fish was frequently higher than the unit price negotiated. It also found differences between the catch data provided by Member States, the Commission and ex post evaluations. There is no clear framework laying down eligibility and traceability rules for the actions funded, and the Commission does not have sufficient control rights.

181 Special Report No. 4/2015 – *Technical assistance: what contribution has it made to agriculture and rural development?*

182 Special Report No. 5/2015 – *Are financial instruments a successful and promising tool in the rural development area?*

183 Financial instruments are instruments of the EU budget through which beneficiaries can obtain finances in the form of loans, guarantees or capital investments.

184 Special Report No. 11/2015 – *Are the Fisheries Partnership Agreements well managed by the Commission?*

Special Report No. 12/2015[185]

The audit examined the work done to deliver knowledge transfer and advisory activities co-financed out of the EU budget for rural development and Member States' national budgets in the 2007-2013 period. The European Court of Auditors found that money was not spent in response to identified needs; work was not provided at reasonable cost; and results were not measurable. The audit report drew attention to weaknesses in management by Member States and insufficient supervision by the Commission. The ECA also identified deficiencies in the checks Member States are obliged to carry out. Member States overpaid for certain services. It was also found that a considerable number of similar services are financed by different EU funds – this creates a risk of double financing. The auditors went on to state that there was a lack of detailed evaluation of what was actually achieved with the public funds and only simplistic indicators were collected.

Based on the audit, the ECA issued several recommendations. It recommends, for example, that Member States should have procedures in place to analyse the knowledge and skills needs of rural operators. Service providers receiving public funds should be selected through fair and transparent competition. Member States should assess the need to support activities, which are readily available on the market at a reasonable price, and should establish feedback systems that use monitoring and evaluation information.

Special Report No. 20/2015[186]

The audit scrutinised the cost-effectiveness of non-productive investments (NPIs) in agriculture, focusing on Member States' management and control systems and NPI projects. The European Court of Auditors concluded that NPI support has contributed to the achievement of environmental objectives linked to the sustainable use of agricultural land, but in a way that was not cost-effective. The audit found that Member States reimbursed investment costs which were unreasonably high or insufficiently justified. The ECA found provable indications of unreasonable costs in 75 % of the audited projects. For example, Member States reimbursed investment costs on the basis of unit costs which were much higher than the actual market costs, or did not appropriately verify the reality of the costs claimed. According to the ECA, there was a lack of performance information to show what has been achieved with the support to NPIs at EU and Member State levels and the available monitoring indicators measured only input and output data.

Special Report No. 25/2015[187]

In this audit the European Court of Auditors examined whether the Commission and the Member States had achieved value for money with the rural infrastructure measures they decided to finance. The ECA found that the Member States and the Commission had achieved only limited value for money as aid was not systematically directed towards the most cost-effective projects addressing the objectives set in the RDPs. Member States did not always clearly justify the need for using EU rural development funds. Selection procedures did not always direct funding towards the most cost-effective projects. It was also found that the monitoring and evaluation system did not produce adequate information. Although the audited projects delivered the expected physical output, reliable information on what has actually been achieved with the public funds spent was unavailable.

185 Special Report No. 12/2015 – The EU priority of promoting a knowledge-based rural economy has been affected by poor management of knowledge-transfer and advisory measures.

186 Special Report No. 20/2015 – *The cost-effectiveness of EU Rural Development support for non-productive investments in agriculture*.

187 Special Report No. 25/2015 – *EU support for rural infrastructure: potential to achieve significantly greater value for money*.

D.4 Other EU financial instruments and expenditure

Other EU financial instruments comprise a group of funds and programmes whose finances are allocated directly to applicants by public tender and not through individual Member States (allocations are not defined for individual Member States). If an applicant wants to obtain finances from OFIs, its project must succeed in direct international competition.

OFIs represent just a small part of the total EU budget expenditure and are mostly managed directly by the relevant unit of the Commission[188] under centralised management and merely have a contact point at the programme coordinators in the Member States. They are mainly financed through a wide range of **Community programmes**; other sources of financing include the **IPA**[189], the **EUSF** and funds for the EU's migration and asylum policy and internal security policy.

The goal of the support provided under other financial instruments is to deliver more effective solutions to common problems in the EU's various policies while boosting 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 supranational projects.

D.4.1 Other Financial Instruments in the EU budget for 2014

Total expenditure of EU in OFIs amounted nearly to €11.5 billion in 2014 which was almost €2 billion less than in 2013.

Graph 18 – Drawdown of finances from OFIs in EU Member States in 2014 (with close-up section) **(€ million)**

Source: *EU budget 2014 – Financial Report*, Commission 2015, http://ec.europa.eu/budget/figures/interactive/index_en.cfm.

In terms of how other financial instruments are used and the goals they are used to deliver, the per capita drawdown level is particularly telling. From this point of view, the CR, along with Poland and Romania, has traditionally been at the very bottom of the success rankings of Member States: in 2013, for example, per capita funding was just €10.13.

The CR significantly improved its ranking by increased OFI drawdown in 2014, obtaining €16.32 per capita. In the per capita rankings of all 28 Member States it came 22nd, beating countries like

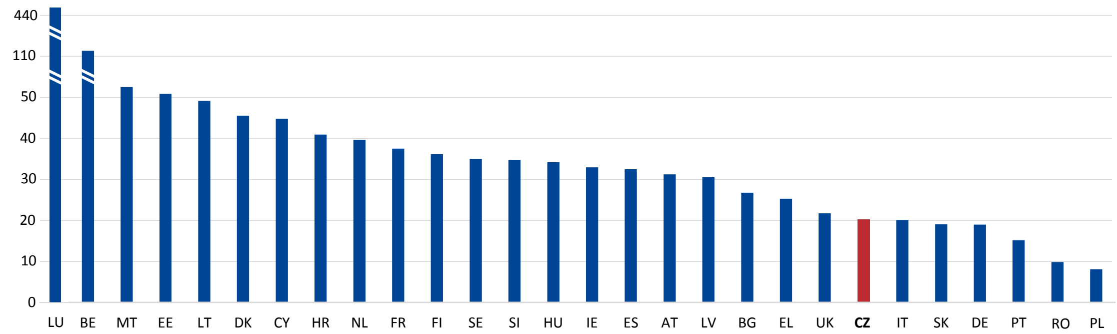
188 In particular to the Directorates General of the Commission (DG).
189 Instrument for Pre-accession Assistance.

Germany and Italy. The OFI drawdown per capita rankings are regularly headed by Luxembourg (€441.73) and Belgium (€112.27).

Although entities in the CR succeeded in obtaining a higher per capita amount in 2014, the Czech Republic still lags behind in this area, as the figure for the EU as a whole in that year was €43.26.[190]

It is still the case that Czech applicants are relatively unsuccessful in publicly competing for OFI support. In 2014, the proportion of the drawdown from these sources across the EU accounted for by the amounts drawn down in the CR was 1.5%. A year earlier it had been just 0.8%.

Graph 19 – Per capita drawdown of OFI finances in EU Member States in 2014 (with close-up section) (€)



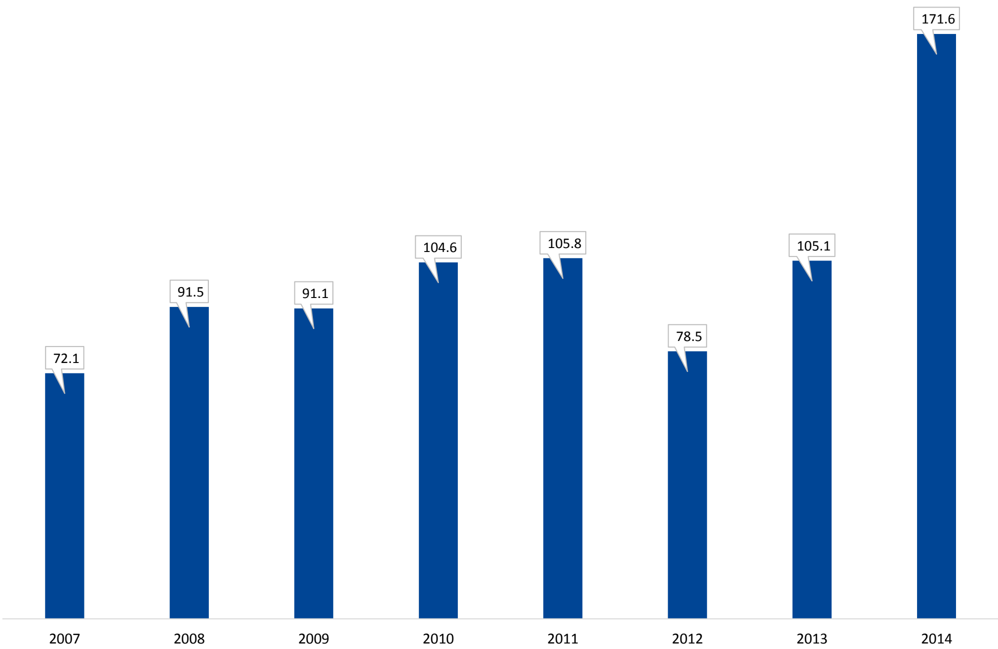
Source: *EU budget 2014 – Financial Report*, Commission 2015, http://ec.europa.eu/budget/figures/interactive/index_en.cfm, Eurostat (population as at 1 January 2014), January 2016.

190 If we left out the two "record holders" (Luxembourg and Belgium) from the European rankings, the average OFI per capita drawdown in the EU would be just €25.28, so the CR would be close to two-thirds of the EU drawdown average.

D.4.2 Other EU financial instruments and expenditure in the CR in 2014

In 2014, revenues that entities in the CR obtained from OFIs totalled almost €171.6 million[191] (the equivalent of over CZK 4.72 billion[192]). Compared to 2013, when Czech entities obtained just €105.1 million, that represents a record improvement of 63.32%.

Graph 20 – OFI drawdown in the Czech Republic in the years 2007-2014 (€ million)



Source: *EU Budget – Financial Reports* for 2007–2014, European Commission 2008–2015.

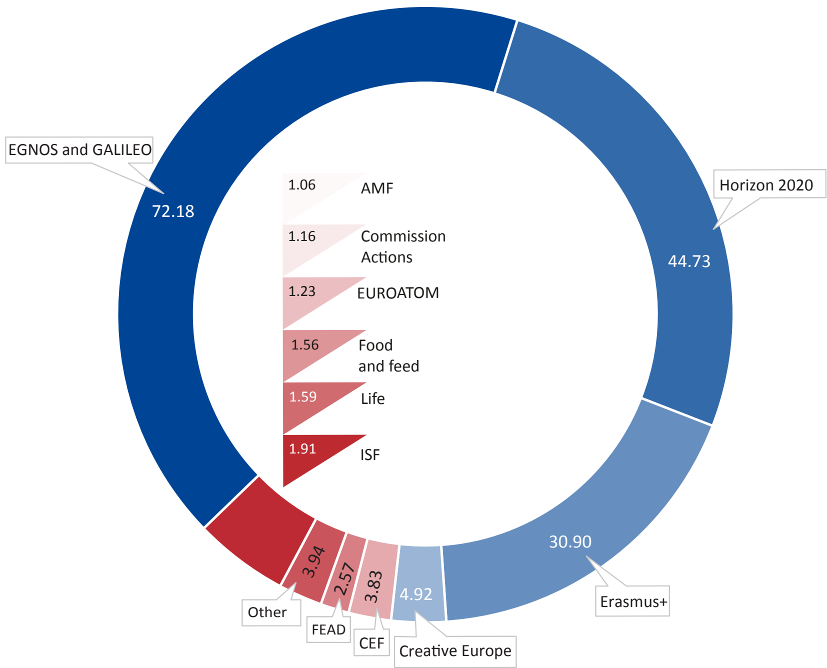
The graph shows that there was a gradual increase in the utilisation of these resources by entities in the CR in the first years of the 2007–2013 programming period. At the start of 2010, however, annual drawdown stagnated to a level of approximately €105 million. Two exceptions were 2012, when there was a sharp fall, and 2014, when drawdown increased markedly.

By far the biggest increase in 2014 was registered in the ***European Satellite Navigation Systems (EGNOS and GALILEO)*** Community programme, where the CR drew down almost €72.2 million in 2014 (up from just €6.3 million a year earlier).

191 EU Budget 2014 – Financial Report European Commission 2015, http://ec.europa.eu/budget/figures/interactive/index_en.cfm.

192 The CNB's monthly cumulative average of the foreign exchange market rate for January to December 2014 was used for the conversion: 27.533 CZK/€.

Graph 21 – Utilisation of other financial instruments in the CR in 2014 **(€ million)**



Source: *EU Budget 2014 – Financial Report*, European Commission 2015, http://ec.europa.eu/budget/figures/interactive/index_en.cfm.

Full names of the financial instruments abbreviated in the graph: EGNOS and GALILEO – *European Satellite Navigation Systems (EGNOS and GALILEO); Erasmus+* – Erasmus+ (Education, Training, Youth and Sport)*; CEF* – Connecting Europe Facility *(CEF); FEAD* – Fund for European Aid to the Most Deprived *(FEAD); ISF* – Internal Security Fund*; Life* – Life (Environment and Climate)*; EURATOM* – EURATOM – programme for atomic energy, research and professional training*;* Commission Actions – actions funded on the basis of the Commission's privileges and specific powers vested in the Commission; AMF – Asylum and Migration Fund.

