Czech Republic
Supreme Audit Office

EU REPORT 2020

REPORT ON THE EU FINANCIAL MANAGEMENT IN THE CZECH REPUBLIC

OCTOBER 2020

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

CONTENTS

Editorial note:

The editorial deadline for the *EU report 2020* was set for 30 April 2020. Therefore, this publication mainly presents data and information that were available to the authors by the set deadline. Data published after the date of the editorial deadline are presented in the text only exceptionally, they are not the subject of analyses or comparisons and have only a complementary character.

The forecasts and development trends presented in certain analytical materials are predicated on the state of affairs that applied up to mid-March 2020. On 12 March 2020 the Czech government imposed a state of emergency in response to the Covid-19 pandemic, which had a fundamental impact on the economic situation throughout the CR. That makes it reasonable to assume that practically all the predicted economic indicators will deviate from the presented values and time limits.

The authors would like to thank the Ministry of Finance (Audit Authority Department), the Ministry of Regional Development (National Coordination Authority) and the State Agricultural Intervention Fund for providing data and documents that made it possible to write Chapters D, G.2, G.3 and G.4. Special thanks to Mr Petr Zahradník for writing Chapter B.

List of used abbreviations

AA	Audit Authority (MoF – Dept. 52)
AFCOS	Anti-Fraud Coordinating Structure
AIS	SAO Audit Information System
AMIF	Asylum, Migration and Integration Fund
Annual 2019 Growth Analysis	Annual Growth Analysis for 2019
Annual Report	30th Annual Report on the Protection of the EU´s financial interests in 2018
Annual Reports	Annual Reports on implementation of programmes in 2018
Audits under scrutiny	Audits of funds related to the EU budget and completed during the period under scrutiny
CAP	Common Agricultural Policy
CEF	Connecting Europe Facility
CF	Cohesion Fund
CFP	Common Fisheries Policy
CMGDB	Czech-Moravian Guarantee and Development Bank
CMO	Common market organisation
Cohesion Policy	Policy of economy, social and territorial cohesion
Commission	European Commission
Convergence Programme	Convergence Programme of the CR
CPI	Corruption Perception Index
CR	Czech Republic
Dialogue	Clean Air Dialogue
D-O-E	Danube-Odra-Elbe Water Corridor
DAS	Statement of Assurance as to the reliability of the accounts (Déclaration d'assurance)
DG AGRI	Directorate-General for Agriculture and Rural Development (DG AGRI)
DG EMPL	DG for Employment, Social Affairs and Inclusion
DG MARE	Directorate-General for Maritime Affairs and Fisheries
DG REGIO	DG for Regional and Urban Policy
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
ECA	European Court of Auditors

ECJ	EU Court of Justice
EMFF	European Maritime and Fisheries Fund
EP	European Parliament
EPPO	European Public Prosecutor´s Office
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Fund
EU	European Union
EU-28	28 EU Member States
GD	General Directorate
GDP	Gross Domestic Product
GNI	Gross National Income
IB	Intermediate Body
ICT	Information and Communication Technologies
INTERREG CR–PL	INTERREG V-A CR – Poland
IROP	Integrated Regional Operational Programme for 2014–2020
IS	Information system
ISF	Internal Security Fund
LO	Labour Office of the CR
MA	Managing Authority
MCS	Management and control system
MFF	Multiannual Financial Framework
MFFCR	Military Forests and Farms of the CR
MoA	Ministry of Agriculture
MoEn	Ministry of the Environment
MoEYS	Ministry of Education, Youth and Sports
MoF	Ministry of Finance
MoH	Ministry of Health
MoI	Ministry of the Interior
MoIT	Ministry of Industry and Trade
MoJ	Ministry of Justice
MoLSA	Ministry of Labour and Social Affairs
MoRD	Ministry of Regional Development
MoT	Ministry of Transport
MS	Member State of the EU
National programme	National Reform Programme of the CR 2018
NCA	National Coordination Authority (MoRD)
NEEAP	Czech National Energy Efficiency Action
NERP	Czech National Emission Reduction Programme
NF	National Fund (Dept. 55 of the MoF)

OFIs	Other financial instruments (EU)
OLAF	Supervisory Committee of the European Anti-Fraud Office
OP	Operational programme
OP EIC	OP Enterprise and Innovation for Competitiveness
OP Em	OP Employment
OP En	OP Environment
OP En7+	OP Environment 2007–2013
OPF	OP Fisheries
OP HRE	OP Human Resources and Employment
OP PA	OP Prague – Adaptability
OP PGP	OP Prague – Growth Pole of the CR
OP RDE	OP Research, Development and Education
OP RDI	OP Research and Development for Innovation
OPT	OP Transport
OPTA	OP Technical Assistance
Other irregularities	Irregularities of non-fraudulent nature
PA	Partnership Agreement for the 2014–2020 programming period
PCA	Paying and Certifying Authority (MoF – Dept. 55 National Fund)
Period under scrutiny	1 April 2019 – 31 March 2020
PGO	Prosecutor General's Office
PP7+	Programming Period 2007–2013
PP14+	Programming Period 2014–2020
PP21+	Programming Period 2021–2027
Progress Report 2019	Progress report on the implementation of the Partnership Agreement
RDP	Rural development programme 2014–2020
RDP7+	Rural development programme 2007–2013
Report 2020	Report on the CR 2020
ROP	Regional operational programme
SAI	Supreme Audit Institutions
SAIF	State Agricultural Intervention Fund
SAO	Supreme Audit Office
SAO Act	SAO Act No 166/1993 Coll., on the Supreme Audit Office
SAPS	Single Area Payment Scheme

SEF	State Environmental Fund
SFTI	State fund of Transport Infrastructure
SME	Small and Medium Enterprises
SMS	Single Market Scoreboard
Strategy	National Strategy for the protection of the EU Financial Interests of the EU
TFEU	Treaty on the Functioning of the European Union
TOR	Traditional Own Resources
Transposition Report	Government Report on the Transposition of Legislative Commitments Ensuing from Membership of the CR in the European Union for 2019
VAT	Value Added Tax
WHO	World Health Organisation
YEI	Young Employment Initiative

Abbreviations of EU Member States used in chart legends

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

SECTION I

THE CR’S USE OF EUROPEAN UNION SUPPORT IN THE 2014–2020 PROGRAMMING PERIOD, WITH THE OUTLOOK FOR THE SUBSEQUENT PERIOD

A. The CR's use of support from European Union funds in the 2014–2020 programming period was again marred by problems

Recapitulation of audit findings by President of the Supreme Audit Office Miloslav Kala.

With 2020 being the final year of the European Union's existing 2014–2020 programming period, this is a good time to look back at how the CR fared, in the Supreme Audit Office's eyes, when managing finances from EU funds earmarked for joint projects and programmes. This is, of course, just a brief recapitulation, because under the n+3 rule financial transactions for a number of projects will continue to be billed over the coming period of three years and more.

From mid-2015, when the European Commission (the Commission) approved the programme documents submitted by the CR and opened the funding of Czech programmes, to the end of April 2020 the SAO published 59 audit reports concerning finances provided to the CR from European funds. Even though a significant portion of these audits applied to the previous 2007–2013 programming period, I have enough examples of certain errors and systemic problems. I use the words errors and problems deliberately, because the point of the SAO's work is to provide feedback showing what is going wrong, where there are risks of uneconomical and inefficient management of state property, and what needs to be changed.

What gives me greatest concern when I look back is the number of findings signalling that in some areas we don't know how to move ahead with European funding.

Some government departments have not defined clearly enough where the CR is supposed to be in a given field in ten years' time, say; they are unable to define, prepare and push through projects that would deliver this progress and there is often a lack of synergy with other strategic objectives. Some projects' benefits can't be evaluated, so we don't know if the programme's goals were achieved.

This can be learnt from reading a number of the SAO's audit findings dealing for example with transport, industry, social affairs, agriculture or the environment.

The long-term failure to make significant progress building the motorway network is no longer a surprise to anyone. We cast envious glances at our northern neighbours and the speed which they coped with motorway building with financial support from the EU. The CR's conceptual plans for **motorway building**[1] have largely remained on paper, however, and the speed of construction still gives no guarantee that the entire planned network of motorways will be completed by the envisaged deadline of 2050.

Furthermore, the goals and parameters of completed construction works were not complied with, and the investor, the Roads and Motorways Directorate, did not possess any effective tools for checking and assessing the prices of building work, putting in place the right conditions

1 Audit No 17/05 – *Construction, modernisation, and reconstruction of motorways.*

for economical execution of building work and setting envisaged prices in award procedures to select contractors. The efforts to **improve the network of 2nd class and 3rd class roads**[2] do not give much cause for optimism either. The State Fund for Transport Infrastructure, which co-financed projects funded by the EU budget, failed to set objectively measurable and verifiable goals for some construction projects, so it could not evaluate the overall benefit of the funding, the improvement in road quality or the effectiveness of the projects carried out.

One excellent example of how not to achieve defined goals through strategic projects is the support given to the **development of high-speed internet access**[3] under operational programme *Enterprise and Innovation for Competitiveness*. The goal of this support was to ensure that 77% of households had high-speed internet access by 2023. But this target was already achieved in 2017 with the help of investments by businesses without any state aid. With roughly CZK 13.8 billion originally earmarked for the *High-speed Internet* programme, the Ministry of Industry and Trade provided practically no subsidies for almost five years, and half of the funding naturally had to be redirected into other operational programmes. That is testimony to inadequate programme preparation and poor initial design of the support.

Audits covering agriculture and the environment have thrown up similar findings. The CR has long contended with a water shortage, but **mitigating the impacts of drought**[4] is still impeded by the absence of fundamental measures, actual change and legislation defining stakeholders' rights and obligations. The government departments were supposed to address the question of drought and water shortages through a set of tasks drawn up by the government in 2015. But in many cases these tasks required nothing more than some preparatory analyses, drawing up proposed solutions or assessing potential. There were no follow-up tasks to put proposals into practice and bring about real change that might help. What's more, strategic decision-making on drought and water shortages is made complicated by the large number of entities involved: it is slow and requires close interdepartmental cooperation.

Cooperation between the key departments, agriculture and the environment, was far from ideal. For example, the ministries could not agree on the wording of the "anti-erosion decree" that is crucial for improving the use of farmland and its water retention capacity. The two ministries even promoted contradictory measures: the Ministry of Agriculture distributed money for building artificial channels for small watercourses, while the Ministry of the Environment went the other way, removing artificial channels on the grounds that they accelerate run-off.

The SAO also discovered serious systemic errors in the design of project goals and the related monitoring indicators in the field of **support for young people's employment**[5]. The Ministry of Labour and Social Affairs did not set measurable targets making it possible to assess whether projects served their purpose. The labour offices' statistics registered no impact from the executed projects for improving young people's employment rates in the region in question. At the same time, the efficiency of spending cannot be assessed in any of the audited projects. Despite the favourable development of the rate of youth unemployment, which had been falling constantly since 2013 to reach a value lower than half the EU average in 2018 (6.7% compared to 15%), the support went ahead unchanged until 2019.

2 Audit No 17/09 – *Construction-like activity carried out with a view to modernising and developing the road network in selected regions which was co-funded from EU funds and national resources.*

3 Audit No 19/15 – *Support for the development of high-speed Internet access provided from the Operational Programme Enterprise and Innovations for Competitiveness*.

4 Audit No 18/27 – *Measures implemented in agriculture and the environment to mitigate the effects of drought and water scarcity.*

5 Audit No 18/28 – *Funds earmarked for the implementation of the measures of the 2014–2020 operational programme Employment to increase employment and adaptability of the workforce*.

In other cases we find that the funding put in delivered little in return.

Considerable amounts of money have been channelled into these specific areas for many years without any marked improvement.

Considerable amounts have been invested in support of **improvements in air quality in the CR**[6], but air quality has not improved much. In fact, the limits set for some priority pollutants have long been exceeded and still are being exceeded. Some measures proposed in strategic documents were not carried out; others missed their deadlines. That gave rise to serious risks that the CR would not make good on its air quality commitments by the end of 2020. Cross-border transmission of pollutants makes it necessary to launch immediate cross-border consultations with the country's neighbours, primarily Poland.

A similar problem has dogged **animal production**[7], which received support worth CZK 21 billion from 2015 to 2017, with CZK 10 billion of that coming from the EU. Despite the large subsidies in place since 2012, the animal production sector's goals of increasing animal production as a proportion of total agricultural output, enlarging pig and dairy cow herds and increasing self-sufficiency in beef and pork are not being achieved. On the contrary, the numbers of these farm animals are falling.

There have been substantial investments in the **development of water transport infrastructure**[8] on the basis of various conceptual materials and studies; the SAO audited over CZK 600 billion of that money at a systemic level. The goals defined by the CR's transport policy are not being delivered, though: waterborne goods transport remains low (approx. 1% of total goods transport) and freight is not being taken off the roads to be transported on waterways. The SAO declared that one of the reasons is persisting disagreements between conceptual materials and follow-up documents. The efficiency of investments is also affected by the use of insufficiently proven input data.

Progress towards the strategic goals of **eGovernment**[9] is also slow and involves high acquisition costs and operating costs. The effectiveness and economy of spending is compromised by the fact that new information systems for public administration are created without rigorous analysis of requirements, the legislation is inadequate and other conditions ensuring efficient spending are not in place. Even though new key tools like the electronic ID system and the *Citizens' Portal* have been put into practice, the SAO rates the development of eGovernment to date as insufficient in terms of providing electronic access to digital services in public administration, because the Ministry of the Interior has failed to provide a wide range of accessible services and to significantly broaden the set of citizens who make active use of them. The new tools did not result in a marked improvement in the range of options available for citizens needing to resolve a problem without having to visit a government office in person.

The audit findings often show that authorisation procedures are complicated.

The preparation of projects, especially investment projects, is hindered by considerable bureaucracy; projects stagnate and preparation costs grow. Projects are set in motion late and often with high acquisition costs.

---

6 Audit No 18/04 – *Funds earmarked for the support of the air quality improvement.*

7 Audit No 18/08 – *Funds spent on the support of the animal production sector.*

8 Audit No 18/16 – *Development of waterways and support of inland waterway transport.*

9 Audit No 19/14 – *Introduction of electronic identification and enabling of electronic access to public administration services.*

In its aforementioned audit of **motorway building** the SAO found that the average duration of preparatory work for building individual sections of motorway has grown by four more years recently to reach an incredible 13 years. This was caused by major long-term problems with obtaining positive Environmental Impact Assessment opinions, which are required for the subsequent issuance of planning permission and building permits.

The preparatory phase of investment projects designed to improve **rail transport safety**[10] also involved project documentation changes necessitated subsequently when building permits were applied for, which led to deadlines being put back, in some cases by three years. The fact that people have continued to die on unprotected level crossings did nothing to speed up the preparatory process.

The **construction and modernisation of 1st class roads**[11] was no better: here the SAO declared both that conceptual objectives were not being achieved and, above all, that the preparatory phase of building work lasted 12 years on average. The main causes of long preparatory phases for construction projects were not successfully resolved, with the proviso that it is currently too soon to tell whether the adopted legislative changes will shorten times. The main problems affected planning permission, buying up land and building permits. The delayed investment preparation often meant that priority construction projects of national urgency were not executed; instead, less important projects that happened to be ready for commencement were carried out.

The conduct of certain subsidy providers is also concerning.

Managing authorities focused too strongly on the formal side of submitted subsidy applications, which made the award process inordinately complicated and protracted. In some cases, the defined conditions were discriminatory towards a certain group of applicants and deterred certain entities from applying.

The parameters of the first calls for projects on **social inclusion and the fight against poverty**[12] contained some unnecessary requirements and did not give potential applicants enough time to draw up applications, which was one of the causes of the low interest in the programme. The administration of the relevant project axis of the operational programme was made much less efficient by the length of time it took the managing authority to assess the applications. This process took between 11 and 18 months, causing the managing authority to miss the defined time limit by 7 months. The SAO also found serious shortcomings in its audit of the selection of projects to support social enterprises: only two of the four audited projects satisfied the two fundamental conditions (social enterprise in the context of community culture centres and activation of local communities).

Another audit conclusion states that the complicated bureaucracy and defined conditions for the measure called ***Payments within NATURA 2000 Forest Areas***[13] meant that only a few dozen applicants tried to obtain this support. The low level of interest among applicants was caused by the long duration of the commitment (20 years), the complicated administrative process for applicants and the long wait to receive the subsidy. The low rate of compensation for increased costs in the management of NATURA 2000 forests also played a role.

10 Audit No 17/33 – *Assurance of security for railroad operations and passengers*.

11 Audit No 18/21 – *Construction and modernisation of A-class roads*.

12 Audit No 18/33 – *Subsidy from the operational programme Prague – Growth Pole provided for promoting social inclusion and combating poverty*.

13 Audit No 17/06 – *EU and state budget funds spent on forestry support*.

A similar situation was found in the ***Cooperation* measure of the rural development programme**[14]. Although the *Cooperation* measure was intended to support small and medium-sized enterprises, this goal was not achieved. One of the reasons was the complicated and unfavourable subsidy conditions that led to applications not being approved and many small and medium-sized enterprises losing interest in the subsidies. In fact, it was major food producers that were advantaged: the conditions allowed them to apply for subsidies without restriction and repeatedly, as there was no cap on the subsidies that could be obtained in the 2014–2020 programming period. Obtaining subsidies is generally easier for large firms, even though they can apply for more money.

In an audit of the **implementation of operational programme *Enterprise and Innovation for Competitiveness***[15] the SAO found that slow drawdown is partly caused by the time it takes to approve project applications. The project assessment and selection phase lasted 404 days on average, i.e. more than a year after an application was filed.

The original purpose of European subsidies was to foster economic and social development in less developed regions by building up the single market and ensuring it functioned efficiently. Development was supposed to come from infrastructure building projects and also from social programmes used to finance improvements in education, support for science and employment, for example.

It needs to be recognised that the European emphasis on priorities has changed. The EU is responding to new challenges and focusing on areas where it can register more substantial effects.

The need to react to the new challenges means describing these challenges accurately and deciding where the extraordinary funding should be channelled and why. If the support is to have a real impact, it is necessary to define precisely what we want to achieve and to set measurable criteria for checking whether the money spent actually led to changes in the given area and whether the defined goals were achieved.

In addition to these strategic decisions, attention must be paid to the state's ability to prepare and execute strategic projects, to manage them, monitor them and evaluate them in real time.

The state must also look at the transaction costs incurred in preparing, administering and assessing projects and in distributing finances.

The Supreme Audit Office has paid and continues to pay close attention to the management of EU and Czech state budget finances earmarked for funding joint projects. This is borne out by the fact that roughly and on average one third of every annual audit plan has been devoted to these audits. In response to the SAO's published findings the government and appropriate authorities adopted a number of measures, three quarters of which were deemed sufficient, at least in most respects, by the SAO. Even so, no measures have been adopted for approximately 17 per cent of the audit findings, so the SAO will continue to monitor these areas.

14 Audit No 17/26 – *Funds earmarked for the measures of cooperation within the Rural Development Programme CR 2014–2020*.

15 Audit No 17/23 – *Measures to increase energy efficiency carried out within the priority axis 3 of the operational programme Enterprise and Innovation for Competitiveness 2014–2020*.

B. The CR and its ability to utilise the EU budget in the 2014–2020 period: opportunities and reality

Assessment by Mr Petr Zahradník, member of the European Economic and Social Committee.

Mr Petr Zahradník is a macroeconomist specialising in the EU's economic policy and economic development. He is currently a member of the European Economic and Social Committee (EESC) in Brussels (since 2015) and the European Statistical Advisory Committee (ESAC) in Luxembourg (since 2018). He is also an advisor to the Czech Chamber of Commerce (since 2014) and a member of the strategic and economic analysis team at Česká spořitelna and Erste Group Bank (since 2016). From 2009 to 2014 he was a member of the Government National Economic Council (NERV) and from 1995 to 1998 he was economics advisor to president Václav Havel. Since 2005 he has been a member of EuroTeam, an expert group of the European Commission's Directorate-General for Economic and Financial Affairs. Since 2010 he has been a member of the expert advisory group on the future of cohesion policy (EPOS) attached to the Ministry of Regional Development (MoRD). He was an external advisor for economic policy for a member of the European Parliament between 2014 and 2017. He was director of ČEZ Group's Brussels office from 2014 to 2015. From 2001 to 2013 he taught as a professor at New York University Prague. He founded the EU Office of Česká spořitelna in 2003 and ran it for a number of years. From 1999 to 2003 he was chief economist, head of the analysis department and board member at Conseq Finance / Conseq Investment Management. He was an economist at Patria Finance from 1995 to 1998. In the years 1991–1995 he studied and performed research at Queen Mary & Westfield College – University of London, Columbia University, The World Bank Group, Katholieke Universiteit Leuven, Institute for European and International Studies Luxembourg and the International Institute for Applied Systems Analysis Laxenburg. He is the author of hundreds of articles in the Czech and international media, including dozens in specialised impact journals. He has also written dozens of strategic analyses and co-authored ten books and two monographs, including *Kohezní politika Evropské unie* (*Cohesion Policy of the European Union*) (C. H. Beck, 2017). He is a graduate of Columbia University, Katholieke Universiteit Leuven and the University of Economics, Prague.

If we talk about utilisation of the opportunities afforded by the EU budget in the CR, the discussion very quickly turns to the meaningfulness of subsidies or their impact on distortion of market conditions, with the focus on those projects that weren't entirely successful, whether due to unrealistic parameters, an inability to manage these projects or, in the extreme case, a deliberate criminal background that wasn't detected in time. Not that any of these viewpoints have no basis in real life. But at the same time, none of them represents the central thrust *of an ideal objective and comprehensive look at the use of the possibilities available to the CR for over 16 years now as a fully-fledged member of the European Union. Unfortunately, objective and comprehensive assessments in the broader context of EU membership are rare in the CR. If they do exist, they are only discussed in very narrow circles of the expert community without involving the general public, which then comes up with its own opinion on the role of EU funds stressing the viewpoints described above. The Czech side's very conservative view of what the point of the EU budget is for us also plays a significant role in shaping opinions and ideas about the role of the EU budget. And if we talk about the Czech side, we now don't mean the general public, but the involved community of government officials and politicians, for whom cohesion policy and the CAP are synonymous with the EU budget, and subsidies and the method for defining the allocation as a guaranteed national envelope giving the certainty of funding throughout the budget period are the only redistribution tool. In this understanding, this funding is the distributed and used in a strictly departmental manner.*

This less-than-flattering introduction assessing our ability to utilise the opportunities afforded by the EU budget in the CR should be followed by a broader discussion on two fundamental issues: an objective evaluation of how we made use of these opportunities in the past 16 years; and how prepared we are for the future EU financial framework with the changing parameters, challenges and ways of using shared European resources.

B.1 How well have we made use of the opportunities afforded by the EU budget during 16 years of membership?

There is no doubt that over the entire period of the CR's EU membership our balance with regard to the EU budget has been easy to quantify. The figures show that the EU budget's benefit for the CR is relatively significant in macroeconomic terms, and utterly fundamental, even, when we focus on certain selected areas.

An assessment should not merely quantify the size of this benefit, though: it should also draw fundamental conclusions and work out qualitative evaluations of, for example, the appropriateness of the thematic focus, the functionality of processes linked to project execution, and how the impacts of this support and interim results are measured and evaluated.

Since joining the EU, the CR has been a net beneficiary in the EU budget. The value of the net position has risen sharply, mainly at the beginning of 2007 with the start of implementation of the multiannual financial framework (MFF) for 2007–2013. The record net position, which will evidently be hard to beat, was CZK 150 billion for the year 2015. The total value of the CR's net position accrued from 2004 to 2019 thus reached CZK 809.2 billion. The development of the net position can be seen in the following table.

Table 1: Development of the CR´s net position in the years 2004 – 2019 **(CZK billions)**

2004	2005	2006	2007	2008	2009	2010	2011
7.3	2.0	6.9	15.2	23.8	42.3	47.9	30.8
2012	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
73.1	84.8	75.3	150.0	80.6	56.0	44.7	68.5

Source: MoF.

The dominant component of the CR's net position is cohesion policy revenues. These amounted to CZK 83.1 billion in 2019, accounting for 69.3% of the CR's total revenues from the EU budget that year. That figure is close to this key EU budget chapter's long-term share of the CR's net position (60.4%).

It is worth adding that this structure is highly anomalous in the EU. Out of all EU Member States, it is the CR that has long registered the highest percentage of total revenues from the EU budget accounted for by cohesion policy. Given that the CR's gross domestic product (GDP) for 2019 can be estimated at approximately 92% of the EU average, keeping this proportion so high is unsustainable and unjustifiable. It follows, then, that the CR's strategic plans should focus far more on other major chapters of the EU budget, and above all appropriate centrally managed EU programmes, whose share in the CR is irrationally small (just on average 3.5% of revenues from the EU budget).

If agricultural payments display considerable stability, revenues from cohesion policy are highly variable over time.

The total size of the CR's net position for the entire duration of EU membership thus corresponds to 14.3% of GDP in 2019. If we calculate the net position on an aliquot basis per year, the contribution is the equivalent to approximately 1.9% of GDP.

Even though the net position cannot be meaningfully compared on a macroeconomic level, for example with the volume of private and public investments (which combine to account for approximately 27% of GDP per year), it currently represents a relatively interesting contribution, especially if it is appropriately targeted at areas where it is genuinely needed and can deliver positive socioeconomic impacts. If cohesion policy funding and funding from centrally run EU programmes are intended to trigger synergic chain reactions that bring about clear economic convergence and boost the economic potential of regions and the country as a whole and serve to minimise the impacts of market failures, then we can regard these functions as having been fulfilled in the CR.

The CR's net position is relatively significant and convincing even when compared with other Member States. Even though the CR continues to get visibly richer, it is highly likely that the country will retain its privilege as a net beneficiary throughout the third decade of membership, even though the size of the net contribution will gradually decline and, most importantly, its structure will undergo marked changes (especially in the sense of a relative fall in the weight of cohesion policy, counterbalanced by substantial growth in the share of centrally managed EU programmes).

At the same time it is true that the size of the net position could theoretically be slightly even greater, if the release of EU budget funds for cohesion policy had proceeded in the optimal manner in line with the Partnership Agreement (hereinafter referred to also as "PA") timetable; if the supported projects were integrated better; if the areas covered by cohesion policy were coordinated better with CAP support tools and the relevant centrally managed EU programmes (in particular *Horizon 2020*, *CEF*[16], *COSME*[17], *Erasmus+*[18], *Digital Europe*, *LIFE* and others); and if greater use was made of centrally managed programmes in general. In addition, more intensive utilisation of repayable financial instruments linked to other EU funding would also have increased the size of the net position considerably.

16 *Connecting Europe Facility.*

17 *Competitiveness of Small and Medium-sized Enterprises*.

18 *EU educational programme.*

The highly unbalanced use of cohesion policy funding has been a flaw of the CR practically throughout its EU membership: usually, the entire process is delayed at the very start of the programming period, then drawdown takes place in fits and starts, with frequent fluctuations often caused by the suspension of certain programmes. This suddenly turns the potential advantage of a country with a markedly positive net position into a handicap, as the state has to assume the burden of expenditure for a temporary period to keep programmes functional (in the belief that the problem will be resolved and EU funds will come back on-stream in the future).

It is undeniable that the net position's impact on convergence should be more convincing in many regards. This is linked to the suitability of projects' thematic focus, the respect for performance and results based criteria, and project management and its complexity, occasional paralysis, rigidity and formality. At the same time, Czech firms are not becoming suppliers to a much greater extent; this considerable portion of the funds flows back out of the CR to international suppliers. At least in this area there is a lot of room for improvement that would both optimise the net position and, above all, strengthen the real effects that the use of EU funding delivers to the CR.

Overall, it is fair to say that the CR's net position in terms of the EU budget is an important component of the system of public finances in the CR, a component which ought to be optimised, partly in order to enhance and maintain fiscal discipline and consolidation. The existence of the net position – particularly in the present-day social and economic situation of post-pandemic downturn, when the economy needs to be kick-started with the help of robust investment – is one of the most fundamental and palpable benefits that EU membership brings to our economy. For a certain period of time (which can be expected to be at least 10 years, with a gradual decline) it makes it possible to consolidate the system of national public finances and simultaneously carry out relatively substantial fiscal expansion, with a pronounced contribution from taxpayers in more developed Member States. Thanks to the net position, the volume of non-mandatory fiscal operations can be increased to almost 20% of public spending – provided the allocation is utilised in full and optimally. The same consideration applies to increased public capital expenditure.

The development of the net position is strongly influenced by the socioeconomic development of regions in the EU and the relative position of the CR's regions. Unlike other Visegrad Four countries, the median level for Czech regions oscillates between 75% and 80% of EU GDP per capita (i.e. above the 75% threshold for underdeveloped regions in the context of cohesion policy). *Ceteris paribus*, exceeding this threshold means that opportunities for utilising cohesion policy resources will gradually decline (the CR is thus one of the few Member States that has a balanced mixture of all categories of region). As the table below shows, in 2018 all the regions of the CR, bar *Northwest* and only just *Central Moravia*, were above this threshold (and it is reasonable to assume that only *Northwest* will remain below the threshold in 2019)[19].

19 The fact that the *Moravian-Silesian* and *Northwest* regions exceeded the threshold for transition regions in 2018 should not have any consequences in terms of a reduced cohesion policy allocation for these regions for the 2021–2027 period.

Table 2: GDP per capita for 2018 (as % of the EU-28 average)

Region	GDP per capita (Ø EU-28 = 100) for 2018
CR	91
Prague	192
Central Bohemia	82
Southwest	78
Northwest	64
Northeast	76
Southeast	84
Central Moravia	74
Moravian-Silesian	76

Source: Eurostat.

On a general level, cohesion policy's impacts on growth and convergence can be divided into **short-term** (when cohesion policy funding *de facto* represents an additional demand stimulus that is manifested during project preparation and implementation) and **long-term** (comprising a separate endogenous effect brought about by a project's positive impact).

The problem with evaluating and quantifying long-term effects properly is that it can only be done after a long time has passed. In the CR, for example, this can currently only be done for projects from the first two programming periods, whereas quantifying short-term effects can be done almost immediately (e.g. 2015, when the utterly exceptional influx of EU budget funding relative to GDP could be estimated and defined within a few months).

Experiences to date make it possible to estimate that over the entire period of the CR's membership of the EU the **short-term impact** is around **1.2–1.5% of GDP** and the **long-term effect** approx. **0.6–0.8% of GDP.**

Short-term impacts peter out very quickly after a project is carried out and completed, whereas – if the support is designed correctly and programming works properly – the intensity of long-term impacts should increase over the medium and long term, thus coming to outweigh the short-term effects relatively soon. **Long-term impacts should be the primary consideration when assessing the effectiveness and meaningfulness of cohesion policy and the use of EU budget funding in general;** they should have a noticeable impact on convergence and should increase the economy's potential by boosting its supply side. This dependency and feature should be most evident in the case of hard investment projects, e.g. in infrastructure, and support for the business environment.

The ability to identify the actual results of cohesion policy is a crucial parameter of its effectiveness. The timely and full utilisation of the CR's allocation is an important marker for assessment in the course of the relevant programming period. Having said that, after the programming period's end it is much more important to evaluate **what every country and its economy gained from cohesion policy and how this benefit manifested itself in the set of standard macroeconomic indicators**.

If we look at the results of the 2007–2013 programming period (PP7+), it is clear that many of the goals set out in the National Strategic Reference Framework were achieved. Despite this indisputable success, however, we expect more from cohesion policy and the EU budget: we expect, for example, that the achievement of goals will be measured not just through the prism of simple output indicators but that results and performance will come closer to the indicators we use to measure increases in quality, prosperity, competitiveness, development and wealth.

From the perspective of the requirement for optimal efficiency of the EU budget, it is good to pursue an approach respecting the principle that this is not only a question of ensuring compliance with legality and regularity requirements but also of a targeted and systematic focus on results and performance the EU achieves and contributes to.

Assimilating the rules of performance culture in connection with the EU budget makes it necessary for the volume and nature of spending on the one hand to be closely connected to a comprehensive set of performance indicators measuring results and performance on the other. Assimilating performance culture is not just a one-off step: it is a developmental process predicated both on an appropriate legal and managerial environment and on a selection of tools that will steer the key actors in the desired direction.

The introduction of some new design components contributed to this desired direction in the 2014–2020 programming period (PP14+). These components included:

- **thematic focus** (support targeting only defined priority areas and not just anything; the priorities must be precisely defined and backed up with quantitative analysis and feasibility plans; the list of priorities must be strictly limited; and substantiated priorities must be covered by sufficient funding to allow genuine results and benefits to be achieved);
- **integrated approach to supported projects** (the key point is to achieve synergies between projects in a given territory while respecting the subsidiarity principle);
- **conditionality and the performance reserve** (based on the fact that EU funding takes place under appropriate national macroeconomic and institutional circumstances as the precondition for EU aid; the performance reserve is viewed as a bonus for good performance);
- **streamlining** (complexity and intricacy are in direct conflict with the performance and results-focus requirement).

Pilot testing of the degree of compliance and coordination between cohesion policy, or the PA, and the *Europe 2020* strategy has been taking place since around 2016. This is a worthy methodological work that should continue across the EU budget with regard to fulfilment of the indicators defined by the European semester. In the CR's case the overlap between the goals of *Europe 2020* and the Partnership Agreement priorities is relatively large, but there are thematic areas where there is no overlap. Cohesion policy interventions are moreover carried out in a very fragmented way. Even though they sometimes help achieve the goals of *Europe 2020*, they do not respect the requirements of an integrated territorial approach. The rules on thematic concentration introduced for the programming period that is just ending certainly helped the CR, but even so targeting interventions more precisely at issues that make the biggest contribution to the continuation of convergence and to the creation of functional integration of projects executed in the relevant territory remains a huge challenge for the future.

The structure of the net position shows that more than a quarter stems from EU budget funding channelled into agriculture. This sector accounts for just less than 2% of the CR's GDP. It is reasonable to conclude (if we compare the amount we pay into the EU budget from value added generated in agriculture, for example), **that the relatively low economic**

strength of the agricultural sector and its contribution to tax revenues in the EU, and by extension the size of the CR's payments into the EU budget, mean that the amount of funding going into agriculture is over-generous. **Its proposed reduction for the 2021–2027 programming period (PP21+) is therefore warranted.** On the other hand it must be conceded that agricultural production indicators have improved significantly compared to the situation before EU accession. Another argument in favour of generous support for farming is the focus on its non-economic function linked to rural development, landscape shaping and support for biodiversity. And, lastly, the extent of aid for agriculture in competitor countries is a fact that should be not taken lightly. **It would be preferable, however, to concentrate this support on areas where we face a problem of limited self-sufficiency and import a number of agricultural products or their resultant foodstuffs, even though the CR has suitable conditions for them.**

B.2 How prepared are we for the EU's future financial framework and what priority areas should we focus on?

The negotiations on the EU's new MFF are always an endeavour to strike an ideal compromise between Member States' negotiating positions. Compared to the preparation of the financial perspective just closing, there were substantial changes to the parameters of what EU joint financing should support, especially if we only have 1% of the EU's GDP available. "European value added" is one term that has been heard, and new themes have emerged with links to both technological processes and a transformation of economic structure and the organisation of economic systems (digitisation, changes in energy and mobility, shared and circular economy, excellent research and innovative enterprise). Environmental priorities are being given new substance. The *European Pillar of Social Rights* was created, giving rise to new social policy topics. The importance of security also grew in connection with recent migration flows and the worsening geopolitical situation. The current response to the pandemic has presented new challenges for the global economy and for the defence of the EU's strategic interests and positions in the rest of the world. Terms like self-sufficiency and resilience are taking on new significance.

All that can influence the next MFF. The MFF should certainly reflect all these requirements as well as a change to or realignments within the EU itself. Countries that joined the EU in 2004 and later are converging far more convincingly than other countries whose relative position is systematically worsening. It is reasonable to assume that the leading countries from central and eastern Europe will have risen to the middle of the EU rankings by the end of the coming MFF, with economic development around 100% of the EU average.

The CR's expectations and strategies when negotiating the final form of the MFF 2021–2027 should be adapted to this situation. The CR should respect the fact that it has got considerably richer during its 16 years of EU membership and that its approach to the EU budget can no longer be the same as it was under entirely different circumstances in 2004; put simply, it must acknowledge the development both the country and the EU itself have undergone in that time. And one upshot of this development is that the structure of the proposed MFF is considerably different from its predecessors, and this change should be understood as more than just a change in parameters.

Its significant identifying feature is the general term *European value added* as the encapsulation of shared EU requirements. The changes thus affect the structure of the budget and also a reshuffling of the respective weights of financial allocations between its most important chapters.

This realignment moves in the direction away from traditional European budget chapters towards new and more up-to-date chapters. The biggest relative decrease in funding can be seen in the CAP and cohesion policy (by roughly 10% on average, but a drop of up to a quarter is mentioned in the case of some Member States). The biggest relative increase in funding can be observed in centrally managed programmes – an example of which is *Horizon Europe*, the biggest research, development and innovation programme in the world – with an allocation of almost EUR 100 billion, i.e. almost 8% of the total budget allocation. A significant increase in funding is also going to *Erasmus+*, the exchange scheme for students, academics, researchers, other professionals, young people and sports teams. *Digital Europe* also has no cause to complain. And then we have what are essentially brand new budget chapters intended to cover external security risks, absorption of migrants, development aid, border protection etc. Last but not least, there is a strong push to create an environment where the EU budget is no longer automatically viewed as the equivalent of subsidy-based redistribution. There is a noticeable effort to add repayable financial instruments linked to greater expenditure efficiency better real outcomes and impacts to what are predominately subsidy mechanisms.

What does this mean for the CR and how should the country respond to this fundamental change? As the EU Member State that is most dependent on cohesion policy funding, the CR should turn its gaze to other possibilities. The future EU financial framework will have around 35 programmes in total, but to date Czech eyes have been fixed almost entirely on two policy areas: cohesion and agriculture. If we want to ensure the reduction in our allocation is not pronounced and the net position does not start to wither alarmingly, we should perform a serious assessment of the opportunities offered by other programmes. The proposed new provisional tool for supporting recovery known as *Next Generation EU* does not just widen the options of funding from the EU budget, it expands a whole series of support areas: for example, it heavily boosts the equitable transformation of economies affected by the coronavirus crisis, which is very important for us. That is one reason why we should be very responsive to these recently proposed changes.

What's more, it's possible to be inventive in cohesion policy. Attention can be paid to project integration, and the financing instruments allow private funding to participate in the system. There are many possible options, though **the mainstream in the CR has not been particularly innovative to date and seems to cling to the endeavour to keep cohesion policy as traditional as possible, which is not the best solution from the long-term perspective**.

Our strategy should, of course, continue to set great store by the opportunities the EU's cohesion policy offers us (as it is a reasonable assumption that the coming period will be the last one in which it remains generous towards us). In cohesion policy we should make the fullest possible use of the space for financial instruments and we should strive, in all the areas where it makes sense, to ensure that additional private funding becomes part of the system through these financial instruments. Cohesion policy in the CR should focus on maximising the integration of supported projects within a given territory, including functional interconnectedness between projects supported out of EU cohesion policy and other parts of the European budget. **We should make a systematic and coordinated effort to significantly increase the proportion of centrally managed programmes (as this is where the longer-term future lies from our perspective). And we should be less calculating when negotiating and far more constructive in terms of coming up with new ideas and solutions for ways to optimise the EU's limited joint resources.**

SECTION II

AUDIT WORK BY THE SAO AND OTHER EXTERNAL AUDIT AUTHORITIES IN THE FIELD OF EU BUDGET FUNDS EARMARKED FOR THE CR

C. The SAO's audit work in the period under scrutiny

When drawing up the proposed audit plan for the given year, which takes place a year in advance in line with the Act on the SAO, the SAO applies a risk-oriented approach to selecting topical issues. Every issue, most of which arise out of regular monitoring and to a much lesser extent from external suggestions, contains a detailed risk analysis, and an expert unit composed of members from all audit sections assesses the expected incidence of systemic shortcomings and increased error rates. The result of the assessment is one of the key criteria for including the issue in the draft audit plan and translating it into a detailed audit. The most significant risks, which are most often confirmed as regards their frequency of incidence, include the absence of conceptual documents, or unsuitable projects in terms of their necessity and utility and the realisation of the declared benefits. The projects' failure to comply with the principles of economy, efficiency and effectiveness and failure to secure financial sustainability are other common risks. Incorrect design of project goals and inappropriate design of monitoring indicators for project assessment are often found.

In the course of the past five years (from 2015 to the end of March 2020), the SAO has published 176 audit reports from its audits, and has done so in line with Act No 166/1993 Coll., on the Supreme Audit Office, as amended (the Act on the SAO). 65 of these audits concerned the expenditure or revenue side of the EU budget, at least in part. **This proportion of approx. 37% of all approved audit reports is evidence** that the SAO pays heightened attention to the issue of the CR and the EU budget.

C.1 Overview of approved audit reports

From 1 April 2019 to 31 March 2020 (the period under scrutiny), the SAO Board approved the audit reports of **13 audits** concerning EU budget finances.

Chart 1: Breakdown of audits in the period under scrutiny by their focus

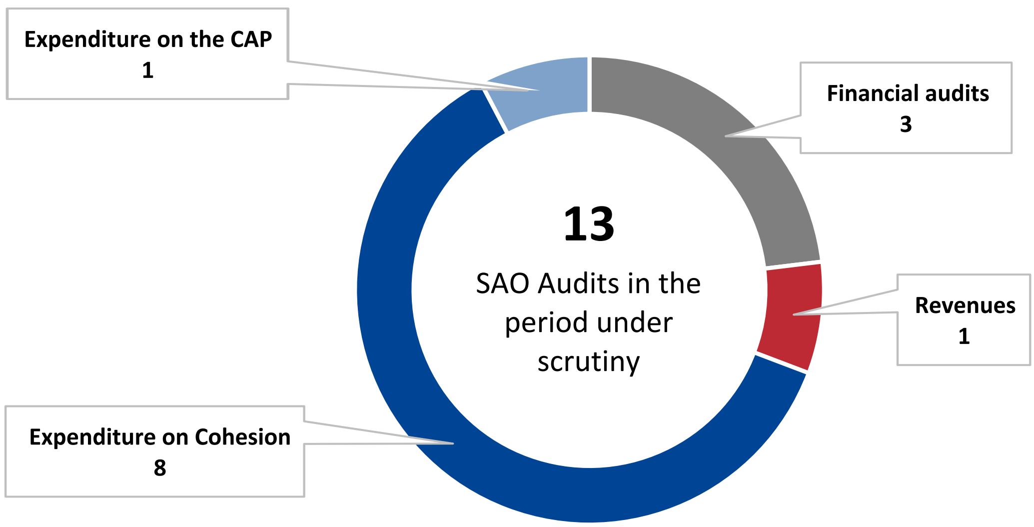


Table 3: Overview of EU relevant audits

Audit No	Audit title	Published in the *SAO Bulletin* (number/year)
18/16	*Development of waterways and support of inland waterway transport*	4/2019
18/18	*Support for the development of digitalisation of education in the CR*	4/2019
18/21	*Construction and modernisation of A-class roads*	6/2019
18/22	*Support of environmental policies focused on public budget revenues*	6/2019
18/24	*Support for public urban and regional transport financed under the Integrated Regional Operational Programme*	4/2019
18/26	*Closing account of the state budget chapter „Ministry of Labour and Social Affairs" for the year 2018, their financial statements and data for 2018 submitted for the assessment of fulfilment of the state budget 2018*	4/2019
18/27	*Measures implemented in agriculture and the environment to mitigate the effects of drought and water scarcity*	6/2019
18/28	*Funds earmarked for the implementation of the measures of the 2014–2020 operational programme Employment to increase employment and adaptability of the workforce*	4/2019
18/29	*Promoting competitiveness through ICT-supported projects funded under the Operational Programmes Enterprise and Innovation and Enterprise and Innovation for Competitiveness*	4/2019
19/01	*Funds used for technical assistance from the Operational Programme Enterprise and Innovations for Competitiveness*	6/2019
19/03	*Closing account of the state budget chapter „Ministry of Culture" for 2018, financial statements of the Ministry of Culture for 2018 and data submitted by the Ministry of Culture for evaluation of implementation of the state budget in 2018*	6/2019
19/04	*Support for flood protection measures*	1/2020
19/08	*Closing account of the state budget chapter „Ministry of Transport" for 2018, the Ministry of Transport's financial statements for 2018 and the data submitted by the Ministry of Transport for evaluation of implementation of the state budget in 2018*	1/2020

Note: The colour marking of the EU relevant audits corresponds to their focus according to the previous graph.

