Czech Republic
Supreme Audit Office

# EU REPORT 2023

REPORT ON THE FINANCIAL MANAGEMENT OF EUROPEAN UNION FUNDS IN THE CZECH REPUBLIC

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**Editor's note:**

The editorial deadline for the *EU Report 2023* was set in a standard way, i.e. at 31 March 2023. Given this deadline, the report almost exclusively contains the figures and related contextual information available to the authors by the deadline. This principle is broken in the publication only in exceptional cases, taking into account the importance of the message to illustrate certain facts. However, these data are not subject to analysis or comparison and are merely supplementary.

In line with the tried-and-tested good practice from previous EU Report editions, the relevant organisational units of the Ministry of Finance (MoF), the Ministry of Regional Development (MoRD) and the State Agricultural Intervention Fund (SAIF) have prepared the supporting documents for selected parts of the publication. In Section C.1, the Audit Authority (AA) (Department 52 of the MoF) provided detailed information on its outputs, especially in the area of public audits and audits of European Structural and Investment Funds (ESIF). The National Coordination Authority (NCA) (an organisational unit of the MoRD) prepared information on the use of the allocation of ESIF funds, including funds from the instrument *Recovery Assistance for Cohesion and the Territories of Europe* (REACT-EU) to address the economic recovery from the COVID-19 pandemic, and also provided details on the measures taken under certain operational programmes (OP) for social support and integration of refugees from Ukraine. This information forms the contents of Sections E.1 to E.3. The SAIF provided input for the formulation of the content of Sections E.4 and E.5 focusing on the Common Agricultural Policy (CAP) and the Common Fisheries Policy (CFP).

The authorial team would like to express their sincere thanks to all the responsible staff of both ministries and the SAIF for their cooperation.

# LIST OF ABBREVIATIONS

| | |
|---|---|
| **3E** | Effectiveness, efficiency and economy |
| **AA** | Audit Authority (MoF's Department) |
| **AAR** | Annual Audit Report(s) of the Audit Authority |
| **Act on SAO** | Act No 166/1993 Coll., on the Supreme Audit Office, as amended |
| **AE** | Audited Entity |
| **AIS** | *SAO Audit Information System* |
| **AMIF** | *Asylum, Migration and Integration Fund* |
| **Annual Report** | *Annual report on the implementation of the EU budget for 2021* |
| **Annual Survey** | *Annual Sustainable Growth Survey 2022* |
| **AR** | SAO Audit Report |
| **Audit** | SAO Audit |
| **Audit under review** | SAO audits related to the EU budget and completed in the monitored period |
| **AUS** | Audit strategy of the Audit Authority |
| **CAP** | EU Common Agricultural Policy |
| **CAP SP** | Common Agricultural Policy Strategic Plan |
| **CD PCR** | Chamber of Deputies of the Parliament of the Czech Republic |
| **CF** | *Cohesion Fund* |
| **CFP** | EU Common Fisheries Policy |
| **Chamber of Deputies** | Chamber of Deputies of the Parliament of the Czech Republic |
| **CID** | Council implementing decision |
| **CJEU** | Court of Justice of the European Union |
| **CMO** | EU Common Market Organisation |
| **Cohesion** | EU budget heading: *Economic, social and territorial cohesion* |
| **Cohesion Policy** | Economic, social and territorial cohesion policy |
| **Commission** | European Commission |
| **Commission Study** | EU Commission study *New assessment of ESIF administrative costs and burden: final report* of October 2018 (European Commission, Directorate-General for Regional and Urban Policy, *New Assessment of ESIF administrative costs and burden: final report,* Publications Office, 2018) |
| **Concept** | *Family Policy Concept* |
| **Council** | Council of the European Union |
| **CP 2022** | *Convergence Programme of the Czech Republic (April 2022)* |
| **CR** | Czech Republic |
| **CR 2030** | Strategic framework Czech Republic 2030 |
| **CRD** | Centre for Regional Development of the CR |