NB: In 2014 entities in the CR also utilised other financial instruments that are bunched together under the *Others* group. These are: *Competitiveness of Enterprises and Small and Medium-sized enterprises*, *Rights and Citizenship*, *Europe for Citizens*, *Other Actions and Programmes*, *Customs, Budgets and the Fight against Fraud*, *Programme for Social Change and Innovation*, *Health for Growth*, *Justice*, *Consumer Protection*, *Instrument for Pre-Accession (IPA)* and *Pilot Projects and Preparatory Actions*.

EU budget expenditure on the work of **decentralised EU agencies** also stands outside OFIs. These are independent legal entities founded to perform specific tasks according to EU law. The only such agency in the CR is the **GNSS Agency**[193], manages public interests related to European Global Navigation Satellite Systems (GNSS) programmes, European Geostationary Navigation Overlay Systems (EGNOS) and Galileo. The agency has been based in Prague since September 2012. **More than €25.30 million was spent on its work in 2014.**

D.4.3 The SAO's audit work in the field of other EU financial instruments

In the period under scrutiny the Supreme Audit Office completed two audits focusing on other EU financial instruments.

In April 2015 the SAO Board published the audit finding from an audit[194] scrutinising the management of finances provided to the CR from the EUSF to deal with the consequences of the catastrophic floods that hit the CR in May, August and September 2010.

The results of the audit showed that the administration of the CR's application for support from the EUSF, from the time it was submitted to the Commission till finances were credited to the

193 Global Navigation Satellite System.

194 Audit no. 14/27 – *Funds of the EU Solidarity Fund provided for the Czech Republic in relation to catastrophic floods*.

account of the National Fund[195], took a relatively long time: in two cases it took more than 14 months. The applications administration process at the relevant authorities of the CR took up approximately four months out of that time. Another two to three months passed from the crediting of the aid to the CR to the transfer of payments from the MoF to the accounts of regions, so the regions and affected municipalities had to wait around a year and a half after the floods before they could use the money.

The Commission was aware of the long delays between the lodging of the application and the provision of aid out of the EUSF. For that reason a number of measures were taken at the level of European institutions at the end of 2013 and in 2014 to help make the aid process faster and more effective.

The SAO went on to state that the binding EUSF practice comprising procedures and fundamental rules for implementing aid from this fund in the CR did not categorically define the justification of expenditure at individual levels of project documentation for infrastructure repair. The Ministry of Finance did not specify more precise rules for the eligibility of specific expenditure until the stage of assessment and evaluation of summary applications from individual regions or as part of the provision of supplementary methodological support.

In two cases the SAO identified a breach of budgetary discipline consisting in the provision of part of a subsidy towards expenditure that was not directly linked to clearing up damages caused by the floods. The expenditure was negligible in both cases, however. In addition, minor formal shortcomings were detected, consisting in incorrect accounting for a provided subsidy, the absence of an application for a subsidy from the EUSF in the case of an organisation part-funded by a region, and a failure to submit a mandatory annex to an application.

The second audit was devoted to the financing of migration and asylum policy goals under the Solidarity programme in the CR. The audit conclusion from this audit[196] was approved in March 2016.

The Supreme Audit Office scrutinised compliance with the conditions for the provision and drawdown of finances from the *European Refugee Fund for 2008 to 2013* (Refugee Fund), *European Return Fund for 2008 to 2013* (Return Fund), *European Fund for the Integration of Non-EU Migrants for 2007 to 2013* (Integration Fund), and the External Borders Fund (EBF) for 2007 to 2013. The audit focused on the funds' management and control systems. Using a selected sample of 49 projects financed out of the Integration Fund and Refugee Fund between 2011 and 2015, it scrutinised the achievement of goals, monitoring indicators and the execution of project activities in compliance with the defined conditions.

The audit resulted in the following findings:

- In the case of the multi-year Refugee Fund programme it is not possible to assess the degree to which all the programme's goals were achieved, because monitoring indicators were only put in place for part of the operational objectives.
- In the case of the multi-year Return Fund programme not all the activities linked to assisted voluntary returns of third-country nationals to their country of origin were executed in the planned extent, mainly because the process of assisted voluntary returns is not categorically enshrined in Czech law and also due to a lack of interest in these activities among Czech non-profit organisations.
- EBF projects accounted for 41% of total drawdown of Solidarity programme finances. However, projects to modernise and improve security at consular departments were not executed.

195 The National Fund is part of the MoF (division 55) and performs the role of PCA in the CR, among other things.
196 Audit no. 15/24 – *Funds earmarked for the implementation of EU asylum and migration policy objectives*.

- The system for assessing fulfilment of the monitoring indicators of the multi-year Integration Fund and Refugee Fund programmes was largely dependent on qualified estimates and not on precise measurement. That was because the Commission only stated the requirement for monitoring these indicators during the course of the period under assessment, making it impossible to put in place a system for monitoring their actual values from the start.
- The system for measuring the values of monitoring indicators for the Integration Fund and Refugee Fund did not make it possible to ascertain the number of persons benefiting from measures under these funds.
- The reliability of the system for tracking monitoring indicators at project level was compromised, because the responsible authority (MoI) did not require beneficiaries to keep data on the date of birth of their clients, which was essential for any subsequent verification of a foreign national's identity and residence status in information systems. Consequently, the monitoring system did not make it possible to verify reliably whether clients using the provided services were eligible under the programme's conditions.
- The design of the assessment criteria enabled the selection and funding of economical, efficient and effective projects. But the selection process contained certain administrative deficiencies and the design of the system of penalties for violations of the subsidy conditions was out of line with the budgetary rules[197]. For the subsequent programming period 2014-2020 these deficiencies have been eliminated from the responsible authority's work procedures.
- The Supreme Audit Office also identified ineligible expenditure among support beneficiaries. This included the claiming of expenditure on rent for premises unconnected to projects (Integration Fund) or expenditure on fuel not backed up by evidence of actual outlays[198].

The amount of the identified ineligible expenditure did not exceed the materiality threshold for quantifiable irregularities set at 2% of the volume of audited finances.

Control work by the responsible authority was assessed in the audit as only partially effective owing to individual failings in some control work done by the responsible authority. This control work did not expose certain deficiencies among beneficiaries that were, however, identified by the SAO. Other reasons for partial efficiency of audits were insufficient coordination of project selection with other departments funding complementary non-EU integration programmes (MoLSA, MoEYS); insufficient transparency of the appeal process when assessing project applications; and insufficient use of the options laid down by the budgetary rules when defining the range of penalties linked to the gravity of transgressions by subsidy beneficiaries.

The SAO's audit conclusion regarding the operational objectives of the Solidarity programme contained findings that are practically identical to the ECA's findings set out in its Special Report (see subheading D.4.4). The most important ones are **the absence of measurable monitoring indicators; the specification of a limited number of quantified data by the Commission at the start of implementation; and the Commission's specification of additional requirements for retrospective indicators going back to the start of implementation.**

197 Act No. 218/2000 Coll., on budgetary rules and amending certain related acts.
198 Part II.1.2(2) of Annex 11 to Commission Decision 2008/22/EC and Annex 11 of Commission Decision 2011/152/EU.

D.4.4 EU authorities' audit work in the field of other EU financial instruments

Special Report No. 15/2014[199]

In this audit the European Court of Auditors focused on the effectiveness of the EBF[200] and the achievement of the fund's goals. The ECA stated that the overall result could not be measured due to weaknesses in the responsible authorities' monitoring and in ex post evaluations by the Commission and Member States. One reason is that the Commission only specified concrete reporting data in 2011, by which time the actions for inclusion in the evaluation had largely been completed. ECA auditors identified serious deficiencies in the management of the EBF in Member States. The ECA stated that the EBF has contributed to external border management, but the overall result could not be measured due to the lack of SMART objectives and measurable indicators, so the Commission was unable to perform a proper evaluation.

Special Report No. 9/2016[201]

In 2016 the ECA audited the two principal financing instruments of the external dimension of the EU's common migration policy.[202] The audit scrutinised whether EU expenditure under the two instruments had clear goals and whether it was effective and well organised. The result of the audit was a declaration that EU spending pursued a wide range of general objectives and was compromised by weaknesses. The total amount of expenditure charged to the EU budget could not be established in the course of the audit. Nor was it clear whether expenditure had been directed in line with the intended geographical and thematic priorities. Based on its examination of selected projects the ECA concluded that it was often difficult to measure the results achieved by EU spending because of objectives covering a very broad thematic and geographical area and the lack of quantitative and results-oriented indicators.

The ECA recommended that the Commission develop clear and measurable objectives to be implemented by a coherent set of EU funding instruments supported by effective monitoring and evaluation, and by an appropriate information system.

199 Special Report No. 15/2014 – *The External Borders Fund has fostered financial solidarity but requires better measurement of results and needs to provide further EU added value*.

200 The EBF was the EU's main financial instrument to support the management of external borders for the 2007-2013 period with a value of €1.9 billion. The EBF's general goal was to help existing and future Schengen states ensure uniform, efficient and effective control on the common external borders of EU Member States.

201 Special Report No. 9/2016 – *EU external migration spending in Southern Mediterranean and Eastern Neighbourhood countries until 2014*.

202 Thematic Programme for Migration and Asylum (TPMA) and *European Neighbourhood and Partnership Instrument* (ENPI).

E. Other activities related to the EU's financial management

E.1 Legal matters

E.1.1 SAO recommendations concerning changes to the legal environment

Section 6 of Act No. 166/1993 Coll., on the Supreme Audit Office, as amended (the Act on the SAO), provides that both chambers of the Czech parliament and their bodies are authorised to demand from the SAO opinions on draft legislation concerning budgetary management, accounting, state statistics and the performance of control, supervision and inspection work. These bodies did not exercise this authorisation through the submission of a formal request for an opinion in 2015. The SAO's findings in relation to the necessary legislative amendments were presented at sessions of the Committee on Budgetary Control of the Chamber of Deputies in connection with the discussion of audit findings.

Again in 2015 the Senate of Parliament did not complete its debate of a draft constitutional act amending Constitutional Act No. 1/1993 Coll., Constitution of the Czech Republic, as amended, as regards Article 97(1) of the Constitution regulating the powers of the Supreme Audit Office, which was approved by the Chamber of Deputies in May 2014. The proposed wording envisages that the Supreme Audit Office, as an independent body, will carry out audit of the management of public funds and funds provided from public budgets and the management of the assets of legal entities in which the state has a capital interest or the assets of a territorial self-governing unit. In connection with this constitutional amendment, in 2015 the Chamber of Deputies debated a government draft act amending the Act on the SAO and other related acts (parliamentary paper no. 610). The debate of this draft was not completed in 2015.

Act No. 78/2015 Coll., amending Act No. 166/1993 Coll., on the Supreme Audit Office, as amended, was passed in 2015. The principal aim of the amendment was to bring the Act on the SAO into line with current trends in the processing of information in audit work, the computerisation of the agendas of the public authorities and the current options for remote access to the results of the SAO's work. The amendment also gave the SAO new powers to obtain materials for drawing up and changing the audit plan, which is one of the instruments to enable the SAO to target its audit work more effectively. The amendment allows the president of the SAO to attend government meetings at which audit conclusions and opinions on them are to be discussed and widens the authorisation of the president of the SAO to attend sessions of the Chamber of Deputies and the Senate and both chambers' bodies where audit conclusions and materials linked to the SAO's work are to be discussed. The amendment also responds to changes in terminology ensuing from other legislation.

In an inter-departmental consultation process conducted pursuant to the Government's Legislative Rules, the SAO gave its opinion on draft legislation that concerned it as an organisational unit of the state or fell within its competence. The SAO obtained a total 178 legislative drafts in 2015. The SAO issued specific comments, stemming primarily from audit findings, on 57 drafts.

In April 2015 the Ministry for Regional Development submitted a draft act on public procurement in connection with the adoption of three EU directives on public procurement whose substance must be transposed into national law by April 2016. The draft of the new legislation on public procurement dropped certain mechanisms established by earlier amendments of Act No. 137/2006 Coll., on public procurement, and in particular by the "transparency" amendment of the Act on Public Procurement implemented by Act No. 55/2012 Coll. The SAO submitted comments on the draft mainly dealing with the proposed rules on changes to contracts and the formulation of new exemptions. The SAO also expressed doubts about the suitability of the proposed rules on the supervision of the award of public contracts that are financed, even only partly, by the EU. Most of the SAO's comments were taken into account in the draft of this act approved by the government. The draft of the new act on public procurement was finally adopted with effect from 1 October 2016 (Act No. 134/2016 Coll.).