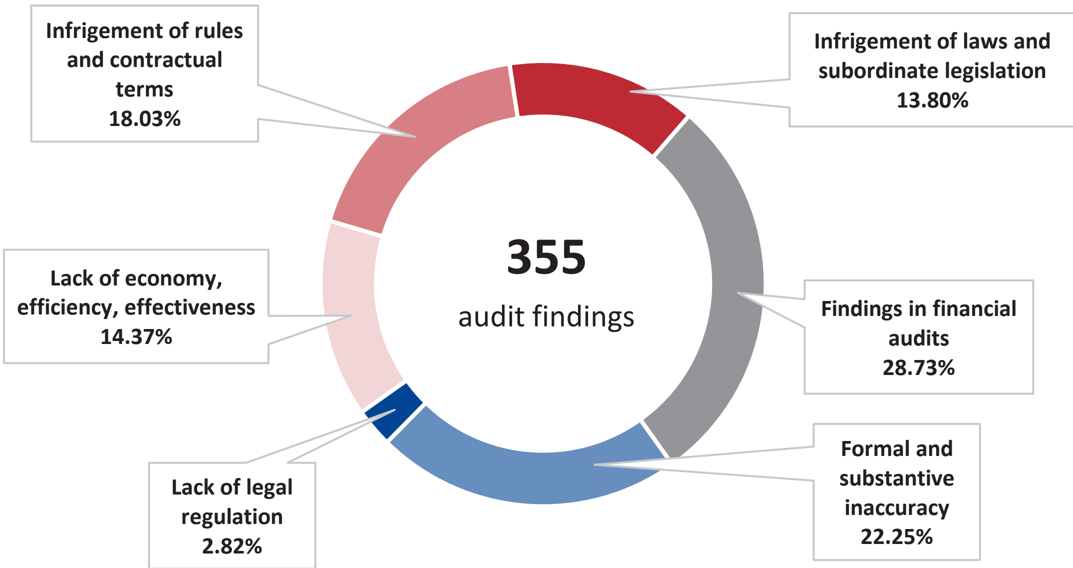
In total, **57 entities** were audited, but many of them were scrutinised in more than one audit, so these audited entities are counted in the total multiple times[20]. The SAO identified **shortcomings in 34 audited entities,** i.e. 59.65% (here, too, many audited entities are represented repeatedly).

20 Such audited entities include, above all, ministries in the role of the MAs of individual programmes co-financed from the EU budget.

In these audits the SAO made a total of **355 audit findings, 93 of which were quantifiable,** and 77 of them in financial audits[21]. **The SAO put the value of the identified transactional defects at CZK 414.00 million** and the value of systemic shortcomings at CZK 635,431.54 million. CZK 21,129.54 million is the value of the quantified inaccuracies identified in financial audits. Part of that amount was found to be recoverable, so the SAO filed five notifications to the **tax administrators** for further action. **The total value of three of these notifications was CZK 5.29 million; two notifications were unquantifiable**.

In one case a criminal complaint was filed.

Chart 2: Breakdown of audit findings by category



Note: All 102 findings from financial audit are included in the financial audit findings category, even though they fall under other categories in terms of type (with the exception of one case where the legislation was found to be inadequate, these were breaches of accounting legislation).

Of the total number of **253 audit findings** not **from financial audits, 49** were categorised as **breaches of primary and secondary legislation** (breaches of binding European legislation and acts, decrees, regulations and resolutions of the Czech government come under this category). In the context of findings in this category, **two notifications with a total value of CZK 5.18 million and one unquantifiable notification were filed with tax administrators**.

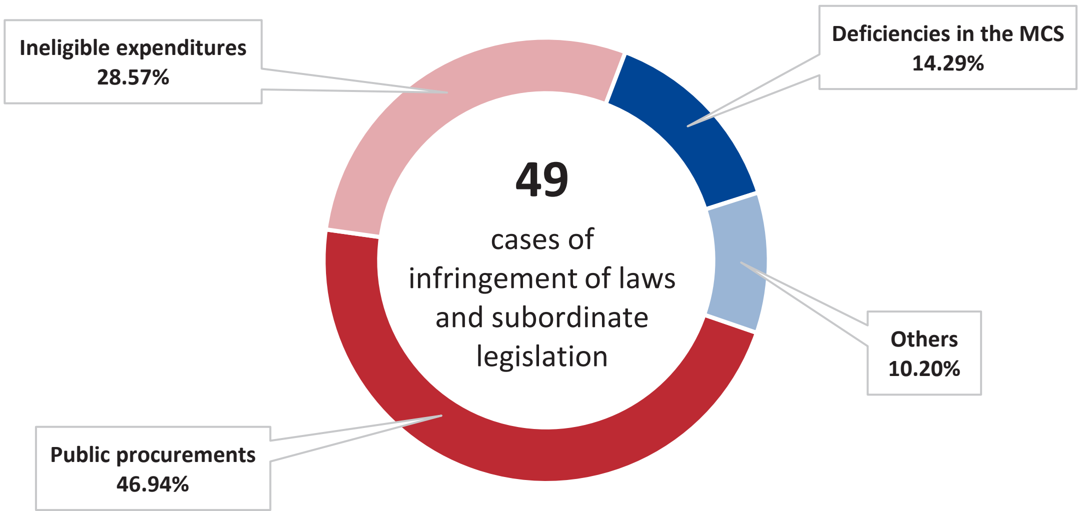
In the case of **financial audit findings**, primary and secondary legislation was violated in **101 cases**[22] and **one notification involving CZK 0.11 million and one unquantifiable notification were filed with tax administrators.**

21 The factual focus of the FA is usually directed to the final account of the budget chapter and the financial statements of the administrator of the relevant budget chapter. For this reason, the amounts of funds included in the FA are many times higher than in the case of performance or legality and regularity audits of operations. The shortcomings identified by the FA in the area of accounting and reporting also relate to incomparably higher amounts, which would further distort the presented statistical results in relation to other types of audits. For this reason, the volumes of deficiencies identified by the FA are listed below separately; other data for FA are already included in the common values.

22 Included in the category of findings in financial audits (Chart 2).

Chart 3 shows how audit findings in the breaches of primary and secondary legislation (excluding financial audit) were broken down into groups of breaches[23].

Chart 3: Type and rate of occurrence of breach of laws and regulations in EU relevant audits without FA



The legal regulations were violated most frequently in **public procurement**. Along with **ineligible expenditure** (this category includes both ineligible projects and ineligible support beneficiaries), these findings account **more than 75% of all identified cases of breaches of legal regulations** (not including financial audit). The *Others* category comprises breaches of legal regulations in the building industry or waste disposal, for example.

The situation was different in **financial audit.** With the exception of one finding, it was **violations of the Act on Accounting**[24] and related regulations that were detected. The findings mainly came under the category of **accounting and reporting errors**.

C.2 Audit of revenues

In the period under scrutiny the SAO completed one audit examining revenues, which was done in collaboration with the Supreme Audit Institute of Slovakia (SAI Slovakia).

Audit No 18/22 – *EU and state budget funds focused on public budget revenues*

The SAO constantly monitors proposed and adopted tax policy measures. Analysis of the monitoring information revealed that the implementation of tax support in climate and energy policy was a real problem.

The aim of the audit, which was a legality cum performance audit, was to **examine whether support in the field of taxes, fees, road tolls, customs duties and other public budget revenues was designed in a way that contributed effectively to the achievement of climate and energy policy objectives while keeping public revenues sustainable.**

23 Findings are classified according to the primarily violated regulation; if, for example, there has been a breach of the Public Procurement Act and, as a result, ineligible expenditure with the qualification of breach of budgetary rules, this finding is included only in the category of *public procurement*.

24 Act No 563/1991 Coll., on accounting.

The readiness of areas handled by the Ministry of Transport (MoT) and Ministry of the Environment (MoE) for the long-term implementation of climate and energy policy, and in particular for performing tasks set by the government in this area, making use of support in the field of fees and taxes defined by EU legislation for achieving the EU's goals in climate and energy policy, and implementing taxes and fees in support of progress towards climate and energy policy goals. The audit did not deal with the CR's climate and energy policy as a whole; the SAO focused on various systemic climate and energy policy measures linked to *Europe 2020* and *Europe 2030*, and in particular measures in the following sectors:

1. reducing emissions in transport and households;
2. increasing the share of renewable energy sources.

The audit period was 2015–2018 and, where relevant, the preceding and subsequent periods.

The SAIs of the CR and Slovakia drew up a joint final report on the results of the coordinated audits targeting support in selected areas of climate and energy policy, with the focus of preserving the sustainability of public revenues. Representatives of the SAO and SAI Slovakia chose the areas of photovoltaic cells, alternative fuels (CNG, LPG, LNG and biofuel), electric cars and support for hydrogen for comparison and subsequent evaluation of support in the two countries.

The audited value of the finances at systemic level is unquantifiable.

The SAO's audit findings

- **The MoF, MoT and MoE did not prepare effective and efficient tax measures that would significantly support the achievement of climate and energy policy goals.** EU Member States use taxes, fees and, in some countries, subsidies as a key tool for the greening of transport. The CR has failed to exploit the potential of taxes, fees and subsidies for greening transport, even though the appropriate fees and taxes are provided for by the legislation.
- **While substantial financial measures in support of climate and energy policy are actively implemented in most Member States, in the CR the MoF, MoT and MoE are still only looking at them in the transport sector.**
- **The rates of taxes and fees linked to vehicle operation and the greening of transport have fallen in real terms since they were introduced and no longer fulfil the function they were introduced for.** The effectiveness of applied tax reductions in order to support greener transport is low and businesses'/vehicle buyers' decisions are more motivated by the idea of reducing their tax base for corporation tax. The ecological features of vehicles play a minor role in the renewal and operation of fleets.
- **There is room for greater support for the greening of transport through taxes and fees,** but any tax increase must be offset e.g. by greater investment in infrastructure and subsidies in the transport sector or by reductions in direct taxes.
- **In the households sector, the rates of taxes on gas, electricity and coal do not reflect their carbon footprint,** and consumers are motivated to switch to greener sources only by the convenience of heating and possible subsidies towards the purchase of a new heating system. **There is room for increased support for green sources to the detriment of coal-based heating.**

Proposed remedial measures and their execution

The SAO found that the applicable tax and fee regulations linked to the acquisition and operation of vehicles make allowance for criteria that quickly become out-of-date, e.g. the application of increased tax is restricted to a particular period or emissions class. These parameters do not make it possible to react to technical developments in the transport sector, however. **The SAO recommends that the parameters should not be derived from a fixed date or a specific level of a technical standard; or, if appropriate, the specific parameters should be left to a government regulation.**

To ensure the transport and household heating greening objectives are fulfilled, the SAO recommends making greater use of the "polluter pays" principle in the system of taxes and fees, so the conditions governing the application of taxes and fees should be defined in terms of the fulfilment of climate and energy policy objectives.

C.3 Audit of expenditure

The most numerous group of audits are expenditure audits. Nine audits touching on various areas of economic, social and territorial cohesion policy[25] and the CAP and environmental policy were completed in the period under scrutiny.

Audit No 18/16 – *Development of waterways and support of inland waterway transport*

Water transport is one of the areas the SAO regularly monitors and focuses its audit work on. In the previous years this issue was covered by audits Nos 08/19[26] and 14/03[27]. Both audits detected recurrent defects in the design of the system of support for the development of waterways and waterborne transport. The defects meant that this system failed to ensure effective and efficient spending of public funds.

The aim of this audit, which was a legality audit with a section devoted to performance, **was to check whether funds earmarked for the development of waterways and waterborne transport were being provided effectively and efficiently** in a way ensuring that the goals set for this area by conceptual and follow-up documents were achieved.

The SAO scrutinised the use of state budget, State Fund for Transport Infrastructure (SFTI) and EU funds earmarked for the preparation and execution of infrastructure projects on waterways and for supporting the modernisation of freight river craft.[28] The conceptual design of the waterways and water transport development support system was also examined. In doing so, the SAO focused mainly on the following documents: *Comprehensive Assessment of the Economic Efficiency of Public Investment in the Development of the Infrastructure Waterways Suitable for Inland Goods Transport in the CR* from 2016; *Water Transport Concept for 2016–2023* from 2017; and *Danube-Odra-Elbe* (D-O-E) *Water Corridor Feasibility Study* from 2018.

25 Cohesion policy.

26 Audit 08/19 – *Funding for the development and modernization of waterways and ports*.

27 Audit 14/03 – *Funds earmarked for the development and modernization of waterways and ports and for the promotion of multimodal freight transport*.

28 Six infrastructure projects with total costs of CZK 1,388 million and seven freight vessel modernisation projects with total costs of CZK 28.7 million were examined.

The audit focused mainly on:

- the MoT's conceptual work in the development of waterways and water transport;
- the definition of the support objectives and the creation of a system of indicators enabling objective assessment of their fulfilment;
- the economy and efficiency of spending on the preparation and execution of infrastructure projects on the Elbe-Vltava waterway;
- whether public procurement by the Directorate of Waterways of the CR (DoW), a state agency, complied with the law;
- fulfilment of the obligations of the MoT, as the administrator of programme No 127 550 and managing authority (MA) of operational programme (OP) *Transport* (OP T), in support for the modernisation of freight river vessels;
- the effectiveness and efficiency of the provision of support for the modernisation of freight river craft, including an assessment of the effects of the provided support.

The audited value of the finances at systemic level was CZK 625,845 million and at project level CZK 1,417 million.

The SAO's audit findings

- **The goals** set for water transport by *Transport Policy of the CR for 2014–2020 with an outlook up to 2050* and the MoT's follow-up documents **are not being achieved.** The share of total goods transport accounted for by **waterborne transport of goods remains low** (approx. 1%) and goods are not being taken off the roads for transport by water. **Money** provided for the development of waterways and to support waterborne goods transport **is therefore not being spent effectively and efficiently with regard to the defined goals, in the SAO's opinion.**
- **Discrepancies persist in conceptual** and follow-up **documents of the MoT** governing the development of waterways. The assessment of the efficiency of investments is based on **insufficiently documented input data.**
- **Further expenditure on the development of waterways** for goods transport **without resolving all the fundamental problems** restricting the usability of the Elbe-Vltava waterway (especially ensuring that the Elbe is reliably navigable in the Ústí nad Labem – state border section) and without preparing projects in the context of a comprehensive transport solution **presents the risk of ineffective and inefficient spending** of state budget funds.
- One necessary precondition for the effective continuation of preparations for the project to build the D-O-E corridor is achieving categorically expressed and legally confirmed consensus between all the countries this international project directly affects. This precondition remained unfulfilled at the end of the SAO audit (March 2019).
- Support for the modernisation of river freight vessels amounting to CZK 53.4 million, which the MoT decided to provide in the years 2008–2015, achieved only partial goals. The operation of modernised craft has not been made significantly more efficient, and their long-term use, with benefits for the CR, has not been secured. The SAO therefore regards the aforementioned funding as insufficiently efficient and effective.
- **Unclear definition of the conditions** for the optimum allocation of support **does not guarantee the effectiveness and efficiency** of spending **in the subsequent years either;** this concerns support expected to be worth CZK 420 million, which the MoT was deciding on at the time of the audit.

- **The MoT did not create a system of indicators making it possible to measure the degree to which the set goals** were achieved and providing a basis for evaluating the efficiency of support provided **for the modernisation of vessels.** From the start of implementation of programme No 127 550 in 2008 to the time of the SAO audit, the MoT did not perform an overall assessment of the effects of the provided support.
- **The MoT** failed in its duty as the administrator of programme no. 127 550 **by not checking and assessing sufficiently compliance with the conditions** it laid down for beneficiaries of vessel modernisation support.
- **The MoT** failed in its duty as the OPT managing authority by **approving follow-up monitoring reports** for 2016 and 2017 in the case of six out of seven audited projects **even though the reports contained fundamental defects** in terms of demonstrating compliance with the defined conditions. Some **conditions** for the use of modernised vessels were **formulated so vaguely by the MoT** that it is not possible to determine with certainty whether they were fulfilled.
- In the case of three projects **the SAO found that the vessels were used less than the minimum requirement.** The beneficiaries of a total of CZK 4.4 million thus violated the conditions of the provided support.

Proposed remedial measures and their execution

The MoT proposed measures to eliminate discrepancies in the data, for further action in the preparation of the D-O-E project, to tighten up the conditions of support intended for vessel modernisation and to address monitoring shortcomings. The SAO will only be able to judge the effectiveness of these measures when it performs a follow-up audit.

Audit No 18/18 – *Support for the development of digitalisation of education in the CR*

Analysis of information from interim monitoring of support for the development of education and the findings of previous SAO audits[29] showed that the development of digital education in the CR is a current problem area.

The aim of audit No 18/18, conceived as a performance audit, was **to scrutinise whether digital education measures and projects in the CR are contributing efficiently** to the achievement of strategic objectives in this areas. The SAO focused on the development of digital education at elementary and secondary schools.

The audit focused mainly on the definition and fulfilment of strategic goals for the development of digital education; the design of calls performed in OPs linked to digital education, i.e. mainly the OPs *Research, Development Education* (OP RDE), *Integrated Regional Operational Programme* (IROP) and *Education for Competitiveness* (OP EC). The implementation of selected projects, the securing of funding for the implementation of the *Digital Education Strategy up to 2020* (the “Strategy”) and for schools in the field of digital education, and the management of measures/activities and projects by the Ministry of Education, Youth and Sports (MoEYS), were also examined.

The audited period was 2011–2018, plus the period up to the end of the audit where relevant.

The audited value of the finances at systemic level was CZK 7,853 million and at project level CZK 181 million.

29 Primarily audit No 16/13 – *Funds spent on development of education in the CR.*

The SAO's audit findings

- **Funding** of the development of digital education is **highly dependent on finances from the EU and schools' founding organisations.** 6,660 projects worth CZK 22,176 million were carried out in the period from the start of 2011 to July 2018. There is **a real risk that the end of the existing programming period will leave schools without enough funding to maintain and replace information and communication technologies (ICT) for digital education.**
- The implementation of two systemic projects supported out of OP RDE and crucial for efficient spending at the level of projects carried out by individual schools under the Strategy did not begin until October 2017, or January 2018, i.e. midway through the Strategy implementation period. The Strategy is supposed to end in September or, in some cases December 2020. There is **a real risk that the required outputs will not be finalised and available in time for the Strategy's goals to be achieved within the given time limit, i.e. by the end of 2020.**
- The development of digital education in schools was supported in 2011 and 2012 by projects for simplified reporting of costs financed out of OP EC. *Templates III* for simplified reporting in the context of calls Nos 21 and 34 required the creation of digital teaching materials, teacher training and tuition in subjects focusing on ICT development as project outputs. ICT equipment was acquired for the use of these outputs. The acquisition of ICT equipment was schools' main reason for the use of these templates. However, schools had to justify these purchases with a sufficient quantity of created digital teaching materials. In 4,880 projects supported with a sum of CZK 5,538 million, CZK 4,707 million of which came from the EU, schools thus purchased the necessary ICT equipment and created at least 1.8 million digital teaching materials. These **materials,** however, **were often poor quality, duplicated each other's contents or represented merely teachers' digitised preparation for tuition. The SAO judged this support to be inefficient.**
- In 2014 the MoEYS supported **training for teachers in effective use of ICT** and in integration of ICT into tuition under OP EC. In 45 projects supported with a sum of CZK 1,376 million, only selected teachers from a third of elementary and secondary schools in the CR received training. Furthermore, the teachers did not all receive the same training according to specific standards, as the MoEYS did not define any for the teachers; the training only focused on the content of individual projects. This **support was not systemic** and entirely failed to tackle the insufficient teacher training in the use of ICT at national level.
- The outputs of projects supported under OP EC (as part of calls Nos 21, 34 and 51) are publicly accessible, e.g. on the methodology website of framework education programmes, the websites of beneficiaries/projects and in the database of OP EC project outputs. According to a questionnaire-based survey by the SAO, however, **one third of schools has no information about any publicly accessible offer of digital teaching materials supported under OP EC.** Only a tenth of schools describe the offered materials as high-quality and suited to their requirements.

Proposed remedial measures and their execution

Among other things, the SAO recommended that the MoEYS reassess the regional schools funding system so that schools have access to funding that will enable them to carry out the planned replacement, maintenance and administration of ICT after the end of PP14+. In this context the MoEYS pledged to design the new OP *Jan Amos Komenský* for the coming programming period in a way ensuring that money from the European Structural and

Investment Funds (ESIF)[30] continued to be used for innovations in schools and schools had guaranteed access to funding that will enable them to carry out the planned replacement, maintenance and administration of ICT.

At the same time, the MoEYS undertook to sign a memorandum on cooperation in the preparation and implementation of OPs for PP21+, specifically OP *Integrated Regional Operational Programme* (PP21+), OP *Competitiveness* and *Jan Amos Komenský*, with a view to supporting the acquisition of key skills, including digital skills, by both pupils and teachers. The measures supported under these OPs should result in modernised infrastructure and equipment in the specialised classrooms of schools, school facilities and other educational facilities, including modernised ICT, tuition in an environment of new technologies for pupils studying all fields and to improved digital literacy and computational thinking.

Audit No 18/21 – *Construction and modernisation of A-class roads*

The SAO regularly scrutinises the construction and modernisation of roads, in particular motorways and 1st class roads. In the previous years this issue was mainly covered by audit No 17/05 – *Construction, Modernisation and Reconstruction of Motorways*.

The purpose of audit No 18/21, which was performed as a legality audit with a performance section, was **to check whether the plans for building 1st class roads were fulfilled; whether the system for providing funding** for the construction and modernisation of 1st class roads **ensured effective and economical use** of this money; **and whether the defined goals and parameters were achieved by the construction projects at appropriate cost.**

The examination of the actions of the Roads and Motorways Directorate (RMD) when preparing and executing building projects focused on a sample of ten projects with costs totalling CZK 8,251.8 million, including value added tax (VAT). 41 km of 1st class roads was built and modernised under these projects. The audited period was from 2013 to 2018, including the preceding and subsequent periods where relevant. Based on the audit results, one finding was deemed to be recoverable, so a notification concerning CZK 3.92 million was filed with the tax administrator.

The audited value of the finances at systemic level was CZK 35,474 million and at project level CZK 7,582 million.

The SAO's audit findings

- **The conceptual objectives** of the construction and modernisation of 1st class roads **were not achieved. Priority projects** (determined according to pan-societal need and the effectiveness of expenditure) **were not executed preferentially.** Instead, only projects' readiness for commencement was considered.
- **Construction project preparation** (the period from the issuance of a positive EIA opinion to the granting of effective building authorisation) **lasted 12 years on average. The main causes** of long preparatory phases for construction projects **were not successfully resolved,** with the proviso that it is currently too soon to tell whether the adopted legislative changes will shorten times. **The main problems** affected **planning permission, buying up land and building permits.** The **consequences of the funding shortage** in the period after the economic crisis, when funding for the preparation and execution of building projects was restricted, were coming to an end in the period under scrutiny.

30 The ESIF consists of the *European Regional Development Fund, European Social Fund, Cohesion Fund, European Agricultural Fund for Rural Development and European Maritime and Fisheries Fund*.

- **The stoppage of work** on selected 1st class road construction projects **had a negative impact on** both **the effectiveness of spending** (in the sense of funding the construction of the most urgently needed sections of 1st class roads) and **the economy of spending,** as the RMD had to pay building contractors financial compensation worth almost CZK 126 million excl. VAT for the suspension or mothballing of construction projects.
- **Problems** persisted **with the transfer of ownership of 1st class roads** (sections where a motorway was built to run parallel with the 1st class road or where a 1st class road was re-routed) **to the regions or municipalities.**
- **Projects tendered out in the audited period displayed building costs 30% lower than the RMD envisaged in the building contractor tender documentation.** Comparison of the valuation of selected unit prices for building work on the audited projects showed that prices defined by a binding material for construction project valuation were not an effective tool for defining the expected value in award procedures for building contractors.

Based on the audit results, **one notification involving a sum of CZK 3.92 million** was filed **with the tax administrator.**

Proposed remedial measures and their execution

The MoT did not adopt any measures in response to the audit results, but it stated that **it had prepared a further amendment of Act No 416/2009 Coll.**[31], which the government approved in November 2019 and was being debated in the Chamber of Deputies (parliamentary print 673). This amendment should shorten transport construction project preparation times by a third. The SAO will only be able to judge the effectiveness of these measures when it performs a follow-up audit.

Audit No 18/24 – *Support for public urban and regional transport financed under the Integrated Regional Operational Programme*

In previous years the issue of regional public transport was covered mainly by audits Nos 06/07[32] and 14/32[33]. Regional support was also covered by audit No 09/26[34].

The purpose of these audits, which were legality audits with a performance section, was **to scrutinise how the MA and intermediate body (IB) administered and selected subsidy applications; how they checked fulfilment of the conditions by applicants; and how they monitored and assessed the impacts of the provided support**. The SAO also examined **whether the subsidies were paid out in compliance with the law, effectively and economically**. The **subsidies provision system in the context of the territorial dimension** through the Integrated Territorial Investments (ITI) instrument was also audited.

EU funding provided via IROP and state budget co-funding of projects were scrutinised. The audit sought to check whether projects in support of urban and regional public transport help increase the share of sustainable forms of transport; whether the audited entities draw down funding for the implementation of the selected measures in accordance with the legislation, effectively and economically; whether the management of the territorial dimension possesses an effective ITI administration system; and whether an effective management and control

31 Act No 416/2009 Coll., on accelerating the construction of transport, water, energy and electronic communications infrastructure.

32 Audit No 06/07 – *State budget funds provided for public passenger transport.*

33 Audit No 14/32 – *Funds earmarked for the construction of line A of the Prague underground.*

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

system (MCS) has been put in place for the provision of funding. The audited period was from 2014 to 2018, including the preceding and subsequent periods where relevant.

The audited value of the finances at systemic level was CZK 12,588 million and at project level CZK 1,551 million.

The SAO's audit findings

- The support did not result in increased use of public transport (the target **value of the *public transport's share of total passenger transport* indicator** – 35% – was overambitious and **hard to achieve** as a result of numerous external factors).
- In the audited projects, a low proportion of vehicles was acquired in order to enlarge vehicle fleets and thus increase the number of people carried by public transport (simply replacing ageing vehicles without enlarging the vehicle fleet and increasing the numbers carried is not sufficient for increasing the use of public transport to the detriment of individual transport, which is the main statistically quantifiable result targeted by the provided support).
- Reliable preconditions for interim monitoring and assessment of projects' benefits relative to the planned result, i.e. increasing public transport's share of total transport in the CR, were not put in place (untrustworthy values of the *number of transported persons* – the increase in the number of people transported cannot be ascertained).
- **The MCS for the provision of support under IROP is only partially effective** with regard to priority axis 1, specific objective (SO) 1.2:
  - when assessing applications for support for individual projects, **the data featuring in one of the criteria** for judging **project eligibility** (discrepancy at system level) **were not adequately verified**;
  - **shortcomings** in both **the design** and **performance of checks to judge expenditure eligibility** – ineligible expenditure and the procedures for detecting it were not clearly defined (discrepancy at system level);
  - project management is marred by other **functional shortcomings in the MS2014+ monitoring system** (monitoring the progress of integrated tools; failure to judge project impacts in terms of environmental impact and boosting public transport); these shortcomings confirm some of the SAO's conclusions from audit No 16/12.

Shortcomings in the monitoring of project impacts with regard to achieving programme goals have been found by the SAO repeatedly, regardless of which programme is being audited. The SAO therefore regards these as systemic failings by the responsible authorities.

- The SAO also found **shortcomings at the systemic level** in the provision of support **through ITI**:
  - the **call** for support for ITI strategies **did not have firm rules**, i.e. the content and particulars of such calls were not defined in any document with relevance for integrated tools;
  - some statutory towns did not respect the obligations regarding the publishing of obligatory information in announced calls; failed to assess the synergic effects of projects under assessment; and defined unsuitable criteria for economy and effectiveness assessment.
- The SAO found the following **shortcomings in beneficiaries:**
  - provision of support for ineligible expenditure;
  - failure to comply with public procurement law;
  - failure to achieve project goals.

One unquantifiable notification was filed with a tax administrator.

Proposed remedial measures and their execution

During the course of the audit **the MA modified the rules** for applicants and beneficiaries **when discarding unecological vehicles** from transport, where the SAO identified the risk that the discarded unecological vehicles would continue to be used in public transport.

In response to the SAO audit **the MoRD adopted measures to remedy shortcomings concerning the inadequate rules for checking expenditure eligibility** and reviewed 55 projects from the concerned call in collaboration with the Centre for Regional Development of the CR ("the Centre"). The Centre will perform checks at beneficiaries where a risk of ineligible expenditure was identified and the MoRD will invite the affected beneficiaries to voluntarily return the funding provided for ineligible expenditure, passing on cases to the financial administration authorities for recovery where appropriate. In connection with this **measure, high-risk sums linked to the concerned expenditure were deducted from the summary of expenditure for the given year**.

Other measures adopted by the MoRD are acceptable in the SAO's view, but their actual effect will have to be assessed by a follow-up audit. The adopted measures should contribute to better use of public money in both the current programming period and, above all, in the next one.

Audit No 18/27 – *Measures implemented in agriculture and the environment to mitigate the effects of drought and water scarcity*

Analysis of interim monitoring information and data revealed that the fight against drought is a highly pressing yet highly problematic issue. This audit was performed as a legality audit with a performance section. The aim was to **scrutinise the implementation of measures to mitigate the negative impacts of drought and water shortages** in the agriculture and environment departments and **the provision of funding linked to defined goals and progress towards these goals.**

At the Ministry of Agriculture (MoA) and MoE attention was paid to the strategy based on a comprehensive definition of drought and water shortage in the landscape and the related performance of tasks. The division of powers in water management and the work of the WATER-DROUGHT interdepartmental commission were assessed. The SAO also examined subsidy schemes presented in the basic strategic material for mitigating the negative consequences of drought and water shortages, which is the *Concept of Protection against the Consequences of Drought for the Territory of the CR* ("the Concept"). The reporting of finances earmarked for mitigating the consequences of drought and water shortages was also scrutinised.

Subsidy schemes outside the framework of the Concept[35] and compensation paid out for drought were audited at the MoA alone.

The audited value of the finances at systemic level was CZK 27,783 million and at project level CZK 478 million.

35 This involved 12 programmes, including RDP agricultural support (agri-environment-climate measures, green farming, less favourable areas), afforestation of farmland, forestry measures and land alteration, plus OP *Fisheries 2014–2020,* fire brigade air service and support from the National Agricultural Research Agency.

The SAO's audit findings

- **The Act on Water**[36] only touches on the issue of drought in passing and an amendment of this Act with a special section devoted to drought has not been enacted yet. **The absence of any definition of legal rights and obligations** for various stakeholders **contributes to complications when executing measures to mitigate the impacts of drought and water shortages.** In addition, there is **no anti-erosion decree** to tighten up the rules for farming on land vulnerable to erosion.
- The MoA and MoE were supposed to see to the implementation of **Czech government resolution No 620 of 2015**, which **contains 49 tasks linked to drought**. Many of the tasks, however, consisted of little more than performing analyses, drawing up proposals or weighing potential, rather than carrying out the necessary measures. **Even though most of these tasks were completed, they were not followed up by action.**
- The Concept lists 30 measures in total. Specific, measurable, realistic and timed goals have not been set, however, for the individual measures. The Concept's text does not state who is responsible for implementing the various measures. In some measures the MoA and MoE proceed in conflict with the Concept (*Change to Agricultural Policy in the Area of Support for Growing Energy Crops* measure).
- The principal goal and purpose of almost all subsidy programmes executed by the MoA and MoE in the context of drought and water shortages was not to tackle the problem of drought. The defined goals and indicators used to assess the defined programme goals are in line with this: they do not seek to monitor and assess the benefit of the subsidy programmes in terms of mitigating the impacts of drought and water shortages The benefits of the expenditure with regard to drought were impossible to determine.
- The MoA and MoE **commenced practically no new subsidy programmes** intended to mitigate the impacts of drought and water shortages; or, if there was a programme, **drawdown was low.** The MoA and MoE have long implemented the same subsidy programmes, whose main goal is not the fight against drought. In the Concept the MoA presented a list of subsidy programmes under its control that fund measures to mitigate the negative impacts of drought. There are 15 national subsidy programmes, five of which had not been launched by 31 December 2018 (these are the new subsidy programmes, e.g. a reservoir construction programme). **In the MoE, a new approach to drought and water shortage consists in rainwater management,** known as the ***Rainwater*** programme, under which CZK 42 million of national funding was drawn down in the 2016–2018 period.
- In materials for the government **the MoA reported a total amount of CZK 29 billion** spent on the fight against drought. The audit found, however, that the MoA made a whole series of errors in calculating this amount. **The audit found that the amount** of money paid out for the issue of drought was just under **CZK 26 billion.** The difference is more than CZK 3 billion.
- **Cooperation between the MoA and MoE in efforts to mitigate the impacts of drought and water shortages has not always been optimal.** That is demonstrated *inter alia* by the failure to adopt an anti-erosion decree that is crucial to improving the use of farmland and strengthening its water retention capacity. Another example is the execution of contradictory subsidy programmes. The MoA funds technical modifications of the channels of small watercourses without any close-to-nature requirement. An MoE subsidy programme eliminates unsuitable technical modifications and returns watercourses to a state close to nature.

36 Act No 254/2001 Coll., on water and amending certain acts (Act on Water).

- According to the MoA, the actual total damages caused by drought in farming and forestry reached CZK 3 billion in 2015, CZK 7.7 billion in 2017 and CZK 24 billion in 2018. From 2016 to 2018 the MoA disbursed almost CZK 2.4 billion in compensation for damages caused by drought, i.e. not for measures to actively fight drought but merely financial assistance for overcoming a difficult period. In the same period the MoA spent CZK 2.9 billion on investment subsidy schemes to mitigate the negative impacts of drought – these can be regarded as preventive measures in the fight against drought. **The growing compensation for damages shows, however, that the preventive measures being adopted to fight drought are not sufficiently effective.**

Proposed remedial measures and their execution

The SAO identified the following risks based on the audit:

- There is a lack of legislation on drought, which makes it difficult to enforce obligations in this area.
- There is no legislation defining obligations and legal rights in this area.
- There is no anti-erosion decree, which prevents a more effective fight against soil degradation.
- Given the absence of a *hard-to-insure risks fund*, compensation for damages caused by drought in agriculture will continue to be paid out of the state budget.
- State budget and EU funds spent on the fight against drought will not result in the Concept's goals being achieved.
- Differences of opinion between the MoA and MoE prevent effective action to tackle drought and water shortages.
- The damages caused by drought will grow.
- A shortage of drinking water will not cause only material damages: it will harm the population's life and health.

The following **recommendations** were drawn up in the light of these risks:

- **adopt legislation on drought** (a drought section of the Act on Water) and pass an anti-erosion decree; create a *hard-to-insure risks fund*;
- **adapt existing** subsidy schemes to the need to combat drought; **launch new subsidy programmes** specifically designed **to combat drought** (in particular, building and dredging reservoirs);
- **ensure sufficient water for the population,** *inter alia* by building reservoirs and connecting group mains to water supply systems.

Audit No 18/28 – *Funds earmarked for the implementation of the measures of the 2014–2020 operational programme Employment to increase employment and adaptability of the workforce*

The SAO has long paid attention to support for the development of human resources under the authority of the Ministry of Labour and Social Affairs (MoLSA). V In previous years this issue was covered by audits Nos 08/06[37], 12/19[38] and 14/24[39].

37 Audit No 08/06 – *Funds of the OP Human Resources Development intended for active employment policy.*

38 Audit No 12/19 – *Funds earmarked for the implementation of the Human Resources and Employment Operational Programme.*

39 Audit No 14/24 – *EU and state budget funds provided for settlement of expenditures of national projects within the Operational Programme Education for Competitiveness.*

Analysis of monitoring information and findings from previous audits revealed that **support for youth employment** was a highly topical issue. One of the national targets set in connection with *Europe 2020* is to reduce the unemployment of young people (aged 15 to 24) by 1/3 from 2010 to 2020. The National Reform Programme (NRP) for 2016 stated that unemployment among people aged 15 to 24 had been reduced substantially from 18.3% in 2010 to 15.9% in 2014. It continued to fall in 2015. In the second quarter of 2015, when youth unemployment stood at 12%, the national target had already been hit.

This audit was performed as a legality/regularity audit with a performance section and was designed to **scrutinise whether the audited entities provide and draw down funding for the selected measures in accordance with the law, effectively, efficiently and economically, and whether the selected projects in support of youth employment and workforce adaptability are delivering progress towards the goal set by *Europe 2020* for youth employment.**

The audit looked at EU funding through OP Em, including national co-funding, and at the MCS, its design and working.

The audit period was 2014–2018 and, where relevant, the preceding and subsequent periods.

The audited value of the finances at systemic and project level was CZK 469.63 million.

The SAO's audit findings

At the MoLSA and Labour Office of the CR (LO) the SAO detected **a number of shortcomings both at systemic level and, most notably, in the utilisation of support targeted at youth employment from OP Em.** The **shortcomings** mainly concerned **effectiveness and efficiency.**

- The SAO found **serious errors in the design of project goals and monitoring indicators.** The MoLSA did not set measurable goals for projects that would permit a judgement whether the projects fulfilled their purpose.
- The LO does not track participants in the project and their success in finding work after the project. The LO's statistics registered no impact from the executed projects for improving young people's employment rates in the region in question. At the same time, **the effectiveness of spending cannot be assessed** in any of the audited projects.
- The rate of youth unemployment in the CR fell continually from 2013 to the time when the audit finished, reaching 6.7% in 2018. Czech youth unemployment has long been very low compared to the EU average (currently around 15%). **Despite this favourable situation the MoLSA continued to provide the same extent of support** as at the time when OP Em was launched, i.e. towards the end of the 2008–2013 economic crisis. In 2017 the **MoLSA even decided to increase support** for young people aged 15–29 by CZK 339 million, without focusing this support on the group of young people with multiple disadvantages (as the results of external evaluation recommended). **The MoLSA did not react to the low rate of youth unemployment until 2019.**
- **The MoLSA is unable to quantify objectively the total costs of the programme** *Guarantees for Youth*, because the state treasury information system does not enable it.
- **The MoLSA did not perform any of the intended updates of** *Guarantees for Youth* from 2014; it did not define the responsibilities of various institutions for PP14+; and it did not define the financial costs of key initiatives.
- **The MoLSA does not provide the Commission with all the required data** on how young people's situation changed in the long run after taking part in *Guarantees for Youth*.
- **There are no significant differences between the treatment of a client of the project and the standard active labour market policy.** At the same time, continuous coordinated

support for socially beneficial jobs is not secured, even though this support would make it possible to help even after the project ends.

- **In the case of some clients in the audited sample it was clear that there were no barriers stopping them finding work.** These young people found an internship or a job themselves. The SAO regards this as an example of a "dead weight effect"[40].
- Paradoxically, in the *TRANSFER* project intended preferentially for those not registered with the LO, most projects clients were registered with the LO.
- **Some individuals were supported under two projects at once.** The MoLSA did not take appropriate steps to stop this undesirable duplication.
- There were minor shortcomings in information systems (especially IS MS2014+).

One criminal complaint was filed on the basis of the audit results.

Proposed remedial measures and their execution

During the audit the MoLSA drew up a new internal regulation limiting the breadth of the provided support. It is not possible to say whether this move was linked to the SAO audit, however.

The MoLSA proposed remedial measures as part of its opinion on the audit conclusion submitted to a session of government. The SAO will monitor seven of these measures.

Audit No 18/29 – *Promoting competitiveness through ICT-supported projects funded under the Operational Programmes Enterprise and Innovation and Enterprise and Innovation for Competitiveness*

The SAO pays systematic attention to support for ICT development intended to improve Czech businesses' competitiveness on the global market and grow the ICT sector in the CR. It monitors the management of funds primarily intended for small and medium-sized enterprises (SMEs) to support the building and modernisation of data centres, the creation of new IS/ICT solutions and the founding and operation of shared services centres.

The aim of audit no. 18/29 was to **examine the efficiency of the support provision and progress towards ICT objectives** under OP *Enterprise and Innovation* (OP EI) and OP *Enterprise and Innovation for Competitiveness* (OP EIC). The SAO checked whether the goals of selected projects carried out as part of the ICT and shared/strategic services support under both OPs, whose support was primarily intended for SMEs, were achieved. The SAO also sought to identify whether the projects contributed towards the achievement of goals targeting businesses' improved competitiveness in the field of ICT in the CR.

Both OPs are supposed to give precedence to SMEs, which account for the majority of businesses in the CR. The calls announced for ICT projects also allowed large firms to access the support, however.

37% of support provided under OP EI went to large firms, i.e. CZK 2.3 billion out of a total of CZK 6.3 billion. The majority of OP EIC support (87%) went to SMEs – CZK 0.9 billion out of total support exceeding CZK 1.0 billion.

The audited value of the finances at both systemic and project level was CZK 8,610.12 million.

---

40 A situation where a subsidy is drawn down by a beneficiary that would have carried out its activity/investment/work even without public funding (in this case mediating employment in a subsidised job for a client who is capable of finding employment/work experience/an internship unaided).

The SAO's audit findings

- Unlike the already completed OP EI, the existing OP EIC is covered by Regulation of the EP and of the Council No 1301/2013. This regulation provides that applicants from the category of large enterprises must provide evidence that they cooperate with SMEs. **The Ministry of Industry and Trade** (MoIT) therefore, as the OP EIC managing authority **included this condition in the OP EIC handbook,** so large firms should only be supported to the extent to which they use SMEs as subcontractors. **The MoIT did not specify this condition in the calls, however.**
- **Under OP EIC the MoIT supported large firms that did not present any evidence of cooperation with SMEs,** in either their applications or requests for payment. A check of a selected sample of 15 projects carried out by large firms revealed that the applicants had not demonstrated cooperation with SMEs in two cases. The SAO thus concluded that the MoIT had not provided CZK 15.5 million in support to these two applicants in line with the OP EIC handbook and Regulation of the EP and of the Council No 1301/2013.
- **Despite the primary support for SMEs, the MoIT supported projects submitted by Czech branches of international concerns for building shared services centres,** even though the beneficiaries' primary objective was to save on the concerns' costs and not to boost the beneficiary's competitiveness on the open market. In OP EI alone this involved 16 projects that received CZK 702 million. These projects were mainly based on creating a large number of jobs, from the tens to the hundreds, even though there was a major shortage of IT experts on the labour market. The MoIT was warned about these negative impacts by the external project assessor but approved a project of this kind anyway. Creating new, subsidised jobs in the ICT sector when there is pronounced shortage of these professionals is not efficient and beneficial to improving the CR's competitiveness, in the SAO's opinion.

Proposed remedial measures and their execution

1. **Project assessment and selection**

   The MoIT has increased its personnel capacities in the implementation departments, created a new checklist in the MS2014+ system for checking support applications and requests for payment, launched regular training of internal assessors etc.

2. **Design of the support provision rules**

   The MoIT eliminated any unequal and discriminatory approach to assessing project changes by support beneficiaries by means of two-phase assessment of the changes, which can be statistically traced down in the data in order to ensure consistency. For new projects, the MoIT drew up a new, simpler and clearer form of the subsidy provision conditions to dispel any confusion.

3. **Monitoring indicators relative to the set goals**

   For the sustainability reports that beneficiaries submit 5 years after the project ends, the MoIT enlarged the required information content to include beneficiaries' economic indicators and changes thereto as a result of the project (turnover, profit, new customers, new markets, expansion etc.). These data aggregated over time are better able to describe the economic impacts of executed projects in line with the substance of ICT support programmes.

4. **Evaluation of support provided under the operational programmes**

   This issue was covered by the existence of the MS2014+ information system and the existence of annual data lockers in which the data are locked to prevent further adjustments. The reported data will subsequently be validated on a cross-sectional basis using the locked data and their accuracy will be confronted with the various management sections to eliminate possible errors.

Audit No 19/01 – *Funds used for technical assistance from the Operational Programme Enterprise and Innovations for Competitiveness*

Technical assistance was audited in audits Nos 12/13[41] and 15/26[42].

The aim of the audit was **to scrutinise whether money earmarked for technical assistance under OP EIC was spent economically and effectively.** This audit was performed as a legality audit with a performance section.

Both EU funding out of OP EIC and state budget co-funding were audited. The audit period was 2014–2018 and, where relevant, the preceding and subsequent periods. The audit focused mainly on:

- the specification of supported activities in connection with support from OP *Technical Assistance*;
- the design of indicators for assessing the support goals;
- the purpose of the support, the effectiveness and economy of expenditure;
- the specification of the allocation and drawdown thereof;
- public procurement;
- use of services and assets acquired with the help of subsidies.

The audited value of the finances at systemic level was CZK 2,503.21 million and at project level[43] CZK 842.47 million.

The SAO's audit findings

- The MoIT did not define the result indicators in a way making it possible to evaluate the overall benefits of the support and the achievement of specific goals of technical assistance.
- **One of the indicators** measuring personnel stabilisation in the implementation structure, viewed as one of the prerequisites for effective management and control of OP EIC, **was not fulfilled by the MoIT.**
- OP EIC displayed the **lowest interim rate of drawdown** out of all OPs in the CR[44] and the Audit Body (AB) detected a **high error rate in projects,** which indicates that there is room for improvement in management and control work by the MA funded out of technical assistance finances.
- **The MoIT substantially overestimated the funding needed** for certain technical assistance projects and was not sufficiently transparent in project selection.
- Bar a few exceptions, the expenditure on the various technical assistance projects was effective, economical and compliant with the relevant regulations and rules. One exception was ineligible expenditure of the MoIT totalling approx. CZK 1.26 million, which mainly comprised the costs of three "annual seminars" amounting to CZK 1.23 million. These

---

41 Audit No 12/13 – *European Union and state budget funds earmarked for the implementation of the Technical Assistance Operational Programme.*

42 Audit No 15/26 – *EU and State budget funds spent within technical assistance for the activities related to publicity and promotion of operational programmes and projects implemented in the programming period 2007–2013.*

43 Various activities under 12 projects were scrutinised. The volume of these projects was CZK 842.47 million, with CZK 716.10 million of that coming from the EU. The activities were worth CZK 59.48 million, including EU funding.