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|---|---|
| **CSDP** | *EU Common Security and Defence Policy* |
| **DAS** | Statement of Assurance (déclaration d'assurance) |
| **DES** | *Digital Education Strategy 2020* |
| **EAFRD** | *European Agricultural Fund for Rural Development* |
| **EAGF** | *European Agricultural Guarantee Fund* |
| **ECA** | European Court of Auditors |
| **eJustice Strategy** | *Ministerial Strategy for the Development of eJustice 2016–2020* |
| **EMFAF** | *European Maritime, Fisheries and Aquaculture Fund* |
| **EMFF** | *European Maritime and Fisheries Fund* |
| **EP** | European Parliament |
| **EPSR** | *European Pillar of Social Rights* |
| **ERDF** | *European Regional Development Fund* |
| **ERS** | Electronic records of sales |
| **ESF** | *European Social Fund* |
| **ESIF** | European structural and investment funds |
| **EU** | European Union |
| **EU Pilot** | Structured dialogue system for dealing with non-compliance with EU law |
| **EU-27** | 27 EU Member States (after the UK left the EU) |
| **EU-28** | 27 EU Member States and the United Kingdom |
| **FA** | Financial Audit |
| **FEAD** | *Fund for European Aid to the Most Deprived* |
| **FI** | Financial Instruments |
| **FTE** | Full-time equivalent |
| **G20** | Group of the world's largest economies represented by the finance ministers and central bank governors of 19 countries and the EU's single internal market |
| **GDP** | Gross Domestic Product |
| **General Regulation** | Regulation (EU) No 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006. |
| **GNI** | Gross National Income |
| **IB** | Intermediate bodies |
| **ICT** | Information and communications technology |

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|---|---|
| **INTERREG CR–PL** | Cross-border cooperation programme PP14+ *Interreg V-A Czech Republic – Poland* |
| **IROP** | *Integrated regional operational programme 2021–2027* |
| **IROP14+** | *Integrated regional operational programme 2014–2020* |
| **IS ESF** | ESF 2014+ information system |
| **ISF** | *Internal Security Fund* |
| **JTF** | *Just Transition Fund* |
| **LAG** | Local Action Group |
| **LNG** | Liquefied natural gas |
| **LPIS** | *Records of agricultural land use according to user relations (Land Parcel Identification System)* |
| **MA** | Managing authority |
| **MCS** | Management and control system |
| **MF** | *Modernisation Fund* |
| **MFF** | Multiannual Financial Framework |
| **MFF21+** | Multiannual Financial Framework 2021–2027 |
| **MoA** | Ministry of Agriculture |
| **MoE** | 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 |
| **NCA** | National Coordination Authority |
| **NEET** | Not in Education, Employment, or Training |
| **NEP** | *National Environment Programme* |
| **New General Regulation** | Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy. |
| **NGEU** | *Next Generation EU (also called the European Union Recovery Instrument)* |

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| **NISP** | *National Internal Security Programme* |
| **NPI** | National Pedagogical Institute of the Czech Republic |
| **NPR 2022** | *National Reform Programme of the Czech Republic 2022* |
| **NRP** | *National Recovery Plan* |
| **NRP SC** | *National Recovery Plan Steering Committee* |
| **OECD** | Organisation for Economic Co-operation and Development |
| **OLAF** | European Anti-Fraud Office |
| **OoG** | Office of the Government of the Czech Republic |
| **OP** | Operational programme |
| **OP EIC** | OP *Enterprise and Innovation for Competitiveness* |
| **OP FMA** | OP *for Food and Material Assistance* |
| **OP JAK** | OP *Jan Amos Komenský* |
| **OP PGP** | OP *Prague – Growth Pole of the CR* |
| **OP RDE** | OP *Research, Development and Education* |
| **OP TAC** | OP *Technologies and Applications for Competitiveness* |
| **OPEm** | OP *Employment 2014–2020* |
| **OPEm+** | OP *Employment 2021–2027* |
| **OPEn** | OP *Environment 2021–2027* |
| **OPEn14+** | OP *Environment 2014–2020* |
| **OPF** | OP *Fisheries 2021–2027* |
| **OPF14+** | OP *Fisheries 2014–2020* |
| **OPFT** | OP *Fair Transformation* |
| **OPT** | OP *Transport 2021–2027* |
| **OPT14+** | OP *Transport for the 2014–2020 programming period* |
| **OPTA** | OP *Technical Assistance 2021–2027* |
| **OPTA14+** | OP *Technical Assistance 2014–2020* |
| **PA** | Partnership Agreement |
| **PAx** | Priority axis |
| **Period under review** | 1 April 2022 to 31 March 2023 |
| **PMS** | Probation and Mediation Service |
| **PP14+** | Programming Period 2014–2020 |
| **PP21+** | Programming Period 2021–2027 |
| **PP7+** | Programming Period 2007–2013 |
| **PSTW** | Programme *Building Capacities to Develop Basic pre/literacies in Preschool and Primary Education – Supporting Teachers' Work* |
| **RA** | Responsible authority |
| **RAd** | Railway Administration, state organisation |
| **RDP** | Rural Development Programme |
| **RDP14+** | *Rural Development Programme 2014–2020* |