In July 2015 the Ministry of Finance submitted a draft act on the management and control of public finances. The aim of this draft is to define responsibility for the establishment of internal management and control systems and for the safeguarding of public finances, to eliminate the duplication of control work done by the financial administration bodies, to boost the scrutiny of the financial management of subordinate organisations by their founders and to strengthen the independence of internal audit. In its comments on this draft the Supreme Audit Office drew attention to the fact that in its submitted form the draft overlooks the status of the SAO as an independent audit body *sui generis*[203] and the fact that audit of the SAO's financial management and thus also of its internal audit processes is entrusted exclusively to the Chamber of Deputies of the Parliament of the CR specifically in order to preserve its independence. Another fundamental comment issued by the SAO dealt with the need for legislation covering the reporting of cases of breaches of budgetary discipline identified by SAO audits in a situation where the submitted draft removes the existing authorisation to perform financial control from the powers of the tax offices. The comments submitted by the SAO were taken into account by the legislator in a modified wording of the draft act; nevertheless, the draft act on the management and control of public finances was not discussed by the government by the end of 2015.

As far as draft legislation commented on by the SAO in previous years is concerned, Act No. 24/2015 Coll., amending Act No. 250/2000 Coll., on the budgetary rules of territorial budgets, was adopted in 2015. The act's wording made allowance for the SAO's comment which, further to findings made in audit no. 09/26[204], drew attention to the issue of subsidies being provided by regional councils of cohesion regions under private-law contracts. The amendment provides that subsidies or returnable financial assistance are to be provided on the basis of public-law contracts.

In addition, Act No. 25/2015 Coll., amending Act No. 218/2000 Coll., on the budgetary rules and amending certain related acts (the budgetary rules), was adopted. Its aim was to make it possible, in respect of subsidies co-funded by the EU, to define reduced fines for breaches of budgetary discipline by means of a fixed percentage and to apply the reduced subsidy before payment to other cases than just cases of breaches of the public procurement rules. The government draft of this act was partly a response to the EU's requirements expressed in the *Action Plan to Improve the Functioning of Management and Control Systems for the Structural Funds in the Czech Republic*[205] and partly a response to the SAO's findings presented in audit conclusions touching on this issue.

203 Meaning "of its own kind".
204 Audit no. 09/26 – *Funds earmarked for transport infrastructure projects under the regional operational programmes*.
205 The Czech government noted this material at its session of 28 March 2012.

E.1.2 Application, implementation and transposition of EU law in the CR

The Commission's assessment of the CR as regards transposition[206]

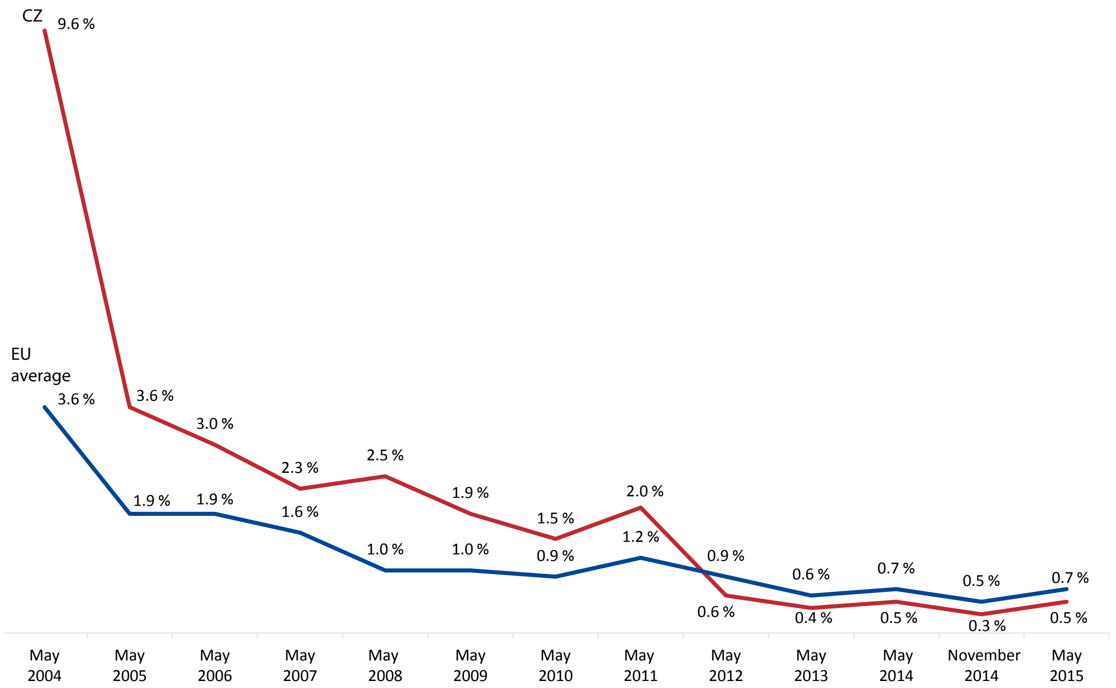
In 2015[207] the second Single Market Scoreboard[208] revealed the following:

Transposition deficit: 0.5% (figure given in previous report: 0.3%) – Although the deficit has grown, the CR is still one of 14 Member States achieving the defined target – 0.5% (the EU average is 0.7%; the submitted *Single Market Act* proposal specifies 0.5%).

Overdue directives: 6 (figure given in previous report: 4) including 4 in the financial services sector and **1 more than 2 years overdue concerning the energy performance of buildings.**

Average delay: 8.9 months (figure given in previous report: 12.5 months) The CR improved in this indicator but is still above the EU average (7.4 months).

Graph 22 – Transposition deficit in the Czech Republic in the years 2004-2015 in comparison to EU average



Source: http://ec.europa.eu/internal_market/scoreboard/index_en.htm.

206 Upon joining the EU the Czech Republic assumed the obligation to fulfil commitments arising from European Union membership. These include legislative obligations established by Article 4(3) of the *Treaty on European Union*, which requires Member States to take any appropriate measure, general or particular, to ensure fulfilment of the obligations arising out of the treaties or resulting from the acts of the institutions of the Union. The legislative obligations consist in the proper and timely implementation of EU law in national law if the nature of the EU law so requires. Implementation and monitoring are then in different ways depending on the type of EU legislation. In the case of EU directives, both their transposition and the subsequent notification of national transposition regulations to the Commission is assessed.

207 It should be noted that 130 directives in the automobile sector have been repealed since the last results. That led to a 10% reduction in single market directives, which affected the calculation of all results.

208 Details can be found on the Commission website: http://ec.europa.eu/internal_market/scoreboard/index_en.htm.

State of infringement cases brought against the CR by the EU:

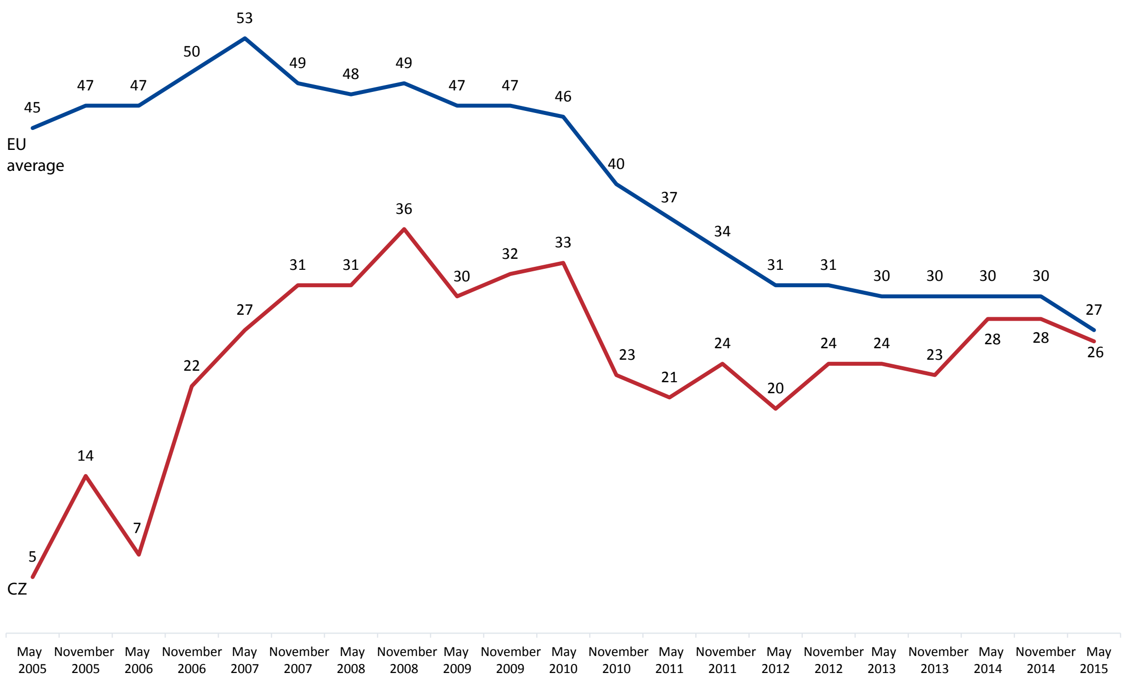
Pending cases: 26 (figure given in previous report: 28) 1 new case and 3 cases closed (the EU average is 27 cases).

Problematic sectors: Transport – air transport (3 cases), road and rail transport (3 cases) and transport safety (1); environment (7 cases in total).

Average case duration: 29.4 months (figure given in previous report: 24.3 months) for 25 cases not yet sent to the Court of Justice (EU average is 29.1 months).

Compliance with Court rulings: 19.2 months (no change from figure given in previous report) – In this regard the CR is slightly better than the EU average but above the 18-month threshold (EU average is 19.8 months).

Graph 23 – Evolution of infringement cases in the Czech Republic in comparison to EU average



Source: Single Market Scoreboard, Performance per Member State, Czech Republic, (Reporting period: 2004 – 2015) – http://ec.europa.eu/internal_market/scoreboard/_docs/2015/09/member-states/2015-09-czech-republic_en.pdf.

It follows from the above that the Czech Republic does not deviate significantly from the European average as regards the transposition of European directives into national law and as regards preliminary ruling proceedings on infringements of EU law brought against Member States by the Commission.

Risks arising from inadequate transposition of EU directives

Although the Commission rates the Czech Republic as basically average, the risks to the state economy arising from shortcomings in the application, implementation and transposition of regulations and directives cannot be overlooked.

General

EU directives are generally binding acts that specify goals that are to be achieved. How the goal is to be achieved is left to the Member State. Directives therefore require transposition into Czech law. This takes place through national generally binding legislation, which determines the responsibility of an entire chain of legislative bodies. The consequences of lacking or inadequate transposition of EU directives include directives having direct effect, directives having indirect effect, **liability for damages** caused by the lacking or inadequate transposition (liability of both natural and legal entities) and TFEU **infringement proceedings**.

The last two risks are a particularly serious threat to the state economy.

The Commission is the guardian of continuous legal environment in the EU and oversees whether and how Member States transpose and implement EU directives. If the Commission is of the opinion that a Member State has committed a transposition infringement, it commences TFEU infringement proceedings against the Member State. The first phase is a letter of formal notice from the Commission; the second is a reasoned opinion of the Commission with a deadline for compliance; the third phase is the referral of the matter to the Court of Justice and court proceedings. The proceedings can end with a rejection of the action or a ruling by the Court declaring infringement. If the Member State does not discharge its obligation despite this ruling, the Commission may file another action proposing the imposition of a lump-sum penalty or, where appropriate, a repeated penalty.[209]

Examples arising out of the SAO's audit work in 2015

Audit no. 15/23[210] found circumstances indicating an infringement of the TFEU in the case of the following:

- preliminary proceedings and an ongoing action for non-fulfilment of an obligation by the Czech Republic stemming from secondary EU law, specifically Article 16 of Regulation (EC) No 1071/2009 of the EP and of the Council, i.e. the obligation to keep a register of road transport undertakings accessible in the entire Community. This was a case of inadequate application of this regulation which, as secondary EU legislation, is directly applicable, and the obligation was established ipso facto (with regard to legal competence) for the Ministry of Transport;
- preliminary proceedings and an ongoing action relating to the lacking or inadequate transposition of Article 16 of Directive 2006/126/EC of the EP and of the Council on driving licences, as amended by Directives 2009/113/EC and 2011/94/EU, (Directive 2006/126/EC), i.e. the non-fulfilment of obligations under primary EU law, and specifically the TFEU.

Government report on the adoption of legislative commitments arising from the CR's membership of the European Union for 2015[211]

As far as the state of transposition of all directives is concerned, i.e. including directives reaching beyond the area of the single market, as at 30 November 2015 in the CR there were **12 directives whose transposition deadline had elapsed** and for which the notification process had not

209 In the case of the infringement in 2013 the Czech Republic was at risk of penalties from the Court of Justice of the EU. If the situation is not remedied despite a repeated call from the Commission, the Court may impose lump-sum fines and penalties in the millions of euro on a Member State. The size of the fine and penalty depends on the length of time during which the Member State did not fulfil its obligation under Community law, the seriousness of the infringement and a "national factor" (the economic and political circumstances of the case). The minimum lump-sum fine in the case of the Czech Republic is €1,773,000. This amount is multiplied by a seriousness coefficient, however. The minimum penalty for the CR is €2,500 per day until the CR remedies the situation. However, this sum too is multiplied by a seriousness coefficient and a coefficient linked to the duration of the infringement. The Court's practice to date makes it reasonable to expect that the lump-sum fine and penalty in this case could approx. €10,000 per day (i.e. CZK 8.25 million per month) and €2 million as a one-off payment (CZK 55 million).