44 As at 31 March 2019 according to data presented in the *Quarterly Report on the Implementation of ESI Funds in the CR in the 2014–2020 Programming Period – 1st quarter of 2019*.

seminars were not educational, as would be fitting for the project, but more like social events for implementation structure employees.

Based on the audit results, one notification involving a sum of CZK 1.26 million was filed with the tax administrator.

Proposed remedial measures and their execution

The MoIT adopted measures to ensure transparent project selection and prevent ineligible expenditure being reimbursed.

Audit No 19/04 – *Support for flood protection measures*

Anti-flood measures are an area that is constantly monitored by the SAO. In previous years this issue was covered by audits Nos 09/20[45] and 12/27[46].

The purpose of the audit, which was a legality audit with a performance section, was **to scrutinise whether funding for anti-flood measures was used effectively, economically and in compliance with the law.** The main focus of the audit of finances was to see how the managing authorities, i.e. the MoE and MoA, and the intermediate body, the State Environmental Fund (SEF), administered and selected subsidy applications; how they checked applicants' compliance with the subsidy conditions; and how they monitored and evaluated the impacts of the provided sector. The SAO also assessed the design and working of the MCS and examined a sample of projects to determine whether the subsidies were used in line with the law, effectively and economically.

The audit covered both EU funds under OP *Environment* (OP En) and state budget finances paid out of budget chapter 329 – *Ministry of Agriculture*. The execution of flood-protection measures under the authority of the MoE, MoA and four audited state river basin managing authorities (Elbe, Morava, Odra and Vltava) was also scrutinised. The audited period was from 2016 to 2018, including the preceding and subsequent periods where relevant.

The audited value of the finances at systemic level was CZK 9,558.14 million and at project level CZK 861.17 million.

The SAO's audit findings

The results of **the audit revealed** shortcomings in the state's preparedness for flood threats. **More than 50% of the specific measures** proposed by the MoE and MoA in plans for managing flood risks **for the 2015–2021 period will not even be commenced by the end of that period** and **new construction is taking place in risk areas.**

The identified systemic shortcomings include the following:

- The CR **has not created suitable precautions to prevent flooding** and minimise flood damages **in line with the requirements of conceptual and strategic documents.** The main reasons are the late execution of anti-flood measures; the small extent of close-to-nature measures; and building in active flood areas.
- **The state river authorities did not carry out close-to-nature measures** in the period under scrutiny and did not make use of OP En co-financing for building projects under SO 1.3 *Ensure flood protection for built-up areas and rainwater management*. The MoE has long failed to push through a significant extent of close-to-nature measures.

45 Audit No 09/20 – *Funds spent on flood protection measures and support for prevention in areas at risk of adverse climatic influences.*

46 Audit No 12/27 – *Funds earmarked for flood prevention programmes.*

- **Two results indicators** – "number of inhabitants affected by Q_{100} river flooding" and "kilometres of watercourses dealt with and volume of retarded rainwater" – used for assessing SO 1.3 displayed **very low values** as at 30 June 2019, which corresponds to the **low drawdown** under this SO. **There is thus a risk** that these SO 1.3 output and result **indicators will not be achieved in PP14+.**
- The audit also examined opinions issued by river basin authorities on proposed building projects in the flood zones of watercourses. The aim of the *flood risk management plans* is to prevent new risks arising and to reduce the areas of land with an unacceptable flood threat risk. Using a sample of 40 building projects completed between 2015 and 2018, however, the audit found that **new construction is still taking places in active flood zones.**

Proposed remedial measures and their execution

The MoE and MoA's proposed remedial measures were still unknown by the *EU Report 2020* deadline. The SAO will continue to monitor this process.

In a 2 March 2020 press release (*The MoE's reaction to the SAO's latest report on anti-flood measures in the CR*), the MoE stated that it would discuss with the MoRD ways to remedy the situation and provide consistent methodological assistance to the building authorities, which come under the MoRD, in terms of permits to build in active flood zones.

C.4 Financial audits with ties to EU budget funds

The remaining three audits which the SAO completed in the period under scrutiny and are at least partly linked to EU budget funds are financial audits.

As a rule, financial audits seek to scrutinise the compilation of the closing account of a state budget chapter, accounting and the compilation of financial statements and the accuracy of data presented for evaluation of the implementation of the state budget. Financial audits have specific features that distinguish them from legality or performance audits, the main one being that the audited financial volumes are many times greater. The nature of audit findings is also different. To prevent distortion of the statistics, financial audits are treated as a separate part of the *SAO Audit Information System* (AIS).

Audit No 18/26 – *Closing account of the state budget chapter "Ministry of Labour and Social Affairs" for the year 2018, their financial statements and data for 2018 submitted for the assessment of fulfilment of the state budget 2018*

The aim of this financial audit was to check whether the MoLSA proceeded in line with the relevant legal regulations when putting together the closing account, performing bookkeeping, compiling the financial statements and submitting data for the evaluation of the implementation of the state budget for 2018.

The SAO scrutinised the closing account, bookkeeping, the financial statements and data for evaluating implementation of the state budget for 2018 and the related compliance with key pieces of legislation: Act No 563/1991 Coll.[47], Decree No 410/2009 Coll.[48], *Czech Accounting Standards for Certain Selected Accounting Units*, Decree No 323/2002 Coll.[49] and Decree

47 Act No 563/1991 Sb., on accounting.

48 Decree No 410/2009 Coll., implementing certain provisions of Act No 563/1991 Coll., on accounting, as amended, for certain selected accounting units.

49 Decree No 323/2002 Coll., on the budget structure.

No 419/2001 Coll.[50], on the scope, structure and timing of data submitted for the elaboration of the draft state closing account and on the scope and times of the compilation of draft closing accounts for state budget chapters.

The operations selected for testing were checked for compliance with other legislation[51]. The SAO also assessed the measures adopted to remedy shortcomings identified by audit No 16/29[52].

As the MoLSA was the managing authority for OP *Employment* (OP Em) and OP *Food and Material Assistance*[53] (OP FMA), the SAO also examined the accuracy of the reporting of operations under these OPs in the closing account, financial statements and financial reports for 2018. The audit also looked at the payment of the final balance which the MoLSA received in 2018 from the National Fund[54] (NF) under OP *Human Resources and Employment* (OP HRE).

The SAO's audit findings

When auditing operations co-funded by the EU under the aforesaid OPs the SAO found **shortcomings with a material impact on the data presented in the financial statements and reports:**

- **in 2018 the MoLSA reported revenues** of CZK 1.96 billion from the payment of the OP HRE final balance done in 2018, **even though these revenues** of the MoLSA **related to 2016 in terms of content and timing,** as they derived from certain aggregated requests for payment under OP HRE approved by the NF in 2016;
- in its financial statements for 2018 **the MoLSA did not report receivables** and related circumstances with a value of CZK 924.26 million derived from OP HRE aggregate requests for payment that were approved by the NH in 2016 and had not been paid out by the NF as at 31 December 2018;
- in the financial statements for 2018 **the MoLSA did not report a receivable and revenues** amounting to CZK 111.1 million derived from an aggregate request for payment under OP Em which the NF approved in 2018;
- in the financial statements for 2018 **the MoLSA did not report a preliminary payments for advances under OP FMA which it received in 2014** and amounted to CZK 70.78 million; this payment had not been settled up between the Commission and the MoLSA as at 31 December 2018;
- in the financial statements for 2018 the **MoLSA incorrectly reported conditional receivables from foreign transfer pre-financing;** in connection with the receipt of the payment of the OP HRE, for example, in 2018 the MoLSA **incorrectly accounted for the reduction of a conditional receivable** from transfer pre-financing done in 2015 and 2016

50 Decree No 419/2001 Coll., on the scope, structure and timing of data submitted for the elaboration of the draft state closing account and the scope and times of the compilation of draft closing accounts of state budget chapters.

51 In particular Act No 218/2000 Coll., on budgetary rules and amending certain acts (the budgetary rules), Act No 219/2000 Coll., on the property of the CR and representation of the CR in legal affairs, Act No 340/2015 Coll., on special conditions of the effect of certain contracts, the publication of such contracts and the register of contracts (the Act on the Register of Contracts), Act No 320/2001 Coll., on financial control in public administration and amending certain acts (the Act on Financial Control), and the related implementing decrees.

52 Audit No 16/29 – *Closing account of the state budget chapter the Ministry of Labour and Social Affairs for the year 2016, their financial statements and data for 2016 submitted for the assessment of fulfilment of the state budget 2016.*

53 OP *Food and Material Assistance* is financed from the *Fund for European Aid to the Most Deprived* (FEAD) and is therefore not part of the *Partnership Agreement*.

54 Ministry of Finance - Department 55 - National Fund.

and amounting to **CZK 1.93 billion,** which it had not entered in the accounts. Conversely, it **reported a claim** on OP Em finances amounting to **CZK 111.1 million** as a conditional receivable as at 31 December 2018, even though it had already exercised this claim with the NF via the summary request for payment in 2018 and the NF approved this claim; in other words, it should have been entered as a **non-conditional receivable;**

- **the MoLSA incorrectly reported subsidies under OP FMA provided to regions** for free school meals for children at risk of poverty totalling CZK 66.81 million as expenditure on miscellaneous administration in social security, even though under the terms of Decree No 323/2002 Coll., they were expenditure on miscellaneous social care and assistance to children and young people.

Based on the audit results the SAO filed an unquantifiable notification to the tax administrator.

Proposed remedial measures and their execution

The MoLSA reacted to all the identified shortcomings. It will only be possible to verify the effectiveness of the measures when a follow-up audit is conducted.

Audit No 19/03 – *Closing account of the state budget chapter "Ministry of Culture" for 2018, financial statements of the Ministry of Culture for 2018 and data submitted by the Ministry of Culture for evaluation of implementation of the state budget in 2018*

This audit was done as an ex-post financial audit. Its aim was to check whether the Ministry of Culture (MoC) proceeded in line with the relevant legal regulations when putting together the closing account, performing bookkeeping, compiling the financial statements and submitting data for the evaluation of the implementation of the state budget for 2018.

The SAO scrutinised the closing account of the MoC chapter, bookkeeping, the financial statements and data for evaluating implementation of the state budget for 2018 and the related compliance with key pieces of legislation: Act No 563/1991 Coll., Decree No 410/2009 Coll., *Czech Accounting Standards for Certain Selected Accounting Units*, Decree No 323/2002 Coll. and Decree No 419/2001 Coll. A sample of operations was selected to check compliance with other legislation[55]. The SAO also assessed the measures adopted to remedy shortcomings identified by audit No 15/19[56].

In this audit the SAO also examined the correctness of reporting and data linked to EU finances and financial mechanisms. These were finances which the MoC received and provided under OP Em, IROP, OP HRE and the EEA/Norway financial mechanism.

---

55 In particular Act No 218/2000 Coll., on budgetary rules and amending certain acts (the budgetary rules), Act No 219/2000 Coll., on the property of the CR and representation of the CR in legal affairs, Act No 340/2015 Coll., on special conditions of the effect of certain contracts, the publication of such contracts and the register of contracts (the Act on the Register of Contracts), Act No 320/2001 Coll., on financial control in public administration and amending certain acts (the Act on Financial Control), and the related implementing decrees.

56 Audit No 15/19 – *Closing account of the state budget chapter the Ministry of Culture for the year 2014, the financial statements of the Ministry of Culture for 2014 and data submitted by the Ministry of Culture for the assessment of state budget fulfilment for the year 2014.*

The SAO's audit findings

In connection with EU finances and financial mechanisms the SAO identified risks and shortcomings of a systemic nature with a material impact on the reported data, specifically:

- **as the end beneficiary of a transfer the MoC did not report funds of CZK 3.55 million received as own revenue** but as a revenue from pre-financing Czech state budget funds that should subsequently be refunded out of the EU budget;
- **the MoC did not report a conditional claim on the refunding of finances out of the EU budget with a value of at least CZK 60.42 million.** This claim was based on the provision of funding out of the Czech state budget that was pre-financing for finances subsequently provided out of the EU budget;
- **the MoC did not report a conditional payable established in respect of established contributory organisations based on subsidy provision decisions worth CZK 752.95 million that already existed as at the date of the financial statements.** Consequently, the finances were planned as a claim on a future budget on the grounds of pre-financing out of the Czech budget that should subsequently be refunded out of the EU budget. **The MoC did not report this as a conditional payable, but incorrectly as a conditional claim in respect of contributory organisations.**

Based on the audit results the SAO filed one notification with the tax administrator in the amount of CZK 0.11 million.

Proposed remedial measures and their execution

The MoC reacted to all the identified shortcomings mentioned in the audit conclusion from audit No 19/03; a follow-up audit will be required to check the measures' effectiveness. One exception is a measure consisting in entering the correct and complete balances of off-balance-sheet accounts of conditional receivables from transfer pre-financing as at 31 December 2019, where there is a risk that the correction was not done correctly.

Audit No 19/08 – *Closing account of the state budget chapter "Ministry of Transport" for 2018, the Ministry of Transport's financial statements for 2018 and the data submitted by the Ministry of Transport for evaluation of implementation of the state budget in 2018*

The aim of the audit was to check whether the Ministry of Transport (MoT) proceeded in line with the relevant legal regulations when putting together the closing account, performing bookkeeping, compiling the financial statements and submitting data for the evaluation of the implementation of the state budget for 2018.

The SAO mainly scrutinised the closing account, bookkeeping, the financial statements and data for evaluating implementation of the state budget for 2018 and the related compliance with key pieces of legislation: Act No 563/1991 Coll., Decree No 410/2009 Coll., *Czech Accounting Standards for Certain Selected Accounting Units*, Decree No 323/2002 Coll. and Decree No 419/2001 Coll.

The operations selected for testing were checked for compliance with other legislation[57]. The SAO also assessed the measures adopted to remedy shortcomings identified by audit No 13/39[58].

Audit No 19/08 was an ex-post financial audit and it included checks of the accuracy of reporting of significant data related to EU and Union programme funds. These were funds the MoT received and provided under PP14+ operational programmes (OPT and OP E) and PP07+ (OP *Transport* (OP T7+)) and the CEF programme. The audited period was the year 2018, as well as the preceding and subsequent years where relevant.

The SAO's audit findings

When auditing operations co-funded by the EU under the aforesaid programmes the SAO found **shortcomings with a material impact on the data presented in the financial statements and reports**:

- In 2015 and 2016 the MoT received CEF funding in the reserve fund bank account, which funding it provided to end beneficiaries via the SFTI in 2018. **The MoT classified the use of this reserve fund money amounting to CZK 717 million to the wrong revenue account** (the MoT entered the use of the finances as revenues from transfer pre-financing instead of drawdown from the reserve fund);
- In 2018 the MoT carried out projects under OPs in which it featured as the end beneficiary of transfers. **However, the MoT reported these revenues from transfers received under technical assistance and amounting to CZK 115 million** as revenues from transfer pre-financing, even though in this case it was the end beneficiary of these transfers.
- **The MoT reported non-existent long-term conditional receivables from transfer pre-financing amounting to CZK 2.4 billion** in relation to OP T;
- **The MoT did not convert into Czech currency receivables and payables expressed in foreign currency** and linked to the provision of CEF finances and did not account for arising exchange rate differences worth CZK 15 million;
- **The MoT classified the release of CEF financing to the tune of CZK 2.4 billion as an incorrect budget item under the terms of Decree No 323/2002 Coll.**

SAO recommendations concerning informational quality under the accounting regulations

The SAO drew attention to the fact that **certain provisions of the regulations** on the accounting of organisational components of the state **cause problems of application; other** provisions of these regulations **undermine the meaningfulness of some information in the MoT's financial statements.** In the case of EU finances, this involves the following:

- The MoT entered transfers received from abroad for CEF financial settlement as the creation of a reserve fund and reported them in its financial statements as equity in account 414 – *Reserve fund for other programmes*. The MoT's procedure conformed to item 3.3 of Czech Accounting Standard 703 – *Transfers*, but it means that if foreign transfers intended for financial settlement are received in a reserve fund the organisational unit of

57 In particular, Acts No 218/2000 Coll., on budgetary rules and on the amendment of some related acts (budgetary rules), No 219/2000 Coll., on the property of the CR and its appearance in legal relations, No 340/2015 Coll., on Special Conditions for the Effectiveness of Certain Contracts, Publication of These Contracts and on the Register of Contracts (Act on the Register of Contracts), No 320/2001 Coll., on Financial Control in Public Administration and on Amendments to Certain Acts (Financial Control Act).

58 Audit No 13/39 – *Closing account of the state budget chapter of the Ministry of Transport for 2013, financial statements and financial statements of the Ministry of Transport for 2013*.

the state reports the received advance payments (i.e. payables that will first have to be settled) as equity, even though their economic nature would require them to be reported as external finances. In the SAO's opinion, the accounting for and reporting of payables linked to transfers from abroad as equity is not in line with the actual nature of equity;

- The MoT reported the use of reserve fund finances linked to CEF in accordance with item 6.1.2 of Czech Accounting Standard 704 – *Funds of the accounting unit* via revenue account 648 – *Utilisation of funds*, not via revenue account 675 – *Revenues of selected central government institutions from transfer pre-financing*. That makes it impossible to enter the same type of revenue in the used cost account 575 – *Costs of selected central government institutions for transfer pre-financing*. The rules on accounting for and reporting these revenues gives precedence to form (reserve fund finances) over content (pre-financing of transfers co-funded from abroad).

Proposed remedial measures and their execution

- The MoT's proposed remedial measures were not known by the *EU Report 2020* deadline, but it is reasonable to assume that the MoT will adopt the kind of measures that would prevent this inaccuracies arising again in future.

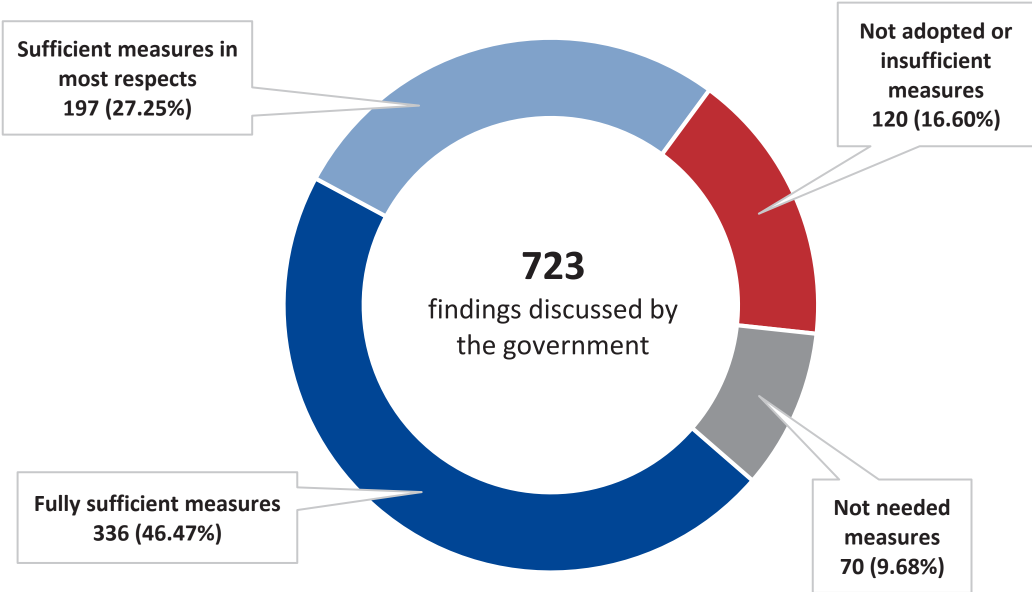
C.5 Measures adopted by the Czech government to remedy the identified shortcomings

At its sessions the Czech government discusses all the SAO's audit reports, which the SAO president dispatches immediately after they are approved by the SAO Board. According to the government's rules of business, audit reports are submitted to the government session by its members, along with their opinions on the SAO's findings and proposals for concrete measures to eliminate the identified deficiencies. The SAO may comment on the proposed measures and, in the event of fundamental disagreements, these measures can be discussed with the relevant ministries over several rounds of talks. The SAO may therefore directly influence both the extent and quality of the proposed measures. The SAO's opinion may be communicated to the government by the SAO president, who is authorised to attend sessions of government[59] at which the SAO's audit findings and responses thereto are discussed; he may also address the government at these sessions.

The SAO has systematically monitored and progress in the implementation of measures to remedy shortcomings discussed by the government; since 2015 it has kept records of them in a separate register of the AIS. **At the end of the period under scrutiny, i.e. 31 March 2020, the AIS contained data on 72 SAO audits focusing entirely or in part on programmes and projects co-funded by the EU. 723 audit findings discussed by the government** were inputted into the database. For each audit separately, execution of declared remedial measures is monitored and the degree of satisfaction with the standard of the measures is assessed. The assessment of the remedial measures in terms of the sufficiency of their execution is divided into four categories, as shown in the following chart.

59 Provisions of Section 8, Paragraph 7 of Act No 166/1993 Coll., on the Supreme Audit Office.

Chart 4: Evaluation of measures adopted by the government to remedy ascertained deficiencies



Source: AIS, data as at 31 March 2020.

In response to the total number of identified shortcomings discussed by the government, **336 remedial measures** were adopted **in full** and **197 reacted to the shortcomings in most regards. No measures were adopted or the measures adopted were judged insufficient by the SAO** in the case of **120** shortcomings mentioned in the SAO's audit reports. **Measures were not required for various reasons** for the remaining **70** shortcomings.[60] **The SAO's overall satisfaction** with the adopted measures **was 66.9%**.

Chart 4 reveals that **73.7% of measures** were **adopted in full or at least in most regards**; on the other hand, **26.3% of measures were adopted in only certain regards or insufficiently** or possibly **were not required**. Compared to the results published in the *EU Report 2019*, **the relative sizes of the various categories with regard to the adoption or non-adoption of remedial measures** stayed the same.

Based on the results of analyses into the nature, extent and standard of execution of the various measures focusing on the aforesaid 72 audits, in previous years **the SAO discarded 264 cases** from the monitoring as no longer relevant. **The SAO thus continues to monitor the implementation of 459 remedial measures.** Of this updated number, **146 measures** were fulfilled or partly fulfilled, and the degree of satisfaction was **31.8%**. No conclusion could be drawn for **248 measures**, partly because enacting the necessary legislative changes or strategic materials is a very lengthy process. The remaining **65 measures were assessed as unfulfilled.** The most unfulfilled measures came under the **MoA** (13 unfulfilled measures); **Prague City Hall** (8); and the **MoRD and MoIT** (both 7).

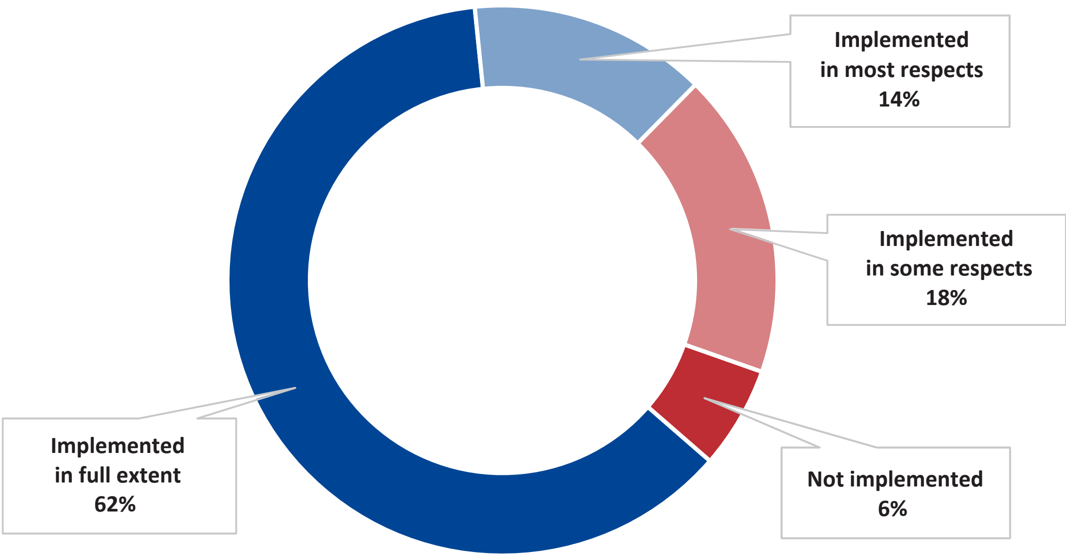
A further **279 measures** are expected to be discarded from the monitoring for the coming period; **180 measures** are expected to be assessed in terms of their relevance for future audit plans.

60 This category includes measures adopted in response to SAO findings at the same time when an on-site inspection is completed or cases where the audited entity itself filed a notification to tax administrators to resolve discrepancies. That also applies to shortcomings found in the management documents of programmes from the preceding programming period that were not transposed into the existing management documents.

Although the percentage of entirely sufficient measures increased by two percentage points compared to the previous period under scrutiny (1 April 2018 to 31 March 2019), the entire segment of measures that are sufficient and sufficient in most regards decreased by one percentage point to a value of almost 74%. The degree of satisfaction with the adopted measures remained practically the same at 66.9%.

The European Court of Audits (ECA) also performs annual monitoring of the degree to which the Commission adopts corrective measures in response to the recommendations presented in ECA special reports. In line with its strategy for 2018–2020, it analyses responses to all recommendations from performance audits it submitted to the Commission three years previously. In presenting its annual reports for 2018[61] the ECA stated that three quarters of its recommendations for 2015 were implemented by the Commission either in full or in most regards, as the following overview shows.

Chart 5: Evaluation of the measures taken by the Commission to address the shortcomings identified by the ECA in 2015



Source: *2018 – EU Audit in Brief. Presentation of annual reports of the European Court of Auditors for 2018.*

Comparison of the ECA's statistics for 2015 and the SAO's data from 2015 to the deadline of the *EU Report 2020* reveals that the two audit institutions attained practically the same ratio for the adoption of remedial measures in full or in most regards.

61 *2018 – EU Audit in Brief. Introducing the 2018 annual reports of the European Court of Auditors*, Publications Office of the European Union, 8 October 2019 (also on the ECA website: https://www.eca.europa.eu/Lists/ECADocuments/auditinbrief-2018/auditinbrief-2018-CS.pdf).

D. Support for small and medium-sized enterprise – a risk area

Small and medium-sized enterprises make up the vast majority of enterprises both in the CR[62] and in the EU as a whole. According to the Commission, 99% of all businesses in the EU are small and medium-sized enterprises, which furthermore created 85% of new jobs in the past five years and employ two thirds of all private-sector workers. Supporting them is therefore one of the key Union policies. This aid focuses *inter alia* on supporting enterprise, facilitating market access in other countries, fostering innovation and start-ups[63] and strengthening dialogue with investors and organisations representing SME interests. Another key area of this support is facilitating access to funding within the framework of both the ESIF and other Union funding programmes, e.g. the research and development support programme *Horizon 2020* (to be replaced by *Horizon Europe* in 2021).

One key way of recognising the status of such an enterprise is the definition given by the legislation. The absence of a common definition could lead to differences in the way measures are implemented, thus disrupting economic competition. The current definition of SME comes from the Commission recommendation adopted back in 1996.[64] Over the following 25 years, this definition was followed up by a number of interpretations and modifications, including two judgements by the Court of Justice of the EU (CJEU). For this reason, the current **Commission handbook**[65] designed to help determine whether a company comes under the SME category is now 60 pages long.

The Commission itself is aware of the complications and confusion associated with interpreting the definition of SME. In 2017 it therefore announced its plan to change to the definition and presented a preliminary assessment of the impacts of the possible adjustment. Subsequently, in collaboration with Member States, it launched an assessment of the functionality of the definition. In February 2018 it even announced a questionnaire-based public consultation, which brought in around a thousand replies over a three-month period. Assessing the consultation later proved highly time-consuming, so the Commission has not yet made good on its original pledge to present a modified definition of SME.

Determining the category an enterprise belongs to is based on fundamental regulations, the chief one being the Commission's recommendation from 2003[66]. In addition, case law of courts both in the CR and across the EU needs to be taken into account.

The principal objective of verifying SMEs seeking support is to exclude those whose real economic power is greater.

The definition distinguishes between three categories of firm, each of which corresponds to a particular type of relationship a firm can have with a different firm. This categorisation is essential for gaining a clear idea about a firm's economic situation and excluding firms that are

---

62 According to the Association of Small and Medium-sized Enterprises and Crafts of the CR, SMEs account for 99% of all local firms in the CR (95.5% of them are micro-enterprises with up to 10 employees) and employ around 2 million people (61% of all employees).

63 Start-ups are recently founded or nascent companies whose focus on innovation and advanced technologies enables rapid development and great potential for economic growth.

64 This definition of SME is presented in Commission Recommendation 96/280/EC, published in the *Official Journal of the European Communities,* L 107, 30 April 1996.

65 *User Guide to the SME Definition* – https://op.europa.eu/cs/publication-detail/-/publication/79c0ce87-f4dc-11e6-8a35-01aa75ed71a1/language-cs.

66 Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (notified under document number C (2003) 1422), 2003/361/EC.

not genuine SMEs. The definition therefore distinguishes between “**autonomous enterprises”** that are entirely independent or have one or more minority partnerships (up to 25%) with other firms. If holdings in other enterprises amount to at least 25% but to do not exceed 50%, this is deemed to be a relationships between **“partner enterprises”**. If holdings in other enterprises exceed the 50% threshold, the **enterprises** are deemed to be **“linked”**. There are, however, **exceptions** from partner relationships, such as **public investment corporations, venture capital firms, state or public universities.**

An enterprise loses or acquires the status of SME if the ceilings specified in the definition are exceeded over two consecutive accounting periods. In the event of a merger or the purchase of a stake etc., the change of status is instant, resulting in the loss of entitlement to subsidies.

The conformity of a support applicant’s status to the definition of SME and of an undertaking in difficulty tends to be the primary focus of checks by subsidy programme providers. Actually getting access to the data necessary for checking, i.e. workforce size, financial data and, most notably, information on foreign companies, especially in third countries, is relatively complicated in itself. Information often has to be tracked down in public registers, which can be a complicated process, or additional information has to be requested from the enterprise. This entails high administrative expense while delivering a low degree of legal certainty, because a wrong determination may result in a loss of subsidy and even, in extreme cases, criminal prosecution.

The SAO has long paid attention to the issue of support for SME. In its audit work it scrutinises the design, functionality and effectiveness of management and control systems for programmes co-funded by the EU. In doing so, the SAO also examines the applications selection, assessment and approval process, including procedures designed to ensure that the support is only provided to applicants that meet the defined subsidy conditions and are authorised to obtain this subsidy. **This is a matter of judging the eligibility of applicants, one aspect of which is the question of possible conflicts of interests.**

In the past five years the SAO has conducted several audits that revealed deficiencies linked to SMEs that obtained ESIF subsidies. The key audits were:

Audit No 16/01 – *EU and state budget funds earmarked for financing of interventions within the Operational Programme Enterprise and Innovation with focus on the fulfilment of objectives*

The global objective of OP EI was *“to increase the Czech economy’s competitiveness by the end of the programming period*[67] *and to bring the industry and services sector’s innovation performance closer to the level of Europe’s leading industrial countries”.*

Over 6,000 applicants expressed an interest in support under the OP, submitting more than 26,000 registration applications[68]. 55% of registration applications received financial support. Roughly eight out of town projects were successfully completed.

In **90% of the total number of successfully completed projects the applicants were SMEs** at which OP EI was chiefly targeted. **Even so, 25% of the allocation was drawn down by large enterprises,** as these firms received larger subsidies on average.

67 During PP7+.

68 A registration application was an expression of interest in support under the OP. After it was approved, applicants had to submit a “full application”. In some cases, applicants did not submit one, despite an affirmative response from the managing authority.

In some enterprises the ownership structure influencing categorisation as small, medium-sized or large enterprises was not clear, so it was not clear whether the applicant was entitled to a subsidy. The MoIT, as the managing authority, relied entirely on sworn declarations in such cases. It also depended on information provided by supported enterprises if the size of the enterprise changed during project implementation. **That posed a risk that ineligible beneficiaries would be supported.**

The CZK 84 billion in total subsidies had a positive impact on the supported enterprises, but **the degree to which the global objective of OP EI was achieved and the related efficiency could not be judged objectively.** One reason was that **many of the defined indicators were relatively meaningless in terms of evaluating the programme's results.**

Audit No 17/26 – *Funds earmarked for the measures of cooperation within the Rural Development Programme CR 2014–2020*

The audit found **errors in the focus of support and in the advantaging of a certain type of applicant,** as well as in **unequal and often complicated conditions for applicants** and **in the assessment and selection of projects** for funding. The audit revealed that **micro-enterprises and SMEs were not receiving much support** even though this was one of the main goals of the *Cooperation* measure. **The rules set by the MoA** for providing subsidies **meant that the biggest beneficiaries were large enterprises which, moreover, spent the money on buying machinery and technologies instead of on science and research**. Out of a total of CZK 3.8 billion prepared for *Cooperation* in the *Rural Development Programme 2014–2020* (RDP), the MoA set aside more than CZK 2.8 billion for a single sub-measure entitled *support for development in the processing of agricultural products* intended for SMEs. **Most subsidy beneficiaries** (as many as 70%) under this sub-measure, however, **were large enterprises that often drew down subsidies repeatedly,** in amounts running into the tens and hundreds of million koruna. This was caused by the more favourable and simpler conditions for obtaining subsidies for large and costly projects. The subsidies that were supposed to help SMEs strengthen their research, technological development and innovation in agriculture were thus collected by large firms which, moreover, were reporting profits in the hundreds or tens of million koruna and were among the main private food and farming companies in the CR.

Audit No 18/01 – *Support of business real estate and business infrastructure*

Helping SMEs switch to production that ensured competitiveness, cut overheads, delivered high added value and brought greater success on international markets was supposed to be the benefit of supporting business real estate and infrastructure under the *Real Estate 2014–2020* scheme. The SAO audit showed that **the MoIT did not monitor whether enterprises were registering the expected benefits after projects had been carried out**. **In half of the audited sample of** 12 projects **there was no confirmation at all that the enterprises were more competitive, had lower overheads and did better on international markets as a result of the support**.

Audit No 18/06 – *Support for the promotion of research and development for innovation provided by the OP Enterprise and Innovations for Competitiveness*

Even though the emphasis was supposed to be on fostering businesses' research, development and innovation capacities and connecting them to the surrounding environment, as at the end of the SAO audit the MoIT had provided just 22% of the total allocation to projects focusing on increasing the intensity and effectiveness of cooperation in research, development and innovation. By contrast, the MoIT had provided 55% of the amount to projects targeting enterprises' increased innovation capacity. Out of the planned number of 2,950 enterprises cooperating with research organisations, just 326, i.e. 11%, were involved in this kind of cooperation as of the end of 2017. Similarly, out of the planned number of 195 research organisations cooperating with businesses there were in fact just 14, i.e. 7%. **The SAO flagged up the risk that the objectives of priority axis (PA) 1 of OP EIC would not be achieved.**

The MoIT also defined the specific objectives for PA 1 and most of the results attributed to them in general terms. Consequently, it will be very hard to evaluate the benefits of the support designed to boost research and development for innovation. By the end of 2018, funds totalling CZK 16,685 million, i.e. 48% of the total PA 1 allocation, had been awarded, but the drawdown of funding for projects in the implementation phase amounted to approx. just CZK 3,486 million, i.e. 10% of the total allocation. **The insufficient utilisation of the support was caused by low levels of interest among SMEs and the long project application assessment and approval process, which took almost a year in some cases. The drawdown of funding** worth CZK 2,112 million earmarked for **integrated territorial investments had not been even commenced** at the time of the SAO audit.

Audit No 18/08 – *Funds spent on the support of the animal production sector*

The purpose of subsidies provided under national subsidy programme 19.1 *Support for milk producers' and processors' participation in the Q CZ quality scheme*[69] is to support improvements in milk quality. CZK 638 million was paid out in the years 2016–2017. The SAO discovered that large firms could apply for support as well as SMEs. Large firms had to prove, however, that the support was essential for them and had a motivational effect. The EU's guidelines on state aid in agriculture and farming and in rural areas for the 2014–2020 period stipulate that aid compatible with the internal market must not subsidise the costs of business an enterprise would incur in any case and must not mitigate standard business risks. In subsidy applications, large firms[70] must describe the situation that would come about if they did not receive support. They are simultaneously required to present documents underpinning their description of this scenario. The support provision authority must then check the credibility of the scenario and confirm that the support has a motivational effect.

11 out of 19 audited support beneficiaries under subsidy programme 19.A were large firms. These beneficiaries' applications merely contained a formally approached description of a situation that would happen if support were not provided, without any documents substantiating this hypothetical scenario. **The MoA failed in its duty to perform effective checks of the hypothetical comparison, so it did not confirm that the provided support had the required motivational effect. The MoA's approach to assessing the substantiation of the support requests/declarations of large firms was merely formal.**

69 This is a quality scheme that goes significantly further than the framework of standards for raw milk.

70 According to Annex I of Commission Regulation (EU) No 702/2014 declaring certain categories of aid in the agricultural and forestry sectors and in rural areas compatible with the internal market in application of Articles 107 and 108 of the Treaty on the Functioning of the European Union.

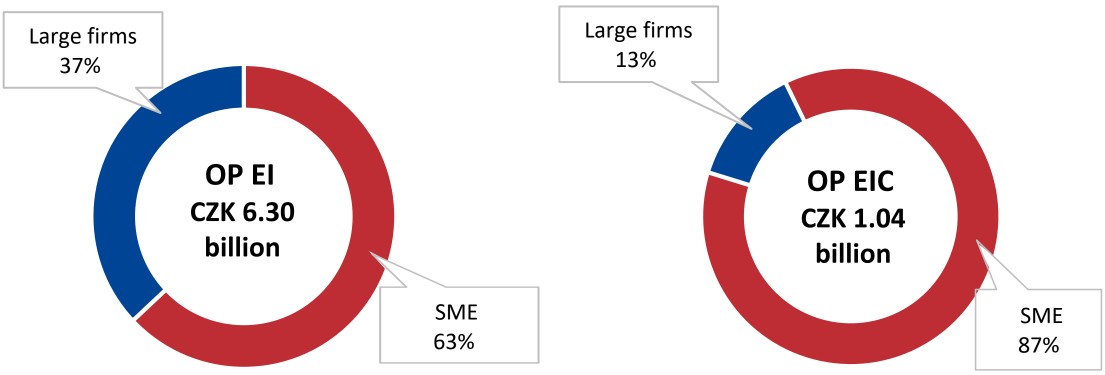
Audit No 18/29 – *Promoting competitiveness through ICT-supported projects funded under the Operational Programmes Enterprise and Innovation and Enterprise and Innovation for Competitiveness*

The SAO checked whether the goals of selected projects carried out as part of ICT and shared/strategic services support under OP EI in the 2007–2013 programming period and OP EIC in 2014–2020, both primarily intended for SMEs, were achieved. The SAO also sought to identify whether the projects contributed towards the achievement of goals targeting businesses' improved competitiveness in the field of ICT in the CR.

OP EI and OP EIC are supposed to give strong precedence to SMEs, which account for the majority of businesses in the CR. The calls announced for ICT projects also allowed large firms to access the support, however.

In OP EI CZK 2.3 billion was provided to large firms, roughly a third of the support given to ICT projects. In OP EIC, though, most of the support did go towards SMEs (CZK 0.9 billion of the total of CZK 1.0 billion channelled into ICT), as the following chart shows.

Chart 6: Support given to ICT projects according to the size of beneficiaries



Source: data from ISOP 07–13 and MS2014 + information systems (as at 30 June 2019), prepared by the SAO.

Unlike the completed OP EI, OP EIC is covered by Regulation of the European Parliament and of the Council (EU) No 1301/2013. This regulation provides that applicants from the category of large enterprises must provide evidence that they cooperate with SMEs. The Ministry of Industry and Trade (MoIT), as the OP EIC managing authority, therefore included this condition in the OP EIC handbook, so large firms should only be supported to the extent to which they use SMEs as subcontractors. The MoIT did not specify this condition in the calls, however. The SAO audit found that the **MoIT provided OP EIC funding to applicants that were large firms that did not provide any evidence of cooperation with SMEs either in the application for support or in the request for payment.** A check of a selected sample of 15 projects carried out by large firms revealed that the applicants had not demonstrated cooperation with SMEs in two cases. The SAO concluded that the MoIT had paid out a total of CZK 15.5 million in support to these two applicants in contravention of the OP EIC handbook and Regulation of the European Parliament and of the Council (EU) No 1301/2013.

Despite the declared primary support for SMEs, the MoIT supported projects submitted by Czech branches of international concerns for building shared services centres, even though the **beneficiaries' primary objective was to save on the concerns' costs and not to boost the beneficiary's competitiveness on the open market**. In OP EI alone this involved 16 projects that received CZK 702 million in support. **These projects focused mainly on creating a large**

number of new jobs, from tens to hundreds, even though the labour market had a major shortage of ICT experts. Even though the MoIT was warned about these negative impacts by the external project assessor, it approved a project like this anyway.

Creating new, subsidised jobs in the ICT sector when there was major shortage of these professionals was not efficient or conducive to improving the CR's competitiveness, in the SAO's opinion.

The MoIT and intermediate bodies[71] were inadequate in checking whether supported ICT projects achieved their goals and delivered actual benefits. Between 2007 and the end of the SAO audit, 727 projects were supported with public funds of CZK 7.34 billion, with CZK 5.22 billion coming from the EU. The MoIT judged the effectiveness and success of the support programmes mainly in terms of the ability to utilise the allocation. In the case of this focus of support under OP EIC the MoIT had not resolved the problems the SAO had drawn attention to in audit No 16/01 concerning OP EI.

Based on the results of the aforesaid audits and findings from long-term monitoring, the SAO has identified the following substantial risks in support for SME:

- **support awarded to entities that are not eligible under the defined subsidy conditions.** Ownership structure, size of enterprise and solvency tend to be demonstrated solely by an applicant's sworn declaration, without the support providers performing any checks;
- **insufficient assessment of the achievement of project goals and declared benefits as a result of poorly designed monitoring indicators;**
- **the definition of specific goals** for the development of research and development for innovation and of the attributed benefits is too general, which results in the actual benefits of projects being hard to evaluate;
- **support is awarded to large enterprises even though they do not satisfy the defined condition** of establishing cooperation with SMEs;
- **greater reluctance among SMEs to submit projects because of the lengthy applications assessment and approval process** combined with the generally defined goals of measures.

71 In PP7+ the OP EI intermediate body was the business and investment development agency CzechInvest; in PP14% the OP EIC intermediate body was the Business and Innovation Agency.

E. Audit work by other audit authorities in 2019

E.1 Audit Authority – public-administration control and audit of ESIF finances

The Ministry of Finance is the Audit Authority for EU funding provided to the CR under support from the ESIF.

In 2019 the AA's main activities focused on auditing operations, systems and financial statements, mainly for OPs in the context of PP14+.

As this is the third year of the performance of full audit work for PP14+, the working of the MCS from the multiannual perspective can only be partly assessed. All that can be said is that **the MCS functioned effectively, affording reasonable certainty that statements of expenditure submitted to the Commission were correct and the related transactions were legal and regular, with the exception of two OPs,** specifically OP EIC and OP *Fisheries 2014–2020* (OP F).

In PP14+ audit work, the AA's principal activities focused on work leading to the issuance of an annual audit report (AAR) for the various programmes, i.e. both operational audits and scrutiny of the working of the MCS of each OP based on the conducted system audits, and also audit of financial statements for the period from 1 July 2018 to 30 June 2019. To check that the reported expenditure was correct, operational audits focused on whether expenditure complied with EU and Czech legislation, the publicity rules, the audit trail reasonableness rules, fulfilment of the appropriate monitoring indicators etc. System audits focused mainly on assessing the design of the MCS by the appropriate MA or IB, including an assessment of the proper working of the MCS and the performance of control work by the Paying and Certifying Authority (PCA). In the accounting period, horizontal audits targeted the attainment of milestones, flood control measures under the ESIF and the security and functionality of the MS2014+ information system.

Complete audit work for all OPs was done in 2019. **The AA performed 390 audits in 2019, 375 of them operational audits**[72]**; 14 system audits** (including four cross-cutting audits[73]) **and one audit of financial statements** concerning ten OPs co-funded by the ESIF. The figures for the OPs broken down by system audit, operational audit and financial statements audit are given in the following table.

72 Operational audits of expenditures reported to the Commission for the given accounting period are based on a representative sample and sample selection statistical methods.

73 Cross-cutting audits concerned the PCA, MS2014+, flood control measures and the fulfilment of milestones.

Table 4: Overview of audits performed by AA in individual OPs in 2019

OP title	System audits	Operational audits (sample selection)	Audit of financial statements*
Integrated Regional Operational Programme	1	30	1
OP Enterprise and Innovation for Competitiveness	1	90	1
OP Employment	1	33	1
OP Prague – Growth Pole CR	1	36	1
OP Research, Development and Education	1	33	1
OP Environment	1	33	1
OP Transport	1	29	1
OP Technical assistance	1	28	1
OP Fisheries 2014–2020	1	32	1
INTERREG V-A CR – Poland	1	31	1
Cross-cutting audits	4		
Total	**14**	**375**	**1**

Source: AA´s information system; May 2020.
Note: *Audit of financial statements was always done for all the specified OPs together.