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|---|---|
| **RDP7+** | *Rural Development Programme of the Czech Republic for 2007–2013* |
| **REACT-EU** | *Recovery Assistance for Cohesion and the Territories of Europe* |
| **Report** | *33rd annual report on the protection of financial interests of the European Union – fight against fraud – 2021* |
| **Report 2022** | *Report on the implementation of the National Reform Programme of the Czech Republic 2022* |
| **Report on Taxation** | *Annual Report on Taxation 2022* |
| **RRF** | Recovery and Resilience Facility |
| **SAIF** | State Agricultural Intervention Fund |
| **SAO** | Supreme Audit Office |
| **SAPS** | Single Area Payment Scheme |
| **SEF** | State Environmental Fund |
| **Senate** | Senate of the Parliament of the Czech Republic |
| **SFTI** | State Fund for Transport Infrastructure |
| **SMS** | *Single Market Scoreboard* |
| **SO** | Specific objective |
| **SPNA** | Special protected natural areas |
| **SR** | ECA special report |
| **SURE** | Financial instrument *Support to mitigate Unemployment Risks in an Emergency* |
| **TEE** | Total eligible expenditure |
| **TEN-T** | Trans-European Transport Network |
| **TNS** | Transitional national support |
| **TOR** | Traditional Own Resources |
| **VAT** | Value Added Tax |
| **VC** | Visitor centre |
| **YoY change** | Year-on-year change |

**Abbreviations of countries 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** Luxembourg

**LV** Latvia

**MT** Malta

**NL** Netherlands

**PL** Poland

**FT** Portugal

**RO** Romania

**SE** Sweden

**SI** Slovenia

**SK** Slovakia

**UK** United Kingdom of Great Britain and Northern Ireland

## SECTION I.
AUDIT WORK BY THE SAO AND OTHER EXTERNAL AUDIT BODIES IN THE FIELD OF EU BUDGET FUNDS ALLOCATED TO THE CZECH REPUBLIC

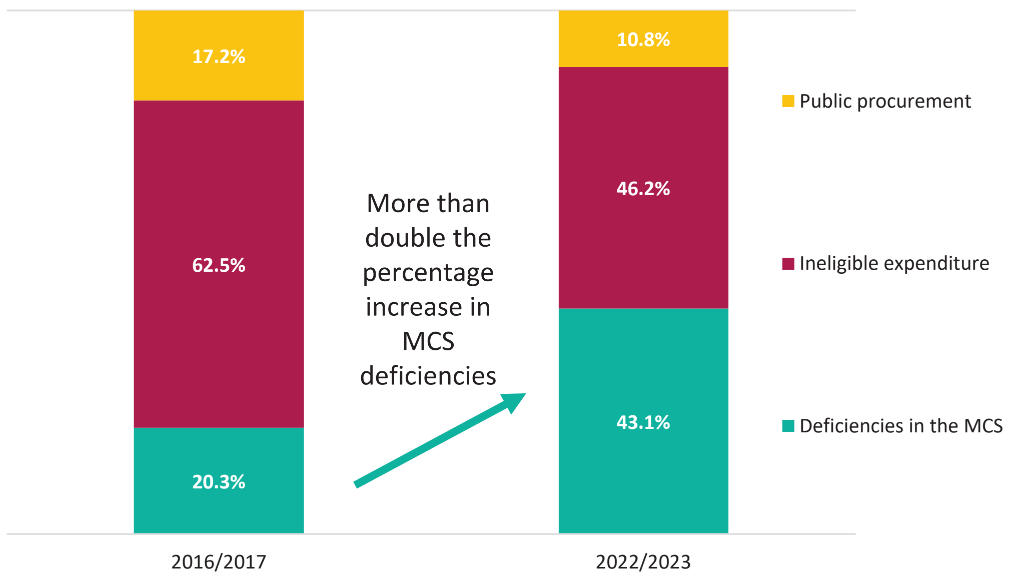
# A. SUPPORT PROVIDED FROM THE EUROPEAN UNION IN THE CONTEXT OF THE SUBSIDIES USED IN THE CZECH REPUBLIC