210 Audit no. 15/23 – *Management of the state property and state funds allotted to information and communication technology projects at the Ministry of Transport*. The audit conclusion was not

211 Published until after the editorial deadline of EU Report 2016. Detailed information will be published in EU Report 2017.Ref. no.: 21007/2015-KOM.

been completed. The following authorities were responsible for the following shares of the transposition deficit:

- MoF – 7 directives;
- MoI – 2 directives;
- MoT – 1 directive;
- MoIT – 1 directive;
- MoE – 1 directive.

Environmental impact assessment

Opening remark

The regulations on environmental impact assessment apply to any project that satisfies the relevant legal definition regardless of whether it is publicly or privately financed. It is irrelevant whether the financing comes from territorial-administration corporations, the state budget or the EU general budget. Even projects not co-financed by the EU must be assessed.

As the CR failed to adequately transpose the EIA directives between the time it joined the EU and the year 2015 (a period of 10 years), it was instructed to adequately transpose these directives as an ex ante conditionality on which the ability to draw down funding in the 2014-2020 programming period depends (this was a legitimate mechanism for forcing the CR to comply).

Inadequate transposition

The EIA directives (point 3 below) are transposed into Czech law primarily by Act No. 100/2001 Coll. and its amendments adopted subsequently up to 2015 (see point 4 below). Below is an overview of the affected regulations or documents:

1. Act No. 244/1992 Coll., on environmental impact assessment,
2. *Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters*, published in the Collection of International Treaties under no. 124/2004 (Aarhus Convention);
3. Directive 85/337/EEC, as amended by Directives 97/11/EC and 2003/35/EC, which was repealed (with effect from 17 February 2012) by Directive (EU) No 2011/92/EU of the EP and of the Council on the assessment of the effects of certain public and private projects on the environment;
4. Act No. 100/2001 Coll., on environmental impact assessment (Act on EIA), as amended by Acts Nos. 93/2004 Coll. (transposition), 163/2006 Coll. (transposition), 186/2006 Coll., 216/2007 Coll., 124/2008 Coll., 436/2009 Coll. (transposition), 223/2009 Coll., 227/2009 Coll., 38/2012 Coll. (transposition), 85/2012 Coll. (transposition), 167/2012 Coll., 350/2012 Coll., 39/2015 Coll. and 268/2015 Coll.;
5. Act No. 500/2004 Coll., the administrative procedural code;
6. Act No. 150/2002 Coll., administrative court procedural code, Act No. 303/2011 Coll., amending Act No. 150/2002 Coll., the administrative court procedural code, as amended, and certain other acts;
7. Act No. 183/2006 Coll., on zoning and the building code, Act No. 350/2012 Coll., amending Act No. 183/2006 Coll., on zoning and the building code (the building act), as amended, and certain related acts;
8. Act No. 114/1992 Coll., on the conservation of nature and the countryside and other legal regulations governing the permission of projects with significant environmental impacts;
9. Act No. 123/1998 Coll., on the right to information on the environment, Act No. 6/2005 Coll., amending Act No. 123/1998 Coll., on the right to information on the environment, as amended by Act No. 132/2000 Coll.;
10. Decree No. 13/2014 Coll., on procedure when performing land consolidation and the required particulars of land consolidation proposals.

Infringements

In a letter dated 4 July 2006 the Commission stated its opinion that, in contravention of what is explicitly stated in Article 10a (1) to (3) of Council Directive 85/337/EEC, Czech law, owing to the restrictions it contains, does not award to the entire public concerned within the meaning of Article 1(2) of the directive the right to examine decisions, acts and omissions this legislation applies to, with particular regard to non-governmental organisations. In this letter it called on the Czech Republic to submit a statement within two months after receiving the letter. In its response of 6 September 2006 the Czech Republic stated that it implemented the directive by means of Act No. 100/2001 Coll. and admitted that this legislation is not compliant with the requirements of Article 10a(1) to (3) of Council Directive 85/337/EEC. It thus expressed its intention to comprehensively change the said legislation. As the Commission did not receive any further information regarding the change to the affected Czech legislation, on 29 June 2007 it issued a reasoned statement in which it called on the Czech Republic to adopt the required measures and thus comply with the reasoned statement within two months after receiving it. In its response of 14 October 2008 to the reasoned statement the CR admitted the justification of the reservations raised by the Commission and stated that it would move to change the affected national legislation. In particular, it drew attention to the draft amendment of Act No. 100/2001 Coll. that had been put before the Chamber of Deputies of the Parliament of the Czech Republic. In addition, it informed the Commission by letter of 10 March 2009 that although the draft was rejected a new draft would be put before the Chamber of Deputies. However, the Commission received no further information that would enable it to conclude that the measures necessary for the implementation of Article 10a(1) to (3) had been adopted, so it lodged an action.

The Court of Justice of the EU (8th senate) ruled on 10 June 2010 as follows:

1) In not adopting the legal and administrative regulations necessary for achieving compliance with Article 10a (1) to (3) of Council Directive 85/337/EEC of 27 June 1985, on the assessment of of the effects of certain public and private projects on the environment, as amended by Directive 2003/35/EC of the European Parliament and of the Council of 26 May 2003, the Czech Republic did not fulfil the obligations arising to it from this directive.
2) The Czech Republic shall bear the costs of the proceedings.

On 26 April 2013 the Commission commenced new proceedings against the CR in the matter of the incorrect transposition of the EIA directive. The Commission viewed the following deficiencies as the most significant:

- EIA outputs were insufficiently binding and changes to the project could occur during the related permission proceedings (typically zoning and building permission), or between the EIA process and the related proceedings;
- the applicable legislation does not ensure that the provisions of the EIA directive should be applied not just to the EIA process but additionally to the related permission proceedings under which a project is definitively approved;
- the public plays an insufficient role in the related proceedings;
- the legislation does not ensure timely and effective judicial protection for members of the concerned public.

Ex ante conditionality

Implementation of the requirements of the EIA directive was included among the ex ante conditionalities that Member States are to fulfil by the end of 2016. **The ex ante conditionality was fulfilled upon the effect of Act No. 39/2015 Coll. as at 1 April 2015** and was verified by the Commission as at the day of the adoption of operational programmes.

Act No. 39/2015 Coll. is therefore the upshot of an endeavour to eliminate the transposition deficit in respect of Directive 2011/92/EU of the European Parliament and of the Council of 13 December 2011, on the assessment of of the effects of certain public and private projects on the environment (the EIA directive), which the CR was reproached for in the proceedings on an infringement of the TFEU in the matter of the incorrect transposition of the EIA directive.

The main benefit of the amendment was to prevent considerable the financial losses stemming from the incorrect transposition of the EIA directive into Czech law and to preserve the ability to utilise finances from EU funds based on fulfilment of the ex ante conditionalities.

Another undeniable benefit is enhanced protection of the environment as a result of greater public involvement in permission proceedings (and thus also greater transparency) and rigorous compliance with the conditions of EIA opinions. The establishment of a deadline for courts' rulings will speed up court proceedings on actions against affirmative decisions, which will improve legal certainty on the part of all the affected entities.

Transitory provisions and their impacts

Upon the effect of Act No. 39/2015 Coll. on 1 April 2015, an obligation was established under Article 2 of this act to verify every opinion on the environmental impact assessment of a project issued before its effect (unless the related proceedings were completed before the act's effect) in terms of its compliance with the requirements of the legal regulations transposing Directive 2011/92/EU of the EP and of the Council and, if affirmative, to issue a binding opinion. The permission process for investment projects in the CR since 1 April 2016 is set out in Appendix 7. If the result of the verification is negative, the project must be put through a new assessment under the terms of Section 4 of Act No. 100/2001 Coll., on environmental impact assessment and amending certain related acts (the Act on EIA), as amended after the effect of this act. As the table below shows, the entire process for this case and others takes almost a year, and in the event of an action (Articles 7/10) a further 3 months, if the court manages to comply with the legal time limit.

Table 18 – Approximate time procedure of project influence on the environment according to Act No. 100/2001 Coll.

Section of act	Milestone	Deadline (days)
§ 16	Announcement of project to respective office	
§ 6/6	Publishing the information about the announcement	7
§ 6/7	Written response to the announcement	20
§ 7/4	Inquiry procedure terminated by the respective office	45
§ 7/10	Legal action against the decision issued in the inquiry procedure	90
§ 8/2	Sending of documentation	10
§ 8/3	Response to documentation	30
§ 8/5	Sending of documentation to the producer of opinion	40
§ 9/3	Opinion processing	90
§ 9/7	Sending of the opinion to the applicant	10
§ 9/8	Statement about the opinion	30
§ 9/10	Amendment of the draft opinion	10
§ 9a/1	Expressing a biding opinion	30
	Total without a legal action	322
	Total with a legal action	412

NB: The total applies to the full use of the stipulated time limits and the process can be shorter (the maximum time limits are summed). More detailed information on the entire EIA process, including related proceedings, can be found in Appendix 7.

The transitory provisions contained in Article 2 of Act No. 39/2015 Coll. are intended to ensure that opinions issued before 1 April 2015 (and not meeting the requirements of the EU directives) are brought into line with Directive 2011/92/EU of the EP and of the Council.

That brings costs, however, as approval procedures are prolonged by 12 to 18 months. In connection with the start of implementation of OPs that poses a risk to the achievement of some of their goals.

Opinions issued under Act No. 244/1992 Coll., on environmental impact assessment – "historical opinions"

From the date on which Act No. 39/2015 Coll. entered into effect until 30 March 2016 the CR had approximately one year in which projects with a historical opinion could be assessed under Act No. 100/2001 Coll., as amended, or a significant part of the process could be performed.

In the last eight months (up to the end of March 2016) the CR held talks with the Commission on a mechanism for verifying projects for which an opinion was issued under Act No. 244/1992 Coll.The mechanism was meant to be laid down by the amendment of Act No. 100/2001 Coll., on environmental impact assessment. The result of these talks was not known at the time of the editorial deadline of *EU Report 2016*.

Impact of "historical opinions" on drawdown of finances from operational programmes

The n+3 rule affects the eligibility of expenditure in terms of time. In practice that means that finances allocated to a Member State for 2014, for example, have to be utilised within three years, i.e. by the end of 2017. This rule is key for the permissible period of project implementation and its financial settlement.

According to some sources (e.g. a statement by the prime minister) there is a risk of delay with 64 important transport construction projects for which the European Union demands a new EIA. That could delay projects by several years and also jeopardise the utilisation of European funds. The total amount involved is around CZK 90 billion.[212]

If absorption capacity exists in the form of eligible projects (transport networks have suffered from long-term underfunding) that do not need an EIA or satisfy the requirements of Act No. 100/2001 Coll., as amended, utilisation of the allocation need not be jeopardised.

Putting back the implementation of projects because of a new EIA will temporarily reduce the absorption capacity of OPT14+.

The Ministry of Transport announced the first five continuous calls under OP T14+ in November 2015. These calls are open until 30 June 2023.[212]

Table 19 – Overview of OP T14+ calls

Number of call	Specific objective	Supported activities	EU allocation (CZK billion)	Call documentation - link
1	1.I	*Modernisation and construction of railway network*	33.9	http://web.opd.cz/vyzva-01
2	2.I	*Construction of motorway network TEN-T*	16.5	http://web.opd.cz/vyzva-02
3	2.I	*Modernisation of motorway network TEN-T*	8.0	http://web.opd.cz/vyzva-03
4	3.I	*Modernisation and construction of motorway network apart from TEN-T*	23.7	http://web.opd.cz/vyzva-04
5	4.I	*Technical assistance*	1.9	http://web.opd.cz/vyzva-05

Source: http://web.opd.cz/ministerstvo-dopravy-vyhlasuje-prvni-vyzvy-v-ramci-opd-2014-2020/.

Approximately CZK 84 billion in total was made available from the ESI Funds under these calls. These finances can be utilised to upgrade and build the road and rail network in the CR, primarily in the TEN-T network. The main beneficiaries of aid under these calls will be the Road and Motorways Directorate of the CR and Railway Infrastructure Administration. All the calls are continuous and non-competitive. The support will therefore be provided to individual projects in the order in which the projects are submitted until the available allocation under the individual calls is used up.

The goals of building and upgrading TEN-T networks may be endangered in the case of projects for which a new EIA will be required. Putting off the implementation of projects could affect the achieved price of implementation (which increases with time) and the impacts of projects will materialise later, which could bring about further losses.

E.2 Accounting for and reporting EU finances in the CR

Incomparability of accounting data – a systemic problem of the period 2010-2014

In connection with EU finances the Supreme Audit Office repeatedly pointed out in the past that the CR's accounting regulations were not absolutely clear in the way they defined how finances linked to projects co-funded by the EU budget should be accounted for and reported. The main confusion in the regulations was over the role of organisational components of the state (OUSs) when providing transfers, as the individual roles are defined in Czech accounting standard (CAS) no. 703 – Transfers (roles of the provider, beneficiary and, where applicable, intermediary).