In view of the relevant EU regulations and the Commission's guidance, the AARs for the given accounting year, including an Auditor's Report for the relevant OP, were drawn up and sent to the Commission by 14 February 2020, or 27 February 2020 in the case of OP EIC.

Findings from audits of operations were collated with the results of system audits and formed a basis for defining systemic findings.

The AA assessed every MA's MCS in terms of compliance with the requirements laid down by Regulation of the European Parliament and of the Council (EU) No 1303/2013[74] (the General Regulation), i.e. whether it functioned effectively and thus afforded reasonable certainty that the statements of expenditure submitted to the Commission were correct and the related transactions were legal and regular. The AA presented this assessment of the MCS of OPs in its Auditor's Report.

Table 5: Category and corresponding level of the MCS´s reliability

Category	The level of assurance resulting from the system audit	Corresponding level of system reliability
1	Functioning well. Only some minor improvements needed or none.	High
2	Functioning. Some improvements needed.	Average
3	Functioning partially. Substantial improvements needed.	Average
4	Basically not functioning.	Low

Source: AA´s information system; May 2020.

74 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 repealing Council Regulation (EC) No 1083/2006.

Table 6 contains the assessments of the management and control systems (using the above scale) and numbers of findings for each OP.

Table 6: Assessments of the MCSs of individual OPs according to performed system audits in 2019

OP	Category of MCS	Findings in total	Findings ‘gravity		
			High	Medium	Low
Integrated Regional Operational Programme	2	6	0	3	3
OP Enterprise and Innovation for Competitiveness	2	13	1	8	4
OP Employment	2	4	0	0	4
OP Prague – Growth Pole CR	2	3	0	0	3
OP Research, Development and Education	2	6	0	5	1
OP Environment	2	5	0	2	3
OP Transport	2	7	0	0	7
OP Technical assistance	1	0	0	0	0
INTERREG V-A CR – Poland	2	8	0	2	6
OP Fisheries 2014–2020	2	7	0	5	2
Total	**-**	**59**	**1**	**25**	**33**

Source: AA´s information system; May 2020.

A qualified statement was issued for two OPs, OP EIC and OP F; the remaining eight OPs received unqualified statements. The qualified statements were issued in view of the higher error rate found by audits of operations of the respective OPs. Both OPs **were found to have shortcomings mainly in the fields of project assessment and detection of ineligible expenditure.**

The volume of initial audited funds that were selected for a sample by the AA for all the OPs for 2019 was CZK 23.40 billion. **21.18% of the expenditure reported to the Commission was audited. The identified eligible expenditure amounted to** almost CZK 207.24 million, which is **roughly 0.89% of the audited expenditure.** Specific data for each OP are presented in Table 7.

The results of operational audit shows that **ineligible expenditure was identified in 92 of the 375 audits**; the audit had a financial impact on the audited entity representing **24.5% of audited projects**. The remaining 75.5% of the performed audits ended without financial impact on the audited entity, **whereby 235 audits were entirely without findings (62.7%).**

Table 7: Number of audits with findings (with financial impact and without impact) and without findings for individual OPs in 2019

OP	Audits in total	Audits with findings		Audits without findings
		with financial impact	without financial impact	
Integrated Regional Operational Programme	30	6	5	19
OP Enterprise and Innovation for Competitiveness	90	31	5	54
OP Employment	33	3	3	27
OP Prague – Growth Pole CR	36	4	0	32
OP Research, Development and Education	33	10	9	14
OP Environment	33	11	3	19
OP Transport	29	4	8	17
OP Technical assistance	28	7	2	19
INTERREG V-A CR – Poland	31	10	7	14
OP Fisheries 2014–2020	32	6	6	20
Total	**375**	**92**	**48**	**235**

Source: AA´s information system; May 2020.

Table 8 shows that in 2019 **288 findings were identified**; 149 of them had no financial impact and 139 had a financial impact **totalling almost CZK 207.24 million**.

Table 8: Number of findings with financial and no financial impact for audits of 2019 operations

OP	Findings in total	Findings without financial impact	Findings with financial impact
Integrated Regional Operational Programme	24	17	7
OP Enterprise and Innovation for Competitiveness	74	25	49
OP Employment	19	12	7
OP Prague – Growth Pole CR	5	0	5
OP Research, Development and Education	61	40	21
OP Environment	16	3	13
OP Transport	17	12	5
OP Technical assistance	12	5	7
INTERREG V-A CR – Poland	37	22	15
OP Fisheries 2014–2020	23	13	10
Total	**288**	**149**	**139**

Source: AA´s information system; May 2020.

Table 9 shows that the most common shortcomings were identified in public procurement, where problems of a discriminatory nature and unreasonable qualification demands were detected, as well as incorrect definition of the subject of the public contract (brands, names, technical specifications, vague definitions), artificial splitting of contracts or the combining of unrelated public contract subjects, non-compliance with time limits especially for additional information, bids not being discarded or being discarded wrongfully, major changes made after the contract was concluded and non-compliance with the principles of non-discrimination, equal treatment, transparency and proportionality. The other most common errors are found in personnel costs, eligibility of expenditure (claiming ineligible expenditure according to a call, handbooks for beneficiaries), classification of expenditure, inadequate audit trail etc.

The main cause of ineligible expenditure – apart from errors by beneficiaries in public procurement – was failings consisting in failure to comply with the conditions of a call (requirement for product/service innovation) or legislation in the form of failing to achieve the project goal (e.g. failure to honour a commitment specified in a business plan), non-compliance with a requirement for the acquisition of new technology (refurbished machinery or used machinery from previous projects that were passed off as new were bought), and applicant ineligibility (the entrepreneur gave misleading and incorrect data on revenues in the project application with a view to obtaining support).

Table 9: Areas of violation of financing conditions according to audits of operations for all OPs for 2019

Areas of violation	Number	Relative number (%)	Financial impact (CZK)	Financial impact (%)
01.I Public procurement - contract notice, tender documentation	46	15.97	16,773,378.13	8.09
01.II Public procurement - evaluation of tender bids	13	4.51	12,050,665.11	5.81
01.III Public procurement - execution of the contract	12	4.17	8,959,697.15	4.32
01.IV Public procurement - others	29	10.07	14,842.26	0.01
02. Public support	1	0.35	0.00	0.00
05. Lack of supporting information/documentation	43	14.93	205,754.82	0.10
06. Ineligible project	4	1.39	95,108,435.25	45.89
07. Errors in accounting and project calculation	17	5.90	804,180.80	0.39
08. Other ineligible expenditures	94	32.64	61,753,582.47	29.80
10. Equal opportunities / non-discrimination	1	0.35	0.00	0.00
11. Information and promotion measures	2	0.69	0.00	0.00
13. Sound financial management (3E, proper manager)	16	5.56	174,300.62	0.08
15. Performance indicators	5	1.74	11,039,534.42	5.33
99. Others	5	1.74	354,370.16	0.17
Total	**288**	**100.00**	**207,238,741.19**	**100.00**

Source: AA´s information system; May 2020.

E.1.1 Horizontal audits

In line with the audit strategy, the following system audits (horizontal audits) were conducted during the reference period of 2019:

- audit of the **fulfilment of milestones,** which sought to check the reliability of data concerning the indicators, milestones and progress an OP was meant to deliver in achieving the defined goals. **One finding of medium gravity and one with low level gravity** were identified;
- a system audit **to check the security and functionality** of the **MS2014+** information system, which mainly verified key requirement 6[75]. This audit took place in 2019 and covered the 2018/2019 accounting period. **Two findings of low gravity** were identified;
- **horizontal audit of flood control measures** in the context of the ESIF, which was performed across ten ESIF-financed OPs. The aim of the audit was to check and compare the effective working of the MCS in terms of key requirement 7[76] and to check compliance with the requirements of the applicable legal framework for PP14+. **One finding of medium gravity and five of low gravity** were identified;
- audit of the proper **functioning of the PCA's management and control system.** The audit sought to verify that the PCA's management and control system for PP14+ functioned effectively. **Three findings of low gravity** were identified.

E.1.2 Audit of financial statements

Financial statement audit was performed for the accounting period in question with a view to providing reasonable certainty that the figures presented in financial statements were complete, accurate and true. Respecting these requirements and ensuring compliance with the 3E principles (economy, efficiency and effectiveness), the assessment of financial statements takes into account the results of system audits done at the PCA and Mas and the results of operational audits. **One finding of low gravity** was identified.

An overview of AA statements, project error rates and figures for certified expenditure, audited expenditure and ineligible expenditure for the various OPs for 2019 is presented in Annex 1.

E.1.3 Public-administration control and audit of other funds from abroad done by the AA

Asylum, Migration and Integration Fund and Internal Security Fund during PP14+

The MoF is the AA for both the ESIF and for assistance from the *Asylum, Migration and Integration Fund* (AMIF) and *Internal Security Fund* (ISF). A financial statement audit was performed for these funds in 2019. Work on the ISF financial statements audit was completed in December 2019 on the grounds of the impending decommitment. Work on the AMIF financial statements was completed within a time limit allowing the statement to be issued on time, i.e. by 15 February 2020. **No findings were identified** by these two financial statement audits.

---

75 The creation of a reliable system for collecting, recording and storing data for the purposes of monitoring, assessment, financial management, verification and audit, including connection to systems for electronic data exchange with beneficiaries.

76 Effective implementation of proportionate flood control measures.

Based on the performed audit, **an unqualified statement was issued for the AMIF and ISF financial statements**: *"The financial statements present a true and fair view and the EU expenditures that the Commission was requested to pay are legal and regular. The findings identified by operational audits were formal in nature and without financial impact."*

In 2019 a system audit, divided into an AMIF section and ISF section, was performed at the Responsible Authority. **There were two findings in the AMIF section, one of medium gravity and one of low gravity. There were two findings in the ISF section, one (the same as the AMIF finding) of medium gravity and one of low gravity.**

Finding of medium gravity:

- out-of-date documentation and procedures which the Responsible Authority actually carries out.

Table 10: Overview of the error rate and values of expenditure audited in 2019

Fund	Opinion	Audited expenditure in total in CZK	Sample in CZK	Sample in %	Irregularities in CZK	Error rate in %
AMIF	Unqualified	106,296,757.01	12,042,348.96	11.33	0.00	0.00
ISF	Unqualified	311,386,818.40	110,072,510.47	35.35	0.00	0.00

Source: AA´s annual audit reports, May 2020.

Seven regular operational audits were conducted in 2019:

- four audits concerning the AMIF;
- three audits concerning the ISF.

Table 11: Number of findings with and without financial impact (financial statements 2019)

Fund	Total	Findings with financial impact	Findings without financial impact
AMIF	3	0	3
ISF	12	0	12

Source: AA´s annual audit reports, May 2020.

E.2 ECA audit work in relation to the CR

ECA auditors carry out audit missions both at the Commission and its bodies and in Member States, where they mainly scrutinise spending under shared management in EU policy areas and specific revenue areas (including VAT and excises).

The ECA's audit work focuses on assessing the reliability of the Commission's financial statements (see E.1.2) and performing separate audits, whose results are usually published in Special Reports.

Annex 2 contains an overview of audit missions in the CR by ECA staff in 2019.

E.2.1 DAS audits

The *Annual Report on the Implementation of the EU Budget concerning the Financial Year 2018*[77], known as the *Statement of Assurance* (DAS)[78], does not specifically mention the CR; the examples of audit findings presented in the annual report concern other Member States.

E.2.2 ECA Special Reports

In its Special Reports the ECA presents the results of selected performance and compliance audits. The audits cover specific expenditure areas or specific areas of the EU budget and EU financial management. **The ECA published 27 Special Reports in the period under scrutiny.** The CR was included in an audit sample in the four cases listed below.

Special Report No 5/2019: *Fund for European Aid to the Most Deprived (FEAD): valuable support, but its contribution to reducing poverty is not yet established.*

The ECA decided to time this audit in a way that would contribute to the discussions on the regulation that will replace the existing FEAD with the new *European Social Fund Plus* (ESF+) and will be in place for PP21+. It assessed whether the FEAD was designed to be an effective tool for alleviating poverty and contributing towards social inclusion of the most deprived.

To answer this overall question, the **auditors examined** whether:

- FEAD design was substantially different from the previous *Food Distribution Programme for the Most Deprived Persons* (MDP) in terms of alleviating poverty and contributing to the social inclusion of the most deprived;
- FEAD programming in Member States targeted the aid to make it an effective tool;
- the contribution of social inclusion measures, the innovative element of FEAD, could be measured.

With EUR 3.8 billion in funding for 2014–2020 the FEAD is supposed to be more than a food aid scheme: it is supposed to offer material assistance combined with individualised measures for social inclusion. The FEAD is designed to alleviate those forms of extreme poverty whose impact on social exclusion is greatest, such as homelessness, child poverty and food poverty. **Relevant programmes were scrutinised in Belgium, the CR, France, Italy, Germany, Poland, Romania, Slovakia and Spain.**

Despite the EU's overall affluence, almost every fourth European is still vulnerable to the risk of poverty or social exclusion. That is one reason why the fight against poverty and social exclusion lies at the heart of the EU's *Europe 2020* strategy.

The FEAD contributes to Member States' schemes to alleviate poverty. However, **it is primarily used to finance food assistance and does not always target the most extreme forms of poverty**. Although the FEAD contains a clear goal concerning social exclusion, the auditors found that it remains a food assistance scheme first and foremost. 80% of its budget goes towards food assistance. This function is highly appreciated by stakeholders who work with the most deprived persons. At the same time, the auditors regard the FEAD as an important tool for providing food and material assistance. They concluded that this fund is well integrated into the social policy framework and **also contributes to the achievement of Member States' schemes for alleviating poverty**. The fund also comprises **innovative measures for social inclusion.** Insufficient monitoring meant that **the auditors were not able to determine its contribution** to reducing poverty.

---

77 *Official Journal of the European Union*, C 340/01, 8 October 2019.

78 From the French *déclaration d'assurance*.

Concrete goals were not always set and **half the audited Member States did not target the aid on a specific vulnerable group or type of poverty**. The auditors drew attention to the fact that this will probably lead to funding fragmentation. **The Commission recommends incorporating the FEAD into the new ESF+ for PP21+.**

The SAO plans to perform an audit on a similar topic in 2021.

Special Report No 7/2019: *EU Actions for Cross-border Healthcare: significant ambitions but improved management required*.

For patients in the EU, accessing the benefits of the measures reckoned with by the EU directive on cross-border healthcare[79] is still difficult. **Only a small proportion** of potential **patients are aware of their right** to access healthcare abroad. The auditors found **problems and delays in the electronic exchange of patients' healthcare data between Member States**. There is also a need to **improve measures facilitating access to healthcare for patients with rare diseases.**

No exchange of patients' data via the EU's electronic healthcare infrastructure had taken place at the time of the ECA audit (November 2018). Prior to that, the Commission assessed the readiness of seven Member States to participate in cross-border data exchange. Four of them **(CR, Estonia, Luxembourg and Finland)** underwent follow-up checks. In October 2018, the Member State expert group on eHealth recommended that data exchange begin, provided that all the corrective actions had been taken.

The aim of the EU directive on cross-border healthcare **is to guarantee safe and high-quality healthcare** in the EU and **reimbursement on the same terms as in the patient's home country. Patients** intending to access healthcare in a different Member State, if they are to undergo a planned check-up in a hospital or if buying medicines, **therefore have the right to information on treatment standards, reimbursement rules and the best legal pathway to use.**

The auditors examined whether the Commission was monitoring the implementation of the EU directive on cross-border healthcare in Member States and providing support as regards informing patients of their rights. They assessed the results achieved in cross-border data exchange and scrutinised the principal measures concerning rare diseases.

According to the auditors' findings, the Commission has overseen the implementation of the directive in Member States well. It has also provided guidance to Member States for informing patients better about their right to cross-border healthcare, even though certain shortcomings persist.

The Commission underestimated the difficulties involved in deploying EU-wide eHealth infrastructure. At the time of the audit, Member States were only just launching the electronic exchange of patients' data, so **the benefits for cross-border patients could not yet be demonstrated. The Commission** also **insufficiently estimated the volumes of potential users and the cost-effectiveness of patients' data** between Member States.

The *European Reference Networks* for rare diseases are an ambitious innovation with widespread support among doctors, healthcare providers and patients alike. Even though between 26 and 27 million people suffer from rare diseases in the EU, the Networks have considerable problems remaining sustainable and being able to function effectively in the context of various national healthcare systems.

79 Directive (EU) No 2011/24/EU of the European Parliament and of the Council of 9 March 2011 on the application of patients' rights in cross-border healthcare.

The auditors recommended that the Commission provide increased support to national contact points with a view to improving patients' awareness of their right to cross-border healthcare, step up preparations for cross-border healthcare data exchange and improve the support for and management of the *European Reference Networks* so that patients with rare diseases find it easier to access healthcare.

Special Report No 18/2019: *EU greenhouse gas emissions: well reported, but better insight needed into future reductions*.

Greenhouse gas **emissions** in the EU **are reported in line with international requirements and greenhouse gas inventories have been improving.** According to the auditors, however, **better information is required** on specific sectors such as **agriculture and forestry.** They also propose better reporting of how EU and Member States' mitigation policies contribute to achieving emissions targets by 2020, 2030 and 2050.

The EU participates in the global efforts to reduce greenhouse gas emissions and **set a target of reducing its emissions by 20% by 2020, by 40% by 2030 and by 80-95% by 2050.** The EU and its Member States monitor progress towards these targets and submit annual greenhouse gas inventories. They also draw up estimates that help predict progress in emissions reductions and indicate whether mitigation policies and measures will be effective.

The auditors examined whether the Commission, in collaboration with the European Environment Agency, **verifies the quality of** greenhouse gas **inventories** and information on planned emissions reductions at EU level satisfactorily. Using a sample of six Member States **(CR, Germany, France, Italy, Poland and Romania)**, which generated 56% of EU emissions in 2016, the auditors checked the functioning of the EU quality assurance process for inventories, projections, policies and measures put in place by the Monitoring Mechanism Regulation and its implementing rules.

The auditors found that EU and Member States' inventories concern the seven main greenhouse gases and all key sectors, as required by the international reporting rules. They also found that the EU's greenhouse gas emissions inventories have improved over time. The inventories quality review was satisfactory and the aggregated degree of uncertainty has fallen in recent years, even though it does not perform the same type of checks in land use, land use changes and forests (LULUCF)[80] as in other sectors.

In order to achieve the emissions reduction by 2020, the EU set targets encompassing most of the reported data, including international aviation. However, **the deadline for achieving the first targets for LULUCF is set for 2030 and for international shipping for 2050, without any EU interim targets or emissions reduction measures.** The EU helped Member States improve their projections through guidance and support. The auditors warn, however, **that the Commission did not assess the risk of significant deviations from its own EU reference scenario.** The aggregate Member State projections for the period after 2023 show lower emissions reductions than the Commission's reference scenario.

The Commission presented a strategic long-term vision to become climate neutral by 2050. It also drew up several roadmaps for sectors that account for almost 70% of emissions, such as transport and energy. Roadmaps do not exist for other key sectors, however, including agriculture and LULUCF, because the CAP is defined on seven-year cycles. Although the Commission checks the quality of information supplied by Member States, **reports on the current measures' effect are incomplete**. **Consequently, the Commission is unable to present a detailed overview** of how **mitigation policies and measures of the EU and Member States contribute to the achievement of the 2020, 2030 or 2050 emissions reduction targets.**

80 *Land use, land use change and forestry.*

The auditors' recommendations are targeted at improvements in the Commission's review process for the LULUCF sector and improving the emissions reduction framework in future.

In the field of greenhouse gas emissions the SAO performed an audit[81] in 2018 to scrutinise the provision and use of funds spent on supporting improvements in air quality in the CR. The SAO audit had a different focus from this ECA audit, but even so the SAO stated that the air quality standard in the CR was not improving. The SAO identified significant risks that the targets set for air quality would not be achieved. As the level of air pollution in the CR is substantially influenced by cross-border transmission, the SAO recommended that the responsible authorities consult with Poland when preparing the national air pollution reduction programme.

Special Report No 5/2020*: Sustainable use of plant protection products: limited progress in measuring and reducing risks.*

The EU's aim is to achieve sustainable use of plant protection products (pesticides) by reducing risks and these products' impact on human health and the environment and by promoting integrated pest management.[82] The main goal of the ECA audit was to judge whether the EU measures reduced the risk related to the use of plant protection products. The auditors also examined whether EU legislation provided effective incentives to reduce dependency on plant protection products.

The ECA audit included structured interviews at the Commission (D-G for Health and Food Safety, D-G for Agriculture and Rural Development (D-G AGRI), D-G for Environment, and Eurostat) and the European Food Safety Authority (EFSA).[83]

The audit featured document reviews and **information visits** to three Member States **(France, Lithuania and the Netherlands)**. The auditors also visited Switzerland, as well as reviewing the related national action plans of **18 Member States (Belgium, CR, Denmark, Estonia, Finland, France, Ireland, Cyprus, Lithuania, Luxembourg, Malta, Poland, Portugal, Austria, Romania, Slovenia, Spain and Sweden)** and their PP14+ rural development programmes for measures related to plant protection products and integrated pest management. The auditors also interviewed 33 farmers selected at random for the Statement of Assurance exercise.

The auditors found that the Commission and Member States had adopted measures to promote sustainable use of plant protection products but little progress had been made in measuring and reducing the related risks. The audit revealed that EU measures encouraging the sustainable use of these products were getting off to a slow start. Even though the application of integrated pest management is compulsory for farmers, they do not have to keep any records and it is not a condition for receiving payments under the CAP and is insufficiently promoted. **The available EU statistics and new risk indicators give no information about the degree to which this policy has succeeded in delivering sustainable use of plant protection products.**

81 Audit No 18/04 – *Funds earmarked for the support of the air quality improvement.*

82 Plant protection products may be used only where prevention and other methods fail or are ineffective.

83 EFSA (European Food Safety Authority) is an EU body founded in 2002.

As the Commission is reviewing the legislation on this area, partly in the context of growing public and parliamentary concern, **the auditors recommend:**

- verify integrated pest management at farm level;
- incorporate integrated pest management into conditionality in the post-2020 CAP;
- improve statistics on plant protection products;
- devise better risk indicators.

The SAO will complete an audit with a similar focus in 2021.

E.3 Audit missions by the European Commission in relation to the CR

The Commission carried out four audit missions in the CR during 2019. SAO auditors were not asked to participate in any of them. The focus and times of these audit missions are given in Annex 3.

E.3.1 Audits of compliance with conflict of interests legislation

E.3.1.1 Audit No REGC4114CZ0133

From 8 January to 15 February 2019 the Commission carried out thematic audit No REGC4114CZ0133 in the CR concerning the compliance of the management and control systems of ESIF-financed programmes with the legal framework relating to measures designed to prevent conflicts of interests.

The aim of the audit was **to make reasonably sure** that in the context of support provided to AGROFERT[84] group companies **the MCS of the programmes listed below was designed in compliance with the legal framework applicable at the time and was functional** in the period between June 2011 and July 2018, i.e. before Regulation of the European Parliament and of the Council 2018/1046[85] (the financial regulation) took effect. Consequently, it examined the correctness of the allocation of EU funding, from the moment of programmes' approval to the implementation phase, **focusing on measures adopted to prevent conflicts of interests**. Using a representative samples of operations/projects, the audit also **scrutinised whether the MCS worked effectively in the selection of operations and in the exercise of managerial control and operational audit,** and whether it was designed in compliance with the legal regulations for PP07+ and PP14+. The audit also sought to find out **whether there was evidence of a conflict of interests in the process of allocating funding for programmes or sectors favouring AGROFERT group companies.** The audit's final goal was **to identify and assess changes in the structure, staffing and work procedures of the relevant national authorities,** including selection commissions, **that exert influence over the allocation of support.** Attention was also paid to the national control and audit authorities.

The Commission auditors checked the fulfilment of the key requirements for management and control systems, applying the criteria for assessing their working (see *Guidance for the Commission and Member States on a common methodology for the assessment of management and control systems*; EGESIF_14-0010 final, 18 December 2014).

84 AGROFERT, a.s., is a Czech concern operating mainly in agriculture, food production, chemicals and media. It is composed of over 250 subsidiaries. The group was founded by prime minister of the CR Andrej Babiš.

85 Regulation (EU, EURATOM) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014 and (EU) No 283/2014 and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012.

The audited entities were the Council for the ESIF[86], the Council for Common Strategic Framework Funds[87], the MoRD – National Coordination Authority (NCA), the Management and Coordination Committee[88], MAs and IBs: MoLSA, MoIT, CzechInvest, MoE and SEF. The operational programmes audited were:

- 2007–2013 programming period: OP EI, OP *Environment* 2007–2013 (OP En7+), OP HRE and OP *Prague – Adaptability* (OP PA);
- 2014–2020 programming period: OP EIC, OP En and OP Em.

According to information from the media, the Commission stated in its preliminary audit report that Czech prime minister Andrej Babiš was in a conflict of interests because he still has influence over AGROFERT group even though he placed it in trust funds. The CR (MoRD) replied to the Commission's preliminary report on 2 September 2019. On 29 November 2019 the Commission sent the Czech authorities the final audit report concerning subsidies from EU structural funds paid to AGROFERT group in English and, at the start of February 2020, in a Czech translation. The contents of the Commission's report were designated confidential and the audit findings cannot be made public until the audit is closed. At the start of April 2020 the Commission extended the deadline for a reply (the CR's response to the Commission's recommendations) by two months, i.e. to June 5. It is anticipated that the audit will be closed in autumn 2020.

E.3.1.2 Agriculture audit

The Commission's audit investigation concerning a **possible conflict of interests of prime minister of the CR Andrej Babiš in the field of the utilisation of agriculture subsidies** from the EU budget has been taking place since January 2019 and has not yet been closed. The audit started with materials being sent to the Commission by the MoA at the beginning of January 2019. The materials related to the payment of European subsidies to AGROFERT, primarily for expenditure on projects funded via the rural development programmes for the 2017 and 2018 accounting periods. The Commission representatives' audit mission took place at the MoA and State Agricultural Intervention Fund (SAIF) from 14 to 18 January 2019.

The aim of the audit was to check whether subsidies were paid out wrongfully, **not only** in the narrow time frame **from 2 August 2018** (when the new EU financial regulation on conflict of interests took force) **but throughout Andrej Babiš's time in government posts.** The audit focused on the **design of the conditions and procedures for providing RDP subsidies via the SAIF** with regard to the applicability of Section 4c of Act No 159/2006 Coll., on conflict of interests, effective from 9 February 2017, and with regard to the financial regulation effective from 2 August 2018.

In June 2019 the CR (MoA and SAIF) received the preliminary findings from the audit investigation, where the **Commission stated that Section 4c of the Act on Conflict of Interests had been violated.** In response, the **SAIF suspended the payment of subsidies** approved after

86 Act No 248/2000 Coll., on support for regional development, as amended, provides that the Council for European Structural and Investment Funds is an advisory body of the Czech government in the field of coordinating aid provided by the European Union from all ESIF in PP14+. The council's members are the prime minister, eight ministers and the Lord Mayor of Prague.

87 The Council for Common Strategic Framework Funds is the equivalent of the *Management and Coordination Committee* for the preparation and implementation phase of PP14+. It is chaired by the prime minister and its executive deputy chair is the regional development minister.

88 The Management and Coordination Committee was set up to coordinate aid provided by the European Communities at national level in PP7+ on the basis of Section 18 of Act No 248/2000 Coll., on support for regional development. It functioned as the monitoring committee at the level of the *National Strategic Reference Framework*. Its statutes and rules of business were approved by the Czech government and it was headed by the regional development minister.

9 February 2017 to AGROFERT group companies with immediate effect. **After a legal analysis and the opinion of the MoA**[89] **claiming that Section 4c of the Act on Conflict of Interests does not apply to the SAIF,** so there was no legitimate legal reason for withholding subsidies for RDP projects approved in the period between 9 February 2017 (entry into effect of the Czech Act on Conflict of Interests) and 2 August 2018 (entry into effect of the new European rules on conflict of interests in the utilisation of subsidies), **the SAIF began to pay out the withheld subsidies on 28 November 2019. However, the SAIF ceased paying out subsidies approved after 2 August 2018** in response to a Commission decision, taken with regard to the ongoing audit investigation into a possible conflict of interests of prime minister Andrej Babiš, to suspend the disbursement of roughly CZK 6.3 million in RDP interim payments that were intended for AGROFERT group companies' projects.

At the end of January 2020 **bilateral talks on the preliminary findings** of the Commission audit took place **between MoA and SAIF representatives and representatives of the Commission** (D-G AGRI). The talks focused on **three areas**: **the Czech prime minister's conflict of interests; the RDP subsidy provision rules; and Czech agriculture minister Miroslav Toman's possible conflict of interests.** During the talks **the two sides' positions converged as regards the disbursement of RDP subsidies through the SAIF, and they agreed that the payments could be unblocked with the exception of one project** with a value of CZK 1.6 million for AGROFERT. Even so, in February 2020 **the CR filed a lawsuit with the Court of Justice against the Commission concerning the suspension of RDP subsidies** for the 2014–2020 period linked to expenditure done from 16 October 2018 to 31 March 2019 **for AGROFERT group and amounting to EUR 246,623** (approx. CZK 6.3 million).

On 31 March 2020 the CR received a new decision wherein the **Commission annulled its original decision to suspend the disbursement of subsidies for AGROFERT group worth EUR 246,623 and instead suspended the disbursement of payments for the 4th quarter amounting to EUR 30,607** (approx. CZK 822,000).

The CR does not agree with the EU authorities' interpretation of the rules on the application of national legislation on conflict of interests, however, and holds that **payment should not have been suspended.** In May 2020 the Czech government decided **to withdraw the original complaint from February 2020 and file an action with the EU Court of Justice to have the Commission's decision of 30 March 2020 annulled**. **The CR is filing the action for an authoritative interpretation and clarification how to assess conflicts of interests with regard to subsidies paid out by the SAIF in future** (whether Section 4c of the Act on Conflict of Interests applies to them or not).

The results of the agriculture subsidies audit are still up in the air: there is no categorical Commission conclusion whether the Czech prime minister is in a conflict of interests or not. Nor is there agreement on the application of Section 4c of the Act on Conflict of Interests or on how the Commission should apply national law. **According to a statement from the MoA, the final results of the audit could be known in autumn 2020.**

---

89 The SAIF provides subsidies under Act No 256/2000 Coll., on the State Agricultural Intervention Fund and amending certain acts, and is not governed by the budgetary rules. For that reason the subsidy provision process is not governed by Section 4c of the Act on Conflict of Interests. Section 4c of the Act links a ban on providing subsidies to the subsidy provider's procedure according to the budgetary rules. This legal opinion cannot be applied, however, to the new EU Financial Regulation effective since 2 August 2018.

E.3.2 EP-CONT mission regarding conflict of interests in the CR

On 26–28 February 2020 there was a fact-finding mission to the CR by members of the European Parliament's Budgetary Control Committee (EP-CONT). Six members of EP-CONT took part in the mission to obtain information on the distribution of EU finances. This was a response to the Commission's reports on possible irregularities in the administration of the ESIF and, in particular, indications of a possible conflict of interests of the Czech prime minister. The committee members met with representatives of ministries, the Supreme Audit Office, civil society, associations, journalists and non-governmental organisations. The official outputs from the mission were not available by the EU Report deadline.

SECTION III

FINANCIAL MANAGEMENT OF EU FUNDS IN THE CR IN THE EUROPEAN CONTEXT

F. EU budget and its relationship to the CR

F.1 EU budget

In a press statement of 30 November 2017[90] **the Council of the European Union ("the Council") informed that the EU budget** for 2018 **had been adopted on 30 November 2017,** when the Council and European Parliament (EP) approved the consensus reached in the Conciliation Committee on 18 November 2017.

The EU continues to place exceptional importance on **investing in competitiveness, employment and growth,** especially in areas that deliver substantial EU value added. Compared to 2017 there were **funding increases** of **8.4%** for ***Horizon 2020*** (the EU research and innovation programme), **7.9%** for the ***Connecting Europe Facility*** (projects in transport, energy and ICT), and **1.4%** for **COSME** (support for SME).

The EU's second key priority remains **support for young people.** Here, funding was mainly increased for ***Erasmus+*** **(up 12.1%).** The budget for 2018 also took into account the **creation of the new European Solidarity Corps**[91], which gives young people the chance to do volunteering or work on projects beneficial for communities throughout Europe.

In the field of **tackling migration and security problems** the Commission's decentralised security and citizenship agencies will get **8.9% more** than in 2017. This support is primarily intended to strengthen **Europol**[92]**, Eurojust**[93] **and the European Asylum Support Office.**

Budget funding for **LIFE**, a programme for **environmental and climate projects,** was also upped by **5.9%**.

The EU is intensifying the **fight against disinformation** by strengthening the strategic communication capacity of the **European External Action Service,** for which a sum of EUR 0.8 million was earmarked in the 2018 budget.

Compared to the Commission's original proposal, however, **the approved budget reduced pre-accession assistance for Turkey by EUR 105 million** in response to the unsatisfactory situation in the country as regards democracy, the rule of law, human rights and freedom of the press. A further **EUR 70 million** was held **in reserve** until Turkey makes "measurable and sufficient improvements" in these fields.

F.1.1 Implementation of the EU budget for 2018

As it does every year, the Commission published information on the implementation of the EU budget for 2018 in *EU Budget 2018 – Financial Report*[94].

F.1.1.1 EU budget revenues

The amount of EU budget revenues increased year-on-year from EUR 139.02 million **to EUR 158.64 billion, i.e. by almost 14.11%,** in connection with expected increase in drawdown from the ESIF.

---

90 See https://www.consilium.europa.eu/en/press/press-releases/2017/11/30/2018-eu-budget-adopted/.

91 European Solidarity Corps (ESC).

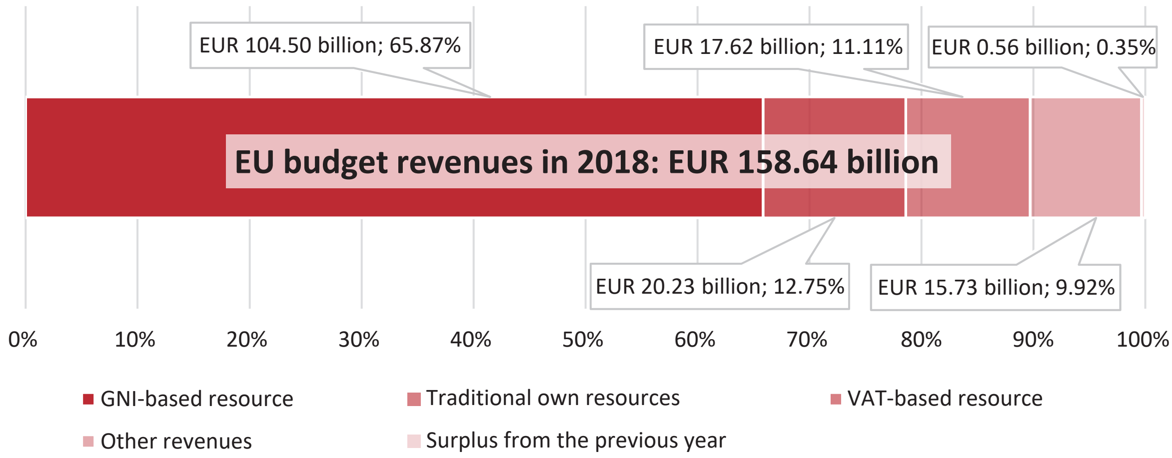
92 European Police Office.

93 European Union Agency for Criminal Justice Cooperation.

94 *EU Budget 2018 – Financial Report*, Publications Office of the European Union, 2019.

The following chart shows the relative and absolute volumes of the various sources of revenues relative to total EU budget revenues in 2018. Correction mechanisms[95] and adjustments to the organisation of own resources from gross national income (GNI) and VAT for the previous budget years are reflected in the chart at the expense of GNI sources.

Chart 7: Structure of the EU budget revenues in 2018



Source: *EU Budget 2018 – Financial Report*, Publications Office of the European Union, 2019.

F.1.1.2 EU budget expenditure[96]

The **approved** EU budget for 2018 earmarked **EUR 160.1 billion for commitments** (0.2% increase over the 2017 budget after budget amendments). A margin of EUR 1.6 billion was retained beneath the MFF expenditure ceilings for the 2014–2020 period to allow the EU to react to unforeseen requirements.

The approved funds earmarked for payments amounted to **EUR 144.7 billion** (year-on-year increase of 14.1%). Payments were increased significantly because drawdown from PP14+ was meant to culminate in 2018.

Total expenditure on EU budget payments amounted to almost EUR 156.67 billion after all adjustments in 2018.[97] This sum includes EUR 9.12 billion channelled into non-EU countries, EUR 12.14 billion going on expenditure linked to “assigned revenues and expenditure” related to EFTA[98] (almost EUR 0.37 billion) and EUR 4.98 billion for miscellaneous expenditure. The lion’s share of EU budget expenditure goes **to Member States**: in 2018 the figure was almost **EUR 130.44 billion.**

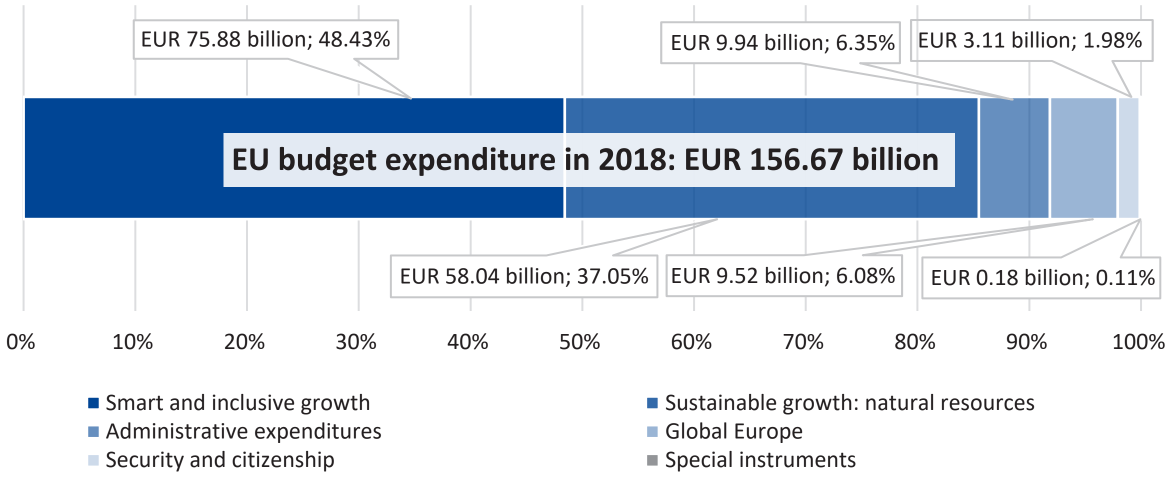
95 UK rebate; reduced annual VAT-based contribution for Denmark, the Netherlands and Sweden; and reduced contribution for Denmark, Ireland and the UK owing to their non-participation in certain security and citizenship policy areas.

96 The expenditure side of the EU budget has two levels: **commitments** (i.e. amounts to be paid in the current year or future years) and **payments** (i.e. payments in the current year). A payment can only be made if there is a valid commitment for it.

97 Expenditure from *the European Development Fund* is outside the EU budget.

98 The European Free Trade Association includes Iceland, Liechtenstein, Norway and Switzerland.

Chart 8: EU budget expenditure in 2018



Source: *EU Budget 2018 – Financial Report*, Publications Office of the European Union, 2019.

F.1.2 Audit of the EU budget (DAS 2018)

The European Court of Auditors is the EU's external auditor. Its status and tasks are laid down in Section 7 of the *Treaty on the Functioning of the European Union* (TFEU).[99] Article 287 of the TFEU provides that the ECA is obliged to submit to the European Parliament and Council a *Statement of Assurance* assessing the reliability of the European Union's annual financial statements and the legality and accuracy of the underlying transactions.

At its 18 July 2019 session the ECA adopted the *Annual Report on the Implementation of the EU Budget 2018.*[100] This annual report, along with the relevant authorities' responses to the ECA's comments, was put before the EP and Council for discharge confirming that the Commission performed its duties properly in implementing the budget.

Clean opinion on the reliability of the EU financial statements for 2018: *"In our opinion, the consolidated accounts of the European Union for the year ended 31 December 2018 present fairly, in all material respects, the EU's financial position as at 31 December 2018, the results of its operations, its cash flows and the changes in its net assets for the year then ended, in accordance with the Financial Regulation and with accounting rules based on internationally accepted accounting standards for the public sector."* The ECA has issued a clean opinion continually since 2007.

Clean opinion on the legality and regularity of revenues: *"In our opinion, the revenue underlying the accounts for the financial year 2018 is legal and regular in all material respects."*

Qualified opinion on the legality and regularity of expenditure: *"In our opinion, except for the effects of the matter described under 'Basis for qualified opinion on the legality and regularity of payments underlying the accounts' paragraph, the expenditure accepted in the accounts for the year ended 31 December 2018 is legal and regular in all material respects."*

99 Art. 285 et seq. consolidated version of the TFEU, Official Journal of the European Union, C 115 of 9 May 2008.

100 *Official Journal of the European Union*, C 340/01, of 8 October 2019.

F.1.2.1 Revenues

No material error rate was detected in revenues. **The systems linked to revenues were generally effective,** but the main **internal controls on traditional own resources** examined by ECA auditors at the Commission and in certain Member States **were only partially effective.**

F.1.2.2 Expenditure

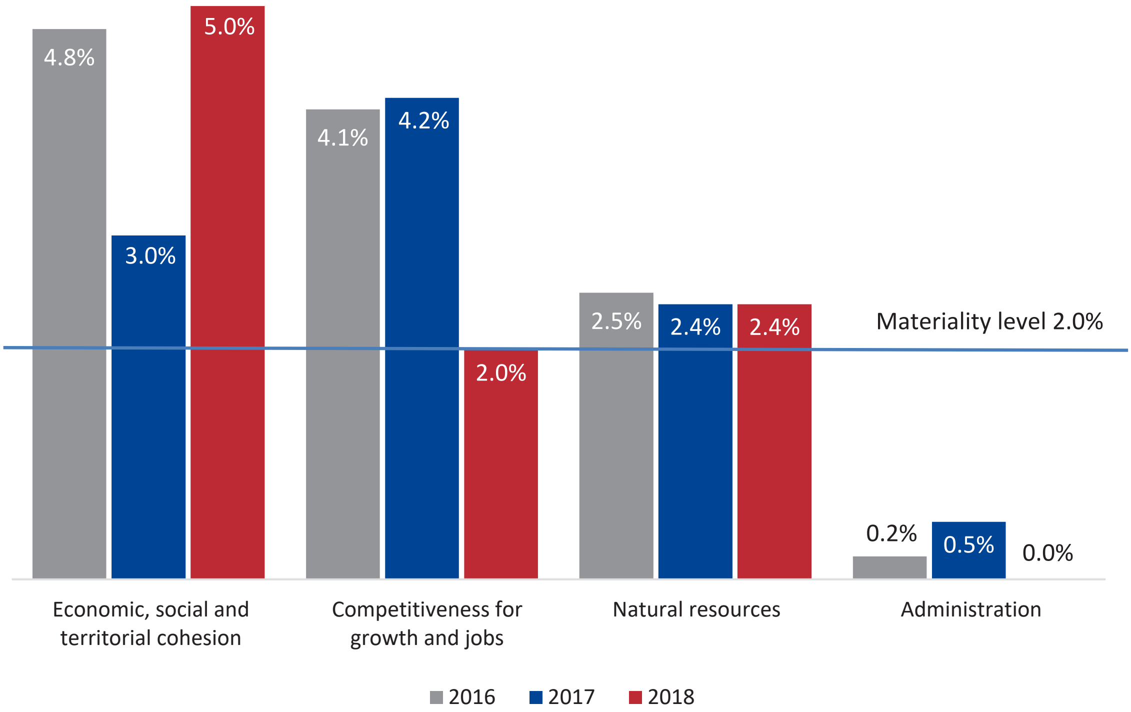
As in previous years, the error rate frequency differed from one form of payment to another, i.e. entitlement-based payments[101] and reimbursement-based payments[102].

The most probable **error rate** in **entitlement-based payments** was **below the 2% materiality threshold,** while **reimbursement-based payments** displayed an estimated **4.5% error rate,** i.e. **above the materiality threshold.**

The estimated **overall error rate (2.6%)** continued to remain above the materiality threshold but **did not have an extensive impact.**

The ECA also evaluates the error rate for individual expenditure areas (regardless of the type of payment). Chart 9 presents an overview of the error rates in the biggest expenditure areas.

Chart 9: Comparison of the estimated error rates for EU spending areas in 2016-2018



Source: Annual Reports on the Implementation of the EU Budget (2016-2018) published in *the Official Journal* of the European Union.

---

101 **Entitlement-based** payments, which account for roughly half of all expenditure on payments, are received by beneficiaries satisfying certain specified conditions. This is low-risk expenditure **subject to simplified/less complicated rules.** This category of payments mainly comprises direct support for farmers, agri-environmental measures (*Sustainable growth: natural resources*), student and research stipends (*Competitiveness for growth and employment*) and payments and pension to EU staff (*Administrative expenditure*).