Already in the context of the Czech Republic's preparations for accession to the European Union (EU) and the start of the utilisation of EU pre-accession funds, the Supreme Audit Office (SAO) began to systematically address the issue of legality, effectiveness, efficiency and economy of the use of EU budget support.

## A.1 CHANGES IN THE STRUCTURE OF THE SAO'S AUDIT FINDINGS

Since 2016, the SAO has been analysing the structure of its audit findings relating to funds linked to the EU budget. To do this, it has identified thematically related groups of findings for which it tracks the frequency of occurrence over a twelve-month period (see EU reports published since 2017). Chart 1 compares the percentage of the three most significant groups of audit findings made by the SAO from 1 April 2016 to 31 March 2017 and from 1 April 2022 to 31 March 2023 (i.e. during the period under review).

**Chart 1: Change in the structure of the most significant groups of audit findings with breaches of primary and secondary legislation in Audits targeting funds related to the EU budget**




Source: *SAO Audit Information System* (AIS), March 2023

It is clear that management and control system (MCS) deficiencies represent a much larger percentage than six years ago. While the actual number of these deficiencies did not increase significantly between the periods shown in Chart 1, the number of deficiencies found in the area of ineligible expenditure and public procurement decreased. This is also corroborated by data from the European Anti-Fraud Office (OLAF) reports, which show a gradual decrease in the number of reported fraud cases and the financial amounts involved.

The representation of MCS deficiencies in the structure of the SAO's audit findings is mainly due to a gradual change in the focus of the SAO's audits with an increasing emphasis on detecting systemic deficiencies, as these are the deficiencies with potentially the most serious impacts on the management of public resources.

The SAO's audit reports (AR) repeatedly state the persistent inadequate design of programme/project objectives by managing authorities (MA) and the use of inappropriate monitoring indicators. The SAO considers it essential that the objectives be based on objectively specified needs. These errors result in the principles of effectiveness, efficiency and economy (3E) of the aid provided being violated. Through its audits, the SAO found, for example, the following:

- A significant systemic shortcoming consisting in reimbursement of ineligible expenditure for the purchase of real estate from close relatives (Audit No 21/22[1]);
- The MA did not assess effectiveness, efficiency and economy in the use of public funds and did not consistently require compliance with the conditions set out in the subsidy decision (Audit No 21/17[2]);
- The MA did not monitor the actual benefits of the subsidies provided and did not fulfil its obligation to systematically evaluate the efficiency of expenditure spent on supported projects (KA No 22/10[3]);
- The MA has set indicators that assess the outputs of the support only in terms of technical parameters, i.e. the fulfilment of the expected number of new devices and the length of new lines in kilometres, but these will not enable the MA to judge whether the support has increased the use of public transport to the detriment of car transport, reduced pollutant emissions, improved the quality and speed of connections or met transport needs in cities (Audit No 20/14[4]).