212 Total allocation of OP T14+ is €4,695.8 million which is approx. CZK 127 billion (exchange rate 27 CZK/€).

According to the SAO, this systemic problem existed in the years 2010-2014 and resulted in accounting information being less usable, as in practice it could happen that OUSs reported mutually incomparable data in their financial statements in connection with projects co-financed out of EU funds.

The existence of mutually incomparable data was confirmed by a specific audit conducted by the SAO in 2014 and 2015 which focused on the reporting of finances provided to the CR from abroad. The audit compared the procedures applied in the accounting for and reporting of state budget finances for the pre-financing of expenditure according to CAS no. 703 – Transfers. Even though the SAO found no meaningful reasons for the use of various roles and different accounting procedures, it stated that the audited entities accounted for pre-financed transfers in entirely different roles in the years 2011 to 2014.

The audit therefore concluded that if both audited entities opted for the same role (i.e. provider/ beneficiary, or intermediary), they would report significantly different data from those they actually entered in their accounts. The difference in the case of certain items was over CZK 60 billion, which the SAO judged to be a considerable difference.

Systemic modification of the accounting regulations

The fundamental systemic problem resulting in incomparable accounting data on finances from the EU budget reported by OUSs was remedied by the MoF by means of an amendment of the accounting regulations effective from 1 January 2015, i.e. Decree No. 410/2009 Coll. and CAS no. 703 – Transfers. According to the SAO, this amendment eliminated the fundamental confusion over the choice of role by OUSs when providing and receiving finances earmarked for projects co-financed from abroad.

Since 1 January 2015 it has been clearly specified within the meaning of CAS no. 703 – Transfers that OUSs account for finances that they used for pre-financing in the role of providers. The basic approach for OUSs was thus unified and the provision of finances for pre-financing and their refunding should be accounted for as costs and revenues.

Eliminating the systemic risk of incomparable accounting data is a positive step for the usability of data from the accounts of OUSs concerning the pre-financing of aid provided from EU funds. The possible usability of accrual-based accounting data for national accounts compiled by the Czech Statistical Office was thus improved.

Persisting and new risks in the field of accounting

The SAO’s audit findings drew attention to certain other systemic risks affecting finances provided from the EU budget. These risks may lead to further incomparability of accounting information and a significant risk that data summarised in the following areas will be less meaningful:

- the consolidation of the state accounts, which will take place for the first time in 2015;
- national accounts (data for the government institutions sector), i.e. for statistical purposes.

This is a question of:

- **the capturing of financial corrections**

  For 2014 and 2015 the accounting regulations did not lay down any procedures for accounting for financial adjustments in the form of flat-rate corrections borne by the CR. Yet there can be various interpretations of their substantive essence, so different accounting units may again report mutually incomparable data. According to the SAO, the introduction of a unifying accounting regulation is therefore a necessary systemic matter. That would also improve the usability of accrual-based accounting data for the requirements of the compilation of national accounts.

- **accounting for preliminary payments received from abroad**

  In the case of payments received from abroad in a manner other than via the National Fund it is not possible to unequivocally deduce from the applicable accounting regulation how they should be accounted for and reported.

- **accounting for receivables from pre-financing**

  In the case of part of the finances provided from abroad to co-finance projects certain ministries find themselves in a situation where they are beneficiaries of the finances but a different entity submits the application for these finances. Given that since 1 January 2015 the accounting regulation has required an OUS to account for the establishment of a conditional receivable in the case of the provision of pre-financing regardless of whether this accounting unit submitted an application for the refunding of this pre-financing, the amended accounting regulation implicitly requires that the OUS has sufficient information to assess the duration of the reason for reporting such a receivable. The SAO points out, however, that the fulfilment of this requirement can be difficult in practice in some cases, as even though the OUS receives the funds the administration of the claim itself is under the control of a different entity. This can give rise to differences caused by a loss of refundability that is not captured in the accounts or in consequence of exchange rate changes.

Promoting the use of accrual-based accounting

The Supreme Audit Office stresses the importance and usefulness of accrual-based data in accounting (e.g. implementation of blanket corrections), as these data can help evaluate the true cost of expenditure policies co-funded out of the EU budget.

The Supreme Audit Office therefore supports the wide-scale use of accrual-based accounting data concerning finances provided out of the EU budget to co-finance programmes and projects when accounts are compiled for the use of state finances, e.g. for the purposes of evaluating expenditure policies, but also for the purposes of the closing accounts of state budget headings.

E.3 International activities of the SAO

Participating in coordinated audits and expert training activities, holding seminars, playing an active role in the work of international organisations' working groups and networks, cooperating with European institutions in audits conducted in the CR, organising working meetings attended by SAO representatives and foreign experts, representation in international organisations and, last but not least, day-to-day sharing of information for external public control with the supreme audit institutions of other countries. These are the SAO's principal international activities every year.

Every year the SAO organises a number of events linked to the CR's membership of the EU. One of the most important events in 2015 was the official **visit of ECA president Vítor Caldeira to the CR.** His four-day visit included a meeting with President of the Republic Miloš Zeman, a meeting with Prime Minister Bohuslav Sobotka and attending a session of the Committee on Budgetary Control of the Chamber of Deputies of the Parliament of the CR. **Vítor Caldeira also held talks with SAO representatives and opened a conference entitled *eData – the future of audit***[213]. This conference staged by the SAO focused on the issue of "big data", open data and data mining in state and public administration.

213 http://www.nku.cz/cz/konference-seminare/konference-edata/.

The SAO also held a regular **meeting between leading representatives of the SAO and the ambassadors of EU Member States in the Czech Republic**, which was also attended by representatives of the Ministry of Foreign Affairs and the Representation of the Commission in the CR. The results of SAO audits targeting the drawdown of European finances were discussed at the meeting. In addition, new approaches to audit were presented that use modern technologies to facilitate the acquisition and processing of data for the purposes of audit work. **The Supreme Audit Office also held talks with OECD representatives** who were preparing the *Economic Survey of the CR 2016* strategic document during their mission in the CR.

Bilateral meetings between SAO experts and representatives of EU Member States' SAIs is an important area of international cooperation. For example, in 2015 the SAO welcomed to its head office the **supreme representatives of the SAIs of Denmark, Austria** and **Slovakia**, who had come to discuss possible cooperation, information sharing between SAIs and representatives of national parliaments and activities focusing inter alia on the audit of self-administrating units. The SAO's most intensive cooperation was with the **Supreme Audit Office of the Slovak Republic (SAO SR)**, with which it is preparing a coordinated audit targeting excise duties. Other meetings between the SAO and SAO SR dealt with self-assessment aspects and methods according to the INTOSAI[214] methodological framework[215].

The involvement of SAO experts in the work of European agencies was another important activity. Since 2015 SAO representatives have been members of the **College of Auditors of the European Defence Agency** and the **Review Board of the European Space Agency**.

Audit missions of European institutions in the CR

The European Court of Auditors fulfils the key role in external audit of EU budget finances. Seven audit missions were conducted in the Czech Republic in 2015. One of these had begun in 2014. The Supreme Audit Office coordinated the exchange of information between the ECA and the audited entities, with SAO auditors participating in the mission as observers.

214 International Organization of Supreme Audit Institutions.
215 Performance Measurement Framework (PMF).

In selected cases the SAO also assists the ECA by acquiring materials for studies being drawn up in survey work or by verifying information. An overview of the ECA audit missions, including correspondence enquiries that took place in 2015 is presented in Appendix 6.

SAO auditors did not take part in any Commission audit mission in 2015. The focus and times of audit missions conducted by the Commission in the CR during 2015 are given in Appendix 5.

International cooperation in the context of Contact Committee activities[216]

Activities linked to the Contact Committee (CC), which is composed of head representatives of supreme audit institutions in the EU and the European Court of Auditors, is an integral part of the SAO's European international cooperation. The CC's working groups, in which members jointly deal with selected topics, give its representatives the chance to present and gain experiences with audit of European finances.

In 2015 SAO representatives were particularly active in the **Working Group on Structural Funds**, which discussed the results of parallel audit analysing public procurement errors in programmes financed out of the SF and CF. The joint report from this audit, which was drawn up with the participation of the SAO representatives, can be found in English on the CC website[217]. At the group's last meeting the SAO representatives helped prepare the plan for another parallel audit, which will this time target the benefit of EU-financed OPs for the achievement of the objectives of the Europe 2020 strategy.

Another working group the SAO is an active member of is the **Working Group on Value Added Tax**, which focuses on two priority areas: analysing the level of application of the reverse charge mechanism in Member States and monitoring the strategy of the fight against VAT fraud at EU level. In 2015 the SAO's representatives in the working group shared information from audits targeting the reverse charge mechanism and information concerning legislative amendments of the Act on VAT in connection with the fight against tax evasion. The group's members identified problems linked to varying rates in Member States that are evident in the application of the new Mini One Stop Shop system. The working group drew ECA representatives to the results of its work and is preparing to submit a suggestion for the ECA to focus on this area in its audits.

Although the SAO is not a member of the **Network on Fiscal Policy**, its representatives took part in the last meeting that was due to discuss the sustainability of public finances with regard to regional budgets, government debt and state aid for banks and financial institutions. The SAO representatives participated in the preparation of a parallel audit in the field of risks to the sustainability of public finances, where they helped assess the significance of the various risks to public budgets and subsequently select topics for the planned parallel audit.

Last but not least, the Supreme Audit Office took part in the work of the **Lisbon/Europe 2020** ***network***, partly by sharing information during a questionnaire-based survey and also by attending meetings beneficial to the SAO's audit work. SAO representatives recently presented the results of audits at a meeting devoted to topics linked to the promotion of competitiveness through education, research and development and topics linked to the employment and integration of the socially disadvantaged.

In 2015 the Supreme Audit Office launched a database of audits by EUROSAI[218] supreme audit institutions, which CC members decided to make use of in future for sharing the results of audits of EU finances that were hitherto stored in the database of audits of EU funds (CIRCABC)[219].

216 More information on the Contact Committee can be found at www.contactcommittee.eu.
217 http://www.eca.europa.eu/sites/cc/Lists/CCDocuments/Final%20report%202015/Final_report_2015_EN.pdf.
218 European Organization of Supreme Audit Institutions.
219 Communication and Information Resource Centre for Administrations, Businesses and Citizens.