102 **In the case of reimbursement-based payments** the EU reimburses beneficiaries for eligible costs for eligible activities. This is high-risk expenditure covered by **complicated rules.** This category of expenditure includes payments for research projects (under *Competitiveness for growth and employment*), investments in regional development and rural development and training programmes (*Economic, social and territorial cohesion*) and (*Sustainable growth: natural resources*) and development assistance projects (*Global Europe*).

The ECA also declared the following[103]:

- Most expenditure was not affected by a material error rate. The administration of EU finances has been improving constantly.
- In 2018 there was a marked increase in the error rate in Member States' ESIF payment requests. Drawdown from these funds was slower than planned.
- The performance indicators currently used for the EU budget do not always provide a good picture of the actual progress made towards policy goals.
- The Commission implemented, in full or in most regards, 75% of the ECA's recommendations published in 2015.
- During 2018 we informed the European Anti-fraud Office (OLAF) of nine cases of suspected fraud.

F.1.2.3 Corrective and preventive measures[104]

REVENUES

The ECA's main findings:

- Systems linked to revenues were generally effective. The main TOR internal controls in the Commission and certain Member States were partially effective.
- The Commission's audit plan was insufficiently underpinned by structured and documented risk assessment. That influenced the way the Commission verified TOR statements from EU Member States. Some shortcomings were found in the way Member States administered import duties, with particular regard to the drawing up of the TOR statement, delays in collecting customs debts and the late entry of customs debt in the accounting system.
- For the third year, the Commission expresses a reservation regarding the accuracy of the value of selected TOR in its annual reports. That is caused by certain importers undervaluing textile and footwear imports.

The ECA recommended that the Commission:

- implement a more structured and documented risk assessment for its TOR inspection planning, including an analysis of each Member State's level of risk and of risks in relation to the drawing up of the A and B accounts;
- reinforce the scope of monthly and quarterly checks of TOR A and B account statements by carrying out a deeper analysis of the unusual changes in order to ensure a prompt reaction to potential anomalies.

EXPENDITURE

Competitiveness for growth and employment

The ECA's main findings:

- Most errors involve ineligible costs (e.g. travel expenses and the cost of equipment unrelated to projects), personnel costs that were not connected to projects, and costs for major infrastructure projects incorrectly reported by beneficiaries.

---

103 *EU audit at a glance - Presentation of the European Court of Auditors' 2018 annual reports.*

104 *EU audit at a glance - Presentation of the European Court of Auditors' 2018 annual reports.*

- *Horizon 2020* and *Erasmus+*: Inconsistent sampling procedures and deficiencies in documentation, in reporting and in the actual quality of audit procedures[105].
- Legality: Annual activity reports for 2018 from the Directorate General for Research and Innovation, the Education, Audio-visual and Culture Executive Agency (EACEA) and the Executive Agency for SMEs (EASME) gave a fair assessment of financial management in relation to the regularity of underlying transactions.
- Performance: The progress reported in some projects was only partly in line with the agreed objectives or reported costs were not proportionate to the progress achieved. Furthermore, project outputs and results were sometimes not disseminated as intended.

The ECA recommended that the Commission:

- inform SMEs more effectively of the applicable financing rules and perform more targeted checks of their cost claims; for the next Research Framework Programme, further simplify the rules for calculating personnel costs and large research infrastructure costs;
- for *Horizon 2020*, address the observations made in the context of the review of the ex-post audits concerning, documentation, sampling consistency and reporting, as well as the quality of the audit procedures;
- promptly address the findings of the Commission's Internal Audit Service concerning:
  - the EACEA's internal control systems on the grant management process for *Erasmus+*;
  - the monitoring of compliance with contractual obligations and reporting requirements on dissemination and exploitation in research and innovation projects.

Economic, social and territorial cohesion

The ECA's main findings[106]:

- Shortcomings persist in the regularity of expenditure reported by managing authorities:
  - ineligible expenditure and projects;
  - violations of the internal market rules (public procurement and state aid) and missing fundamental documentation.[107]
- Shortcomings in the scope, quality and documentation of work by several audit authorities and the representativeness of their sampling.
- The Commission improved its mechanism for regularity reports. Data on the error rate in "economic, social and territorial cohesion" specified in the annual management and performance report and annual activity reports still cannot be relied on.
- Performance: Even though Member States have monitoring systems keeping records of performance information, in many cases they did not define results or outputs indicators at project level and in several cases had no indicators or target values that would make it possible to measure projects' performance. Not all completed projects achieved their performance goals in full.

105 For example.: error rate calculated from total costs instead of the audited amount.

106 In the case of the CR, one error was found in operations audited by the audit authority. This error (as in the case of other countries) was not specified in the *Annual Report on the Implementation of the EU Budget 2018*.

107 Some of these errors were the outcome of complicated national regulations over and above the requirements laid down by the EU legislation.

The ECA recommended that the Commission:

- ensure that regular checks, based on a representative sample of disbursements to final recipients, are carried out at the level of financial intermediaries either by the audit authority or by an auditor selected by the EIB Group;
- where such checks were insufficient, develop and implement appropriate control measures to prevent the possibility of material irregular expenditure at closure;
- take the necessary steps to ensure that checklists used by managing and audit authorities include verifications in compliance with Article 132 of the Common Provisions Regulation, which states that beneficiaries must receive the total amount of eligible expenditure no later than 90 days from the date of submission of the related payment claim;
- address weaknesses found during closure and ensure that no programme can be closed with a material level of irregular expenditure.

Natural resources[108]

The ECA's main findings:

- Direct payments as a whole were not materially affected by error.
- Rural development, market measures, fisheries, environment and climate measures: the risk of error is magnified by complex eligibility conditions (the principal errors were payments to ineligible beneficiaries, inaccurate information on farming conditions and animal numbers, failure to comply with public procurement or grant award rules).
- DG AGRI reviews identified shortcomings in work by certification bodies. If the Commission is to use these bodies' work as its primary source of certainty regarding the regularity of CAP expenditure, continuous improvement of their work is essential.
- Performance: most actions produced the expected results and Member States generally checked the reasonableness of costs, but made little use of simplified cost options.

ECA recommendation to the Commission:

- keep in mind the recommendations from 2017 for tackling the causes of errors and the quality of the work of certification bodies.
- ensure that result indicators properly measure the effects of actions and have a clear link to the related interventions and policy objectives.

F.2 EU budget and its relationship to the CR

PP14+ is the third programming period when the CR draws down funds from the EU budget on the one hand and pays into it on the other. Throughout the its membership of the EU, i.e. since 2004, the CR has received more from the EU than it contributes, **making the CR a net beneficiary.**

F.2.1 Financial relations between EU budgets and the CR in 2018

From 2004 to the end of 2018 the CR contributed more than EUR 21.2 billion[109] to the EU budget; the figure for the current programming period was EUR 8.3 billion.

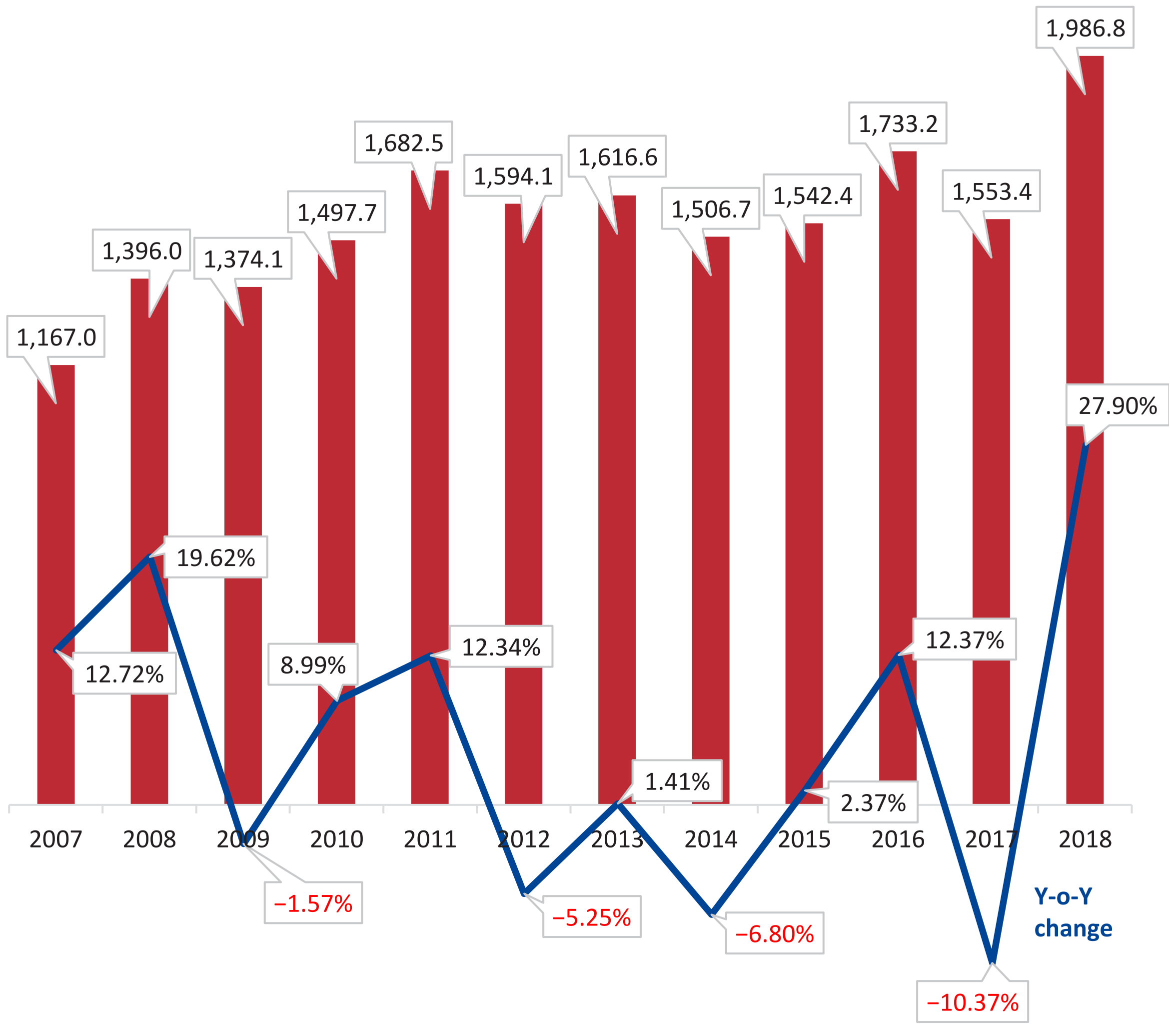
108 No errors were found in the CR's tested operations.

109 Including all own resources, including traditional own resources.

In 2018 the CR contributed its highest amount to the EU budget, almost EUR 2.0 billion, which represents a record year-on-year increase of 27.9%. Meanwhile, the EU's total revenues based on own resources (i.e. traditional own resources and the contributions of individual Member States paid in in the given year) increased by just 23.33%. The main driver of this relatively greater rise in contributions from the CR was the GNI-based contribution, which increased by 40.88% in the case of the CR, while the Europe-wide increase was "only" 34.55%.

The development of the CR's payments into the EU budget is clear from the following chart, which shows both contributions in absolute terms and year-on-year changes.

Chart 10: Overview of the Czech contributions to the EU Budget (EUR million) and their year-on-year changes (in %) in the years 2007–2018

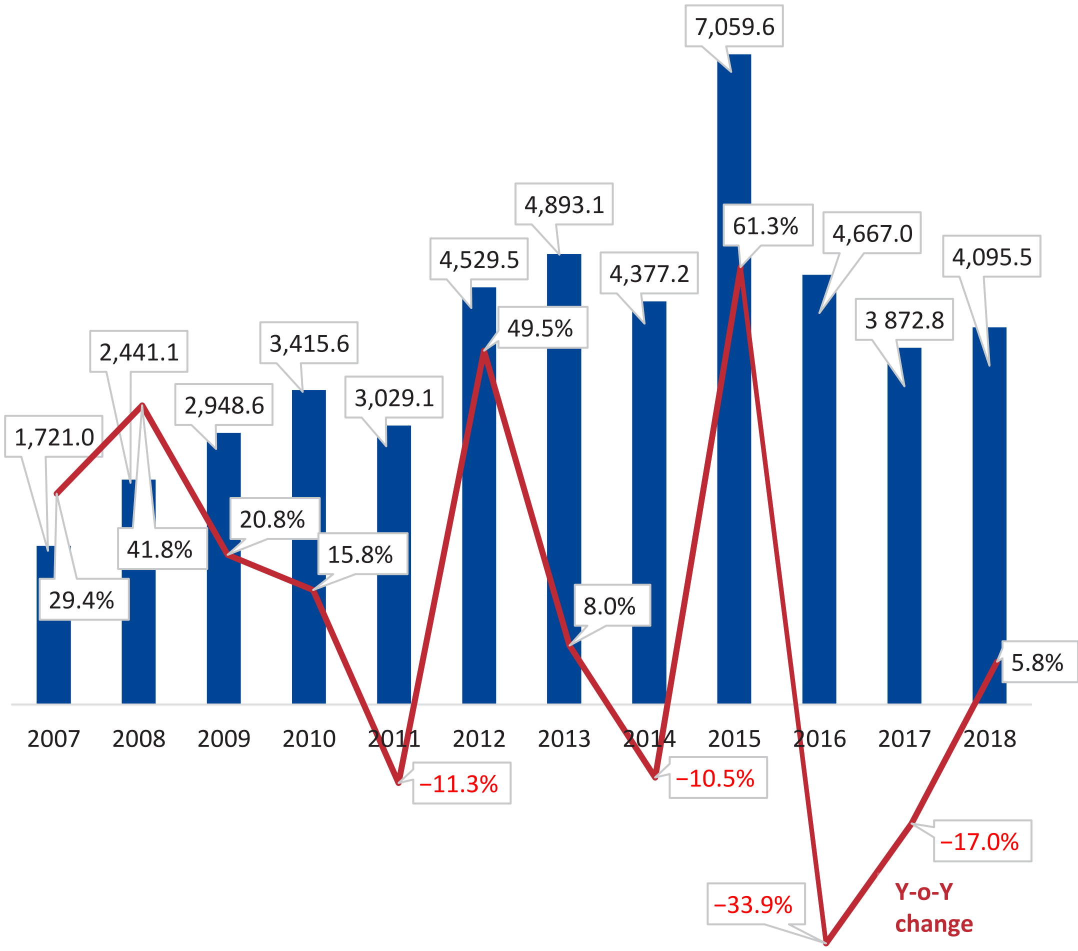


Source: *EU Budget 2018 - Financial Report* (issued by the Publications Office of the European Union in 2019) and previous Commission reports on the EU budget 2008–2018.

As Chart 10 shows, the CR's payments into the EU budget have grown relatively evenly, with the sharp rise in 2018 clearly deviating from this trend.

The CR's revenues from the EU budget totalled almost EUR 50.3 billion in the 2004–2018 period. The figure for 2018 was almost EUR 4.1 billion. That is a year-on-year increase of 5.8%.

Chart 11: Czech revenues from the EU budget (EUR million) and their year-on-year changes (in %) in the years 2007–2018



Source: *EU Budget 2018 - Financial Report* (published by the Publications Office of the European Union in 2019) and previous Commission reports on the EU budget 2008–2018.

Chart 11 shows the extreme rise in revenues in 2015 brought about by the massive drive to complete the drawdown of the PP7+ allocation, with a subsequent palpable fall in revenues in 2016 and 2017. The main reason for the fall was the slow start of PP14+. In line with expectations, 2018 brought a change to the trend, with the CR's revenues from the EU budget rising again as the various OPs proceeded at full speed.

F.2.2 Development of the CR's net position relative to the EU budget up to 2019

In 2018 the CR's net position stood at EUR 2.1 billion[110], the sixth largest in the entire EU-28[111]. This figure is the CR's lowest in PP14+, however, and lowest overall since 2011, when the Commission suspended funding for financially significant OPs in the context of PP7+. The relatively pronounced year-on-year fall in the net position in 2018 (down 9.14%) was mainly caused by the rapid rise in own-resources contributions to the EU (and above all the

110 This figure does not include EU expenditure on the work if the Commission's decentralised agencies or expenditure under the EU budget chapter *Administration* (i.e. spending of administrative work by the EU and its bodies).

111 Only Poland, Hungary, Greece, Portugal and Romania had higher net position values.

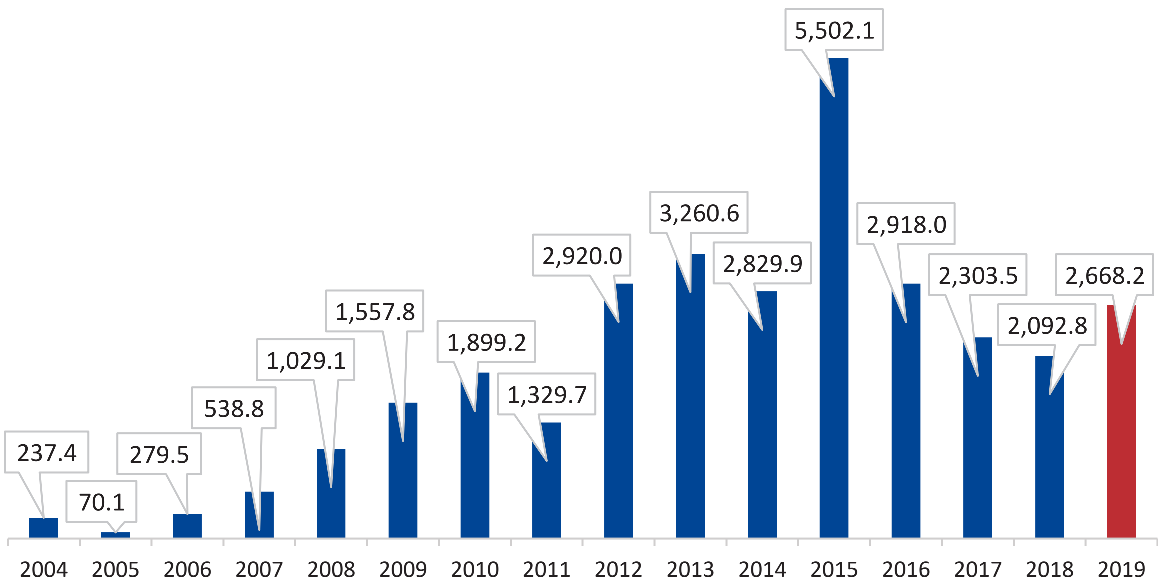
GNI-based resource), as well as by the fact that these contributions were not yet fully offset by accelerated drawdown from the ESIF.

In per capita terms, the CR's net position worked out at EUR 197.25 per person, the 11th highest in the EU-28. That represents a substantial year-on-year per capita fall of EUR 20.92, causing the CR to drop four places in the European standings. The highest per capita net position values were found in the Baltic states and Hungary in 2018.

On 28 January 2020 the MoF issued a press statement: *In 2019 the CR received CZK 68.5 billion more from the EU budget than it paid in.* According to this press release, **the CR's net position for 2018 reached CZK 68,497.97 million, or EUR 2,668.2 million**[112]. This figure is **52.95% higher than the figure reported** by the MoF **for the previous year 2018. The sharp increase in the value of the CR's net position in 2019 was mainly driven by the accelerated drawdown under OPs and the RDP in connection with the culmination of PP14+.**

The Commission had not published the relevant data by the *EU Report 2020* deadline, but the EU figures do not usually differ much from the MoF's even though the MoF uses a different methodology than the Commission to calculate the net position. It is reasonable to expect this step-change in the CR's net position, which fell constantly from 2015 to 2018, to be confirmed by the Commission's official sources.

Chart 12: Net position of the CR in the years 2004–2018 (supplemented by data from the MoF for 2019) (EUR million)



Source: *EU budget 2018 - Financial Report* (issued by the Publications Office of the European Union in 2019) and previous Commission reports on the EU budget 2005-2018; MoF data for 2019 published on 28 January 2020.
Note: The figures for 2004–2006 include contributions to the Commission's decentralised agencies.

112 Annual exchange rate of the Czech National Bank for 2019: 1 EUR = CZK 25.672.

F.3 Protection of the EU's financial interests

F.3.1 Annual report on the protection of the European Union's financial interests in 2018

In line with Article 325(5) of the TFEU, in October 2019 the Commission, in collaboration with Member States, issued the 30th annual report on the protection of the European Union's financial interests and on the fight against fraud[113] (the "Annual Report").

In the introduction to the Annual Report the Commission took stock of the past three decades as regards the nature of the action taken to enhance the protection of the EU's financial interests. In the Commission's assessment, the legislative foundations for the fight against fraud and irregularities were laid in the first decade; the second decade was a period of consolidation and operational reforms; and the third decade brought an intensification of the fight against fraud, including the groundwork for the functioning of the European Public Prosecutor's Office (EPPO)[114].

New financial rules[115] were adopted during 2018 to make the use of EU funding simpler and more efficient. Article 129 of the Financial Regulation provides that all persons or entities who are beneficiaries of EU funds will have to cooperate fully in the protection of the EU's financial interests. They will have to provide the necessary access rights to the Commission, OLAF, the EPPO and ECA and ensure that parties involved in spending EU funds do the same.

In April 2019 the Commission adopted a new anti-fraud strategy[116] to take into account the latest developments, i.e. the new funding systems, new trends in fraud, advances in information technologies etc. In this strategy the Commission identified seven objectives, including analysis of systemic weaknesses linked to fraud; optimising coordination and workflows for the fight against fraud, improving training for Commission staff and executive agencies in the fight against fraud, as well as ensuring they have the necessary technical resources; and, above all, strengthening activities against fraud in TOR and VAT.

Under shared management, Member States administer approx. 80% of EU budget expenditure, which puts them under an obligation to report irregularities[117], whether they constitute fraud or not (other irregularities), to OLAF via IMS[118], the irregularly management and analysis system.

The Annual Report states that Member States reported **a total of 11,638 fraudulent and other irregularities** in **2018**, a year-on-year fall of 25%. The total value of the irregularities was **EUR 2,492 million**, **a similar figure as in 2017. Irregularities reported as fraudulent** accounted

113 Report from the Commission to the European Parliament and the Council: *30th Annual Report on the Protection of the European Union's Financial Interests – Fight against Fraud – 2018,* COM(2019) 444, final, of 11 October 2019.

114 European public prosecutor's office.

115 Regulation (EU, EURATOM) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014 and (EU) No 283/2014 and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012.

116 Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the Court of Auditors: *Commission Anti-fraud Strategy: enhanced action to protect the EU budget*, COM(2019) 196, final, of 29 April 2019.

117 Member States are obliged to notify the Commission of every suspicion of fraud and all irregularities with a value exceeding EUR 10,000 from EU sources.

118 *Irregularities Management System*.

for **1,152** of the reported cases (10% of the total), which is **consistent with the previous year**. The related **value was EUR 1,197.2 million** (48% of the total value), an **increase of 183%** over 2017.

The numbers of irregularities, either reported as fraudulent or not, reached by Member States in the fight against fraud and other unlawful conduct harming the EU's financial interests for 2018 can be seen in the following rundown. The figures, however, do not include irregularities detected/reported in non-member countries (pre-accession policy) or direct expenditure managed by the Commission, so they are not the same as the total figures given above. Irregularities in expenditure done under direct management of the EU budget are reported by the Commission via the ABAC[119] accounting system.

Table 12: Numbers and amounts of cases of fraud suspicion and other irregularities reported by EU Members in 2018 through IMS and their year-on-year change

Budget sector (expenditures/revenues)		Number of fraud suspicions		Volume of fraud suspicions		Number of other irregularities		Volume of other irregularities	
		2018	Change (%)	2018 (EUR mil)	Change (%)	2018	Change (%)	2018 (EUR mil)	Change (%)
Agriculture	EU	249	−10%	63.35	6%	2,832	−7%	163.93	−22%
	Out of which CR	1	−88%	0.12	−76%	28	12%	1.35	25%
Cohesion policy and fisheries	EU	363	5%	959.63	200%	1,839	−64%	599.93	−57%
	Out of which CR	28	−15%	18.19	175%	184	−35%	73.43	20%
Internal policy total	EU	1	–	0.00	–	21	600%	3.48	25 %
	Out of which CR	0	–	0.00	–	2	–	0.00	–
Pre accession policy	EU	2	0%	0.31	−52%	22	−12%	0.19	−86%
	Out of which CR	0	–	0.00	–	0	–	0.00	–
Total expenditure	**EU**	**615**	**−1%**	**1,023.29**	**169%**	**4,714**	**−43%**	**767.53**	**−52%**
	Out of which CR	**29**	**−29%**	**18.31**	**158%**	**214**	**−30%**	**74.78**	**21%**
Total revenue	**EU**	**473**	**7%**	**165.23**	**116%**	**4,090**	**−3%**	**449.71**	**6%**
	Out of which CR	**0**	**–**	**0.00**	**–**	**94**	**6%**	**4.70**	**−45%**
Total	**EU**	**1,088**	**2%**	**1,188.52**	**160%**	**8,804**	**−29%**	**1,217.24**	**−40%**
	Out of which CR	**29**	**−29%**	**18.31**	**158%**	**308**	**−22%**	**79.48**	**13%**

Source: Report from the Commission to the European Parliament and the Council: 30th Annual Report on the Protection of the EU´s financial interests – Fight against Fraud 2018, COM(2019) No 444 in final version of 11 October 2019.

Note: Change (%) - year-on-year change (compared to 2017) expressed in%.

119 Accrual Based Accounting.

Comparing the figures for fraud in the field of revenues for 2018 and 2017 reveals that **in the case of fraudulent irregularities** concerning **budget revenues (473 irregularities in total) their share** of the total number of fraud cases **grew only slightly while their share of the total value** of fraudulent irregularities **fell compared to 2017 (by one percentage point).**

According to the Annual Report, fraud and irregularities on the revenues side in 2018 were largely linked to solar panels. The Annual Report went on to say that cross-border e-commerce is a threat to the financial interests of both the EU and its Member States. The abuse of duty exemptions for low-value consignments by undervaluing goods in e-commerce or splitting up consignments to bring their value below the threshold is a particular risk.

The data on reported irregularities for 2018 presented in Table 12 includes the CR. The data and the year-on-year change show that **the CR registered a fairly pronounced fall in both the number of irregularities reported as fraudulent and the number of other irregularities. On the other hand, the financial amounts involved increased in both categories, although the increase in suspected fraud was not so dramatic compared to the EU-28. In revenues, both the number and the corresponding value of suspected fraud cases remained very low; in the other irregularities category the number of cases rose but the overall value fell sharply.**

Communication between the Czech authorities and OLAF takes place on two basic levels. One level is regular reports of **"criminal irregularities"**; the other is reports of **"administrative irregularities".**

Criminal irregularities are covered by the **Supreme Public Prosecutor's Office** (SPPO) as the sole AFCOS[120] contact point for this type of irregularity. The SPPO's Serious Economic and Financial Crime Department cooperates with OLAF in the reporting of criminal irregularities and in other communication and information exchange. **The SPPO files regular quarterly reports** giving information about ongoing criminal proceedings that involved or might have involved harm or a threat to the EU's financial interests. When carrying out this role, the SPPO performs work as part of its standard powers as a criminal justice authority and sees to information exchange between the Czech criminal justice authorities and OLAF's investigative bodies.

Administrative irregularities are reported by the Ministry of Finance (Department 69 – Analysis and Reporting of Irregularities), which **acts as the AFCOS central contact point. The AFCOS central contact point gathers information from the various contact points and files reports with the Commission and OLAF on irregularities** identified in the implementation of the CAP, cohesion policy, common fisheries policy and internal policies.

In the field of expenditure in 2018, the AFCOS central contact point sent the Commission, or OLAF, via the IMS, a total of **251 cases**[121] of new irregularities identified in the implementation of the ESIF involving a sum of **EUR 93.2 million.** The figures for **PP7+** were **148 reports** with a total value of **EUR 49.0 million** and for **PP14+** a total of **103 cases** involving **EUR 44.1 million.**

120 Anti-Fraud Coordinating Structure.

121 *Report on the Results of Financial Control in Public Administration for 2018,* which the Czech government noted by resolution No 524 of 22 July 2019.

In 2018 the **AFCOS central contact point** did not receive any official request for documentation **from OLAF;** only two requests for information were received. **A total of four final reports were sent** in connection with previous years' requests for documentation:

- **two reports were without recommendations:** they only contained information that an investigation had not found proof of an irregularity or fraud;
- **one report included a judicial recommendation:** that report was sent to OLAF directly by the SPPO, with the AFCOS central contact point merely informing of this step;
- **one report included a financial recommendation:** it proposed removing the EU share of funding (from the ERDF) from the project.

In this last case OLAF found that national and European law had been violated, most notably legislation on SME and the related rules for eligible expenditure. The MA in question did not agree with OLAF's conclusions – communication with the Commission is continuing in this matter. Besides final reports, the AFCOS central contact point also received information that OLAF had decided, in line with the subsidiarity principle, not to open investigations in four cases because these cases were already in the hands of the competent national authorities. OLAF conducted seven inspections of eleven entities in the CR in 2018. The checks mainly concerned projects co-funded by the ERDF; only one checked project was co-funded from the *European Agricultural Guarantee Fund* (EAGF).

The AFCOS central contact point also acts as contact point responsible for sending information to the central exclusion database in line with Commission Regulation (EC, Euratom) No 1302/2008. Proceeding as required by this regulation, the AFCOS central contact point passes on information about persons found guilty of crimes harming the EU's financial interests, specifically violations of Section 260 of the Criminal Code, including information of the overturning of convictions for these crimes. In 2018 the AFCOS central contact point reported to D-G Budget 16 cases of judgements with force in law in the CR. These mainly involve violations of Section 260 of the Criminal Code (harming the EU's financial interests), or Section 260 in conjunction with Section 212 (subsidy fraud), Section 209 (fraud) or, in isolated cases, in conjunction with Section 181 (harming another's rights), Section 348 (forging and tampering with public documents) and Section 350 (forging and issuing untrue medical reports, assessments and findings).

The AFCOS central contact point does more than just report: it performs statistical and analytical work, as it also evaluates the reported irregularities. Analysis of the irregularities reported to OLAF for the 2007–2013 programming period revealed that the main modus operandi include:

- **violations of Act No 137/2006 Coll., on public contracts** (poorly designed selection/assessment criteria, costs for additional work, non-transparent/discriminatory procedure by the contracting organisation, cartel agreements, wrongful application of negotiated procedure without publication, overvaluing of public contracts etc.);
- **violations of Act No 218/2000 Coll., on the budgetary rules and amending certain acts,** (wrongful use of budget funds, including VAT, including payments not linked to the project, double payment etc.);
- **violations of Act No 250/2000 Coll., on the budgetary rules for territorial budgets,** (as in the previous paragraph);
- **violations of the conditions of subsidies and non-compliance with the purpose of subsidies** (work commencing before an agreement is signed, unauthorised letting, non-compliance with time limits, failing to submit reports or giving erroneous information in reports, failing to perform the required notification duties in connection with a project, transferring the subject of a subsidy to a third party etc.);

- **violations of Act No 320/2001 Coll., on financial control** in public administration and amending certain acts (failing to respect the 3E[122] principles, discrepancies between submitted documentation and the actual state, poor MCS design, lack of cooperation by beneficiaries during control work etc.);
- **violations of Act No 563/1991 Coll., on accounting** (incorrectly accounted for travel expenses, wrongfully refunded food expenses, invoices issued before applications are filed, errors in document retention etc.);
- **suspicion of a crime under the terms of Act No 40/2009 Coll. the Criminal Code,** (providing false data/documents, fictitious beneficiaries, incorrect information in attendance documents, passing off old equipment as new, connected persons etc.).

F.3.2 National Strategy for the Protection of the European Union's Financial Strategy and implementation of the action plan for 2019

Article 317 of the TFEU provides that Member States cooperate with the Commission *"to ensure that the appropriations are used in accordance with the principles of sound financial management"*. Articles 33 to 36 of Regulation of the EP and of the Council 2018/1046 flesh out this requirement, in particular with the obligation to comply with the principles of economy, efficiency and effectiveness and the obligation to perform effective and efficient internal control. Article 63(2)(c) of the Financial Regulation provides that under shared management Member States are required to prevent, detect and correct irregularities and fraud. They are obliged to put in place management and control systems to ensure sound financial management, transparency and non-discrimination. They are also required to impose effective, dissuasive and proportionate penalties on beneficiaries.

To ensure these obligations are discharged, a *National Strategy for the Protection of the EU's Financial Interests* ("the Strategy") was created. Its principal goal is to ensure rigorous protection of the EU's financial interests in the CR as required by Articles 310 and 325 of the TFEU and Article 129 of the Financial Regulation and to ensure that funds provided to the CR from the EU budget are utilised as efficiently as possible and protected. This protection consists in preventing damages or threats to the EU's financial interests and, where appropriate, imposing effective punishment for fraud in international business. The core of the Strategy lies in putting in place control mechanisms to prevent irregularities in the field of financial control, including internal audit, the fight against corruption, the reporting, investigation and correction of irregularities Correction includes recovering finances affected by irregularities and ensuring they are repaid into the EU budget.

The Strategy is regularly updated in line with changes in legislation and assessments of progress towards its goals. Its first update[123] from September 2017 reflected the legislation relating to PP14+ and defined the coordination service's competences and powers in the fight against fraud; this role is carried out by the Ministry of Finance – AFCOS central contact point.

The AFCOS central contact point updated the Strategy to version 3[124] with effect from 1 May 2020. Consequently, the Strategy now makes allowance for new legislation both at national level (Act No 110/2019 Coll., on personal data processing) and, most importantly, at EU level (Financial Regulation, regulation establishing the European Public Prosecutor's

122 Economy, efficiency and effectiveness.

123 Upgrade to version 2.

124 MF-3787/2020/6901.

Office[125], fight against fraud[126] directive, and the General Data Protection Regulation[127]). It also takes into account the recommendations from Special Report No 6/2019[128]. An expansion of the Strategy for the following years is expected after the financial framework for the coming programming period is finalised.

The *Assessment of the Action Plan under the National Strategy for the Protection of the European Union's Financial Interests for 2019*, which the MoF published in March 2020, reveals that some tasks remained unfulfilled or were only partially fulfilled.

F.3.3 Measures to reduce corruption in the CR in line with GRECO recommendations

The Group of States against Corruption (GRECO)[129] is the most open of the existing mechanisms for monitoring the fight against corruption at European level: all Member States are GRECO members. **GRECO has 50 members in total** (47 European states, the United States of America, Belarus and Kazakhstan). GRECO **was founded by the Council of Europe**[130] **in 1999 with a view to enhancing its members' ability to combat corruption** through checks of compliance with their commitments done by means of a dynamic process of mutual evaluation and peer pressure.

The evaluations of GRECO members take place in rounds and are **governed by the standards defined in the 20 guiding principles** of the fight against corruption, in the *Civil Law Convention on Corruption* and in the *Criminal Law Convention on Corruption*, including its supplementary protocol.

The fourth evaluation round (the most recent) was launched in 2012. Its output for the CR is the *Interim Compliance Report – CR*[131] from December 2019. This report deals with the work and exercise of office of members of parliament, judges and public prosecutors. The recommendations, 14 of them in all, apply to institutions that should remedy an unsatisfactory state of affairs. These are mainly the Czech government, the Chamber of Deputies of Parliament and the Ministry of Justice (MoJ). The recommendations relating to members of parliament include improving the transparency of the work of parliamentary subcommittees and introducing rules for dealings with lobbyists or enforceable rules on gifts and other advantages. The recommendations for judges include the adoption of more detailed legislation on the recruitment and career progress of judges and presidents of courts and the adoption of stricter legislation on judges' secondary activities. Each recommendation ends with a statement as to whether it was implemented, not implemented or only partially implemented.

---

125 Council Regulation (EU) 2017/1939 of 12 October 2017 implementing enhanced cooperation on the establishment of the European Public Prosecutor's Office.

126 Directive (EU) 2017/1371 of the European Parliament and of the Council of 5 July 2017 on the fight against fraud to the European Union's financial interests by means of criminal law.

127 Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (GDPR).

128 Special Report No 6/2019: *Tackling fraud in EU cohesion spending: managing authorities need to strengthen detection, response and coordination*.

129 Abbreviation derived from *Group of States against Corruption*.

130 The Council of Europe is an international organisation based in Strasbourg and affiliating 47 European countries; it has no link to the EU or its institutions.

131 The report deals with measures adopted by the CR in response to the recommendations of the *Evaluation Report of the Fourth Evaluation Round* from April 2016.

Only one of the 14 recommendations was satisfactorily implemented in the CR, according to GRECO members. That recommendation dealt with the adoption of a professional code of ethics for all public prosecutors. **Seven recommendations were partially implemented and the remaining six were not implemented.**

That put the CR in last place out of 42 countries, a ranking it shared with Serbia and Bosnia and Herzegovina.

GRECO concluded in respect of the CR that the current very low standard of implementation of recommendations is "globally unsatisfactory" and requested that the CR submit a report detailing progress made on the 13 remaining recommendations as soon as possible, but no later than by 31 December 2020.

This state of affairs is also illustrated by the corruption perception index (CPI)[132] drawn up annually by Transparency International, whose mission is to map corruption at national level and to contribute to the fight against corruption. The following table shows the CPI figures for the CR, Poland and Slovakia in the years 2015 to 2019.

Table 13: CPI in the CR (including its year-on-year change), in Slovakia and in Poland in 2015–2019.

Year	CR			Slovakia		Poland	
	Place	Points	Change in points	Place	Points	Place	Points
2019	44th	56	▼ –3	59th	50	41st	58
2018	38th	59	▲ +2	57th	50	36th	60
2017	42nd	57	▲ +2	54th	50	36th	60
2016	47th	55	▼ –1	54th	51	29th	62
2015	38th	56	▲ +5	50th	51	29th	63

Source: Information from Transparency International (https://www.transparency.org/whatwedo/publication/corruption_perceptions_index_2019, https://www.transparency.org/whatwedo/publication/corruption_perceptions_index_2018, https://www.transparency.org/news/feature/corruption_perceptions_index_2017#regional, https://www.transparency.org/news/feature/corruption_perceptions_index_2016, https://www.transparency.org/en/cpi/2015).

The CR ranked between 38th and 47th in the years 2015–2019. In 2019 it finished in 44th place with 56 points, worse by six places and three points than in 2018. The average score in the EU region and western Europe was 66, meaning that the CR was nine points behind those countries. One frequent occurrence in the CPI results is that neighbouring countries with a shared history and cultural environment have very similar standings, as demonstrated by Slovakia and Poland in the years under scrutiny. In all three countries the situation was worse in 2019 than in 2015 – while the CR fell by six places, Slovakia fell by nine and Poland by as much as 12 places.

132 *Corruption Perceptions Index* – the index targets public-sector corruption and ranks countries according to the degree of perception of corruption among public administration officials and politicians. The CPI covers 180 countries based on 12 sources of data from 11 independent institutions that have mapped perceived corruption over the last two years. On a scale of 0–100, 100 means a country practically without corruption and 0 means a high degree of corruption.

F.4 Measures for implementing the EU budget in 2019

F.4.1 Coordinated measures of EU economic policy

The **European Semester for 2019** ("the Semester"), **the framework within which the Commission coordinates Member States' economic, fiscal and social policy,** was launched with the release of the ***Annual Growth Survey 2019***[133]. The introduction to the 2019 Growth Survey presents the Commission's economic forecast for the coming year: *"In 2019 Europe's economy is set to continue expanding, providing jobs for a record number of people and lifting millions out of poverty and social exclusion".* The Commission analysed the development of a number of indicators of the European economy and evaluated the progress made in executing sound fiscal policies and structural reforms, supported by continuous economic growth since 2014. At the same time it flagged up a number of risk factors impacting on the sustainability of certain Member States' public finances. As an example the Commission mentions the subdued productivity growth, the slow diffusion of digital technologies and the shortage of skilled labour. The Commission identified population ageing, climate change and unsustainable use of natural resources as long-term problems. It also described the uncertainty surrounding future relations between the EU and Great Britain as a significant risk factor.

In the 2019 Growth Survey the Commission defined the main risks, weaknesses and problems of the euro area and Member States. On that basis it specified the fundamental issues that need to be resolved:

1. **High-quality investment**
   - **ensure public and private investment is well-targeted and goes hand in hand with a well-designed set of structural reforms** – above all, investment in research, innovation and expansion of digital infrastructure; public investment in education, training and skills should be improved; and equal access to high-quality education and lifelong skills learning should be ensured;
   - **precedence should be given to investment in the modernisation and decarbonisation of European industry, transport and energy systems** – to achieve climate targets, decoupling of energy and resource use from economic growth should continue; there should be investment in smart, sustainable and safe mobility; there should be greater alignment of the European Semester and EU cohesion funding based on analyses of Member States' investment priorities; and priority areas for public and private investments should be defined in order to facilitate the implementation of growth-enhancing reforms.
2. **Focus reforms on productivity growth, inclusiveness and institutional quality**
   - **ensure broader uptake of innovations and technologies and reform the business environment** – especially in energy, telecommunications, transport, retail markets and business-to-business services;
   - **foster mobility and labour market flexibility and tackle labour market segmentation better** – by adopting more effective active labour market policies and public employment services, increasing tax and policy incentives, promoting inclusivity, strengthening social dialogue, ensuring universal access to affordable and quality care services, improving the integration of healthcare and strengthening links with social care;

133 Communication from 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 2019: For a stronger Europe in the face of global uncertainty*, COM(2018) 770, final, of 21 November 2018.

- **improve the quality of public institutions, the efficiency of court systems and the effectiveness of anti-corruption frameworks** – step up digitisation in public services, ensure the quality and stability of the legal environment, make the public sector transparent, comprehensively tackle corruption through effective prosecution and sanctions, intensify reform efforts and make use of the Reform Support Programme[134].

3. **Ensuring macroeconomic stability and sound public finances**
   - **reassess existing risks in international financial markets** – reduce the high debt levels in the private and public sectors; strengthen the financial sector by building up buffers to cope with the next downturn; improve the quality and composition of public finances by introducing efficient tax systems and prioritising expenditure that fosters long-term growth;
   - **ensure long-term sustainability of public finances** – reform the pension system to support retirement savings; improve governance of public procurement, reduce the stock of non-performing loans; adapt macro-prudential frameworks to address risks of overheating and prevent new imbalances building up; and improve national supervisory frameworks to ensure full implementation of EU rules against money laundering.
4. **Conclusions and next steps**
   - **adopt decisive and coordinated policy action to deliver on the promise of inclusive and sustainable growth;**
   - **Member States should take account of the above priorities of the Commission in their national policies and strategies, particularly when drawing up their national reform programmes;**
   - **dialogue between the Commission and Member States should continue under the European Semester in order to reach a common understanding of the most pressing challenges and identify areas for priority action for individual countries.**

The above 2019 Growth Survey priorities were confirmed by the European Council on 21 March 2019.

In accordance with the economic and social priorities set out in the 2019 Growth Survey, **the CR drew** two conceptual documents: ***2019 National Reform Programme of the CR***[135] and ***2019 Convergence Programme of the CR***[136] ("Convergence Programme"). On 30 April 2019 it submitted them to the Commission for evaluation. Given the links between the two documents, the Commission evaluated them simultaneously and issued recommendations[137] for the Council.

---

134 Proposal for a Regulation of the European Parliament and of the Council on the establishment of the Reform Support Programme, COM/2018/391, final, of 31 May 2018.

135 *The 2019 National Reform Programme of the CR* drawn up by the Office of the Czech Government was approved by the government's Committee for the European Union by Resolution No 6 of 29 April 2019.

136 The *2019 Convergence Programme of the CR* drawn up by the Ministry of Finance in 2019 was approved by the Czech government by resolution No 278 of 29 April 2019, along with the *Budget Strategy for the Public Institutions Sector of the CR 2020 – 2022.*

137 *Recommendation for a Council Recommendation on the 2019 National Reform Programme of the CR and delivering a Council opinion on the 2019 Convergence Programme of the CR*, COM(2019) 503, final, 5 June 2019.

Based on the Commission's recommendations, the Council evaluated the two programmes and issued its own recommendations[138]**. In its recommendations the Council stated that the CR,** which is currently in the preventive arm of the *Stability and Growth Pact*, expects, in line with the convergence programme, to **achieve a fall in government debt-to-GDP ratio to 29.7%** in the years 2019–2022. **The Council regards the macroeconomic scenario** underpinning these budgetary projections **as plausible**. Having studied the convergence programme from 2019 **the Council concluded that the CR would comply with the provisions of the Stability and Growth Pact in 2019 and 2020,** according to the Commission's forecast.

According to the Council, the CR faces medium risks for fiscal sustainability of public finances in the long term, mainly due to growing costs of pensions and healthcare necessitated by population ageing. Employment is rising steadily, but despite the measures taken the labour market potential of women with young children, the low-skilled and people with disabilities remains underutilised. Although future automation and robotisation of production will create a need for higher vocational technical skills and digital skills, a comprehensive skills strategy has not been put in place yet, various initiatives notwithstanding.