The process for selecting projects that will add the most value and ensure public funding is spent in line with the 3E principles still has significant room for improvement. For example, the SAO found the following facts:

- The MA did not create the preconditions for an objective evaluation of the results and benefits of individual projects; the objectives and expected results of the projects were defined in merely general terms and without measurable indicators that would allow an assessment of the extent to which expectations were met (Audit No 21/03[5]);
- The criterion for assessing the need for support was verified only in formal terms – it was only checked whether the applications contained a passage justifying the acquisition of the required equipment (Audit No 22/04[6]);
- The MA left the selection of specific persons to be supported and the level of assistance to be provided to partner organisations that distributed the aid and was thus unable to verify whether the assistance was actually provided to persons in need (Audit No 20/23[7]).

The results of the SAO's audits and its analyses tracking the trend over time show that a number of obstacles hindering the use of the allocation to the Czech Republic have been removed and that the Czech Republic's success rate in implementing the support places it in the top third of EU Member States (MS).[8] This is especially true in terms of the speed and smoothness of the use of the allocation. In terms of achieving adequate "value for money", the SAO still finds cases (see above) where the actual benefits of the support are at least questionable.

1 Audit No 21/22 – *State and EU budget funds to support social enterprises*.
2 Audit No 21/17 – *State and EU budget funds to support humanisation of psychiatric care.*
3 Audit No 22/10 – *State and EU budget funds to support implementation of gender audits.*
4 Audit No 20/14 – *Support for the use of city public transport using electric traction from the Operational Programme Transport 2014–2020.*
5 Audit No 21/03 – *State and EU funds to support recreational boating.*
6 Audit No 22/04 – *Funds of the Integrated Regional Operational Programme intended to support regional healthcare infrastructure.*
7 Audit No 20/23 – *State and EU budget funds provided for food and material aid to the most deprived and for measures to reduce food waste.*
8 See also Section C.2 and regularly updated data of the European Commission published at https://cohesiondata.ec.europa.eu/cohesion_overview/14-20.

The progress in addressing some issues is rather slow and, for example, the complexity of the implementation structure (see Section A.2) and the flawless cooperation of its individual links is still assessed by the SAO as only partially satisfactory.

## A.2 THE TREND IN THE NUMBER OF SUBSIDY TITLES CO-FINANCED FROM EU SOURCES

In relation to the process of administration of subsidies and support and the smoothness of their implementation, the SAO concluded that the relatively broad scope of support provided from public sources poses a major problem. Such an extensive system is naturally very costly and inherently increases the risk of non-systemic or "multi-source" support.

**The list below includes subsidy titles that have been or are co-financed from the EU budget through ESIF/EU funds or direct payments and Common Market Organisation (CMO) payments and which had been or are subject to Czech authorities under shared management[9].**

**Table 1: Overview of the number of "European" subsidy titles in individual programming periods**

| Programming period | Subsidy titles co-funded from the EU budget | | |
|---|---|---|---|
| | ESIF/EU funds | Direct Payments, CMO | Total |
| 2004–2006 | 91 | 6 | 97 |
| 2007–2013 | 260 | 13 | 273 |
| 2014–2020 | 165 | 23 | 188 |
| 2021–2027* | 155 | 21 | 176 |

Source: Analysis prepared by the SAO, March 2023.
* The period 2023–2027 applies to the CAP (see subsection E.4.1).

The first (shortened) programming period 2004–2006 was characterised by a relatively very small volume of allocated funds and also by the fact that a significant part of the EU funds in these years still came from the "pre-accession assistance" funds, which are not included in the overview.

The 2007–2013 programming period (PP7+) has by far the highest number of subsidy titles. This is mainly due to the emphasis on the regional dimension of support through seven regional OPs. Each of these programmes had its own structure of axes (areas of support), of which there were 110 in total.

The 2014–2020 programming period (PP14+) has seen a decline in the number of titles by more than 30%, reflecting the reunification of regional operational programmes into a single one.

In the framework of the 2021–2027 programming period (PP21+), the number of subsidy titles has slightly decreased, although the funds under the three "migration and asylum" programmes have been moved to the shared management mode and the "temporary" programmes *National Recovery Plan* (NRP), OP *Fair Transformation* (OPFT) and *Modernisation Fund* (MF) have been newly created. The decrease in the number of titles was recorded for practically all programmes.