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Appendices

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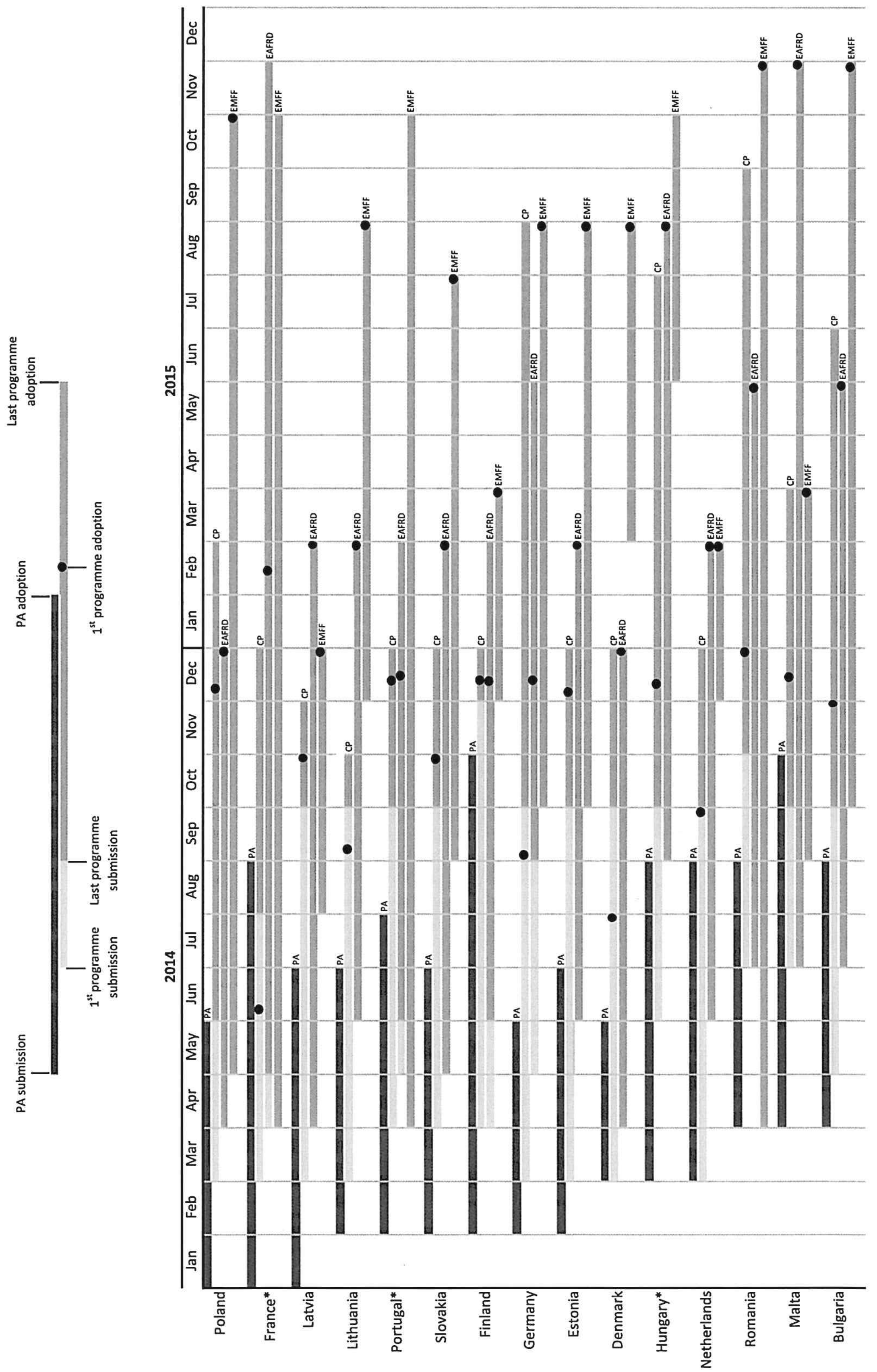
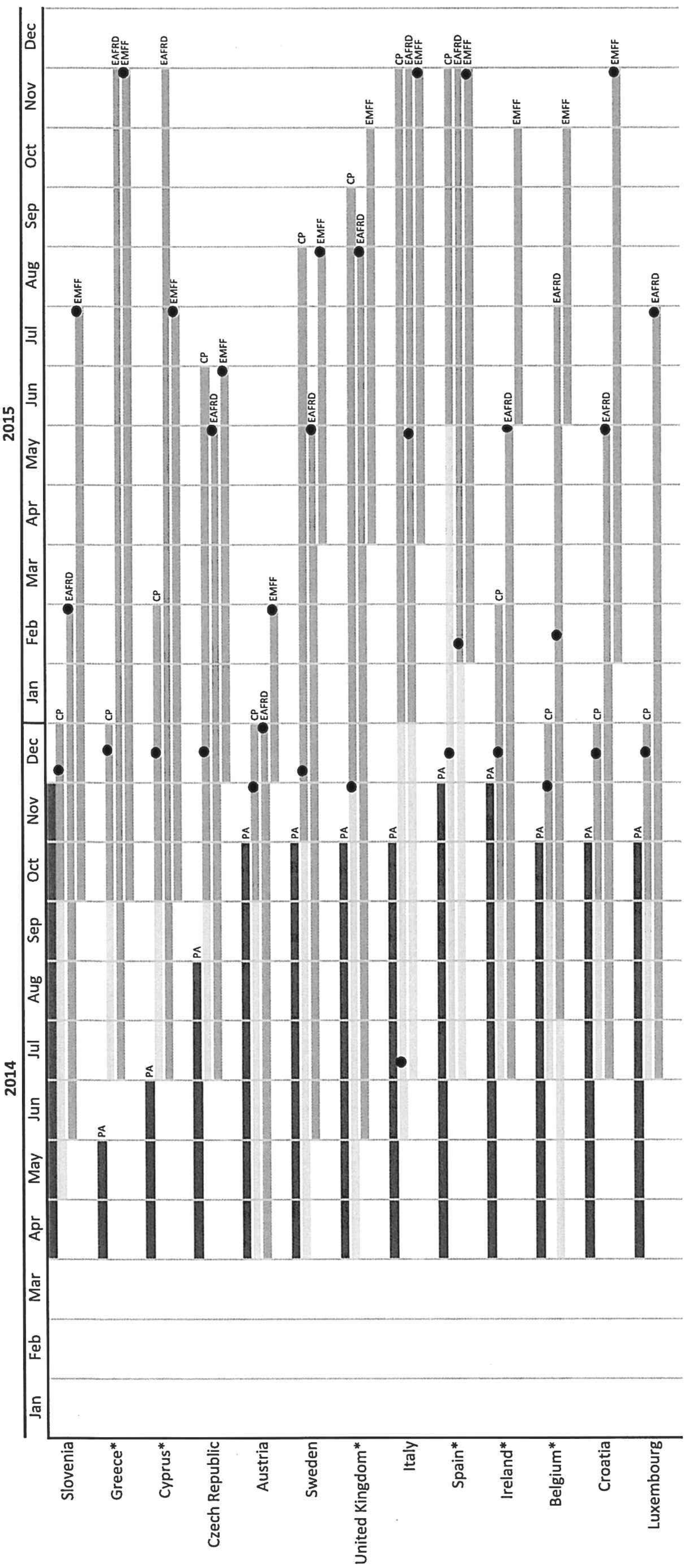
Appendix 1 – Timetable of the submission of the partnership agreements and programmes of Member States and their approval by the Commission



* programmes are still being adopted



* programmes are still being adopted

Appendix 2 – Current state of fulfilment of ex ante conditionalities in the CR as of 31 March 2016

- **Fulfilled:** 27 ex ante conditionalities, out of which 22 verified by the Commission
- **Partially fulfilled:** 12 ex ante conditionalities
- **Not fulfilled:** 1 ex ante conditionality

Code	Short title of ex ante conditionalities	State of fulfilment	State of fulfilment (%)	Leading ministry	Deadline for fulfilment	Verified by the Commission
T.1.1	R&D – intelligent specialisation	Partially	50	GO	31. 10. 2016	
T.1.2	R&D – long term plan for budget setup	Yes	100	GO	---	✓
T.2.1	Digital growth	Yes	100	MoIT	---	✓
T.2.2	Infrastructure of access networks of new generation	No	0	MoIT	30. 11. 2016	
T.3.1	Support of business activities (SBA)	Partially	67	MoJ	1. 9. 2016	
T.4.1	Energy efficiency	Yes	100	MoIT	---	✓
T.4.2	Production of heat and electricity	Yes	100	MoIT	---	✓
T.4.3	Renewable energy resources	Yes	100	MoIT	---	✓
T.5.1	Risk management and its prevention	Yes	100	MoE	---	(SFC)
T.6.1	Water resource management	Yes	100	MoE +		
MZe	MoA	(SFC)				
T.6.2	Waste management	Partially	50	MoE	31. 12. 2016	
EZFRV 4.1	Good agricultural and environmental state	Yes	100	MoA	---	✓
EZFRV 4.2	Minimum demands on fertilizers and additives	Yes	100	MoA	---	✓
EZFRV 4.3	Other applicable interstate provisions	Yes	100	MoA	---	✓
ENRF	Long term national aquaculture plan	Yes	100	MoA	---	✓
ENRF	Fishery administration	Yes	100	MoA	---	✓
T.7.1	Road traffic	Partially	93	MoT	30. 9. 2016	
T.7.2	Railroad traffic	Partially	83	MoT	30. 9. 2016	
T.7.3	Other traffic	Partially	66	MoT	30. 9. 2016	
T.7.4	Energy network	Yes	100	MoIT	---	✓
T.8.1	Active employment policy	Yes	100	MoLSA	---	✓
T.8.2	Private business, enterprise and company setup	Partially	75	MoJ	1. 9. 2016	
T.8.3	Reform of the labour market institutions	Yes	100	MoLSA	---	✓
T.8.5	Assistance for employees, companies and firms	Yes	100	MoLSA	---	(SFC)
T.8.6	Youth employment support	Yes	100	MoLSA	---	✓
T.9.1	Poverty reduction	Yes	100	MoLSA	---	✓

Code	Short title of ex ante conditionalities	State of fulfilment	State of fulfilment (%)	Leading ministry	Deadline for fulfilment	Verified by the Commission
T.9.2	Romany assimilation policy	Partially	84	GO	30. 6. 2016	
T.9.3	Health	Yes	100	MoH	---	SFC
T.10.1	School attendance termination	Yes	100	MoEYS	---	SFC
T.10.2	University education	Yes	100	MoEYS	---	✓
T.10.3	Life-long learning	Yes	100	MoEYS	---	✓
T.10.4	Special education and preparation	Yes	100	MoEYS	---	✓
T.11	Public administration	Partially	55	MoI	31. 12. 2016	
O.1	Non-discrimination	Yes	100	GO	---	✓
O.2	Gender equality	Yes	100	GO	---	✓
O.3	Persons with disabilities	Yes	100	MoLSA	---	✓
O.4	Public contracts	Partially	70	MfRD	31. 12. 2016	
O.5	Public support	Partially	66	MfRD	30. 6. 2016	
O.6	EIA/SEA	Yes	100	MoE	---	✓
O.7	Statistical systems and result indicators	Partially	67	MfRD	30. 6. 2016	

Source: *Information about fulfilment of ex ante conditionalities – current state, main risks and procedures, NCA, April 2016.*

Note: To consider an ex ante conditionality as fulfilled, it must receive an agreeable statement from the Commission through the SFC2014[220] system. A record "SFC" in the Verified by the Commission column means that it applies to conditionalities which had the information about their status uploaded into the SFC system by the CR, and at the same time, this information/status has not been verified by the Commission yet.

Whole titles of leading ministries which are not included into the List of Abbreviations: GO – Government Office, MoJ – Ministry of Justice, MoH – Ministry of Health.

220 SFC 2014 is a system for all official electronic data exchange between Member States and the Commission. See art. 74, par. 4 Regulation of EP an Council No 1303/2013 of 17 December 2013.

Appendix 3 – Focus of programmes financed from EU structural and investment funds

Programme name	Financed from ESI funds	Managing authority	Intermediate body	Allocation (€ mil)	Programme description
OP *Transport* www.opd.cz/cz/OP_doprava_2014-2020	ERDF, CF	MoT	State Fund for Trasport Infrastructure	4 695.77	The main objective of the Operational Programme Transport (OP T) is to ensure high-quality transport infrastructure throughout the Czech Republic, including gradual alignment of the quality of the Czech Republic's transport system with the "old" EU countries. The transport sector is one of the most important areas of the national economy, affecting virtually all areas of public and private life and business. High-quality transport infrastructure is a prerequisite for improving the competitiveness of the entire country and its regions. Its varying quality is also one of the causes of territorial differences.
Integrated Regional Operational Programme www.crr.cz/cs/irop	ERDF	MfRD	Centre for Regional Development CR	4 640.70	The Integrated Regional Operational Programme (IROP) is a follow-up to the seven regional operational programmes and partially to the Integrated Operational Programme of the programming period of 2007–2013. The IROP's priority is to enable balanced territorial development, improve the infrastructure, improve public services and public administration and ensure sustainable development in villages, towns and regions.
OP *Enterprise and Innovation for Competitiveness* www.mpo.cz/cz/podpora-podnikani/oppik	ERDF	MoIT	Czechinvest Technical Agency CR	4 331.06	The objective of the Operational Programme Enterprise and Innovations for Competitiveness (OP EIC) is to achieve a competitive and sustainable economy based on knowledge and innovation. The term "competitive" includes the ability of local companies to gain ground in world markets and create sufficient jobs. The term "sustainable" accentuates the long-term horizon of competitiveness, which also includes the environmental dimension of economic growth. Focus: Promotion of research and development for innovation, development of SMEs' entrepreneurship and competitiveness, energy savings and development of high-speed internet access networks and information and communication technologies.

Programme name	Financed from ESI funds	Managing authority	Intermediate body	Allocation (€ mil)	Programme description
OP *Research, Development and Education* www.msmt.cz/strukturalni-fondy-1/op-vvv	ERDF, ESF	MoEYS	MoEYS and regional governments Technical Agecy CR	2 768.06	The key principle of the Operational Programme Research, Development and Education (OP RDE) is development of human resources for knowledge-based economy and sustainable development in a socially cohesive society, and is supported by interventions under more priority axes. That is followed up by the support of quality research for which qualified workforce represents a key input factor. Interventions in education will also be supported by system changes aimed at improving the Czech Republic's education system.
OP *Environment* www.opzp.cz	ERDF, CF	MoE	State Environmental Fund of the CR	2 636.59	The main objective of the Operational Programme Environment (OP E) is to protect and ensure quality environment for the life of the Czech Republic inhabitants, to support efficient use of resources, to eliminate negative impacts of human activity on the environment and to mitigate climate change impacts.
Rural Development Programme for 2014–2020 eagri.cz/public/web/mze/dotace/program-rozvoje-venkova-na-obdobi-2014	EAFRD	MoA	State Agricultural Intervention Fund	2 305.67	The principal objective of the programme is to rehabilitate, preserve and improve the ecosystems dependent on agriculture by means of agro-environmental measures, to invest into competitiveness and innovation of agricultural enterprises, to support entry of young people into farming, or landscape infrastructure. The programme will also support diversification of rural economic activities with the aim of creating new jobs and improving economic development. It will support Community-Led Local Development and, more specifically, the LEADER method, which contributes to better targeting of support at the local needs of given rural areas and the development of cooperation between involved parties at the local level.