Despite the fact that the CR is a transit country, **the completion of European transport networks, including TEN-T corridors,** is far from being finalised. The Council also regards suburban transport infrastructure as insufficient, which limits housing affordability and people's ability to commute to work. **The energy intensity of the Czech economy remains high,** especially in industry and housing. Coal dominates the power sector, and greenhouse gas emissions from road transport have increased in recent years.

Investment is hampered by the administrative and regulatory burden, in particular complex administrative procedures. A new draft construction law should simplify planning procedures, especially for large infrastructure projects. In public procurement there has been an improvement in transparency, but a strategic approach has not been adopted and most public procurement decisions continue to be based on the lowest price.

Despite an increase in research and development intensity, the CR remains a moderate innovator. An increased focus on domestic innovation could boost productivity across the entire business spectrum.

In the light of the analysis of Czech economic policy done by the Commission and of its own analysis **the Council recommends that the CR do the following in the 2019 and 2020:**

1. **Improve the long-term fiscal sustainability of the pension and healthcare systems. Adopt pending anti-corruption measures.**
2. **Foster the employment of women with young children, including by improving access to affordable childcare, and of disadvantaged groups. Increase the quality and inclusiveness of the education and training systems, including by fostering technical and digital skills and promoting the teaching profession.**
3. **Focus investment-related economic policy on transport, notably on its sustainability, digital infrastructure, and low carbon and energy transition, including energy efficiency, taking into account regional disparities. Reduce the administrative burden on investment and support more quality-based competition in public procurement. Remove the barriers hampering the development of a fully functioning innovation ecosystem.**

---

138 *Council Recommendation of 9 July 2019 on the 2019 National Reform Programme of CR and delivering a Council opinion on the 2019 Convergence Programme of the CR* (Official Journal of the European Union, 2019/C 301/03, 5 September 2019).

F.4.2 European Commission report on the CR

In February 2020 the Commission published a Commission staff working document entitled *Country Report CR 2020*[139] ("2020 Report"), assessing progress on recommendations issued to the CR and reviewing reform priorities. The 202 Report states the following:

1. **Economic situation and outlook**

   Economic growth continued to grow at a more moderate pace in 2019 than in 2018, reflecting external developments. Growth stayed at 2.5%, with private consumption the main driver of growth. By contrast, investment decelerated sharply. Net exports are estimated to have contributed to growth, but the slowdown in external demand led to a lower increase in both imports and exports. A tight labour market poses a challenge to growth, with an impact on wage growth. **Economic convergence towards the EU-28 average continues**[140], with the CR achieving a level similar to some older Member States (e.g. Portugal).

   Household consumption continues to be the main growth driver, but is set to slow down in the coming years, partly because of higher interest rates. Investment is estimated to have slowed compared to the previous two years and now stands at 1.1%, and the same growth is expected in 2020. The economic slowdown in the main trading partners translated into a decreasing number of orders and a consequent decline in private investment. Public investment also slowed significantly, **but even so investment activity remained above the EU average: 25.5% of GDP compared to 20.9%.** Businesses' priority was investment in automation and robotisation to keep their competitiveness. Increasing labour costs caused by rapid pay growth have not yet translated into a loss of export market share for the CR, but the Commission's forecast points to a gradual worsening. Labour productivity has been increasing steadily at an average annual rate of 3.1% since 2000, but there are major differences in the rate of increase between regions.

   The employment rate reached 80.4% in the third quarter of 2019, 6.3 percentage points above the EU average. The rate of unemployment dropped further to 2%, the lowest in the EU.

   Inflation increased by approx. 3% in 2019, and this trend will continue in the first half of 2020, mainly due to new excise duties for alcohol and tobacco, but is set to decline towards the 2% target by 2021. **The CZK/EUR exchange rate started to strengthen at the end of 2019** and is expected to appreciate further in the medium term. **The balance of trade remained high,** but it is expected to fall sharply as a result of weaker external demand, especially in the euro area; this will be offset by reduced imports, however. **Although residential housing price growth flattened in 2019, it remains above wage growth,** reducing affordability. **Public finances are expected to remain in balance in the short term and the debt-to-GDP ratio will continue to decrease.**

---

139 Document Accompanying the Communication from to the European Parliament, the European Council, the Council, the European Central Bank and the Eurogroup: *European Semester 2020: Assessment of progress on structural reforms, prevention and correction of macroeconomic imbalances, and results of in-depth reviews under Regulation (EU) No 1176/2011*, SWD(2020) 502, final, of 26 February 2020.

140 Per capita gross national income at purchasing power parity was 88% of the EU-28 average in 2019.

2. Progress with regard to the recommendations issued to the CR

Regarding the implementation of **the Council's recommendations from 2019** the Commission stated that the CR had made **"limited progress"**[141]. The following evaluation was given for the individual recommendations:

- **recommendation 1 (fiscal sustainability) – "limited progress"** (*no progress* in improving long-term fiscal sustainability of the pension and healthcare systems; *limited progress* in adopting pending anti-corruption measures);
- **recommendation 2 (employment and education) – "limited progress"** (*limited progress* in fostering the employment of women with young children, including by improving access to affordable childcare, and in employment of disadvantaged groups; *some progress* on increasing the quality and inclusiveness of the education and training systems, including by fostering technical and digital skills and promoting the teaching profession);
- **recommendation 3 (investment) – "some progress"** (limited progress on focusing investment-related economic policy on transport, notably on its sustainability, and on digital infrastructure and low carbon and energy transition, including energy efficiency, all taking into account regional disparities; *limited progress* on reducing the administrative burden on investment; *some progress* on supporting more quality-based competition in public procurement; *some progress* on removing the barriers hampering the development of a fully functioning innovation ecosystem).

3. Reform priorities of the CR

The Commission stated the following in its 2020 Report **with regard to the priorities** listed in the ***2019 National Reform Programme of the CR*:**

- **Public finances and taxation**

  Public finances remain in balance and the public debt fell to approx. 30% of GDP. Tax revenues in the CR continued to display a growth trend, with tax revenues reaching 36.1% of GDP in 2018 (the EU average was 39.2%); nevertheless, that ratio is one of the lowest in the EU. There was a marked disproportion in direct taxes, which accounted for just 8% of GDP in the CR, whereas the EU average was 13.4%. Compared to the EU average, the low share of tax revenues was particularly pronounced in natural persons' income tax (12% compared to 24.2%), while the share was highest in legal persons' income tax (3.5% compared to 2.7%). Electronic registration of sales improved VAT collection. Tax evasion fell to approx. 12%, roughly in line with the EU average. Receipts from environmental taxes and property taxes were generally low.

  Short-term and medium-term fiscal sustainability risks are low, but long-term risks are medium. Population ageing makes increased spending on pensions and healthcare or long-term care the main risk, as the retirement system does not automatically take into account the expected gains in life expectancy.

141 The meanings of these categories are as follows: **no progress** – no measures announced or adopted; **limited progress** – limited measures announced in response to the recommendations; **some progress** – measures partially adopted in response to the recommendations or substantial efforts still required; **significant progress** – measures adopted in response to the recommendations and mostly executed; **full implementation** – all measures in response to the recommendations have already been executed.

- **Financial sector**

  The Czech financial system remains stable. The concentration of assets of the largest banks increased slightly, with most of these assets taking the form of loans. The insurance sector remains profitable and pension management companies are well capitalised. The banking sector is well capitalised, standing at a level above the EU average. Banks continued to be profitable. Return on equity has been stable and has remained in double digits for several years. The non-performing loans ratio remains low. Various measures to reduce the economy's dependence on banks were introduced to boost the development of the capital market. Another initiative was the founding of a National Development Fund to run as a Qualified Investor Fund.

  Although residential housing prices grew more slowly than in the previous years, housing affordability worsened further. According to the property prices index (Deloitte, 2019), the CR was among the Member States with the least affordable housing: 11.2 gross annual salaries were need to own a residential property, up by 60% from 2015. The supply of housing is constrained by complicated planning and building permission processes. The stock of housing loans has increased constantly, but the rate of increase slowed in 2019 by more than one tenth to 7.4%. Rising property prices could be a source of risk for financial stability. For that reason, the Czech National Bank issued macro-prudential recommendations designed to protect the banking sector against systemic risks. One of the recommendations is that lenders should not provide retail loans secured by residential property with a Loan-to-Value (LTV) of over 15% and should limit the provision of loans with LTVs of 80-90% to 15% of new loans in each quarter. **The European Systemic Risk Board issued a warning in 2019 that rising property values could present a risk to financial stability.**

- **Labour market, education and social policies**

  Labour market performance in the CR was far above the EU average in 2019, e.g. in terms of the rate of employment in the 20–64 age group (6% higher) and rate of economic activity (3.3% higher). The rate of unemployment dropped to 2%, the lowest in the EU. The labour market situation for specific groups has also improved significantly, e.g. the rate of youth unemployment (age 25–24) fell from 18.9% to 4.8% in six years. The labour market has a shortage of labour, what has made a substantial impact on economic growth; approx. two fifths of businesses cited labour shortages as the main factor limiting production. The tightness of the labour market also pushed up the minimum wage by 9.4%. **Partly with this situation in mind, the Czech government included automation and artificial intelligence among its political priorities** and adopted strategies with an outlook up to 2030 that are part of an overarching government plan called ***CR – The Country for The Future*.**

  On the other hand, women with young children continue to be underrepresented on the Czech labour compared to the EU (almost 4 times higher proportion of women caring for children at home), as the supply of places in childcare facilities is still outstripped by demand. Some regional differences in employment and in pay between men and women also persist. The strong labour market expansion in 2019 led to a higher number of foreign nationals employed in the CR, with the figure reaching over 606,000 (from the EU and third countries). In 2019 CR announced a package of employment legislation to improve the targeting and support of active labour market policies, particularly for the most vulnerable groups.

The standard of basic digital skills was slightly above the EU average. The government adopted the *Work 4.0 Action Plan*[142] to develop workers' digital skills to help them adapt to technological change. A comprehensive national skills strategy encompassing initial education, lifelong and in-work training is not yet in place.

The rate of early leavers from education fell overall, but the disparity between the rates among people with disabilities grew and people without increased – it is now almost double the EU average (10.1 percentage points). In 2019 CR adopted the second Action Plan for Inclusive Education with a view to addressing the high proportion of Roma children in special schools. To increase the reform's impact, further teacher training for teaching pupils with special needs will be needed.

According to data from 2019, more than 60% of schools have faced difficulties with a shortage of qualified teachers. **Despite significant pay raises for teachers, their salaries remain relatively low compared to other tertiary-educated workers and by international standards.** The attractiveness of the teaching profession should be boosted by the adopted initial teacher education programmes and a compulsory two-year induction period, which seek to prevent early dropouts.

The share of the population at risk of poverty was around half the EU average (21.9%) **in the last two years,** but the share of people aged 65 and over at risk of poverty grew (by 5.5% over two years). People with disabilities face a higher risk of social exclusion, specifically 4 percentage points above the EU average (9.5% according Eurostat) Despite coordinated action, improved social services and increased focus on inter-sectoral strategies, the number of socially excluded localities, largely inhabited by the Roma minority, and the number of people at risk of homelessness as a result of indebtedness are growing. In addition to municipalities' investment programmes to expand social housing, improvements should come from an affordable housing act that is under preparation and an inter-ministerial group for strengthening financial literacy in high-risk groups.

The population's health has improved, with life expectancy rising by four years over the past seven years. Regional disparities remain, however, as a result of both socio-economic factors and the distribution of healthcare personnel. Population ageing is gradually increasing pressure on long-term care services. Around 20% of those needing long-term care reside in healthcare or social care facilities. That is well above the EU average (approx. 13%). One key cause of this is the high prices of professional social home care services.

142 *The Work 4.0 Action Plan* was incorporated into the *Society 4.0 Action Plan*, which was approved by Czech government resolution No 684 of 25 September 2017.

- **Competitiveness, reforms and investment**

  Labour productivity growth slowed down by 0.7% in 2018 from 2017, though its stable growth continued in the services sector. Labour productivity was much higher in large enterprises than micro-enterprises (approx. 66% gap), small enterprises (approx. 25%) and medium-sized enterprises (15%), but the gaps have been shrinking in the past five years. Innovation-driven enterprises have expanded rapidly in the past years, contributing considerably to increased productivity and rising job vacancies. Czech enterprises are highly integrated in global and regional value chains, but focus mainly on low value added activities. To encourage venture capital and equity issuance, in 2019 the government approved the *National Strategy for the Development of the Capital Market 2019–2023* and set up a Fund of Funds for the early equity stage. The government and the four largest banks created the ***National Development Fund*** with an initial contribution of CZK 7 billion (EUR 275 million). Investments under the Fund will be linked to the ***National Investment Plan*** (NIP) unveiled in December 2019. The NIP lists over 20,000 projects planned in 2020–2050 with a total cost of around EUR 315 billion. Investment in the CR is supported at EU level via the ***European Fund for Strategic Investments***. By the end of December 2019, total financing under this fund amounted to EUR 874 million, with EUR 621 million going on financing SMEs and EUR 254 million on infrastructure projects.

  Ranked in terms of home-grown innovation supporting economic growth, the CR is in 14th place among Member States, but its performance has been gradually improving, with the intensity of business R&D coming close to the EU average. Total spending on R&D has grown steadily to reach almost 2% of GDP, which is slightly below the EU average (2.11%). **The quality of the outputs is not yet sufficiently high, however, partly due to the fragmentation of the public research sector and low returns. Links between academia and business are not on the required level either.** Decision-making bodies have mostly worked in isolation and there has been a lack of cross-cutting coordination. For these reasons and more, the **Innovation Strategy 2019–2030**[143] was adopted in February 2019 with a view to move the CR up the value chain.

  Road and conventional rail network infrastructure projects have stagnated. Essential parts of the TEN-T road network has not been built or modernised yet. Important cross-border links to Poland and Austria are still missing. This is partly due to the lack of strategic planning, which could be partially resolved by the *National Investment Plan*, and partly because of lengthy procedures for settling property rights and authorising construction.

  Fixed broadband coverage in the CR exceeds the EU average, but mobile broadband prices are almost double. Even though the new ***Digital CR*** programme is supposed to invest almost **EUR 2.35 billion** in digitisation and the roll-out of next-generation network technologies, there is a risk that the country will fail to meet the objectives of the ***European 5G Action Plan***[144].

  Despite the increase in living standards, regional disparities remain wide. The richer regions, with Prague out in front, achieve better educational outcomes and have a greater innovation capacity, making them more attractive for private investment. Poorer regions – and in particular the Northwest Bohemian Region – show lower

143 *Innovation Strategy of the CR 2019–2030* was approved by Czech government resolution No 104 of 4 February 2019.

144 *European 5G Action Plan*, COM(2016) 688, final, of 14 September 2016.

productivity, higher indebtedness and greater inequality. The recently adopted *Regional Development Strategy 2021+*[145] should improve matters, including through use of integrated territorial investments and community-led local developments.

Public sector performance and government effectiveness rank below the EU average. The CR performs relatively well on access to government information, but performance is weaker in e-government (fragmentation at self-governing unit level) and control of corruption. **Lengthy procedures to obtain a construction permit continue to be an important barrier for investment.** Change should come from the amendment of the Building Act that will enter into effect in 2021. **By contrast, the legal framework for public procurement has already improved,** with the speed of review procedures rising by almost a quarter and an increasing number and quality of smart procurement procedures. The error rate in public procurement is gradually falling, partly as a result of anti-corruption measures adopted in the ***2018–2022 Government Anti-Corruption Strategy.*** Further to the related action plan, several anti-corruption measures were adopted in 2019, most notably the promulgation of the "nomination act"[146], the drawing up of a draft act on lobbying, a draft act on protection of whistle-blowers and a draft amendment of the act on the public prosecutor's office.

- **Environmental sustainability**

Manufacturing's high share of GDP, moreover in a largely coal-dependent economy, and the CR's position as a transit country are reasons why CR is one of the EU Member States with the highest greenhouse gas emissions per capita. Energy intensity also remains one of the highest in the EU. Dependency on oil imports has gradually increased in recent years and now exceeds the EU per capita average by 3.3 percentage points. Regions where coal extraction is the dominant economic activity and generally steering production away from fossil fuels are set to cost as much as EUR 25 billion by 2050, according to the NIP.

The reduction in energy consumption in industry was counterbalanced by increased consumption in transport. Road transport's share of total energy consumption has risen from 11% to 27% since 1995, with the vast majority of that falling to road transport. The use of renewable energy is below the EU average (18%) and has been static at around 15% for the past five years. One reason for this is the incomplete legal and institutional framework for supporting renewable energy. Even so, carbon emissions have been reduced by over a third in the past 30 years, with fossil fuel's share of energy generation halving in that period.

Throughout 2019, the effects of climate change were felt by the CR in the form of serious drought and continuing damage to forests from the bark-beetle calamity. There is a particularly alarming deficit in the case of surface water, with just 19% of surface water bodies in good or high status. There was a fivefold increase in bark-beetle damaged wood over three years.

145 *Regional Development Strategy 2021+* approved by Czech government resolution No 775 of 4 November 2019.

146 Act No 353/2019 Coll., on the recruitment of persons to the management and supervisory bodies of state-owned legal persons (Nomination Act).

G. Sector Matters

G.1 Revenues linked to the EU budget

G.1.1 Developments in EU revenue resources

In its proposal[147] for the system of own resources for the next MFF the Commission proposed a basket of new own resources in addition to modification of existing own resources. The basket of new own resources is composed of:

- 20% of revenues from the emissions trading system;
- a rate of 3% applied to the new common consolidated corporate tax base (once the necessary legislation has been adopted);
- a national contribution calculated on the amount of non-recycled plastic packaging waste in each Member State (EUR 0.80 per kilogram).

Comparison of the existing composition of revenues with the structure proposed for the 2021–2027 period reveals that GNI-based own resources should cover 50–60% of total revenues after the changes. At present this resource covers two thirds to three quarters of total revenues.

The new own resources should make up approximately 12% of the total EU budget and could contribute as much as EUR 22 billion per annum towards funding new priorities. These figures are derived from the applicable rates mentioned in the Commission's proposed implementing rules for the next MFF[148].

In April 2019 the Commission approved a new strategy in the fight against fraud[149] (CAFS[150]), which replaces the strategy adopted in 2011. The Commission stated that an assessment had shown that the two main vulnerabilities were insufficient analysis of fraud data and gaps in the Commission's supervision over fraud risk management. The priority objectives of the CAFS are therefore to equip the Commission with a stronger analytical capability for purposes of prevention and detection and with a more centralised system of oversight for its anti-fraud action. The CAFS focuses on protecting the EU's financial interests from fraud, including VAT fraud, corruption and misappropriation harming or threatening the EU's financial interests. It also covers protection against criminal offences, irregularities and serious breaches of professional obligations by staff or members of the Unions institutions and bodies.

To implement the CAFS and accompanying action plan, the Commission moreover intends to tighten its internal monitoring systems and develop indicators to make anti-fraud action more measurable[151]. The objectives of the CAFS are set out in an annex to the communication, which is accompanied by two Commission staff working documents: the first presents the results of fraud risk assessment and the second an updated action plan.

147 Proposal for a Council Decision on the system of Own Resources of the European Union, COM(2018) 325, final, 2 May 2018.

148 Proposal for a Council Regulation laying down implementing measures for the system of Own Resources of the European Union, COM(2018) 327, final, 2 May 2018.

149 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the Court of Auditors: Commission Anti-fraud Strategy: enhanced action to protect the EU budget*,* COM(2019) 196, final, 29 April 2019.

150 Commission Anti-Fraud Strategy.

151 This should be reflected in the annual reports on the protection of the EU's financial interests that the Commission regularly issues to inform about the implementation of this strategy.

In the middle of January 2019 the Commission launched a discussion on a gradual transition to more efficient decision-making on EU tax policy[152]. Member States' unanimous agreement is now required in tax policy. This unanimity is very hard to achieve for major tax changes, however. In its communication the Commission called on all stakeholders, including Member States and the EP, to take part in constructive discussion on qualified majority voting on EU tax policy and define a timely and pragmatic approach for its implementation.

The Commission's communication proposes four concrete steps[153] constituting a gradual transition to qualified majority voting. These steps are:

- In the first step, qualified majority voting would be employed for measures that improve cooperation and mutual assistance between Member States in fighting tax fraud, tax evasion and tax avoidance, as well as administrative initiatives targeting enterprises in the EU[154].
- The second step would involve measures of a fiscal nature designed to support other policy goals. Qualified majority voting in this step would apply to measures where taxation supports the fight against climate change, protecting the environment or public health.
- The third step would focus on areas of taxation that are already largely harmonised but must evolve and adapt to new circumstances. Majority voting in this step would mainly cover VAT and excise duties, which could help Member States and enterprises in the EU keep up with the latest technological developments and market changes. This requires Member States to agree on the definitive regime to create a sustainable, fraud-proof and business-friendly VAT system, however.
- The fourth step would be to introduce qualified majority voting on other initiatives in the taxation area, which are necessary for the single market and for fair and competitive taxation in Europe. This form of voting would thus be used for major tax projects such as the common consolidated corporate tax base or the new system of digital taxation.

In mid-May 2019 the Commission unveiled the Transaction Network Analysis (TNA)[155], a new tool that should help Member States rapidly exchange and jointly process VAT data. It was developed in close cooperation between Member States and the Commission. The tool is designed to speed up the detection of VAT fraud and thus prevent this fraud. Tax authorities will gain fast and easy access to information on cross-border transactions and will be able to take swift action following notifications of potential fraud.

It will also allow members of Eurofisc[156] to check this information against criminal registers, databases and information in the possession of Europol and OLAF and coordinate cross-border investigations. European budgets lose a significant portion of their revenues to VAT fraud. At the same time, VAT is one of the EU budget's own resources. This tool therefore follows up previous activities in the field of VAT, such as the action plan towards a single EU VAT area[157] and proposed reforms of the VAT system in the EU[158].

152 Communication from the Commission to the European Parliament, the European Council and the Council: *Towards a more efficient and democratic decision making in EU tax policy,* COM(2019) 8, final, 15 January 2019.

153 According to the Commission's plan, Member States should reach agreement on the first two steps soon; consensus should be sought on the remaining steps by 2025.

154 Qualified majority voting should be used in the first step for measures that do not have a direct impact on tax law, tax bases or tax rates in Member States.

155 European Commission: *New tool to allow EU countries to crack down on criminals and recoup billion*, 15 May 2019.

156 *A multilateral warning system of the Member States for combating VAT fraud.*

157 Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee on an action plan on VAT: *Towards a single EU VAT area – Time to decide*, COM(2016) 148, final, 7 April 2016.

158 Proposal for a Council Directive amending Directive 2006/112/EC as regards harmonising and simplifying certain rules in the value added tax system and introducing the definitive system for the taxation of trade between Member States, COM(2017) 569, final, 4 October 2017.

In October 2019 the Council called on Member States to agree on an approach to the adoption of two reforms of the existing VAT rules[159]. The new rules facilitating the detection of tax fraud in cross-border e-commerce transactions will allow Member States to collect in a harmonised way the records made electronically available by the payment service providers. In addition, a new central electronic system would be set up for the storage of the payment information and for the further processing of this information by anti-fraud officials in the Member States. These rules, which would apply from 2024, complement the current VAT regulatory framework in the context of the central electronic system. This central electronic system takes effect in January 2021. It will simplify the rules for compliance with VAT legislation for online enterprises and will introduce new VAT obligations for online marketplaces.

In October 2019 the Council reached agreement on the matter of proposals for a directive laying the general arrangements for excise duty and a regulation on administrative cooperation as regards electronic registers[160]. The aim of the proposals include aligning the EU excise and customs procedures. Other aims include reducing the administrative and legal burdens on small enterprises and improving clarity of intra-EU movements of excise goods.

One outcome should be that Member States collect the right amount of tax. Consequently, the proposals contain measures to streamline and simplify the processes covering export and import interaction of excise products and business-to-business interaction.

In 2019 the Council and the OECD[161] went ahead with talks on digital taxation[162]. At its May session the OECD adopted a programme of work to develop a consensus solution to the tax challenges arising from the digitalisation of the economy. The OECD's work centred on the question whether digitalisation increases risks linked to the erosion of the tax base and profit shifting, known together as BEPS[163]. The response to the tax problems arising from the digital economy is based on two pillars in the OECD's approach.

The first pillar concerns possible solutions to the rules on profit allocation and revised rules on taxable relations, i.e. where tax should be paid and what portion of profits should be taxed in these jurisdictions, with a view to allocating greater taxation rights to the jurisdiction of the relevant market or user.

The second pillar explores the possible design of a system that would ensure that transnational companies pay a certain minimum tax, both in the digital economy and elsewhere. This second pillar comprises a global anti-base erosion proposal. Countries should be given new tools to protect their tax bases against profit shifting to jurisdictions where income is taxed at an effective rate below a minimum rate. The OECD's final report on this project is due to be presented by the end of 2020.

159 Transmission and exchange of VAT-relevant payment data a) Amendments to the Directive on the common system of VAT as regards requirements for payment service providers, b) Amendments to the Regulation on administrative cooperation in the field of VAT as regards measures to combat VAT fraud – General approach, 13519/19 FISC 412 ECOFIN 942, 31 October 2019.

160 Draft Council Directive laying down the general arrangements for excise duty (recast), and Draft Council Regulation amending Regulation (EU) No 389/2012 on administrative cooperation in the field of excise duties as regards the content of electronic registers –Adoption, 13634/19 FISC 420 ECOFIN 958, 31 October 2019.

161 Organisation for Economic Co-operation and Development.

162 Digital taxation – State of play, 13405/19 FISC 408 ECOFIN 934 DIGIT 158, 28 October 2019.

163 BEPS (*Base erosion and profit shifting*) is an OECD project dealing with the issue of tax avoidance. It is composed of 15 actions. Action 1 is called *"Tax Challenges Arising from Digitalisation"*.

G.1.2 Developments in budget revenue in the CR

In its *Country Report CR 2019*[164] the Commission informed that the increase in tax revenues relative to GDP in 2017 was mainly driven by a significant increase in receipts from VAT and import taxes and duties, which, as a share of GDP, have been constantly higher than the EU and euro area averages. Even though total tax revenues between 2016 and 2017 increased so much that they reached their highest level since 2004, they are still below the EU and euro area averages.

Revenues from direct taxes, comprising predominantly taxes on income and wealth, are significantly below the levels seen in the EU and Eurozone, even though recurrent property tax ranks among the taxes that do least harm to economic growth, according to the OECD (2010). On the other hand, the implicit tax rate on employed labour in the CR is higher than the EU average due to a higher reliance on social contributions. The very high taxation of labour on employees on low or high incomes persists. Single persons with children earning less than the average wage have much higher taxation than their equivalents in the rest of the EU. Conversely, the tax burden on childless couples and single employees earning 167% of the average wage is below the EU average. Revenues from environmental taxes remain relatively low. These represented just 5.9% of all taxes and social contributions collected in 2017. Here it is worth noting that the SAO drew attention to the low level of environmental taxes in 2019 in audit No 18/22[165].

Although VAT compliance is a government priority, the estimated compliance gap remains above the unweighted EU average and is higher than in certain neighbouring countries. Businesses' incurred costs from compliance with the tax legislation remain above the EU average. According to a Commission study from 2018, moreover, almost 50% of respondents think that the complexity of the tax legislation in the CR is highly burdensome; a further 29% view it as burdensome.

In February 2018, a proposed income tax reform was presented to the Commission. The reform involves the following:

- abolish the solidarity-based increase of taxation;
- raise tax rates from 15% to 19%;
- introduce a second rate of 23% for annual incomes above CZK 1.5 million;
- abolish the super-gross wage;
- reduce the tax base for the self-employed by three quarters of the value of contributions to social security and healthcare.

In view of the intended income tax reform in the CR the Commission states that further tax reforms shifting the tax burden away from labour and onto more growth-friendly tax bases could be considered, especially because the implicit tax rate on labour is relatively high.

The CR's top priority in taxation, according to the national reform programme[166], is the fight against tax evasion; streamlining the collection of tax is another priority. In the fight against tax evasion the CR wants to introduce a universal reverse charge mechanism that would significantly cut VAT losses.

164 Commission Staff Working Document: *Country Report CR 2019*, SWD(2019) 1002, final, 27 February 2019.

165 Audit No 18/22 – *Support of environmental policies focused on public budget revenues*.

166 *National Reform Programme of the CR 2019*.

Further to demands from certain Member States for a temporary generalised reverse charge mechanism, in December 2018 the Council adopted a directive[167] permitting its use. Under this directive, a temporary generalised reverse charge mechanism may be implemented up to 30 June 2022 at the request of Member States meeting certain criteria on supplies of goods and services above a threshold value of EUR 17,500.

The CR asked the Commission to permit the use of this mechanism. At the same time, it provided all the necessary information to show that the defined criteria were satisfied. Accordingly, in June 2019 the Commission issued a proposal for a decision authorising CR to apply this mechanism[168]. The implementing decision was approved at the November session of the Economic and Financial Affairs Council[169]. This decision authorises the CR to apply the generalised reverse charge mechanism on non-cross-border supplies of goods and services, providing that they exceed the threshold value (EUR 17,500), and to do so from 1 January 2020 to 30 June 2022.[170] In December 2019 the MoF stated that *"owing to the inordinate delay at EU level and the standard duration of the legislative process the measure could be introduced in the CR at the end of next year at the earliest."*[171] The SAO also commented on the introduction of the mechanism in its report on taxes. The SAO stated that the fundamental change to the VAT system would only be for a very short time but would require a change to the legislation, a change to the design of the information systems used by tax administrators and taxpayers and changes to their business models. Consequently, the envisaged effects of reduced VAT losses might not materialise. The MoF has not yet announced that it is preparing changes to the legislation in connection with the reverse charge mechanism.

Several taxation changes were drawn up with effect from 1 January 2019 and 1 February 2019. The "2019 tax package", which took force on 1 April 2019[172] bar some exceptions, brought in extensive changes. It had a fundamental impact on VAT in particular and took into account of changes in the EU legislation effective from 1 January 2019[173]. The changes affected VAT rates for mass passenger transport and supply of heat. There were also changes in the application of the reverse charge mechanism for building and assembly work. Since 1 January 2019, the amendment of the directive on the common system of VAT[174] has applied to the use of vouchers[175] and the provision of services and distance selling. Changes in e-commerce relate

167 Council Directive (EU) 2018/2057 of 20 December 2018 amending Directive 2006/112/EC on the common system of value added tax as regards the temporary application of a generalised reverse charge mechanism in relation to supplies of goods and services above a certain threshold, *Official Journal of the European Union,* L 329/3, 27 December 2018.

168 Proposal for a Council Implementing Decision authorising CR to apply the generalised reverse charge mechanism derogating from Article 193 of Directive 2006/112/EC, COM(2019) 283, final, 21 June 2019.

169 Council Implementing Decision (EU) 2019/1903 of 8 November 2019 authorising CR to apply the generalised reverse charge mechanism derogating from Article 193 of Directive 2006/112/EC, *Official Journal of the European Union*, L293/1, 14 November 2019.

170 Resolution No 273 of the European Affairs Committee from its 39th session on 11 December 2019.

171 *More time for the generalised reverse charge and better coordination between taxes and accounting, demand businesses and experts,* MoF press statement of 6 December 2019.

172 Act No 80/2019 Coll., amending certain acts in the field of taxation and certain other acts.

173 Council Directive (EU) 2017/2455 of 5 December 2017 amending Directive 2006/112/EC and Directive 2009/132/EC as regards certain value added tax obligations and distance sales of goods, *Official Journal of the European Union*, L 348, 29 December 2017; Council Implementation Regulation (EU) No 2017/2459 of 5 December 2017 amending Implementing Regulation (EU) No 282/2011 laying down implementing measures for Directive 2006/112/EC on the common system of value added tax, *Official Journal of the European Union,* L 348, 29 December 2017.

174 Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax, *Official Journal of the European Union,* L 347, 11 December 2006.

175 Council Directive (EU) 2016/1065 of 27 June 2016 amending the Value Added Tax Directive as regards the treatment of vouchers, *Official Journal of the European Union*, L 177, 1 July 2016.

to the electronic provision of services and distance services to non-taxpayers. For example, a tech firm allows a person from another Member State to download a mobile phone app for private use and for a consideration. The procedure after 1 January 2015 was that the service provider (unless a VAT payer) was obliged to pay VAT to the state in which the customer is based. Since 1 January 2019, the service provider (as long as it does not exceed a financial limit) may choose whether to proceed according to the established model or choose to pay tax in its home state; this is conditional on the provider not having a place of business in the customer's Member State. The financial limit (threshold value) is EUR 10,000 per calendar year. Another change in the Act on VAT[176] is the possibility for a tax administrator to impose a fine of up to CZK 500,000 on a payer, who seriously impedes or frustrates the administration of taxes by failing to discharge duties linked to recapitulative statements.

The 2019 tax package also brought in changes in income tax. One fundamental change was the doubling of the maximum expenditure amounts that can be applied as a percentage of income for the self-employed compared to 2018. Additionally, the changes to EU legislation restricting profit shifting to states with lower taxes (restrictions on "aggressive tax planning") were incorporated into the package. Furthermore, the Act on Income Tax[177] was amended[178] with regard to the application of super-gross wage e.g. for all employees whose wages are subject to taxation in the CR but whose social and health insurance contributions are governed by EU, European economic area or Swiss law.

In connection with the transposition of the directive on administrative cooperation in taxation[179] (known as DAC 6) into the act on international cooperation on tax administration[180], from 1 July 2020 a new kind of mandatory automatic exchange of data on cross-border arrangements that are reportable by obligated persons in their home jurisdiction has been established. The directive imposes an obligation on obligated persons (i.e. intermediaries of cross-border arrangements and, in the cases specified by law, users of cross-border arrangements) to file information, and to do so for cross-border arrangements established after 1 July 2020, within 30 days after the day on which they are made available for implementation or put on the market or the first step of such an arrangement was implemented (or, in the case of secondary intermediary, after advice or assistance is provided for the given arrangement).

Another key piece of legislation promulgated at the end of 2019 and effective from 1 January 2020 is the act[181] amending certain acts in the field of taxation in connection with increasing revenues for public budgets. The amendment of the Act on Income Tax, for example, mainly concerns restrictions on tax exemptions for gambling winnings, as well as broader exemption from income tax for legal persons' income where regions and the CR and other cases of public corporations are a parent company. A change to the Act on Excise Duties raised the excise on liquor, tobacco products, raw tobacco and heated tobacco products. Beer's exemption from tax is also being changed. The Act on Gambling Games Taxation raised tax rates on lotteries from 23% to 35%; other tax rates remained unchanged.

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

177 Act No 586/1992 Sb., on income tax.

178 Act No 306/2018 Coll., amending Act No 586/1992 Sb., on income tax, as amended.

179 Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements *Official Journal of the European Union*, L 139, 5 June 2018.

180 Act No 164/2013 Coll., on international cooperation in tax administration and amending certain related acts.

181 Act No 364/2019 Coll., amending certain acts in the field of taxation in connection with increasing public budget revenues.

G.2 Expenditure co-financed from the European Structural and Investment Funds

Approximately three quarters of all EU budget expenditure chapter into the CR comes from the ESIF. These funds are used to finance joint projects of the CR and EU in the field of cohesion policy, including common fisheries policy (CFP), technical assistance and territorial cooperation projects, and project and non-project actions of the rural development programme.

G.2.1 Development of economic, social and territorial cohesion policy, the rural development programme and common fisheries policy in the CR

This subsection covers both the closure of PP7+ and developments in PP14+. Whereas the final closure of the previous programming period is drawing near, drawdown of the PP14+ allocation is slowly culminating.

G.2.1.1 Closure of the 2007–2013 programming period

In November 2019 the MoRD put before the Czech government a material[182] for discussion concerning the state of closure of PP7+ ("PP7+ closure information"). The PP7+ closure information revealed that **11 of the 19 operational programmes and NUTS II regional operational programmes (ROP) had been closed.** These were OP T7+, *Operational Programme Cross-border Cooperation CR–Poland, ROP Northeast, ROP Central Moravia, OP En7+, ROP Central Bohemia, ROP Southeast, ROP Moravia-Silesia, OP Technical Assistance* (OP TA7+), OP HRE and OP *Fisheries 2007–2013* (OP F7+).

In its ***Closure date information letter***[183] the Commission informed that the relevant Commission departments had received all the documents necessary to close the OPs, i.e. the final report on programme implementation, certified statement of expenditure, including the request for payment of the final balance, declaration of programme closure and final control report. The Commission also set a **three-year compulsory archiving period**[184], during which materials linked to the various OPs must remain available for the purposes of audit and control work.

The following table presents an overview of communication with the Commission.

182 *Information on the State of Closure of the 2007–2013 Programming Period, MoRD material ref. no.* 50323/2019-27 of 22 November 2019.

183 Also referred to by the Commission as *Confirmation letter* or *Retention letter.*

184 In accordance with Article 90(1) of Regulation (EC) No 1083/2006 this three-year period is interrupted in the event of legal proceedings or at the duly motivated request of the Commission.

Table 14: Operational programmes and regional operational programmes for the 2007–2013 programming period concluded by the Commission

Programme	Date of receipt of the closure proposal	Actual OP closure date	Note
OP Transport	12 December 2017	28 December 2017	
OP Environment	28 February 2018	28 December 2017	
OP Human Resources and Employment	1 August 2019	27 December 2018	
OP Technical Assistance	1 February 2019	25 April 2019	Allocation not fully utilised
ROP Moravia-Silesia	8 June 2018	28 December 2017	
ROP Southeast	4 June 2018	28 December 2017	
ROP Central Moravia	28 February 2018	28 December 2017	
ROP Northeast	28 February 2018	28 December 2017	
ROP Central Bohemia	28 February 2018	28 December 2017	
INTERREG IV-A CR–Poland 2007–2013	14 December 2017	21 December 2017	Allocation not fully utilised
OP Fisheries 2007–2013	11 July 2019	16 May 2019	Allocation not fully utilised

Source: Information on the closure PO7+.
Note: The "actual OP closure date" is the date on which the end balance was paid, the date on which a notification of a debt was issued (OP TA7+) or the date on which a notification of a debt is sent for the purpose of recouping the end balance (OP F7+). The compulsory three-year archiving period starts on that date.

Six OPs were partially closed. These are ROP *Southwest,* OP *Research and Development for Innovation* (OP RDI), *Integrated Operational Programme*, OP EC, OP PA, and OP *Prague – Competitiveness* (OP PC).

The CR received letters from the Commission regarding the preliminary closure of these programmes but has not yet received a *closure proposal*[185]. The CR's affirmative responses to the *pre-closure proposal*[186] were sent to the Commission within the defined two-month time limit, except for OP PC. For this OP the Commission proposed deducting expenditure on one project, but the MA did not regard that project as ineligible or even potentially ineligible. The CR initially refused to deduct the expenditure; subsequently, in a letter of 9 September 2019, it accepted the removal of the contentious project expenditure from the final statement of expenditure, leaving nothing standing in the way of closure.

On 13 November 2018 the OP PA managing authority received a *pre-closure proposal* from the Commission. The PCA responded in a letter dated 7 January 2019, saying that there was a discrepancy between the MA's data and the European Commission's in point a) *"Amounts needing to be collected".* In 1 October 2019 the Commission sent a pre-closure letter with the amounts adjusted in line with the PCA's letter. Subsequently, the CR was invited in the standard manner to react to the proposed amounts. Unresolved discrepancies were thus dealt with at a joint meeting.

185 *Closure proposal* is the Commission's proposal to close a programme sent to a Member State.

186 *Pre-closure proposal* is the Commission's proposal in the matter of preliminary closure of a programme sent to a Member State.

The remaining two operational programmes, i.e. OP EI and ROP *Northwest* (ROP NW), **can only be closed once unresolved discrepancies are resolved.** These discrepancies are mainly linked to the ongoing national investigation and/or unclosed ECA audit.

The OP EI managing authority sent a final report on the implementation of the OP to the Commission on 29 May 2017. The next steps in the closure of the OP depended on unresolved discrepancies being resolved.

On 28 March 2017 ROP NW sent the Commission a final report on the implementation of the OP, which was updated on 21 September 2017 in response to the Commission's comments. Several discrepancies are still being dealt with in this programme. On 15 October 2019 ROP NW received the Commission's proposal for preliminary closure. The Commission states in this proposal that it cannot yet accept a final report because of the ongoing national investigation.

PERSISTING OPEN AREAS

Staged projects

The implementation of staged projects was divided between two programming periods, with the first stage carried out in PP7+ and the second in PP14+. One risk in the case of these projects is the possibility of problems with closure of the second stage or financial corrections applied in the second stage, which can retroactively affect absorption in the first stage.

From PP7+ there are eight major staged projects (budget over EUR50 million) and 31 small staged projects under **three OPs** (OP En7+, OP T7+ and OP RDI). As at the date of the PP7+ closure information (November 2019) the second stage had been completed for six major and 29 small staged projects.

Unresolved discrepancies[187]

A recalculation and update of the estimated non-absorption of funding allocated for the CR for PP7+ was performed in connection with unresolved discrepancies. **Expected non-absorption** for the entire PP7+ thus stood at approx. **CZK 25.40 billion, or CZK 25.69 billion** taking into account the non-utilisation of part of the allocation for *Operational Programme Cross-border Cooperation CR – Poland 2007–2013* and OP F7+. **The final level of non-absorption will not be known until all OPs and ROPs are fully closed by the Commission.** Potential non-absorption risks (in particular unresolved discrepancies) continue to be monitored and communicated by the NCA to the relevant MAs, AB, PCA and the Commission. Unresolved discrepancies in OP EI will not increase the total non-absorption in view of the programme re-commitment, but **discrepancies in ROP NW that are part of the national investigation and amount to approx. CZK 12 billion may increase the total unabsorbed amount.**

Termination of regional councils

The existence of regional councils of cohesion regions (RCs) remain an important issue. These councils were established by Act No 248/2000 Coll., on support for regional development, as amended, for the purposes of the implementation of support from the *European Regional Development Fund* in PP7+. As **regional councils are no longer managing authorities in PP14+, their work is gradually being scaled down in the context of the termination of PP7+.**

187 These are discrepancies in expenditure that is included in the final project expenditure statement and where there is doubt about their eligibility, which is checked.

The MoRD has prepared an amendment of Act No 248/2000 Coll.[188] **containing rules for the termination of regional councils.** The aim of the amendment is to wind up seven regional councils and transfer all their rights and obligations to a legal successor, which is the CR represented by the MoRD or, for the purpose of tax procedures after 1 January 2022, the Ministry of Finance and financial administration authorities.

G.2.1.2 ESIF in the 2014–2020 programming period

Allocation according to the Commission's data

In PP14+ entities from the CR may utilise EU funding through ten national programmes, five cross-border cooperation programmes and six international programmes and interregional cooperation programmes.

The following passages will deal solely with issues linked to programmes whose MA is based in the CR, i.e. the ten national programmes and the cross-border cooperation programme INTERREG V-A *CR – Poland* (INTERREG CR–PL).

According to data on the Commission's website[189], at the time of this report's deadline **ESIF funding of EUR 24.09 billion**[190] **had been allocated for these 11 programmes.** Adding **national funding of EUR 8.91 billion** makes **a total of EUR 33.01 billion.** There was no change to these aggregate values in 2018. The current budget is presented in the following tables (not including INTERREG CR–PL, because the Commission monitors territorial cooperation separately).

Allocation by funds

At 75.78%, ERDF and CF funding account for the majority of the total allocation. Funding allocated in the ESF and *European Agricultural Fund for Rural Development* (EAFRD) makes up 23.98%. Funding under the EMFF and *Youth Employment Initiative* (YEI) represents just 0.24%.

Table 15: Total allocation for the CR by EU funds **(EUR million)**

Funds	Abbrev.	EU allocation	National resources	Total
European regional development fund	ERDF	11,940.69	5,526.77	17,467.46
Cohesion Fund	CF	6,143.95	1,084.22	7,228.17
European social fund	ESF	3,416.40	786.16	4,202.56
European Agricultural Fund for Rural Development	EAFRD	2,305.67	1,464.97	3,770.64
European maritime and fisheries fund	EMFF	31.11	10.05	41.16
Youth Employment Initiative	YEI	27.20	2.40	29.60
Total		**23,865.02**	**8,874.57**	**32,739.59**

Source: See https://cohesiondata.ec.europa.eu/countries/CZ, May 2020.

188 The draft amendment of the act was approved by the government on 2 March 2020, before putting it before the Chamber of Deputies of Parliament (parliamentary print 780/0).

189 https://cohesiondata.ec.europa.eu.

190 Including EUR 226.22 million for INTERREG CR–PL.

Allocation by topics

The EU budget funds allocation structure was modified by the fifth revision of the *Partnership Agreement for the 2014–2020 Programming Period* (see below).

Table 16 shows the allocations (or shares of the EU and state budget, including totals) for the various topics.[191] The topics are ranked in order of the size of EU contribution.