9 The terminology and the substantive content of the individual support formats is determined by EU legislation and the form of the internal structural breakdown of the support provided is approved by the European Commission on the proposal of the individual Member States (e.g. the structure of programmes is approved within the framework of the Partnership Agreement, the internal structure of OPs, i.e. axes or areas of support, is approved by the European Commission within the framework of the approval of the programme documents of individual OPs).

**… and let us not forget about the national subsidies**

Combined with national subsidy titles, the whole system of subsidies and support is complicated, bloated and difficult to manage. In this context, the SAO points out that the more complex the subsidy system is, the more difficult it is to ensure the meaningfulness and mutual synergy of the support provided and to avoid possible overlaps in funding.

Another dimension that should not be overlooked in this context is the significant staff capacity required for the process of providing subsidies and the subsequent monitoring of their use (see Section A.3). It is true that the more complex the system of support provided (both in terms of the number of subsidy titles and the quality and consistency of the selection of supported projects, including the checks carried out), the higher the administrative costs.

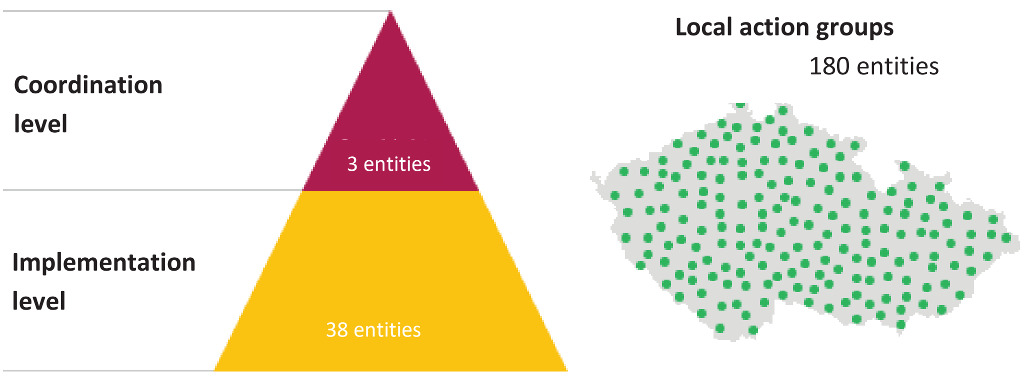
The following subsections of Section A are devoted to the analysis of support provided exclusively through the ESIF, as the SAO has more detailed information and relevant international comparisons for this form of support.

## A.3 ADMINISTRATION OF THE IMPLEMENTATION OF SUPPORT CO-FINANCED THROUGH THE ESIF

In this subsection, the SAO focuses on the recently completed PP14+, due to the availability of comprehensive information and the possibility to make partial comparisons with the data presented by the European Commission (hereinafter only the Commission).

The administration of subsidies co-financed from the ESIF was handled by 221 entities in PP14+, 41 of which were at the central level[10] and 180 were local action groups[11] (LAG) (see Annex 1).[12] According to the information of the MoRD, in 2018 there were approximately 3.7 thousand full-time equivalent (FTE) employees in the structures of the "central" entities[13] and in 2022 (in the second year of the new programming period) this number dropped to 3.4 thousand FTEs.[14]

**Figure 1: ESIF implementation structure in the Czech Republic in PP14+**




10 There are also 13 instruments for the implementation of the territorial dimension in metropolitan areas or agglomerations of national significance (Integrated Territorial Investments – ITI) and instruments for the sustainable development of growth poles (Integrated Territorial Development Plans – ITDP), as well as expert institutions involved in the design of the CAP and keeping agricultural records, and other control bodies in the area of CAP (see Annex 1).

11 Only a small part of the volume of support is provided through the LAG, but with emphasis on the territorial dimension.

12 For PP21+, there are 39 entities at the central level and 219 in total.

13 Full-time equivalent.

14 *Information on ensuring the administrative capacity of the implementation structure of the Partnership Agreement and the National Strategic Reference Framework for 2018 and Information on ensuring the administrative capacity of the implementation structure of the Partnership Agreement and the National Strategic Reference Framework for 2022.*

In October 2018, the Commission published the study *New assessment of ESIF administrative costs and burden: final report*[15] (Commission Study), which indicates that the total administrative capacity expected in EU Member States for the entire seven-year PP14+ (cumulatively for the entire PP14+) is around 610 thousand FTEs.