Programme name	Financed from ESI funds	Managing authority	Intermediate body	Allocation (€ mil)	Programme description
OP *Employment* www.esfcr.cz/op-zamestnanost-2014-2020	ESF, Youth Employment Initiative	MoLSA		2 145.74	The objective of the Operational Programme Employment (OP Emp) is to improve the human capital of citizens and the public administration in the CR, i.e. the basic elements of competitiveness. The Czech Republic must pay considerable attention to these areas if it wants to succeed in today's complex world.The OP Emp also focuses on promoting equal opportunities between men and women, employee and employer adaptability, further education, social inclusion and combating poverty, health services, on modernizing public administration and services and on promoting international cooperation and social innovations in employment, social inclusion and public administration.
OP *Technical Assistance* www.strukturalni-fondy.cz	CF	MfRD		223.70	The purpose of the Operational Programme Technical Assistance (OP TA) is to finance administration and to support the absorption and administrative capacity and complementary activities needed for a successful operation of the entire system of ESI Funds in the programming period of 2014–2020. The OP TA will be crucial for ensuring successful activities of the Ministry of Regional Development in the role of the National Coordination Authority and other bodies. The goal of the OP TA is to make sure that ESI Funds resources are used as efficiently as possible.
OP Prague – Growth Pole www.oppraha.cz	ERDF, ESF	Prague Municipal Government	Prague Municipal Government	201.59	The main objective of the Operational Programme Prague – Growth Pole of the Czech Republic for the programming period is to contribute to thematic objectives. In doing that, it is necessary to ensure effective implementation of investments in Prague, which will help improve competitiveness of Prague as the growth pole of the Czech Republic and to ensure quality life of the inhabitants. The creation of favourable business environment and support for education and science must work towards fulfilling the role of Prague as the main innovation centre of the country. At the same time, it is necessary to ensure effective management of all forms of resources - land, real property and infrastructure, energy and funding within the meaning of sustainable development principles and balancing out their mutual links.

Programme name	Financed from ESI funds	Managing authority	Intermediate body	Allocation (€ mil)	Programme description
OP *Fisheries 2014–2020* eagri.cz/public/web/mze/dotace/operacni-program-rybarstvi-na-obdobi-1	ENRF	MoA	State Agricultural Intervention Fund	31.11	The global objective of the Operational Programme Fisheries (OP F) is sustainable and competitive aquaculture based on innovation, competitiveness, knowledge and more efficient use of resources. The programme aims to develop sustainable fish farming in the Czech Republic and to ensure even distribution of fresh-water fish throughout the year to the domestic market in the demanded range, including the diversification of aquaculture (fish ponds) to ensure the production of carp and its supplies to the market, while it is necessary to support introduction of modern intensive fish-breeding systems to increase the fish production and to help eliminate negative environmental impacts; the systems will be acquired to produce salmonid and other kinds of fish to ensure all-year-round supplies to the market network. .
INTERREG V-A CR-PR http://www.cz-pl.eu/	ERDF	MfRD		226.22	The Operational Programme Cross-Border Cooperation Czech Republic - Poland 2007-2013 (OP Czech Republic - Poland) focuses on improvement of transport accessibility to the cross-border region; environmental protection; promotion of economic cooperation; promotion of the development of cross-border infrastructure and tourism services; promotion of educational, cultural and social efforts; and cooperation with local governments and other entities on both sides of the border.
Total allocation for the CR				24 206.21	

Source: Partnership Agreement for the programming period 2014 - 2020 from 26 August 2014, programming documents

Appendix 4 – Sources and causes of negative phenomena in the 2007-2013 programming period as identified by the Audit Body

Sources of negative phenomena	**Most common causes of negative phenomena**	**Possible ways to reduce and prevent the incidence of negative phenomena in the context of the work of the implementation structure in the 2014-2020 programming period** (mainly applies to MAs / IB, PCA and AB)
EU/Czech legislation and other binding rules and regulations	- Constantly increasing quantity of laws, regulations and other binding rules - Legal uncertainty due to insufficiently specific and comprehensible legislation and room for different interpretations - Possibility of change in the interpretation of legislation during its effective period (e.g. in consequence of the evolution of the related jurisprudence)	Although implementation structure entities (as components of ministries) have their place in the legislative process as in many cases they help draw up proposals for legal and other binding rules and regulations, they cannot influence their final form. The main potential of implementation structure entities therefore lies in improving the quality of their work in the preparation of draft legislation and in the consulting process.

Sources of negative phenomena	Most common causes of negative phenomena	Possible ways to reduce and prevent the incidence of negative phenomena in the context of the work of the implementation structure in the 2014-2020 programming period (mainly applies to MAs / IB, PCA and AB)
Methodology of the funding provider	- Frequent changes to the legislative framework - Incomprehensible methodology and subsequent changes to its interpretation during the drawdown process - Ineffective bureaucratic interventions in methodology and/or formalism - Unclear, incomprehensible and difficult-to-measure criteria in public procurement - Inadequate description of processes - Absence or inadequate specification of control procedures	Implementation structure entities may significantly influence the quality of methodologies primarily through their regular updating (at reasonable intervals, though) further to legislative and other fundamental changes. Two factors that could have a significant impact on improving methodologies is the targeted selection of experienced methodologists and effective work on improving their professional readiness and improving the quality of the internal consultation process. On the part of the AB, communication between the AB and other implementation structure entities could be an effective preventive measure in the improvement of processes and practical application of effective control procedures. This communication would draw implementation structure entities' attention to weaknesses in methodologies in existence and, above all, under preparation before they are approved and put into practice.
Beneficiaries of finances from European funds	- Inexperience - Inadequate professional care during project preparation and implementation - Inability to fulfil their commitments and comply with contractual agreements - Affinity to or acceptance of fraud or corruption	The implementation structure, in this case mainly MAs and IB, have only one option in this matter – to properly discharge their obligations laid down in the subsidy provision rules and maintain constant and effective communication with beneficiaries throughout the process. The Audit Body can exert influence on applicants and beneficiaries through effective and targeted communication with MAs and IB, which are beneficiaries' main partners in the process of drawdown from European funds.

Sources of negative phenomena	Most common causes of negative phenomena	Possible ways to reduce and prevent the incidence of negative phenomena in the context of the work of the implementation structure in the 2014-2020 programming period (mainly applies to MAs / IB, PCA and AB)
Contracting organisations	Inexperience: - Inadequate professional care - Unable to define clear and measurable assessment criteria - Breaches of the Act on Public Procurement (deliberate or through negligence) - Affinity to or acceptance of corruption	Almost 50% of all detected shortcomings and almost 75% of all identified ineligible expenditure are linked to the public procurement process. In most cases, deficiencies of this type are caused by a lack of due professional care on the part of the organisations holding public tenders and/or by violations of Act No. 137/2006 Coll., on public procurement, either through ignorance or negligence. That makes it crucial for contracting organisations to constantly improve their knowledge of Act No. 137/2006 Coll. That mainly applies to the new public procurement act under preparation. When the new public procurement act becomes effective, there should be continuity in all areas in which existing practice has proved successful. The goal is to reach a state where (unlike the current reality) there is no doubt that contracting organisations are acting with sufficient professional care. Despite the partial successes to date, MAs and IB should keep improving their work in risk management, detecting lacking control procedures and swiftly implementing them in public procurement. The outcome should be a fundamental improvement in control work. As regards the AB, its auditors must acquire detailed knowledge of the way MAs and IB approach risk management and make use of this knowledge throughout the audit process. They must have detailed knowledge of the processes used and the control procedures applied in these processes so that they can evaluate their effectiveness objectively. That will enable them to make more precise and objective findings and, ultimately, to formulate proposals for better-quality corrective measures. AB auditors must also have detailed knowledge of the applied anti-corruption measures and know how to verify them when auditing systems and operations. MAs and IB and AB auditors must know about the most commonly used modus operandi of irregularities and fraud, know their red flags and be able to reliably identify them when carrying out specific control and audit work. MAs, IB and AB must share information and findings from this constantly changing area effectively.

Sources of negative phenomena	Most common causes of negative phenomena	Possible ways to reduce and prevent the incidence of negative phenomena in the context of the work of the implementation structure in the 2014-2020 programming period (mainly applies to MAs / IB, PCA and AB)
Human resources for drawdown administration for control work and audit work	Insufficient staffing: - Inexperience and inadequate professional training - Insufficient quality of control work or inadequate coverage of the audited area	The staffing of implementation structure entities is partly influenced by political decisions, financial capacities and the systemisation of positions in each element of the implementation structure. Room for significant progress or introducing preventive measures by implementation structure entities is usually restricted to the presentation of rational and well-founded proposals. Implementation structure entities have insufficient influence of the decision-making process for approving or rejecting these measures. The quality and professional readiness of implementation structure staff can be influenced by effective risk management in human resources, but also by: - recruiting high-quality employees; - defining key performance indicators for each employee or group of employees and implementing objective criteria for measuring their work performance and for objective assessment of employees; - implementing a continuous process focusing on identifying key employees and talents and paying special attention to their professional and career growth; - transparent pay and a sophisticated rewards and benefits policy; - effective spending on training and education. AB has only partial influence over the quality of control work done by implementation structure entities, MAs and IB in individual operational programmes, which can be exerted by high-quality audit work and effective communication with MAs and IB. During its audits, AB should pay constant attention to the staffing and qualification of implementation structure employees carrying out control work. AB should make use of any negative findings in this area to formulate recommendations. The professional readiness of implementation structure employees, including AB auditors, can be influenced by greater rationality and focus when recruiting new employees in selection procedures, effective management of finances earmarked for training and targeted spending. The performance of audit can mainly be influenced by high-quality management, good planning and rational selection of auditors for audit teams.
-	- Inability to fulfil their commitments and comply with contractual agreements	
-	- Affinity to or acceptance of fraud or corruption	The implementation structure, in this case mainly MAs and IB, have only one option in this matter – to properly discharge their obligations laid down in the subsidy provision rules and maintain constant and effective communication with beneficiaries throughout the process.

Appendix 5 – Overview of European Commission´s audit and fact-finding missions in the Czech Republic in 2014 and 2015

Year	Audit mission	Operational programme/ auditees	Audit type/subject	Main findings	Final report
2014	DG EMPL	OPEC MA	System audit - scrutiny of MCS structure, efficiency and effectiveness within OP	Individual corrections for shortcoming of beneficiaries	Accepted individual corrections on the side of beneficiaries
	DG EMPL DG REGIO	Various OP MA, NCA	Public procurement for broadcasting services	Insufficient transposition of Directive for broadcasting services.	Incomplete (no final report)
	DG EMPL DG REGIO	Various OP MA, NCA	Public procurement for broadcasting services	Insufficient transposition of Directive for broadcasting services.	Individual corrections
	DG REGIO	OPE07+ MA	Adequacy of management controls of MA and IB OP Environment	Shortcomings identified (ineligible expenditure)	Individual corrections
	DG REGIO	IOP AB	System audit - Gain assurance about system functionality between 2007 - 2013 through scrutiny of audit bodies activity	Shortcomings identified (ineligible expenditure) - Inadequate procedures within performed audits	Incomplete (no final report)
	DG REGIO	OPEI AB	Verification of AB activities - selection of eight audits within OPEI from 2014	Without findings	Completed
2015	DG REGIO	ROP SW MA	MCS audit according to articles 60 and 72 EC Regulation No. 1083/2006 within complementary MPŠ between 2007 and 2013. Verification of PC 2 sufficient operation selection and PC 4 sufficient management control	PC 2 assessed by category 2, PC 4 by category 2 with the exception of public procurement where management controls were carried out before 31 August 2012 and were reimbursed after this date.	Incomplete (no final report)
	DG MARE	OPF07+ MA, AB	Assurance about efficient MCS operation, aimed at AB, partly MA	MA draft report - 9 findings identified	Incomplete (no final report) the AB had accepted most of the results and remedied most of the shortcomings
	DG REGIO	ROP MS AB	Gain assurance about system functionality between 2007–2013 through scrutiny of AB activities	Shortcomings identified (ineligible expenditure) - Inadequate procedures within performed audits	Incomplete (no final report)
	DG REGIO DG MARE	PCA	Audit of funds reclaim	Procedural shortcomings, inadequate procedures	Incomplete (no final report)