Table 16: ESIF allocation by topics **(EUR million)**

Topics	EU allocation	National resources	Total
Promoting sustainable transport and key network infrastructures	5,592.93	1,188.72	6,781.65
Protecting the environment and promoting resource efficiency	3,030.63	777.62	3,808.26
Strengthening research, technological development and innovation Strengthening research, technological development and innovation	2,561.56	1,881.29	4,442.85
Support towards a low carbon economy	2,498.98	1,639.74	4,138.72
Investments in education, vocational education, including vocational training to obtain skills and lifelong learning	2,142.08	517.10	2,659.17
Promoting social inclusion and combating poverty	2,095.95	422.15	2,518.09
Increasing the competitiveness of SMEs	1,537.51	950.75	2,488.26
Promoting sustainable and quality employment and promoting labour mobility	1,348.81	305.45	1,654.26
Promoting climate change adaptation, risk prevention and risk management	1,257.11	463.31	1,720.43
Technical assistance	844.36	177.09	1,021.45
Improving ICT access, use and quality of ICT	803.81	399.55	1,203.35
Increasing the institutional capacity of public authorities and improving the efficiency of public administration	141.41	30.25	171.65
Old commitments	9.90	10.10	20.00

Source: See https://cohesiondata.ec.europa.eu/countries/CZ, May 2020.

Allocation of programmes according to data of Czech implementing bodies

The NCA concedes that it is practically impossible to achieve formal conformity at any given moment between the Partnership Agreement and current financial data for individual programmes. That is due to various mechanisms for approving revisions of the PA and programmes at both national and European level. The large number of programmes and revisions thereof during a calendar year is another important factor. The Commission itself was aware of that: its amendment of the General Regulation (Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013) altered Article 16 *Adoption and Amendment of the Partnership Agreement*[192]. In line with this amendment, the CR, represented by the national coordination authority (MoRD–NCA), submits a draft revised

191 The *Old Commitments* topic concerns commitments from the common agricultural policy from the previous programming period.

192 Subsection 4a provides: *"Where applicable, the Member State shall submit each year by 31 January an amended Partnership Agreement following the approval of amendments to one or more programmes by the Commission in the preceding calendar year."*

PA to the Commission at the end of January every year. This draft incorporates all programme changes approved by the Commission in the previous year.

On 29 April 2019 **the Commission approved the fifth revision of the PA.**[193] This revision took into account the transfer of part of the allocation worth **almost EUR 78.75 million from IROP** (specifically, objective 2.5 *Reduce Energy Intensity in the Housing Sector and Increase the Use of Renewable Energy Sources*). The revision also concerned **reallocation within IROP** and modifications to the performance framework. The fifth revision of the PA **had no impact on the overall allocation to the CR.**

In September 2018 the CR informed the Commission of its interest in performing a further reallocation, this time between OP EIC, IROP and OP En and between specific objectives in OP EIC. The ESIF Council approved the proposal, based on an MoIT action plan, consisting in reallocating almost half the funding (approx. EUR 240.53 million) originally earmarked for high-speed internet to other projects, above all in support of coal areas. Even though the Commission had approved the reallocation by 20 February 2019[194], these changes have not yet been factored into the PA.

The draft sixth revision of the PA, which contains changes impacting on the PA from all revisions approved by the Commission in 2019, was submitted by the NCA **to the Commission on 31 January 2020; the Commission approved it on 24 April 2020.** This PA revision comprised **changes from six OP revisions approved by the Commission from January to April and also in December 2019.** The implementation of the PA to date is presented mainly in the *Progress Report on Implementation of the Partnership Agreement as at 31.12.2018*[195] (Progress Report 2019), which the NCA drew up during 2019. On 22 July 2019 the progress report was discussed by the Czech government. It was then sent to the Commission, which accepted it on 18 September 2019.

The specific substantive goals of the PA (under EU legislation, these are designated as expected results in the PA) **have mostly been achieved by the CR.** Good results were achieved, for example, in research, development and innovation (particularly in the quality of research done by public entities and its practical application results and in enterprises' innovation performance); in SME competitiveness; rail and road infrastructure; water and air quality; cultural heritage; net mobility in public transport; employment and the labour market; and building and modernising the infrastructure of schools and school facilities. By contrast, **least progress was made towards objectives such as energy savings and renewable energy sources across all sectors and infrastructure for high-speed internet access.** Detailed information is also presented in the *Annual Report on the Implementation of the Partnership Agreement for 2019*[196] (PA AR).

193 See: https://mmr.cz/Dotace/media/SF/FONDY%20EU/2014-2020/Dokumenty/Dohoda%20o%20partnerstv%c3%ad/Partnership-agreement-technical-revision-approved-by-the-EC-on-13-April-2016.pdf.

194 Commission implementing decision of 20 February 2019 amending implementing decision C(2015) 3039 approving certain elements of the operational programme "Enterprise and Innovation for Competitiveness" for support from the European Regional Development Fund under the Investment for growth and jobs goal in the CR, C(2019) 1552, final, 20 February 2019.

195 Progress Report 2019 is a document by means of which Member States inform the Commission of progress in the implementation of the PA for the period from 1 January 2014 to 31 December 2018. The aim of Progress Report 2019 is to provide evidence of whether funds provided from the EU budget through the ESIF are delivering the expected results and achieving the goals set when OPs were approved.

196 *Annual Report on the Implementation of the Partnership Agreement for 2019,* NCA, April 2020.

Overview of the state of fulfilment of physical and financial progress milestones in OPs – implementation of the performance framework as at 31 December 2018

Some new elements were incorporated in the system for utilising ESIF funding for PP14+ in an attempt to ensure more efficient use of EU budget funds. At the start of the programming period these were mainly “ex-ante conditionalities”: if these were insufficiently satisfied, the preparation of programmes could be paused or interim payments could be suspended for the affected parts of programmes. Another protective feature was the “performance framework”. This was used to assess the success of ESIF funding drawdown and achievement of financial and substantive objectives by means of “milestones” and targets. In the middle of PP14+ the Commission reviewed the performance of programmes in terms of the defined milestones and targets; if these were achieved, the Commission awarded programmes a performance reserve that had been set aside, amounting to approximately six per cent of a programme’s total allocation.

In an effort to forestall possible failure to comply with the performance framework, the NCA focused first on problem areas, mainly under the *Integrated Risk Management System* (IRMS), regularly monitoring progress towards milestones and achievement predictions throughout 2018 and 2019. If a problem was detected, corrective measures were adopted by the NCA and managing authorities, including revisions of performance framework indicators. These measures were consulted with the Commission in advance and subsequently approved by the Commission. In some cases, funds were reallocated away from areas with low absorption capacity. For programmes where the performance reserve was not awarded for the given priority axes or EU priorities, negotiations were held with the Commission regarding the use of this reserve. The priority of both the NCA and MAs was to use the funding in the given programme so that it was utilised for activities with high absorption capacity and there was no loss of funding for the programme. **The total performance reserve redistribution amounted to approximately CZK 2.9 billion.**

The Commission reviewed programmes’ performance and the decision to award the performance reserve on the basis of annual reports on the implementation of programmes for 2019 (“Annual Reports”) that were sent via SFC2014+[197] up to 30 June 2019.

According to the Annual Reports, **123 milestones** (45 financial and 78 physical) **out of a total of 134 milestones defined for the CR were fulfilled and 11 milestones** (five financial and six physical) **were not.**

Although not all milestones were fulfilled by the end of 2018, Commission Implementing Regulations (EU) No 2018/276[198] and No 2018/277[199] allowed managing authorities in 2019 to include the value of all eligible expenditure by beneficiaries in 2018 in the drawdown of the allocation, with the understanding that it was important that this expenditure was included in the aggregated requests and certified before the deadline for filing the relevant Annual Reports. Values of “partially implemented operations” could be included in the achievement of physical progress milestones if the nature of each specific indicator permitted.

197 Commission information system intended mainly for monitoring drawdown of PP14+ funds.

198 Commission Implementing Regulation (EU) 2018/276 of 23 February 2018 amending Implementing Regulation (EU) 215/2014 with regard to changes to the determination of milestones and targets for output indicators in the performance framework for the European Structural and Investment Funds.

199 Commission Implementing Regulation (EU) 2018/277 of 23 February 2018 amending Implementing Regulation (EU) 2015/207 with regard to changes to the models for the implementation reports for the Investment for Growth and Jobs goal and for the European Territorial Cooperation goal, as well as for the models for the progress report and annual control reports and correcting that Regulation with regard to the model for the implementation report for the Investment for Growth and Jobs goal and annual control report.

Thanks to this possibility and the aforesaid measures, most programmes attained the required values and achieved their milestones. **Certain milestones were not achieved** solely in **OP EIC** (in priority axis 3 – *Efficient energy management, development of energy infrastructure and renewable energy sources, support for the introduction of new technologies in the management of energy and secondary raw materials*, and priority axis 4 – *Development of high-speed internet access networks and communication technologies*); in ***OP Prague – Growth Pole*** (OP PGP) (in priority axis 1 – *Strengthening research, technological development and innovation* and priority axis 2 – *Sustainable mobility and energy savings*); **and in the RDP** (priority 5 – *Resource efficiency and climate*).

The Commission issued implementing decisions in the matter of the achievement or non-achievement of programme milestones. For the CR these were:

- Commission decision of 1 July 2019 determining for the CR and for the European Maritime and Fisheries Fund the priorities which have achieved their milestones with reference to the operational programme registered encoded under the following CCI number 2014CZ14MFOP001[200], C(2019) 5034, final, 1 July 2019;
- Commission implementing decision of 19 July 2019 determining for the CR and for the European Regional Development Fund and Cohesion Fund the operational programme and the priorities which have achieved their milestones, with reference to the operational programme encoded under the following CCI number 2014CZ16M1OP001[201], C(2019) 5519, final, 19 July 2019;
- Commission implementing decision of 24 July 2019 determining for the CR and for the European Regional Development Fund, European Social Fund and Cohesion Fund the operational programmes and the priorities which have achieved their milestones with reference to the operational programmes encoded under the following CCI numbers 2014CZ16M1OP002, 2014CZ16M2OP001, 2014CZ16RFOP001, 2014CZ16RFOP002[202], C(2019) 5638, final, 24 July 2019;
- Commission implementing decision of 31 July 2019 amending implementing decision 2014/190/EU as regards the annual breakdown of the resources from the specific allocation for the Youth Employment Initiative by Member State together with the list of eligible regions, C(2019) 5438, final, 31 July 2019;
- Commission implementing decision of 31 July 2019 determining the Union priorities that have achieved their milestones within the rural development programme with CCI number 2014CZ06RDNP001 submitted by the CR for support from the European Agricultural Fund for Rural Development, C(2019) 5840, final, 31 July 2019;
- Commission implementing decision of 20 August 2019 identifying for the CR and for the European Regional Development Fund, European Social Fund and Youth Employment Initiative the operational programmes and priorities that achieved their milestones, with reference to the operational programmes registered under CCI 2014CZ05M2OP001 and 2014CZ05M9OP001[203], C(2019) 6193, final, 20 August 2019;
- Commission implementing decision of 30 August 2019 determining for the CR and Poland and for the European Regional Development Fund the cooperation programme and the priorities which have achieved their milestones with reference to the operational programmes encoded under the CCI number 2014TC16RFCB025[204], C(2019) 6354, final, 30 August 2019.

200 OP *Fisheries 2014–2020.*

201 OP *Transport.*

202 OP *Environment*, OP *Prague - Pole of Growth of the CR*, OP *Enterprise and Innovation for Competitiveness, Integrated Regional Operational Programme*.

203 OP *Employment and* OP *Research, Development and Education*.

204 INTERREG CR–PL.

In its annual report on the Partnership Agreement, the National Coordination Authority stated that the Commission issued a decision on the award of the entire performance reserve. Partly thanks to the aforementioned measures **the CR obtained the entire performance reserve** (approx. 6% of the total allocation, or approximately CZK 36.6 billion).

In consequence of the award of the performance reserve **the NCA switched to a system of reporting drawdown relative to the total allocation from January 2020,** i.e. the main allocation including the awarded performance reserve.

G.2.2 Drawdown of the allocation for the CR and fulfilment of the n+3 rule in the 2014–2020 programming period

Drawdown of the main allocation according to the Commission

The Commission tracks Member States' drawdown of their allocation and publishes the data on its website (https://cohesiondata.ec.europa.eu).[205] In this way the Commission publishes data on the volume of funding covered by a subsidy provision decision, or an equivalent act in law, and the volume of funding paid out to Member States by the Commission on the basis of submitted aggregated requests.

According to the Commission's figures on its website as at 15 April 2020[206], **the CR was in 22nd place in terms of the volume of funding covered by a legal document (79.93% of the total allocation),** which represents a year-on-year climb of five places among EU-28 countries. **The CR was 6.23% below the EU-28 average** (excluding data for territorial cooperation programmes). As far as comparing member states in terms of the volume of funding paid out by the Commission is concerned, **the CR was in 20th place (39.45% of the allocation), 5.40% below the EU-28 average.** Although the CR's standing is still below average in both categories, there has been clear improvement compared to previous years.

To facilitate comparisons of Member States' progress in absorbing their allocation, a ranking of Member States was drawn up for both categories. These rankings were then summed for every year from 2015 to 2019.[207] As Table 17 makes clear, **the CR was among the slowest Member States in terms of absorption speed** in the 2015–2019 period. In this comparison **the CR is third from bottom,** though not far behind Romania and Croatia. These three Member States are on the heels of Slovakia, which is currently in 23rd place. It is worth noting that the bottom two places are occupied by two "old" Member States, Italy and Spain. Finland and Ireland were the Member States displaying fastest drawdown.

---

205 Data for the ERDF, CF, ESF and YEI are updated as a rule three times a year (31 January, 31 July, 31 October); data for the EAFRD twice a year (31 December and 30 August); and data for the EMFF once a year (31 December).

206 The data set accessible at https://cohesiondata.ec.europa.eu contained data for the ERDF, CF, ESF and YEI updated as of 31 December 2019 and data for the EAFRD and EMFF as of 31 December 2018.

207 The better a Member State's position in each "category", the lower the points score. The EU-28 average is therefore 29 points (14.5 for its position in the category of funds covered by a decision and 14.5 for its position in the category of funds paid out by the Commission).

Table 17: Ranking of MSs according to the speed of drawing for the period 2015–2019

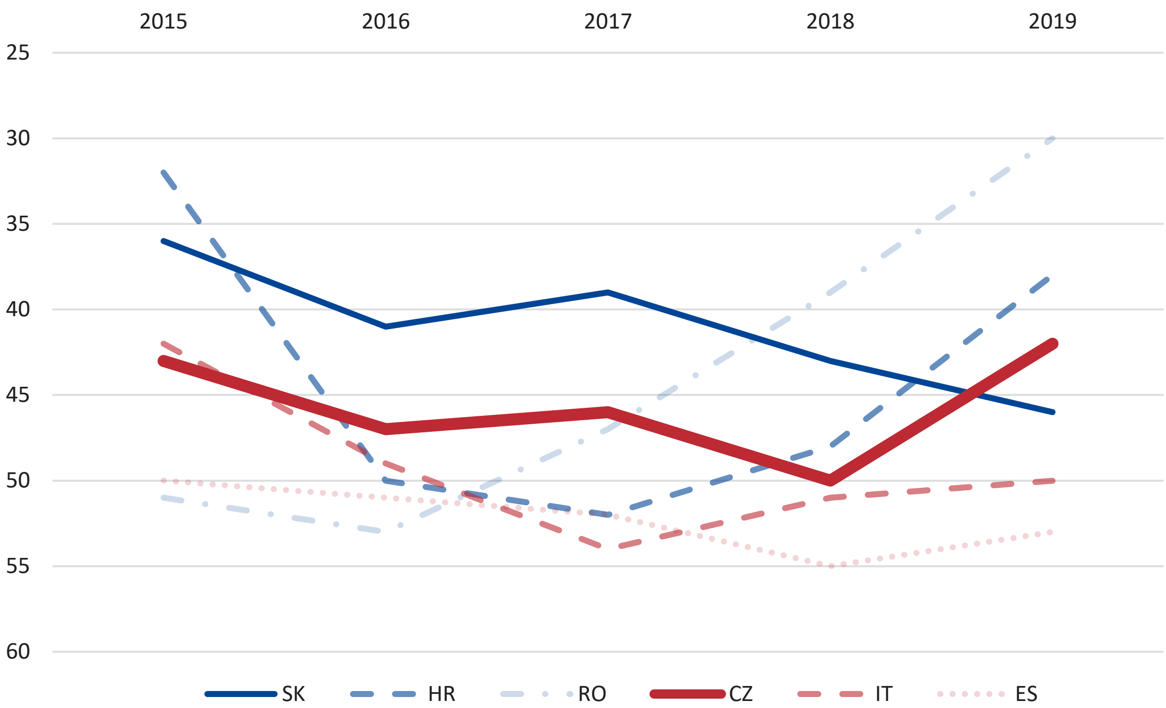
Ranking	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	11th	12th	13th	14th
State	FI	IE	SE	PT	LU	DE	EE	AT	NL	LV	BE	UK	HU	DK
Points	27	28	53	67	105	106	108	110	113	116	118	120	131	142

Ranking	15th	16th	17th	18th	19th	20th	21st	22nd	23rd	24th	25th	26th	27th	28th
State	LT	FR	SI	CY	EL	PL	MT	BG	SK	HR	RO	CZ	IT	ES
Points	142	148	161	168	169	177	183	188	205	220	220	228	246	261

Source: https://cohesiondata.ec.europa.eu, 15 April 2020.
Note: The EU-28 average for this five-year period is 145 points.

Chart 13 shows a comparison of the development of drawdown in the slowest six Member States (the red group in Table 17). The presented values again represent points for placements in the two drawdown categories (the more points scored, the worse the ranking and the slower the absorption in the given year).

Chart 13: Development of drawing in the six slowest drawing MSs and their point loss on the EU average in 2015–2019



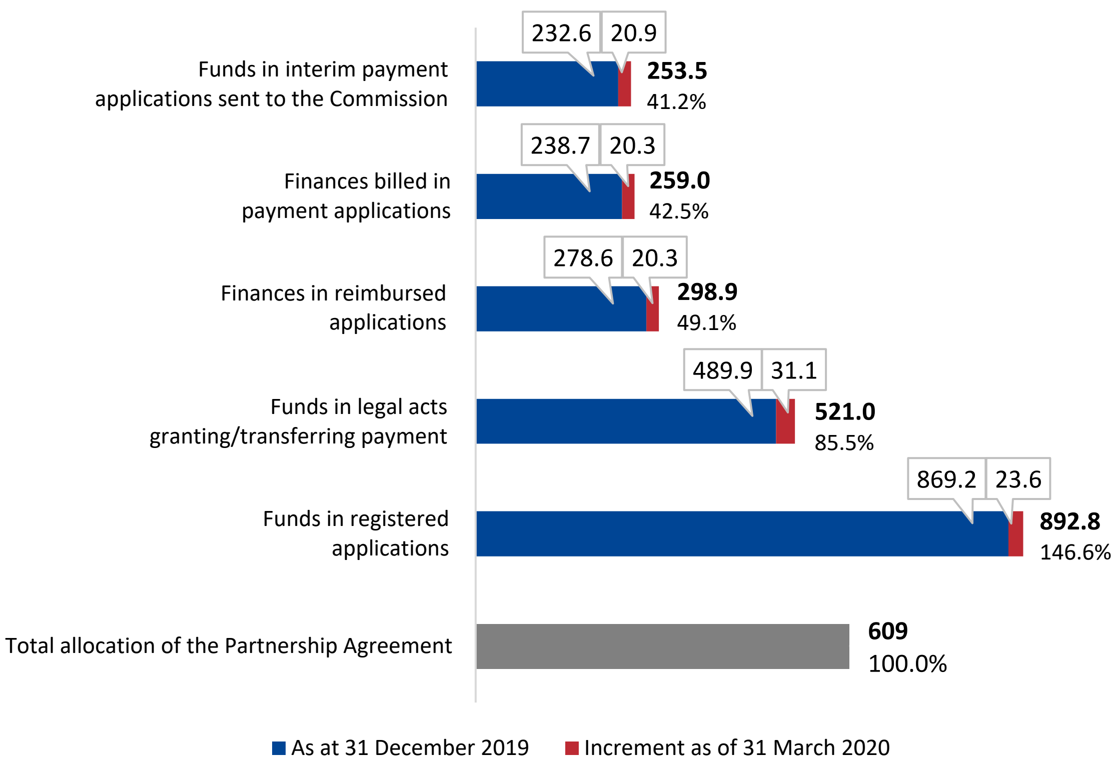
Source: https://cohesiondata.ec.europa.eu, 15 April 2020.
Note: The EU average is the off-chart "0" score on the vertical axis.

It is evident that while Romania and Croatia in particular, after a slower start to their OPs, managed to speed up drawdown considerably, Slovakia is moving in the opposite direction, i.e. towards Italy and Spain. The CR recovered its big absorption drop in 2018 and is on a positive trend of faster drawdown.

Drawdown of the allocation according to MS2014+

At national level, the NCA draws up overviews of the utilisation of finances in programmes co-funded out of the ESIF every month[208]; more detailed reports are produced on a quarterly basis[209]. It publishes these reports on the MoRD website. The values of the "drawdown categories" presented in this point are also based on figures from the *Quarterly Report on the Implementation of ESI Funds in the CR in the 2014–2020 Programming Period, 1st Quarter of 2020* published on 18 May 2020.[210] That document gives information about territorial cooperation programmes (i.e. also INTERREG CR–PL) separately from other programmes.

Chart 14: State of drawing ESI funds in billions of CZK (for the sum as at March 31, 2020 and in % of the total allocation) as at December 31, 2019 and the increase for the first quarter of 2020.



Source: MS2014+, drawdown data as at 31 March 2020.

Drawdown from programmes co-financed out of the ESIF **sped up during 2019** (see Chart 13). **Drawdown in OP PGP and OP EIC remained relatively low,** however: at the end of March 2020 **they still stood below 30%** of their total allocation in the *"funds in interim payment applications sent to the Commission"*[211].

---

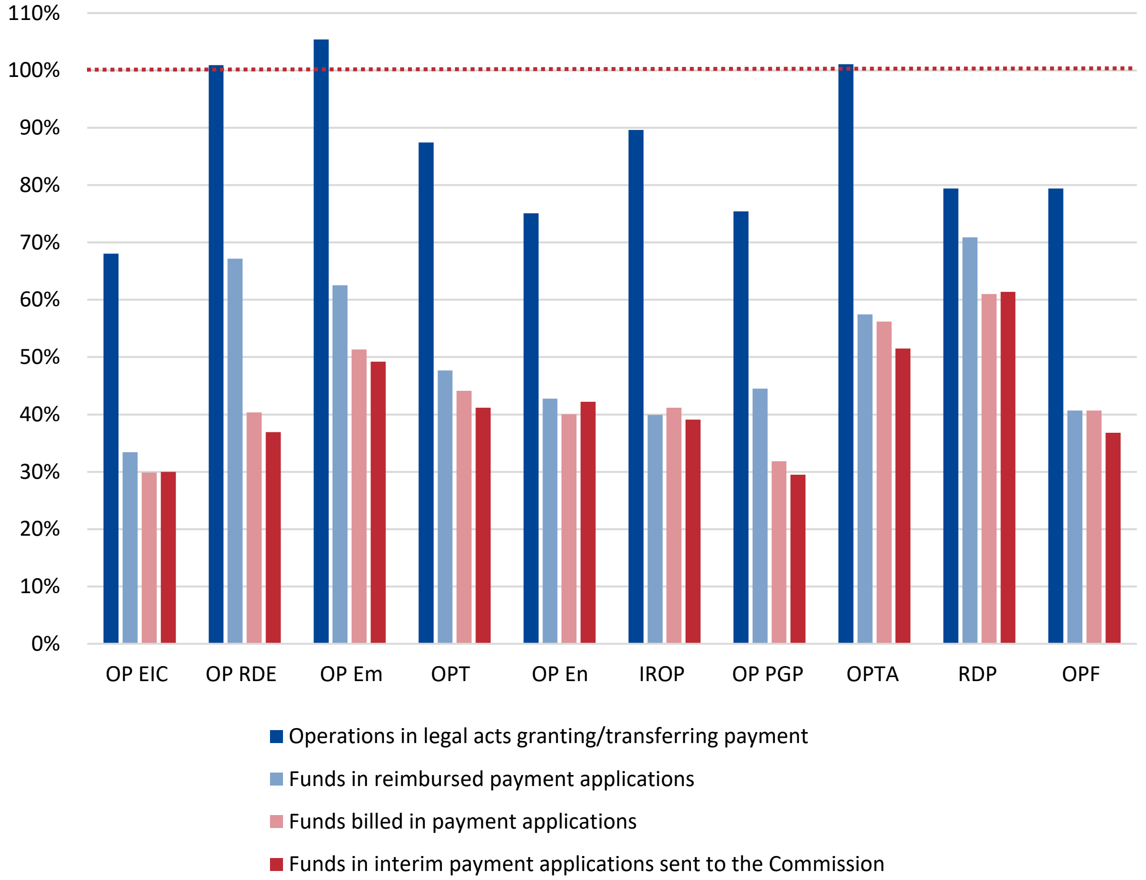
208 *Monthly Information on the Implementation of ESI Funds in the CR in the 2014–2020 Programming Period.*

209 *Quarterly Report on the Implementation of ESI Funds in the CR in the 2014–2020 Programming Period.*

210 These are figures reported in MS2014+ as at 31 March 2020.

211 At national level this category comes close to the category of *"funds paid out by the Commission"* that the Commission keeps a close eye on.

Chart 15: Drawdown of ESIF funds in % of total allocation as at 31 March 2020 by programmes



Source: *Quarterly report on the Implementation of ESI Funds in the CR in 2014–2020 Programming Period, I Quarter 2020*, NCA, 18 May 2020.

Note: The *"funds in interim payment requests sent to the Commission"* columns include contributions from programmes for financial instruments. The entire contribution of funds for a financial instrument can be included in the request, regardless of whether funds were already provided to end beneficiaries. This mainly applies to OP En.

As the NCA states in its quarterly report, MAs announced **a total of 1,050 calls with an allocation of CZK 748.7 billion**[212] in PP14+. As at 31 March 2020 the highest-value calls relative to the programme allocation came under OP F, OP EIC and OP PGP.

By 31 March 2020 **legal documents had been issued** for the provision/transfer of support **worth CZK 521.0 billion, i.e. 85.5% of the total allocation.** The largest shares of funds in legal documents relative to total allocation were found in OP Em, OP *Technical Assistance* (OP TA) and OP RDE, with the smallest in OP EIC, OP En and Op PGP.

The total **value of support disbursed** as at the same date to beneficiaries **on the basis of submitted applications** for reimbursement for eligible project data was **CZK 298.9 billion, or 49.1%.** The largest amounts of funds was paid out under the RDP, OP RDE and OP Z; the smallest amounts under the OP EIC, IROP and OP F.

212 Value of the EU contribution.

At the end of March 2020, i.e. in the last year of the seven-year programming period, **the amount of funds in interim payment applications sent to the Commission was CZK 253.5 billion, or 41.2% of the total allocation.**[213]

Compliance with the n+3 rule

The n+3 rule is a tool with whose help the EU ensures smooth absorption of ESIF funding. A Member State's allocation for year "n" was must utilised by the end of year "n+3" at the latest. If this condition is not met, the Member State faces the risk of losing the unutilised funding, known as **automatic decommitment**[214]. What this means for Member States in practice is that the allocation for year "n" is reduced by the amount of unutilised funding, which cannot be subsequently drawn down from the ESIF or specific programme. Under the current design of the Commission's n+3 rule assessment, compliance with the rule is assessed at programme level.

In the context of the Risk Management Information System, **the NCA lays down measures to eliminate** the most significant **drawdown risks** relating to PP14+ funding in order to ensure its utilisation is as efficient as possible.

Given the approaching closure of PP14+ and the need to focus on the concurrence of two programming periods in 2023, when the eligibility of expenditure from the current period will end and the n+2 rule will be in force for the 2021–2027 programming period, the NCA defined **"limits for optimal drawdown"** in 2019. These limits were modelled on the basis of progress in drawdown and experiences with PP7+ absorption. **Optimal drawdown limits were set in 2019 for OP EIC, OP PGP, IROP, OP F, OP RDE, OP En, OPT and OP TA.**

As the **optimal drawdown limits** proved effective, they have been updated for 2020 and continue to be monitored.[215]

Transfers of financial allocations within OPs and between OPs were an important measure for ensuring compliance with the n+3 rule during 2019.

This was mainly a question of **reallocating EUR 240,531,844 from OP EIC,** specific objective 4.1 – *Increasing coverage of high-speed internet access*, where a risk of non-utilisation was identified. This transfer concerns commitments for 2019 and 2020.

Of that amount, EUR 201,277,337 was transferred to IROP (specific objective 1.2 – *Increasing the share of sustainable forms of transport;* specific objective 2.3 – *Development of infrastructure for the delivery of health services and health care*; and specific objective 2.4 – *Increasing the quality and availability of infrastructure for education and lifelong learning*) **and EUR 39,254,507 was transferred to OP En** (specific objective 2.2 – *Reducing emissions from stationary sources contributing in the exposure of the population to above-the-threshold pollutant concentrations*). The transfer of funds to OP En necessitated the creation of a new specific objective, which will be financed from the ERDF.

In addition, **EUR 77,414,360 was moved within OP EIC** from specific objective 3.2 – *Increasing energy efficiency in the enterprise sector* to 2.3 – *Increase the utility of infrastructure for enterprise*, in which a new financial instrument will be created.

---

213 See above (subsection *Drawdown of the main allocation according to the Commission*).

214 Decommitment means the cancelling of the Commission's commitment.

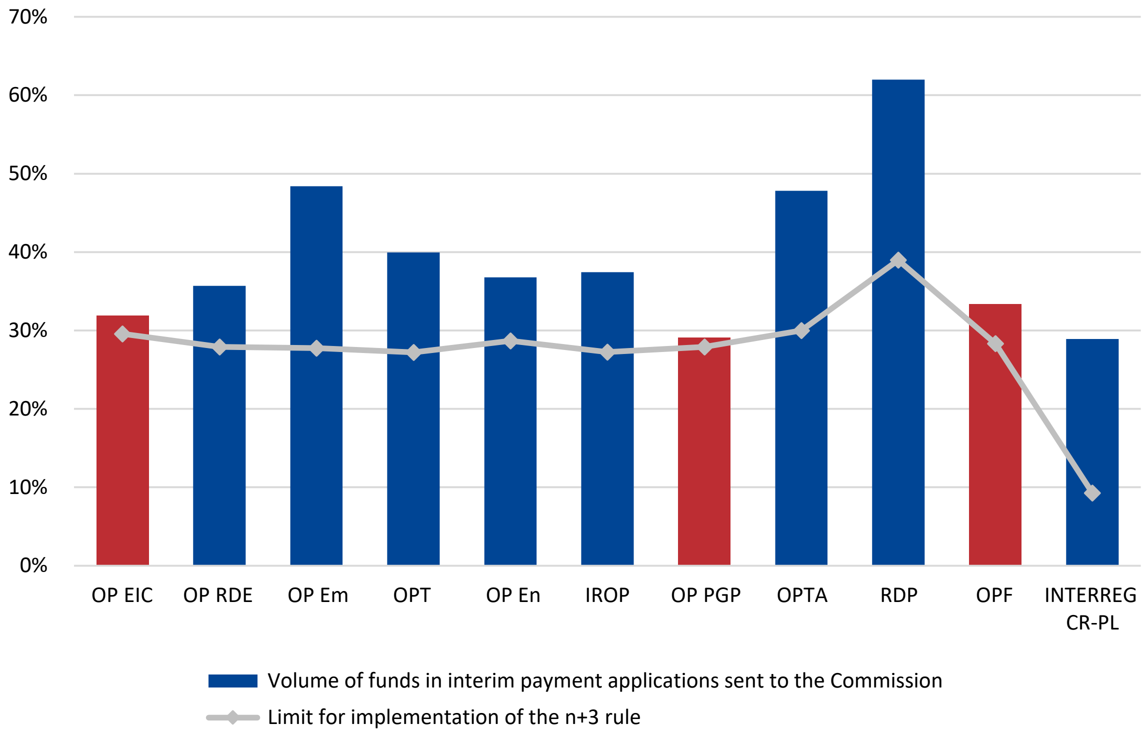
215 These limits were set before the Covid-19 epidemic, but the NCA is prepared to make allowance for the possible impacts on Covid-19 on the implementation of European funds.

In view of the thematic concentration rules, **the funding transfer was only possible because IROP activities in specific objective 1.2 – *Increasing the share of sustainable forms of transport* previously falling under thematic objective 7 were reclassified under thematic objective 4, including retroactive reclassification.**

The reallocation was approved by the government, the monitoring committees of the relevant OPs and, subsequently, by the Commission (OP EIC – 20 February 2019; IROP – 7 March 2019; and OP En – 16 April 2019).

In part thanks to these measures, **all programmes managed to comply with the n+3 rule** (hit the n+3 drawdown threshold) **for 2019 in good time.**[216] **Consequently, the CR did not lose any funding.** The percentage of funding in interim payment applications sent to the Commission for the various programmes, compared against the percentage threshold for compliance with the n+3 rule for 2019, is shown in Chart 16.

Chart 16: Funds in interim payment applications sent to the Commission (as a percentage of the main allocation) and comparison with the limit for meeting the n+3 rule in 2019.



Source: *Quarterly Report on the Implementation of ESI Funds in the CR in the 2014–2020 Programming Period, IV. Quarter 2019,* NCA, 21 February 2020; as at 31 December 2019.

216 The achievement of these limits for the various programmes as at 31 December 2019 is presented in annex 3 to the annual report on the Partnership Agreement.

If we overlook the extreme degree to which the cumulative drawdown limit for 2019 was exceeded in the specific programme INTERREG CR–PL (210.95%)[217], **the threshold was exceeded most noticeably by OP Em** (exceeded by 74.44%), **OP TA** (59.36%) and **the RDP** (59.05%). By contrast, **OP PGP, OP EIC and OPF exceeded the limit by relatively small margins** (4.19%, 7.88% and 17.63% respectively). These three programmes (shown in red in Chart 16) were among those with the slowest drawdown in 2018.[218]

According to NCA information, **the vast majority of OPs had complied with the n+3 rule for 2020 by 31 March 2020. OP EIC, OP PGP and OPF were the exceptions.**

In the case of OP PGP compliance with the n+3 rule as at 31 March 2020 stood at 85.9%, meaning that EUR 14,789,618 still remains to be absorbed by the end of 2020. In the case of OPF compliance with the n+3 rule as at 31 March 2020 was at 99.3%, meaning that EUR 121,582 still remains to be absorbed by the end of 2020. As both OPs already displayed a high degree of compliance with n+3 for this year after the first three months of 2020 and forecasts point to the set limits being significantly exceeded, it is reasonable to assume that there should not be any problems in this case.

In the SAO's opinion based on the facts presented above and others, **there is a degree of risk that OP EIC will not comply with the n+3 rule in 2020.**

G.2.3 ESIF involvement in the response to the economic impacts of the Covid-19 pandemic in the CR

The following information comprises the NCA's answers to the SAO's questions. In view of the topical nature of this issue, these passages are included in the EU Report 2020 even though the answers were provided after the report's editorial deadline.

The MoIT, working with the Czech-Moravian Guarantee and Development Bank (CMGDB), prepared several support schemes for entrepreneurs and self-employed people affected by the government's measures to prevent the spread of the Covid-19 pandemic.

The first support scheme ***Covid I*, announced in March 2020, was conceived as an interest-free loan towards operating costs, with repayments deferred.** The acceptance of applications was stopped following huge levels of interest from entrepreneurs. The original allocation of **CZK 0.5 billion** from national resources was increased with funds from OP EIC.

***Covid II* was announced in April 2020 as a guarantee scheme under the *Expansion* programme in OP EIC.** The CMGDB provides guarantees for commercial bank loans to entrepreneurs outside Prague and contributes towards interest payments. The credit can be used to pay operating costs. After the injection of the allocation from OP EIC the total guarantee capacity of *Covid II* is approximately **CZK 15 billion.** The OP EIC revision was sent to the Commission on 16 April 2020 for approval.

217 The cumulative drawdown limit for INTERREG CR–PL was set at just 9.30% for 2019, while the average value for all 11 programmes whose managing authorities are Czech entities is 27.54%.

218 See *EU report 2019*, subsection E.2.2.

Covid Prague was launched for the capital at the end of April. It works on a similar principle to *Covid II* and will complemented with a **CZK 1.5 billion guarantee capacity for entrepreneurs in Prague.** The parameters of INFIN[219], a scheme targeting innovative businesses in Prague, were also modified. Both schemes are funded out of OP PGP. The OP PGP revision was sent to the Commission on 23 April 2020 for approval.

To a large extent, the funding for these **operational financing support** schemes to help firms cope with the immediate consequences of measures adopted in response to the pandemic was transferred from other EU-funded investment-oriented support programmes (most notably support for cooperation in research, development and innovation, support for the development of business infrastructure and energy efficiency).

Over and above the EU funds, the MoIT drew up ***Covid III*** in collaboration with the MoF, Czech Banking Association and CMGDB. This scheme **is based on the portfolio guarantee principle.** The CMGDB concludes a framework suretyship agreement with commercial banks and the commercial banks themselves judge whether clients satisfy the scheme's requirements. This speeds up processes considerably and the banks' clients get access to the required liquidity more quickly. The government-approved **state guarantee limit of CZK 150 billion from national sources** will make it possible for the CMGDB to guarantee CZK 600 billion in provided commercial operational credit. The scheme is intended for entrepreneurs in supported economic activities employing at most 500 people. This parameter derives from the practice of the EIB and *European Investment Fund*, which work with the "small mid-caps" category, meaning firms with a workforce of from 250 to 500 employees, and provide them with the same support as SMEs.

Further to the declaration of a state of emergency and having assessed the possible negative impacts on ESIF implementation, the MAs made adjustments to the rules to prevent project implementation and the achievement of project goals being jeopardised. Alterations were made to management documentation (generally modifications of expenditure eligibility, project sustainability conditions, assessment commission meetings to take place electronically) and to the calls (generally extended deadlines for acceptance of funding applications, extension of the last possible deadline for completion of the physical implementation of the project, adjustment of deadlines for providing supplementary information for applications). Since the changes were made and updated, MAs have been posting regular information on their websites.

The **OP EIC** managing authority also announced **two thematically focused calls for the fight against Covid-19** (*Innovation vouchers* and *Technologies*).

In response to the spread of the new coronavirus and with a view to minimising its future impacts, **extensive legislative changes were made to the rules for EU cohesion policy PP14+** in order to facilitate adjustments to the relevant OPs. The goal is both to enable Member States to update the focus of OPs so that they help minimise the consequences of the spread of the disease and also to prevent the possible non-absorption of programme allocations caused by the impossibility of carrying out projects in their intended form. Based on the amended legislation, the NCA drew up an analysis of possible modifications of OPs. It is finding out what MAs need and preparing proposals for ways to translate the altered legislation into the reality of cohesion policy in the final years of PP14+.

219 INFIN is a scheme of the CMGDB offering SMEs cheap loans to fund innovative business projects in the city of Prague.

According to Czech government resolution no. 331 of 30 March 2020, the MoRD prepared an **analysis of the possible use of idle** (non-committed) **EU funds**. The analysis will be followed up by possible further reallocations in the context of existing PP14+ programmes. The outcome of this analysis is several options for making use of the idle funds to help deal with the situation brought about by Covid-19. The material was discussed at working level in the government's Committee for the European Union on 21 April 2020. The various options will now be finalised, partly in connection with discussions on the national programmes in response to the pandemic. After subsequent discussions, the final material will be put before the Czech government, which will choose the most suitable option. The OP revisions will be submitted to the appropriate monitoring committees for approval and then to the Commission.

The changes referred to above made it possible to use EU funds to **support operational financing** in PP14+. The CR has made considerable use of this option, as described above. It must be noted, however, that providing support for operational financing out of EU funds **simultaneously reduces the volume of support for investments,** or reduces the volume of support for certain priority axes and specific objectives. **As a result, the expected results** of the PA **might not be delivered,** or the CR's honouring of its international commitments in the field of energy efficiency, for example, may be restricted.

The MoRD envisages that the longer-term impacts of the Covid-19 pandemic will have to be dealt with *inter alia* by making the investment environment more efficient (recodification of construction law combined with the digitalisation of planning permission and building authorisation procedures would be a major contribution to that goal), and massive government investment and mobilisation of private investment to help tackle pressing pan-societal needs. EU funds are one of the government's planned resources in the field of investments as set out in the national reform programme, for example.

The NCA also drafted a procedure for MAs in the implementation of projects linked to restrictions in connection with the spread of the new coronavirus. Another version of recommendations in response to the approval of Regulation of the EP and of the Council 2020/460[220] (CRII) and 2020/558[221] (CRII+) is currently at the consultation stage. As with the previous recommendations, the aim is to harmonise the starting points and basic rules on procedures in a way ensuring that MAs follow the same procedure.

Another piece of guidance focusing on public procurement is the recommendation regarding the possibility of extending deadlines for filing bids and the possibility of extending a commitment change in the state of emergency. As the pandemic appeared in the final commitment year of the current programming period and talks on the legislation for the coming 2021–2027 period have not been completed, an impact on the form of this legislation can be expected, but there is not yet any way of knowing what this impact will be. There will probably also be consequences for the MFF, which is also still awaiting approval. Concrete changes to the proposals are not yet known – the draft MFF is expected on the near future.

220 Regulation (EU) 2020/460 of the European Parliament and of the Council of 30 March 2020 amending Regulations (EU) No 1301/2013, (EU) No 1303/2013 and (EU) No 508/2014 as regards specific measures to mobilise investments in healthcare systems of Member States and in other sectors of their economies in response to the COVID-19 outbreak (Coronavirus Response Investment Initiative).

221 Regulation (EU) 2020/558 of the European Parliament and of the Council of 23 April 2020 amending Regulations (EU) No 1301/2013 and (EU) No 1303/2013 as regards specific measures to provide exceptional flexibility for the use of the European Structural and Investment Funds in response to the COVID-19 outbreak.

G.3 Expenditure on the Common Agricultural Policy

G.3.1 Current developments in the Common Agricultural Policy

G.3.1.1 Changes and adjustments for the 2021–2027 programming period in the EU

The Common Agricultural Policy (CAP) has been through five major reforms during its existence, the most recent of which (for 2014–2020) was in 2013. A new form of the CAP is currently being prepared for the years 2021 on. The first discussions about the CAP after 2020 were begun in 2016. In June 2018 the Commission published the relevant draft legislation.

The future CAP should **focus on nine objectives reflecting its economic, environmental and socio-territorial multifunctionality. Its two pillars are set to be preserved, as well as both agricultural funds** to support national programmes following up a range of measures selected in the **integrated approach.** In any case, **direct payments** (both decoupled and coupled) **should remain the priority component of the new CAP**.

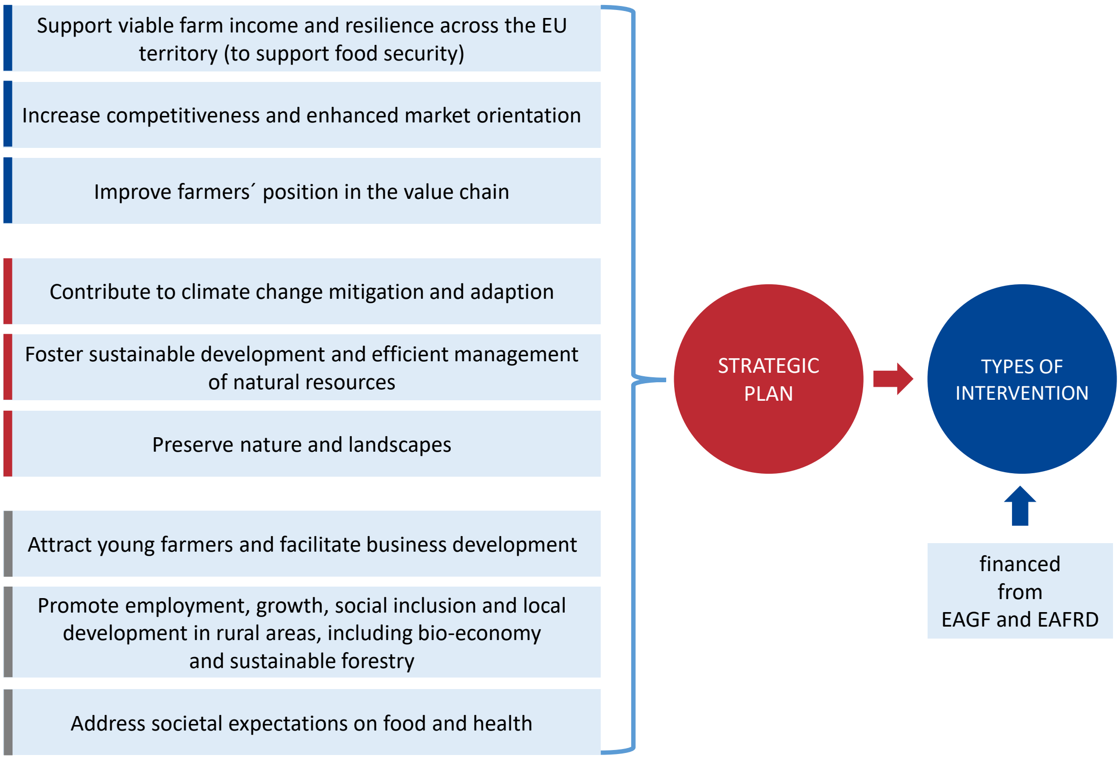
Spending on the CAP has been falling constantly for several years now. While the CAP accounted for 66% of the EU budget at the start of the 1980s, in the 2014–2020 period its share was just 37.8%. A sum of EUR 365 billion is proposed for the CAP for 2021–2027, i.e. roughly one third of the total EU budget. The proposed reduction in the CAP's budget is 5% at current prices, which is the equivalent of **an approximately 12% reduction at fixed 2018 prices without factoring in inflation. The first pillar (direct payments and common market organisation) retains its privileged position** (the EAGF's share should be 78.4%), even though its funding is down by roughly **11%** when the two programming periods are compared. **The second pillar, focusing on rural development** (EAFRD)**, is due to shrink markedly,** however, with funding down by **28%.**

The crux of the reform is the CAP implementation model, which focuses on results and subsidiarity[222], giving Member States a much bigger role in carrying out agricultural interventions. In future the EU should define the fundamental parameters (objectives of the CAP, basic requirements, the main types of interventions in the first and second pillars), while Member States should draw up multi-annual strategic plans for achieving specific goals and targets that were jointly decided on. All Member States will have to have their own strategic plan, which may include regional "sub-plans", but these will all have to work as a single whole. The plans must be drawn up transparently and with the participation of stakeholders. Member States will be responsible for organising partnerships with the appropriate regional and local authorities.