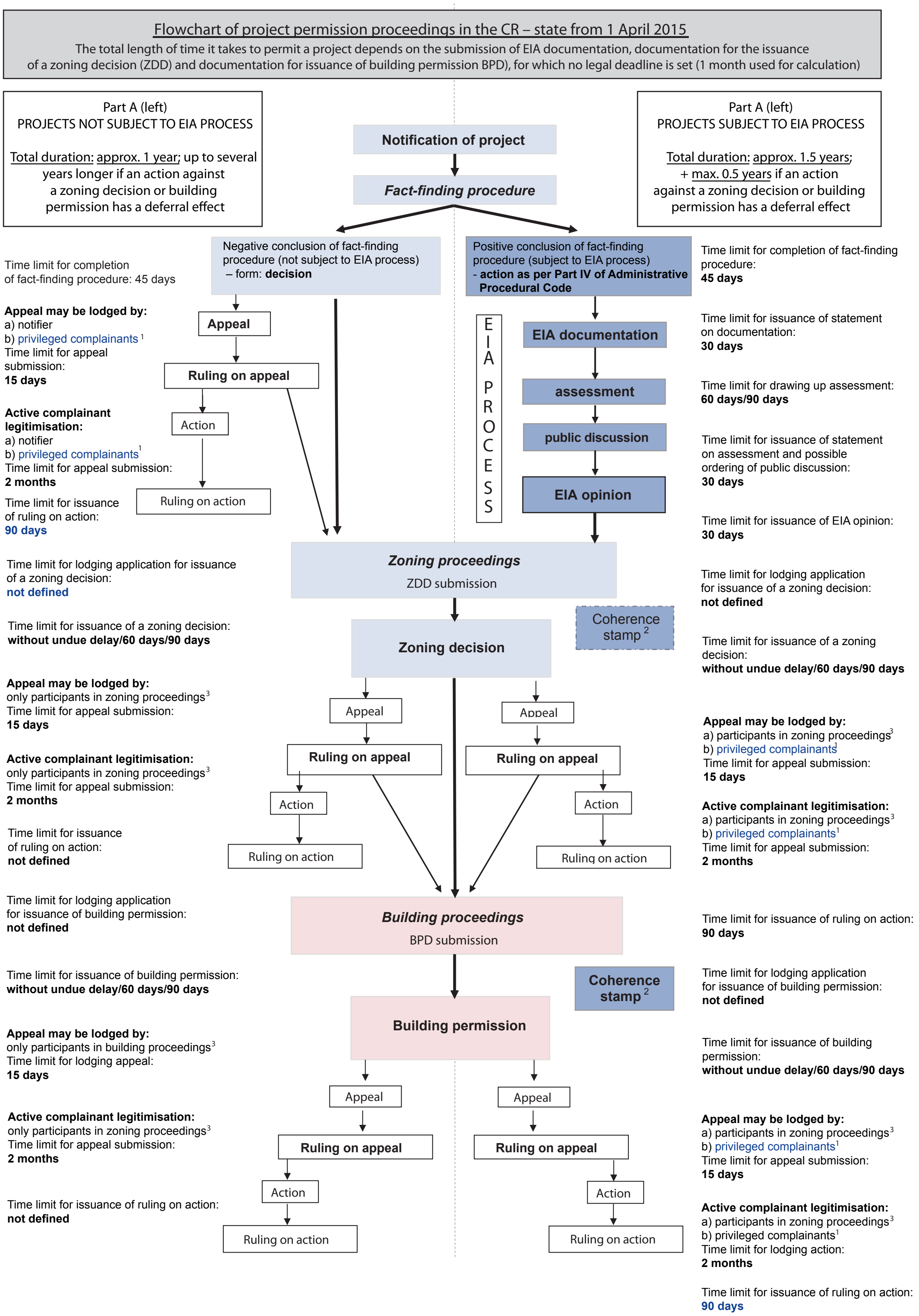
Appendix 6 – Overview of audit missions of the European Court of Auditors in 2014 and 2015

Year		Date of execution	Audit subject (programme)	Audit type (DAS/ Performance audit)	Audit form (on-the-spot/ survey)
2014	1	17.-21.2.	OP Transport (CF)	DAS	on-the-spot
	2	19.-28.5	*OP Prague-Competitiveness*	DAS	on-the-spot
	3	16.-27.6.	OP Education for Competitiveness	DAS	on-the-spot
	4	30.6.-4.7. 29.9.-3.10.	OP Research and Development for Innovation	DAS	on-the-spot
	5	18.-22.8.	European Agriculture Guarantee Fund	DAS	on-the-spot
	6	23.-26.9.	*Are the Commission and the Member Statres taking appropriate and effective actions to address the problem of public procurement errors in the Cohesion area?*	Performance audit	on-the-spot
	7	29.9.-3.10.	European Agricultural Fund for Rural Development	DAS	on-the-spot
	8	10.-13.11.	Excessive Deficit Procedure	Performance audit	on-the-spot
	9	24.-28.11. 8.-9.12.	Performance audit on EU rail freight transport interventions (2007-2013 programming period)	Performance audit	on-the-spot
	10	16.-19.12.2014 6.1.-9.1.2015*	OP Education for Competitiveness (ESF)	DAS	on-the-spot
		February	Survey of the effects of microfinincing in the European market conducted within an performance audit of the ECA	survey	survey
		April	Performance audit of railway projects coofinanced in the programming period 2007-2013 and Cohesion fund	survey	survey
		April	Survey of educational infrastructure projects coofinanced from ERDF and ESF	survey	survey
		May	Survey within a performance audit of technical assistance in agriculture and rural development	survey	v
		June	Questionnaire related to unfulfilled implementation of financial instruments within the articles 50-52 of EC provision No 1974/2006 EAFRD	survey	survey

Year		Date of execution	Audit subject (programme)	Audit type (DAS/ Performance audit)	Audit form (on-the-spot/ survey)
2015	1	24.-27.1.	OP Research and Development for Innovation, European Regional Development Fund	DAS	on-the-spot
	2	24.-27.8.	European Agricultural Guarantee Fund	DAS	on-the-spot
	3	7.-15.9.	OP Environment 2007+ (CF)	DAS	on-the-spot
	4	20.-23.10.	OP Education for Competitiveness	DAS	on-the-spot
	5	9.-13.11.	European Agricultural Fund for Rural Development (ESF)	DAS	on-the-spot
	6	18.-20.11.	Audit concerned with the Statement of Assurance 2015	DAS	on-the-spot
		January	Survey in the context of performance audit on farm income statistics and performance indicators		survey
		March	*Performance audit of state aid: "Does the Commission pay attention to breach of EU rules for state aid in the cohesion area?"*		survey
		April	*Financial Instruments Performance Audit: "Have financial instruments been an efficient mechanism to provide EU funding in the regional, social, transport and energy policy areas?"*		survey
		July	Survey in connection to audit of the Land Parcel Identification System		survey
		September	*Audit of conditionality for answering the question: "Is the management and control system for conditionality simple and efficient?"*		survey
		October	*Performance Audit on Closure: "Is the closure of the 2007-13 Cohesion and Rural Development programmes designed to achieve its effective implementation?"*		survey
		December	*Performance Audit on Natura 2000 network*		survey

Note: * Audit mission began with the first visit in December 2014 and continued with the second visit in January 2015.

Appendix 7 – Flowchart of the permission process for investment projects in the CR and summary of the amendment of the Act on EIA



Notes:

1) Privileged complainants = the concerned public within the meaning of the EIA directive, i.e. legal persons under private law defending the interests of the environment and meeting the legally defined restrictions.
2) Coherence stamp = requirement of the European Commission for checking that the project presented in the related proceedings (zoning, building) matches the project for which the EIA opinion was issued. A binding opinion is always issued in building proceeding (affirmative/negative). In zoning proceedings, a binding opinion is only issued if a negative binding opinion has to be issued.
3) Participants in proceedings pursuant to the Building Act, i.e. primarily the applicant and owners of adjoining land.

Amendment of the Act on EIA

The amendment of the Act on EIA entered into effect on 1 April 2015. The amendment brought a number of changes that will affect both those applying for permission for a project and the concerned public.

Binding nature of EIA opinions

The outcome of the EIA procedure ("the EIA opinion") has now become binding. The opinion can be independently reviewed in review proceedings under the administrative procedural code. Other remedial measures against the binding opinion can only be applied when related decisions are contested, however.

Conclusion of fact-finding proceedings

A negative conclusion of fact-finding proceedings, i.e. that a project needs no more scrutiny in the EIA process, is to be published on the official noticeboard. Environmental organisations satisfying the legal conditions (see below) can lodge an appeal against a negative conclusion and then, if appropriate, an action under the administrative judicial process. The administrative court must rule on this action within 90 days.

If the conclusion of the fact-finding proceedings is positive and the EIA process consequently has to be taken further, no remedies are admissible.

Related proceedings

The concept of "related proceedings" has now been defined: this means proceedings in which decisions pursuant to special legal regulations (e.g. the Building Act, Waters Act, IPPC, Mining Act et al.) are issued and which permit the location or performance of the project being assessed under the Act on EIA.

Public involvement

The amendment defines the concept of "concerned public", which now means persons whose rights and obligations may be affected by a decision and legal persons under private law which officially perform environmental or landscape protection activities or operate in public health.

The Act on EIA now differentiates two categories of non-governmental environmental organisations. The first category is "established organisations", which must have existed for at least 3 years. The second category is "ad hoc environmental organisations", where the number of supporting signatures (200) is the criterion defining their legitimacy. Since the amendment, the Act on EIA has also regulated the particulars required of the signatures document.

Publishing of information on the start of related proceedings

Related proceedings are always published solely by a public notice on the official noticeboard. Now environmental NGOs are obliged to register for related proceedings within 30 days after the information on the start of the related proceedings is published on the official noticeboard – otherwise they will not have the status of participants in the proceedings.

Consultative form of public participation

All persons who express an interest in participation, regardless of how they claim their rights are affected, have the right to participate in related proceedings on a consultative basis. Consultative participation entails:

- right of access to information
- right to ask the relevant authorities to provide access to information and answer questions
- obligation of the relevant authority to take comments into consideration
- obligation of the relevant authority to publish decisions, including reasons, covering how comments made by the public were dealt with
- Remedial measures and access to judicial protection

The concerned public, not including environmental NGOs, does not acquire the status of participants in proceedings related to the EIA process: they are merely guaranteed procedural rights according to the requirements of the EIA directive (see above – Consultive participation entails:). By contrast, environmental NGOs satisfying all the aforesaid requirements (3 years of existence or 200 signatures) are awarded the status of participants in these related proceedings, provided they register (see above).

In addition, environmental NGOs will be able to lodge appeals and subsequently actions against issued permits that are outcomes of the related proceedings, even if they did not participate in these permission proceedings.

If NGOs lodge an action against a negative conclusion of fact-finding proceedings, the court must rule on it within 90 days. In this case the Court rules on the award of a deferral effect or on a preliminary injunction even without being petitioned, if there is a danger of serious environmental damage (the deferral effect does not have to be awarded in all cases).

Coherence stamp

This coherence verification is done to check whether during the related proceedings the project was changed from the project assessed in the EIA process.

Before filing an application in related proceedings the investor must present the full documentation, including a list of all changes, to the competent authority. If there have been significant changes that could have a negative impact on the environment, a negative opinion is issued and the entire EIA process is repeated. A negative opinion can also be issued if the full documentation was not presented to the authority in the related proceedings or was not presented in time. If the project has not changed, the relevant authority in the EIA process communicates this to the notifier and to the related proceedings authority and does not issue a binding opinion. This "coherence stamp" is always required if the related proceedings are building proceedings or proceedings on a change to a building project before completion.

Use of the administrative procedural code

Under the amendment, the administrative procedural code can be applied to the EIA process, which mainly means that an EIA opinion (now binding) can be reviewed under the terms of the administrative procedural code.

Projects that have not yet undergone related proceedings must undergo verification.

When the amendment of the Act on EIA has taken effect, EIA opinions issued before the effective date of the amendment must be checked for compliance with the legal regulations and EIA directive. This verification will only apply to opinions in whose case related proceedings have only just been commenced, however. If this verification identifies non-compliance with the legal regulations and EIA directive, a new EIA is required. This “verification” procedure can be combined with the coherence procedure (see Coherence stamp above), if it is currently taking place.

Related changes to the Building Act

The appropriate building authority for proceedings on projects with EIA is always the building authority of a municipality with extended competence.

Appendix 8 – Overview of the SAO audits published in the SAO Bulletins – Issues 2/2015 and 3/2016 which were focused partly or completely on EU funds

Audit No.	Audit subject	Published in the SAO Bulletin (Issue/Year)
14/15	Funds spent on the projects and measures for support and fulfilment of efficient public administration including savings of expenditures implementation	2/2015
14/22	Funds earmarked for the infrastructure of university education	2/2015
14/24	EU and state budget funds provided for settlement of expenditures of national projects within the Operational Programme Education for Competitiveness	3/2015
14/26	Funds spent on the projects of the Rural Development Programme	2/2015
14/27	Funds of the EU Solidarity Fund provided for the Czech Republic in relation to catastrophic floods	2/2015
14/28	Spirit and tobacco excise tax administration and administration of revenues from the sales of tobacco duty stamps, including the management of these duty stamps	3/2015
14/32	Funds earmarked for the construction of line A of the Prague underground	3/2015
14/37	State budget, EU budget funds and other funds acquired from abroad	3/2015
14/40	Funds earmarked for remittance of costs for land area amendments	2/2015
15/02	State budget funds provided for support of energy savings	1/2016
15/03	Funds earmarked for projects related to introduction of electronic public administration under the supervision of the Ministry of the Interior	1/2016
15/04	Funds earmarked for the infrastructure of the project "Pilsen - European cultural capital 2015"	1/2016
15/06	State budget funds and EU structural funds earmarked for financing of operational programmes with respect to projects sustainability	1/2016
15/10	Funds spent on the National Infrastructure for Electronic Public Procurement (NIPEZ) and its utilisation for purchase of selected commodities	3/2016
15/14	Funds earmarked for modernisation of III. and IV. transit railway corridor	3/2016
15/18	Funds earmarked for housing support	3/2016
15/24	Funds earmarked for the implementation of EU asylum and migration policy objectives	3/2016

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