Every Member State will be able to prioritise some of the following nine objectives of the CAP, but good reasons must be given if a Member State does not intend to implement one objective.

222 A political principle under which decision-making in public matters should take place at the lowest level of public administration that is closest to citizens.

Scheme 1: Objectives of the CAP



Source: See http://capreform.eu/cap-strategic-planning-scope-and-implications/.

Another key feature of the future **CAP** should be **substantial simplification and modernisation.** CAP **funding should be much more flexible** in the coming period. **Greater support should be given to small and medium-sized agricultural enterprises.** Member States should **strive to fight climate change, apply environmentally friendly farming methods and focus on food quality.** Member States should be able **to transfer as much as 15% of funding allocated under the CAP from direct payments to rural development and vice versa** so that they can adapt the policy better to the specific priorities of their agriculture sector. **A further 15%** can be **moved from pillar one to pillar two for environmental and climate change measures**. It is expected that **40% of the total CAP budget should contribute to climate action.** Another new feature is the expected **use of financial instruments**, i.e. repayable support in place of subsidies or in combination with subsidies.

The proposal for the future CAP reckons with **the introduction of a definition of a "genuine farmer",** in other words a farmer whose principal business activity is agricultural work. The new definition is supposed to replace the "active farmer" definition that was used until recently but was abolished from 2018 in the wake of opposition from Member States (including the CR).

As far as the **first pillar** is concerned, there are changes in the redistribution of direct support: the Commission proposes **gradually reducing payments exceeding EUR 60,000 and a mandatory ceiling on provided aid** (the proposed ceiling is EUR 100,000 per beneficiary). **Sectoral intervention programmes** will be **transferred** from the common market organisation **to new national strategic plans.** As far as the **second pillar** is concerned, the **EAFRD will no longer be a structural fund** falling under the cohesion policy framework, and **EU co-funding will be reduced** by ten percentage points. In the interest of **simplification, the Commission is**

concentrating interventions, even though as a result some measures lose their visibility (e.g. agro-ecological farming) and ***Leader*** **rules will determined at cohesion policy level,** although its funding is covered from the "agricultural" budget.

When the EP started work on reform of the CAP for the post-2020 period, it was already reckoning Great Britain's exit from the EU. **The final form of the future CAP is still unknown, however, and will depend on the results of the negotiations and agreement on the future MFF.** There are considerable differences of opinion about the future budgetary framework and structure of CAP spending. No agreement was reached at talks in December 2019 or February 2020. MEPs from the EP agriculture committee alone submitted 5,200 proposed amendments, which means that the final form of the CAP will be very different from the CAP version presented in June 2018. Further negotiations on the Commission's proposals are set for June 2020. **The new CAP will therefore start to apply later planned.**

G.3.1.2 Changes and adjustments for the 2021–2027 programming period in the CR

The CR is actively preparing for the new post-2020 CAP. In 2019 the MoA published the current state of preparations and an overview of proposed and discussed CAP issues for 2021–2027, including the CR's position on the various issues. **The CR's fundamental priority in the negotiations centres on questions regarding the size of the CAP budget and adequate CAP funding,** i.e. the reduction in funding for the CAP as a whole, the reduced allocation for rural development (as much as 16% down), which is most significant for the CR, **and ensuring sufficient levels of support for sensitive sectors**. Another question is the simplification of the CAP, where **the CR does not entirely agree with the proposed system of eco-schemes,** which the MoA thinks will lead to an increase in red tape. Another topic currently being negotiated is the **"genuine farmer" condition, where the CR is proposing a voluntary basis and asking that the definition of a genuine farmer is not reserved to Commission but left to Member States in the interests of flexibility.** Last but not least, **the CR wants ceilings for direct payments to be voluntary,** as it sees the imposition of ceilings as disadvantageous for the CR. Mandatory ceilings could substantially restrict large agro-enterprises' access to subsidies from European funds and, in the MoA's opinion, will not deliver the outcomes the Commission is talking about.

Under the CAP the CR is set to receive EUR 7.7 billion (roughly CZK 200 billion) in the 2021–2027 period (PP21+), with EUR 5.9 billion for direct payments and EUR 1.8 billion for rural development. That is **less than the current 2014–2020 period,** when the CR has access to EUR 8.2 billion.

As the CAP does not have a clear legal framework yet or a high-quality strategic plan drawn up at EU level, the CR has not drawn up a national strategic plan either. **The disagreement and uncertainty around the Commission's requirements creates a risk that Member States will not be able to design their strategic plans correctly.** The chief disputes centre on the size of the budget, or the size of subsidies for European farmers, mandatory ceilings on direct payments, the redistributive payment and the definition of a "genuine farmer". **In view of the delay in finalising the post-2020 CAP at European level, the CR is also pushing for a transition period** to prevent delays in the flow of money to farmers.

The CR is coordinating its priorities with the V4, France and other countries. The CR is generally against mandatory ceilings on direct payments and the proposed eco-schemes system. Instead, it supports an increase in payments for first hectares. The Czech agrarian sector is mainly calling for soil protection and landscape conservation and equilibrium in relations between the farming and food production sectors.

G.3.2 State of drawdown of CAP funds in the CR in 2019

According to SAIF data[223], **CZK 39.70 billion** was disbursed **under the CAP in 2019** (including the *Horizontal Rural Development Plan of the CR*[224]), with EU funding amounting to CZK 32.76 billion and a national share of CZK 6.93 billion. Direct payments accounted for most of the aid. Table 18 gives the details.

Table 18: Overview of the funds paid in the main areas of the CAP for 2019 (CZK million)

	EU´s contribution	CR´s contribution	Total
Direct payments	21,805	650	22,455
Common organisation of the markets (CMO)*	424	567	991
Rural development**	10,517	5,703	16,220
Horizontal plan of the rural development in the CR	17	13	30
Total	**32,763**	**6,933**	**39,696**

Source: SAIF documents - *Budget of the Common Agricultural Policy and Marketing for 2019 and its drawing as at 31 December 2019.*

* Part of the item "common organization of the markets" is the repayment of the loan for intervention purchases in the amount of CZK 67 million.

** This is the sum of the funds of *the Rural Development Programme of the CR for the period 2007–2013* (CZK 99 million) and the RDP.

Direct payments

Direct payments make up the largest part of the disbursed subsidies in agriculture. The last CAP reform from 2013 significantly altered the structure of direct payments for 2015–2020. The main impact for the CR was a switch to a multi-component payment.

The SAIF paid out **a total of CZK 22.46 billion in direct payments** in 2019, an equivalent amount to 2018. That amount includes compensation for financial discipline disbursed under the terms of Commission Regulation (EU) 2018/1848[225]; the total amount awarded was CZK 282 million.

The basic direct payment and most widespread farming subsidy is the ***single area payment scheme*** (SAPS). In 2019, 30,217 applications were filed for a total area of 3.54 million hectares of farmland, which is almost identical to 2018. The subsidy rate was set at CZK 3,394.11 per hectare of farmland. The payment of SAPS applications took place by means of one decision in 2019, but in two stages. **A total of CZK 11.87 billion was paid out for SAPS in 2019.**

223 The data comes from an SAIF material: *Budget of the Common Agricultural Policy and Marketing for 2019 and Drawdown Thereof as at 31 December 2019*.

224 The *Horizontal Rural Development Plan of the CR* is one of the programmes of the 2004–2006 programming period.

225 Commission Implementing Regulation (EU) 2018/1848 of 26 November 2018 on the reimbursement, in accordance with Article 26(5) of Regulation (EU) No 1306/2013 of the European Parliament and of the Council, of the appropriations carried over from financial year 2018.

The second biggest direct payments component is the ***greening* payment**, which is disbursed to farmers who apply climate-friendly and environmentally friendly farming procedures in connection with the award of SAPS. The greening subsidy rate in 2019 was CZK 1,884.30 per hectare of farmland; 30,217 applications were filed, the same therefore as for SAPS. That means that every farmer obtaining the basic SAPS payment used farming methods that are climate-friendly and green (practised sufficient crop alternation, conserved permanent grassland and used soil ecologically). A total of **CZK 6.53 billion was disbursed for *greening*** in 2019, which is roughly 29% of direct payments.

5,604 applications were submitted for another component of direct payments: ***payments for young farmers*.** The rate was CZK 1,697.06 per hectare and a total of **CZK 178.96 million** was paid out. That represented a marked increase – roughly CZK 116 million – in paid subsidies from 2018.

A total of **CZK 2.95 billion** was paid out under **voluntary coupled support** for 12 selected commodities in 2019, i.e. more than 13% of total direct payments.

Farmers continued to receive national support in 2019, known as ***transitional national aid*,** which replaced national Top-Up payments and is entirely paid out of the state budget. **CZK 650.06 million** was disbursed, a reduction of CZK 80 million from 2018.

Common market organisation

Common market organisation (CMO) is applied by the EU for selected farming commodities, for which it sets binding conditions on production and sale. The EU supports these commodities through interventions, subsidies, licensing policy for imports and exports to and from third countries, rules on terms of trade etc. The aim of CMO is to minimise fluctuations in the supply of the commodities and thus also in the prices paid to farmers and to stabilise prices for end consumers. CMO comes under the first pillar of the CAP, but it is a less important part of the CAP expenditure budget.

A total of CZK 990.67 million was spent in the context of CMO in 2019, with CZK 423.51 million of that coming from the EU budget. The amount paid out is **CZK 66 million** less than in 2018. The majority of these payments consisted in financial support worth CZK 779.62 million provided mainly to the schemes *Fruit and vegetables for schools*, *Milk for schools* and *Improved production and marketing of apiarian products.* A further CZK 138.11 million paid out under CMO was used to support the restructuring and transformation of vineyards and to support the wine market. Intervention measures worth a total of CZK 72.88 million were also carried out in 2019.

Rural development programme

EU rural development policy was rolled out as the second pillar of the CAP during the *Agenda 2000* reform. This policy is financed out of EAFRD funds via the ***Rural Development Programme of the CR 2007–2013*** (RDP7+) and **RDP.**

A total of **CZK 99.21 million** was paid out on RDP7+ in 2019, with CZK 58.63 million of that from the EU budget. These are the final payments to beneficiaries, or commitments from previous years, under non-project measures in axes I and II of RDP7+. Examples are payments for early termination of agricultural activity, afforestation of farmland, payments under *NATURA 2000* in forests and forestry-environmental payments. The RDP7+ was absorbed very successfully: the CR absorbed 99.84% of it.

Under the RDP the CR can draw down a total of EUR 3.55 billion, with the European share financed from the EAFRD amounting to EUR 2.31 billion. Most of the allocation, 65%, is earmarked for general (non-project) measures. **As at 31 December 2019 the CR had drawn down the equivalent of CZK 37.2 billion from the EAFRD, which makes 66% of the main allocation** (total allocation minus a performance reserve of around 6%). Compared to other programmes co-financed out of the ESIF, the RDP is the most successful programme in terms of both the level of funds billed in payment applications and reimbursed expenditure.

In 2019 the SAIF paid out **a total of CZK 16.12 billion** through the **RDP** (CZK 10.46 billion coming from the EU budget). That was **an increase of approx. 23%** over 2018.

Most of the subsidies are far **general (non-project) measures: roughly CZK 10.08 billion, i.e. 62.5%.** The biggest components of that amount are subsidies for measures for areas with natural or other limitations (CZK 4.78 billion), agri-environmental and climate measures (CZK 3.15 billion) and green farming (CZK 1.35 billion). **CZK 6.05 billion was disbursed from the RDP for project measures,** with most of the subsidies spent on investment in tangible assets: CZK 3.95 billion, more than 65% of the funding for project measures.

From the start of the 2014–2020 programming period to 31 December 2019, a total of CZK 47.12 billion was paid out under the RDP (including national co-financing), with CZK 14.70 billion going on project measures and CZK 32.42 billion on general (non-project) measures. 146,697 subsidy applications were received funding. Table 19 gives the details.

Table 19: Overview of the funds payed out under the RDP as at 31 December 2019 **(CZK millions)**

RDP´s non-project measures		Number of applications	Disbursements (CZK millions)		
			EU contribution	CR contribution	Total
M8.1	Forest investments	314	10.80	3.60	14.41
M10	Agro-environment climate	52,039	8,950.29	2,983.44	11,933.73
M11	Organic farming	14,905	3,652.96	1,217.66	4,870.62
M12	Natura 2000	1,782	38.37	12.79	51.16
M13	Payments for areas facing natural or other constrains	64,234	9,615.07	3,205.02	12,820.09
M14	Animal welfare	3,302	1,319.75	1,346.42	2,666.17
M15	Forest-environmental and climate-friendly forestry and forest protection	147	45.81	15.27	61.08
Non-project measures in total		**136,723**	**23,633,05**	**8,784.20**	**32,417.25**

RDP´s project measures		Number of projects	Disbursements (CZK millions)		
			EU contribution	CR contribution	Total
M1	Knowledge transfer and information actions	55	10.08	10.28	20.35
M4	Investments in physical assets	5,169	5,221.85	5,327.34	10,549.19
M6	Farm and business development	1,384	620.36	632.89	1,253.25
M8	Investments in forest area development and improvement of the viability of forests (without M8.1)	942	367.93	375.36	743.29
M16	Cooperation	48	498.42	508.49	1,006.90
M19	Rural Development Programme LEADER	2,153	581.87	327.30	909.17
M20	Technical assistance	223	107.99	110.17	218.16
Project measures in total		**9,974**	**7,408.48**	**7,291.83**	**14,700.31**
Total RDP		**146,697**	**31,041.53**	**16,076.03**	**47,117.56**

Source: SAIF documents on funds payed out from RDP as at 31 December 2019.

As at 31 March 2020, there was a year-on-year increase of 14,499 in the number of paid applications/projects and year-on-year increase of CZK 8.65 billion in the volume of disbursed subsidies.

G.4 Expenditure on the Common Fisheries Policy

G.4.1 Current developments in the common fisheries policy

The EU's Common Fisheries Policy of the (CFP) was first formulated in the *Treaty of Rome*. The CFP's principal objectives are to ensure sustainable fishing and guarantee fishermen incomes and secure employment. In the CR the CFP is implemented via OP *Fisheries 2014–2020* (OP F), which focuses on creating sustainable and competitive aquaculture based on innovation and more efficient resource use. The goal is to expand sustainable fish farming in the CR and ensure a steady supply of the required range of freshwater fish over the year for the domestic market, including aquaculture diversification.

Preparation for the 2021–2017 programming period[226]

On 14 June 2019, a proposal for a Regulation of the European Parliament and of the Council on the European Maritime and Fisheries Fund and repealing Regulation (EU) 508/2014 of the European Parliament was sent to the Council via the Commission. This is, however, a general concept that was approved in the Council of Ministers on 18 June 2019 The regulation establishes a *European Maritime, Fisheries and Aquaculture Fund* (EMFAF) that should have simpler rules and should give Member States greater flexibility.

The goal is to streamline the existing model for providing funding out of the EMFF by enabling Member States to focus the support on their own strategic priorities instead of choosing from a list of eligible measures. The new fund's budget proposed by the Commission should be EUR 6.41 billion at current prices. A preliminary allocation of EUR 0.03 billion is earmarked for the CR.

Given that the MFF 2021–2027 has not been finalised yet as technical and political discussions are still taking place, there is a risk that programming documents will not be ready in time and implementation of the programming period will not start in 2021.

A new OP *Fisheries* was laid down as part of the preparations for the Partnership Agreement and OPs for the 2021–2027 programming period. The managing authority (MoA) drafted a position document setting out the CR's ideas about the future targeting of support in post-2020 freshwater aquaculture. The position document will be the basic document underpinning the CR's negotiations on the new CFP. In general, the CR prefers to keep the existing form of support unchanged for the 2021–2027 period.

G.4.2 State of drawdown of CFP funds in the CR in 2019

OPF is founded out of the EMFF. The total OPF allocation for PP14+ is EUR 41.2 million, with EUR 31.1 million coming from the EU and EUR 10.1 million from national co-financing. **From the start of PP14+ to 31 December 2019, the CR drew down the equivalent of CZK 283 million from the EMFF, or 37.8% of the main allocation.** The biggest share of funds was utilised in priority 2. **The CR's funding absorption in OPF is generally poor.** That is the case despite the fact that drawdown in 2018 and 2019 improved somewhat, with the CR avoiding decommitment; the performance reserve of EUR 2 million was awarded to the CR.

Support applications were received in four single-round calls in 2019; continual acceptance of support applications also went ahead. 217 subsidy applications were registered and the MoA issued 192 subsidy provision decisions. A total of CZK 144 million was paid out under OPF in 2019, with the EU's share amounting to CZK 108 million and the national share CZK 36 million.

226 Source: *Information on the State of Preparation of the Partnership Agreement and Operational Programmes for the 2021–2027 Programming Period,* NCA, July 2019.

H. Legal matters

H.1 SAO recommendations for changes to the legal environment in 2019

Section 6 of the Act on the SAO provides that both chambers of the Czech parliament and their bodies are authorised to request opinions from the SAO on draft legislation concerning budgetary management, accounting, state statistics and the exercise of control, supervisory and inspection powers. These bodies did not make use of this authorisation in 2019 by filing formal requests for an opinion. The SAO's findings with regard to necessary legislative changes were presented in during discussion of the SAO's audit findings at sessions of the Chamber of Deputies Control Committee.

In line with the *Government Legislative Rules*, the SAO gave its opinion on draft legislation as part of interdepartmental consultation when this legislation related to its powers or affected it as an organisational unit of the state. In 2019 the SAO received **139 pieces of draft legislation and other material linked to legal regulation** for assessment. The SAO issued specific comments, based mainly on findings from its audit work, on **44** of these drafts.

It was mainly draft amendments of government regulations intended to implement the Commission's new regulations on the CAP, submitted by the Ministry of Agriculture, that were linked to the issue of financial management of EU funds.

In addition, a **draft act amending Act No 248/2000 Coll., on support for regional development**, as amended, and other related acts, was examined as part of the consultation process in 2019; the draft was submitted by the Ministry for Regional Development. This draft **envisages the abolition of regional councils for cohesion regions and the transfer of their powers to the MoRD.**

Regarding the legislation on the SAO's powers, the discussion of a government bill amending the Act on the SAO and other related acts (parliamentary print 360/0) continued in 2019. This bill extends the SAO's powers to include audit of the use of public funds and funds provided from public budgets, the management of assets by territorial self-governing units (regions and municipalities with extended competence) and the management of assets by legal entities in which the state or a territorial self-governing unit holds the majority of the registered capital or is a controlling person. Discussion also went ahead on a parliamentary draft act dealing with the same issue (parliamentary print 230/0) and a related draft constitutional act amending Constitutional Act No 1/1993 Coll., the Constitution of the CR, as amended (parliamentary print 229/0), amending Article 97 of the Constitution of the CR, which deals with the status of the SAO. The draft amendments of the SAO Act would include *"European Union funds or other funds from abroad provided to the state on the basis of an international agreement"* in the category of *"public funds".* This draft legislation passed the first reading in the Chamber of Deputies in February 2019. In the following months of the year, the drafts were discussed in parliamentary committees, which amendment proposals were submitted. The second reading of the drafts took place in January 2020. The constitutional amendment passed the third reading in the Chamber of Deputies on 12 February 2020. The third reading of the draft acts amending the Act on the SAO was adjourned until the draft amendment of the Constitution is debated in the Senate.

Of the draft legislation commented on by the SAO in previous periods and linked to the EU, **the legislative process for the Act on Personal Data Processing was completed in 2019.** This legislation adapts Czech law to the directly applicable Regulation (EU) 2016/679 of the

European Parliament and of the Council on the protection of natural persons with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC (General Data Protection Regulation, GDPR), which entered into effect on 25 May 2018. **The Act** was promulgated under no. **110/2019 Coll.** and entered into effect on 24 April 2019.

In April 2020 the SAO participated in the **consultation process of a draft updated version of the *National Strategy for the Protection of the European Union's Financial Interests*** organised by the Ministry of Finance.

H.2 Implementation and transposition of EU law in the CR

Upon joining the EU the CR assumed the obligation to fulfil all the commitments of a Member State. These include obligations arising out of Article 4(3) of the *Treaty on European Union*[227] (TEU), which requires Member States to take any appropriate measures to ensure fulfilment of the obligations arising out of the Treaties or resulting from the acts of the institutions of the Union. If the nature of EU law so requires, it must be transposed into national law properly and in good time. Implementation and monitoring thereof are then done differently depending on the kind of EU legal act. In the case of EU directives, both the transposition thereof by Member States and the subsequent communication of national transposing regulations to the Commission are monitored.

H.2.1 Assessment performed by the Czech government

Czech law's compatibility with EU law is fully assessed through monthly and annual reports on the state of allocation of competences and fulfilment of commitments arising out of EU membership. The reports are designed to present the results of the various government departments' legislative work, as regards both transposition of directives and the adaptation of Czech law to EU regulations. The reports are always put before government for discussion. The *Government Report on the Transposition of Legislative Commitments Arising out of the CR's Membership of the European Union for 2019* was discussed by the Czech government on 20 January 2020 and approved that day by government resolution no. 57.

H.2.2 Transposition deficit[228]

Member States' transposition activities are monitored by the Commission, with the results factored into assessments called the *Single Market Scoreboard*[229] (SMS), which are published twice a year on the Commission's website[230].

The first of the two SMS assessments for 2019 was published on 4 July 2019. This assessment covered the internal market directive, whose transposition deadline fell on 30 November 2018. Fully transposed directives for which the transposition regulations were communicated by 10 December 2018 were not reflected in the transposition deficit. The CR ended up in 12th to 15th place in this assessment, with a transposition deficit of 0.7% corresponding to seven untransposed directives.

227 *Treaty on European Union* (consolidated version), *Official Journal of the European Union*, C 326/13, 26 October 2012.

228 The difference between the number of single market directives adopted by the EU and the number transposed by the Member State.

229 Overview of single market results.

230 See: http://ec.europa.eu/internal_market/scoreboard.

The CR was informed of the results of the subsequent SMS evaluation on 4 November 2019. This time the assessment covered the transposition of directives with a transposition deadline of 31 May 2019. Fully transposed directives for which the transposition regulations were communicated by 11 June 2019 were not reflected in the transposition deficit. The CR came 13th–15th among Member States in this SMS.

According to statistics from D-G Internal Market, Industry, Entrepreneurship and SME, five internal market directives had not been transposed in the CR by that deadline, which corresponded to a transposition deficit of 0.5%.

The SMS also tracks the number of procedures being conducted for failure to communicate the transposition regulations or for improperly transposed internal market directives. Here the CR, with 30 ongoing procedures, was in 10th place among Member States in the most recent SMS.

It is clear from these SMS results published in 2019 that the CR, after a relatively long period with a high transposition deficit, has managed to bring this deficit down slightly to around 0.5%, which corresponds to the EU average.

H.2.3 Infringement procedures[231]

As at 30 November 2019, **59 infringement procedures concerning breaches of the TFEU[232] were being conducted against the CR,** which is six fewer than in the previous year. 14 procedures were being conducted against the CR under the *EU Pilot* system as at the same date, which is also six fewer than in 2018.

According to updated data, as at 31 March 2020 **59 infringement procedures were being conducted against the CR.** 43 of them were in the formal notice phase; 15 in the reasoned opinion phase; and in one case an action had been filed with the European Court of Justice.

As far as the type of infringement is concerned, failure to communicate transposition regulations were at issue in 26 procedures; improper transposition in 10 procedures; application errors in 11 procedures; and failure to fulfil the demands of regulations in 12 procedures.

1. In 2019, one action under the terms of Article 258 of the TFEU was delivered to the CR, and one judgement was handed down in a procedure against the CR in the European Court of Justice.
2. The action in case **C-305/19** (procedure no. 2016/2131, coming under the authority of the MoIT) arrived at the Office of the European Court of Justice on 12 April 2019 and was delivered to the CR on 17 April 2019. The procedure concerns the improper transposition and application of certain provisions of Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the energy performance of buildings. The Commission asserts that the CR was in breach of the directive by failing to ensure that energy performance certificates were displayed in buildings with a total useful floor area exceeding 500 m^2 for which a certificate was issued pursuant to Article 12(1) of the

231 Infringement procedure is a mechanism by which the Commission discharges its duty to oversee the application of EU law (cf. Article 17(1) TEU). If, in the Commission's opinion, the law is broken by a Member State, the Commission, under the terms of Article 258 of the *Treaty on the Functioning of the EU*, may launch proceedings divided into several phases, with the final phase being the filing of an action with the European Court of Justice. In principle, infringement procedure may be initiated on the grounds of failure to implement an EU direction, failure to communicate the national transposition regulations for the concerned EU directive ("non-communication procedure") or for the improper implementation of an EU regulation or application of legal regulations in contravention of EU law (substantive procedure).

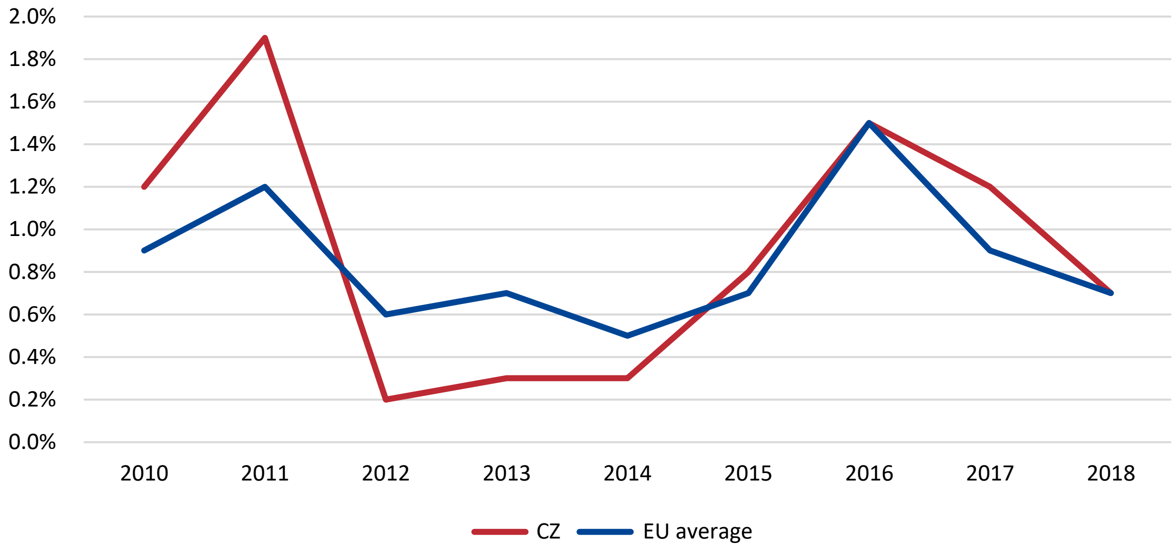
232 *Treaty on the Functioning of the European Union* (consolidated version), *Official Journal of the European Union*, C 326/49, 26 October 2012.

directive and which are frequently visited by the public. Regarding this matter, Act No 3/2020 Coll., amending Act No 406/2000 Coll., on energy management, as amended, entered into effect on 25 January 2020. This Act brought the legislation on this matter into line with EU law. **The Commission consequently withdrew the action.**

3. On 14 March 2019 the ECJ rejected in full **the Commission's action against the CR** in case **C-399/17** (procedure no. 2014/4234 under the authority of the MoE). The ECJ ruled that the Commission had failed to prove that the substance GEOBAL was waste within the meaning of Directive 2006/12/EC of the EP and of the Council of 5 April 2006 on waste at the time when it was transported to Poland.
4. On 2 April 2020 **the ECJ ruled** on action **C-719/17** (procedure no. 2017/2092 under the authority of the Ministry of the Interior) to the effect that by not reporting at regular intervals, and at least every three months, the number of asylum seekers who could be relocated swiftly moved to Czech territory **the CR was in breach of its obligation** under Article 5(2) of Council Decision (EU) 2015/1523 of 14 September 2015 establishing provisional measures in the area of international protection for the benefit of Italy and Greece, and Article 5(2) of Council Decision (EU) 2015/1601 of 22 September 2015 establishing provisional measures in the area of international protection for the benefit of Italy and Greece, and thus also of its other obligations concerning relocation and laid down in Articles 5(4) to (11) of the aforesaid Council decisions.
5. The Commission is conducting two infringement procedures against the CR for infringement consisting in failure to fulfil commitments in respect of the EU on the grounds of unsatisfactory air quality (non-compliance with immissions limits for PM10 particulate matter and NO_2). The Commission gave the CR an extended time limit for swift compliance with the immissions limits. An event called *Clean Air Dialogue* ("Dialogue") took place in Prague in November 2018. The Commission formulated a demand that measures to comply with immissions limits be implemented swiftly. The measures concern the transport, industry and energy sectors, agriculture and household heating. Government resolution no. 502 was adopted on 8 July 2019 regarding the conclusions resulting from the Dialogue. Further to this government resolution, in December 2019 the Ministry of the Environment launched the consultation process for a draft amendment of Government Regulation No 56/2013 Coll., establishing rules for placing road motor vehicles in emissions categories and on emissions labels. This draft legislation introduces new vehicle emissions categories corresponding to the latest EURO emissions standards and an emissions category for "clean vehicles".
6. The *EU Report 2019* mentioned the transposition of the directive on requirements for Member States' budgetary framework which**, under the authority of the MoF, was supposed to be transposed by 31 December 2013. Act No 126/2019 Coll.,** amending Act No 320/2001 Coll., on financial control in public administration and amending certain acts (Act on Financial Control), as amended, **which completed the transposition, was passed in April 2019 and entered into effect on 1 January 2020.**

The following chart shows the size of the CR's transposition deficit in percentage terms.

Chart 17: Evolution of the CR´s transposition deficit in 2010–2018 and compared to the EU average



Source: See http://ec.europa.eu/internal_market/scoreboard.

The CR's transposition deficit and number of infringements remained around the EU average in the period under scrutiny, some partial improvements notwithstanding. The SAO has repeatedly reiterated the risks the CR faces on this account[233]. Consequences of lacking or incorrect transposition of EU directives include direct application of the directives, the risk of liability for damages caused to natural and legal persons by the lacking or incorrect transposition, and procedures for breach of the TFEU with possible financial consequences.

233 If the Commission identifies a breach or is notified of such a breach in a complaint, it tries to reach an agreement with the Member State via structured dialogue (EU Pilot). The agreement should result in the cause of the breach, or complaint, being eliminated. Member States may supply factual or legal information on the case in this phase. The aim is to find a quick solution conforming to EU law and prevent infringement procedure from being launched. If a Member State does not agree with the Commission's opinion or does not implement corrective measures, the Commission may open formal infringement procedure. The procedure is as follows:

- The Commission invites the government of the given Member State to file a statement within two months.
- If the Commission does not receive an answer or the answer is unsatisfactory, the Commission issues an opinion giving reasons why it considers the Member State to be in breach of EU law. The Member State's government has two months to put things right.
- If the Commission does not receive an answer or the answer is unsatisfactory, the Commission asks the ECJ to open judicial proceedings. The matter is usually resolved before that, though. If the Member State fails to communicate the measures intended to implement a directive, the Commission may in this phase ask the ECJ to impose a flat-rate fine and/or penalty.
- Within two years, as a rule, the ECJ decides whether the Member State was in breach of EU law or not. The Member State's government is obliged to adapt national regulations or practices and resolve the issue as soon as possible.
- If a Member State continues to fail to put things right, the Commission sends another request. If the Commission does not receive an answer or the answer is unsatisfactory, the Commission may pass on the matter to the ECJ with a proposal for imposition of a flat-rate fine and/or penalty.

Sources and references

1. *2018 - EU audit in brief. Presentation of the European Court of Auditors' annual reports for 2018,* Publications Office of the European Union, 8 October 2019.
2. *Action Plan of Work 4.0* included in the *Action Plan for Company 4.0*, which was approved by the Resolution of the Government of the CR No 684. on 25 September 2017.
3. *5G Action Plan for Europe,* COM (2016) 688 final on 14 September 2016.
4. Quarterly reports on the implementation of ESI funds in the CR in the 2014–2020 programming period.
5. *Partnership Agreement for the 2014–2020 programming period - CR,* 26 August 2014.
6. Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (notified under document number C (2003) 1422), 2003/361/EC.
7. Recommendation for the COUNCIL RECOMMENDATION on the National Reform Programme of the CR for 2019 and Council Opinion on the 2019 Convergence Programme of the CR, COM (2019) 503 final wording of 5 June 2019.
8. *EU Budget 2018 - Financial Report*, European Union Publications Office, 2019, and previous Commission reports on the EU budget published in 2008-2018.
9. European Commission*: New instrument to enable EU countries to take action against VAT fraud and return billions of euros to public budgets,* dated 15 May 2019.
10. *Information of the MoRD on the closure of the 2007–2013 programming period*, No 50323 / 2019-27, dated November 22, 2019.
11. *Information on the preparation of the Partnership Agreement and operational programmes for the 2021–2027 programming period,* MoRD-NCA, July 2019.
12. *Innovation Strategy of the CR 2019–2030* approved by the Resolution of the Government of the CR No 104 on 4 February 2019.
13. *Convergence Programme of the CR 2019* approved by the Resolution of the Government of the CR No 278 on 29 April 2019 together with the Budget Strategy of the Public Institutions Sector of the CR for the years 2020–2022.
14. Monthly information on the implementation of ESI funds in the CR in the 2014–2020 programming period.
15. *National Reform Programme of the CR* 2019 prepared by the Office of the Government of the CR and approved by the Government Committee for the European Union at the level of members by Resolution No 6 of 29 April 2019.
16. Proposal for a Council Implementing Decision authorizing the CR to apply the general reverse charge mechanism by way of derogation from the provisions of Article 193 of Directive 2006/112/EC, COM (2019) 283 final of 21 June 2019.
17. Proposal for a Council Regulation laying down implementing measures for the system of the European Union's own resources, COM (2018) 327 final of 2 May 2018.
18. Proposal for a Council Decision on the system of the European Union's own resources, COM (2018) 325 final of 2 May 2018.
19. Proposal for a Council Directive amending Directive 2006/112/EC as regards the harmonization and simplification of certain rules in the system of value added tax and establishing a definitive system of taxation applicable to trade between Member States, COM (2017) 569 final of 4 October 2017.

20. Proposal for a Council Directive laying down general rules on excise duties (recast) and Proposal for a Council Regulation amending Regulation (EU) No 389/2012 on administrative cooperation in the field of excise duties as regards the content of the electronic register - political agreement, 13634/19 FISC 420 ECOFIN 958 of 31 October 2019.
21. Accompanying document to the Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank and the Eurogroup: European Semester 2020: Assessing progress on structural reforms and preventing and correcting macroeconomic imbalances and the results of in-depth reviews of structural reforms 1176/2011, SWD (2020) 502 final of 26 February 2020.
22. Interim report on the implementation of the recommendations (GRECO), evaluation of the measures taken by the CR on the basis of the recommendations of the Evaluation Report of the fourth evaluation round of April 2016.
23. *Budget of the Common Agricultural Policy and Marketing for 2019 and its implementation as at 31 December 2019*, SAIF 2020.
24. Collection of laws.
25. Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the Court of Auditors: *The Commission's anti-fraud strategy: further measures to protect the EU budget,* COM (2019) 196 final of 29 April 2019.
26. Communication from the Commission to the European Parliament, the European Council and the Council: *Steps towards ensuring more effective and democratic decision-making in EU tax poli*cy, COM (2019) 8 final of 15 January 2019.
27. Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee on the VAT Action Plan: *Towards a Single VAT Area in the EU: Time to take a decision,* COM (2016) 148 final of 7 April 2016.
28. Communication from 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 2019: Towards a stronger Europe in the face of global uncertainty*, COM (2018) 770 final of 21 November 2018.
29. *Regional Development Strategy 2021+* approved by the Resolution of the Government of the CR of 4 November 2019 No. 775.
30. Press release of the Ministry of Finance of 28 January 2020: *In 2019, the CR received CZK 68.5 billion more from the EU budget than it paid.*
31. *Official Journal of the European Union.*
32. *Journal of the European Court of Auditors.*
33. *SAO Bulletin*.
34. *Evaluation of the action plan for the national strategy for the protection of the European Union's financial interests for 2019.*
35. *Annual Report on the Implementation of the Partnership Agreement for 2019, MoRD-NCA*, April 2020.
36. *Annual Report on the Implementation of the EU Budget for the Financial Year 2018, Official Journal of the European Union*, C 340/01 of 8 October 2019, and previous annual reports.
37. AA´s Annual Audit Reports, information from the AA, May 2020.

38. Report from the Commission to the European Parliament and the Council: *30th Annual Report on the Protection of the European Union's Financial Interests - Fight against Fraud - 2018*, COM (2019) No 444 final of 11 October 2019, and annual reports for previous years.

39. *Report on the Results of Financial Controls in Public Administration for 2018*, which the Government of the CR took note of in its Resolution No 524 of 22 July 2019.

40. *Government Report on the Assumption of Legislative Obligations Arising from the CR's Membership in the European Union for 2019*, approved by Government Resolution No 57 on 20 January 2020.

Used web sites:

- http://ec.europa.eu
- http://www.eagri.cz
- http://capreform.eu/cap-strategic-planning-scope-and-implications/
- https://www.europarl.europa.eu
- http://www.nku.cz
- http://www.szif.cz
- http://www.vlada.cz
- https://www.consilium.europa.eu/en/press/press-releases/2017/11/30/2018-eu-budget-adopted/
- https://cohesiondata.ec.europa.eu/countries/CZ
- https://eur-lex.europa.eu/homepage.html
- https://www.dotaceeu.cz
- https://www.eca.europa.eu
- https://www.ec.europa.eu/eurostat
- https://www.transparency.org

Appendix 1: Overview of AA´s statements, project error rate and values of certified, audited and ineligible expenditure for individual cohesion policy and territorial cooperation programmes for 2019

OP	Annual audit report		Operational audits							
	Opinion	Project error rate	Certified in EUR million*	Certified in CZK million*	Sample in EUR million	Sample in CZK million	Sample***	Irregularity in EUR thousand****	Irregularity in CZK thousand****
Integrated Regional Operational Programme	unmodified	0.16%	1,180.58	30,439.21	57.36	1,476.44	4.86%	37.50	965.17
OP *Enterprise and Innovation for Competitiveness Competitiveness*	qualified	5.40%**	1,021.87	26,274.17	250.90	6,478.12	24.55%	6,311.88	162,863.08
OP *Employment*	unmodified	0.01%	309.58	7,992.37	24.28	626.95	7.84%	3.81	98.11
OP *Prague – Growth Pole CR*	unmodified	0.19%	61.56	1,590.94	29.04	750.72	47.17%	49.12	1,267.40
OP Research, Development and Education	unmodified	0.42%	609.47	15,718.06	116.55	3,009.72	19.12%	124.19	3,210.66
OP *Environment*	unmodified	0.87%	456.95	11,809.57	27.31	704.77	5.98%	94.59	2,439.09
OP *Transport*	unmodified	0.39%	709.52	18,270.25	391.35	10,069.38	55.16%	321.41	8,325.65
OP *Technical assistance*	unmodified	0.13%	38.87	1,002.96	10.04	258.73	25.82%	19.27	495.80
INTERREG V-A CR – Poland	unmodified	0.14%	44.38	1,146.00	27.75	717.08	62.52%	48.37	1,253.54
OP *Fisheries 2014–2020*	qualified	6.67%	10.91	281.06	6.69	172.22	61.31%	701.01	18,116.14
Total		x	**4,443.68**	**114,524.58**	**941.26**	**24,264.14**	**21.18%**	**7,711.14**	**199,034.64**

Source: AA´s annual audit reports, May 2020.
* Certified expenditure from which the sample was selected (so-called positive population).
** Unadjusted for preventive flat-rate corrections, the error rate is 5.7%.
*** Share of the sample in the volume of certified expenditure.
**** Amount of ineligible expenditure in a random sample according to AA´s annual audit report.

Appendix 2: Overview of audit missions of the European Court of Auditors carried out in the CR in 2018 and 2019

Year		Date of the mission	Audit subject (programme)	Audit type	Audit form
2018	1	5 – 9 Feb	Audit of the control system for ecologic production and labelling ecologic products	DAS	on-the-spot
	2	5 – 9 Feb	OP *Environment*	DAS	on-the-spot
	3	5 – 9 Feb	OP *Transport ERDF / CF*	DAS	on-the-spot
	4	22 – 23 Feb	Audit concerning the Statement of Assurance for 2017 - *Erasmus+*	DAS	on-the-spot
	5	12 – 13 Sept	Audit concerning the Statement of Assurance for 2018 - FP7 - PROHEALTH	DAS	on-the-spot
	6	1 – 5 Oct, 6 – 9 Nov	OP *Transport*	DAS	on-the-spot
	7	8 – 12 Oct	Audit on the implementation costs of Cohesion Funds.	Performance audit	on-the-spot
		July	EU system for measuring emissions from vehicles.		questionnaire
		October	Performance audit on how the Commission and the European Environment Agency manage the offsetting and reduction of greenhouse gas emissions.		questionnaire
2019	1	14 – 18 Jan	Audit concerning the Statement of Assurance for 2018 - *European Agricultural Fund for Rural Development.*	DAS	on-the-spot
	2	4 – 7 Mar	Roads connecting European regions.	Performance audit	on-the-spot
	3	18 – 22 Mar	Audit of the cost-effectiveness of EU-funded investments in the energy efficiency of buildings.	Performance audit	on-the-spot
	4	4 – 7 June	Audit of the Statement of Assurance for the financial year 2019 - *European Agricultural Fund for Rural Development.*	DAS	on-the-spot
	5	9 – 11 July	European Commission action on the allocation of free allowances issued under the EU Emissions Trading Scheme.	Performance audit	on-the-spot
	6	23 – 27 Sept, 12 – 13 Nov	Audit concerning the Statement of Assurance for 2019 - OP *Transport*	DAS	on-the-spot
		January	Fight against antimicrobial resistance.		questionnaire
		October	Performance audit related to ERDF funding: *Do the Commission and Member States effectively address the challenges of cross-border authorities in internal cross-border cooperation programmes?* (CR - Free State of Bavaria, Slovak Republic - CR, CR - Free State of Saxony).		documentary review

Source: AA´s information, May 2020.

Appendix 3: Overview of audit and verification missions of the European Commission carried out in the CR in 2018 and 2019

Year	DG	Date of the mission	Auditee	Audit number	Audit subject	State of the contradictory proceedings
2018	REGIO	22 – 26 Oct	OP En	REGC414CZ0123	*Review of the AA´s activities/compliance audits in the period 2014–2020* under the memorandum of planned investigations.	Finished
	EMPL	1 – 26 Oct	OP RDE	EMPG314CZ0264	*Early prevention system audits 2014–2020.* Thematic audit of projects using simplified cost reporting.	Finished
	REGIO	9 – 16 Nov	IROP	REGC414CZ0093	Audit of reliability of performance under the memorandum of planned investigations – PO14+	Finished
	REGIO	9 – 16 Nov	IROP	REGC414CZ0062	Memorandum of planned investigations *Early prevention system audits*	Finished
	EMPL	18 – 19 April	OP RDE, OPEm, OP PGP	EMPG314CZ0222	Fact-finding missions to verify the annual audit report	Finished
2019	REGIO	24 – 28 June	OP EIC	REGC414CZ0145	Thematic audits in the period 2014–2020 - follow-up to the action plan for verifying the SME status of applicants.	Finished
	REGIO, EMPL	8 Jan – 15 Feb	Selected OP	REGC414CZ0133	Conflict of interest	In progress
	EMPL	4 – 21 June	OP Em	EMPG314CZ0243	*Review of the AA´s activities/compliance audits 2014–2020*	In progress
	MARE	15 – 19 July	OPF	2019/CZ/ /Compliance/ /MARE/E1	Review of the AA´s activities	Finished

Source: AA´s information, May 2020.
Note: DG EMPL = DG Employment, Social Affairs and Inclusion
DG MARE = DG Maritime Affairs and Fisheries
DG REGIO = DG Regional and Urban Policy


compliance audit
financial audit
independence
auditor
economy
efficiency
state property
implementation of the state budget
annual audit plan
final account
effectiveness
financial audit
independence
performance audit
audit conclusion
budget