The Commission Study quantified the (expected) labour intensity in the Czech Republic for PP14+ as a whole at 34.3 thousand FTEs. These activities were generally carried out by highly qualified officials, placing considerable demands on financial resources.

## A.4 COSTS OF IMPLEMENTATION OF THE SUPPORT CO-FINANCED THROUGH THE ESIF

The systems for administering ESIF support in the Member States are based on EU legislation and are in principle approved by the Commission. The EU also bears the brunt of funding the entire ESIF support apparatus.

The Commission Study indicates that the Member States bear on average only about 32% of the total administration costs. The rest is paid for by the EU through operational programmes. In 2018 (when the Commission Study was prepared), in the Czech Republic this was "large technical assistance", which was provided from OP *Technical Assistance* for PP14+ (OPTP14+), and "small technical assistance", which was provided from the respective priority axes of each OP.

**The SAO assessed the planned costs for the administration of programmes co-financed through the ESIF for the whole of PP14+,** using the values presented in the latest updates of the programme documents of the individual programmes. The following EU co-financing values were found:

- Large technical assistance (i.e. OPTP14+) shows a total allocation of the "European" share of EUR 209.70 million.
- Small technical assistance (the relevant axes of other OPs) shows a total allocation of the "European" share of over EUR 663.83 million.
- As indicated above, the Member States contribute approximately 32% of the administrative costs associated with ESIF support from national resources.
- **If this proportion is maintained, the total cost of administration of support to the Czech Republic from the ESIF in PP14+ would amount to EUR 1,153.06 million. This represents an amount of approximately CZK 29.57 billion.**[16]

**An expert estimate in the Commission Study suggests that administration costs can be reduced by up to 26%. These savings could be efficiently achieved by a wider application of simplified forms of reporting of eligible costs.**[17]

The Commission Study analysed in detail the labour and financial intensity of the various activities in the process of administering ESIF support. **They defined 50 individual administrative activities, of which the performance of financial control and the selection of operations are the most labour- and financially intensive** (see Annex 2).

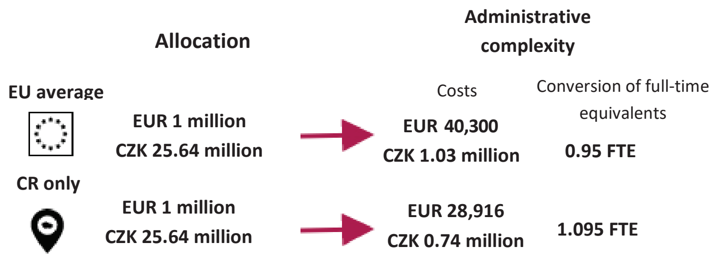
15 European Commission, Directorate-General for Regional and Urban Policy, *New Assessment of ESIF administrative costs and burden: final report,* Publications Office, 2018, available at: https://data.europa.eu/doi/10.2776/36663

16 The cumulative average of the foreign exchange market according to the Czech National Bank for 2018 of CZK 25.643/EUR was chosen for conversion to Czech crowns.

17 Use of unit pricing (for measurable outputs), lump sum financing, especially for indirect costs, and one-off sums (lump sum templates) for reimbursement of eligible costs.

Quantifying the administrative costs per EUR 1 million allocation for the EU as a whole amounts to EUR 40,300 (approx. CZK 1.03 million) or a working capacity of 0.95 FTE, including national co-financing[18]. **The value quoted by the Commission Study for the Czech Republic per EUR 1 million of allocation corresponds to EUR 28,916, i.e. more than CZK 0.74 million per year, or 1.095 FTE.[19]**

**Figure 2: Comparison of administrative complexity of EU funds implementation in the Czech Republic with the EU average**




Source: Commission Study: *New Assessment of ESIF administrative costs and burden: final report* (October 2018).

The Commission Study also notes that administrative costs are not an indicator of performance and therefore strongly recommends not using this information outside the context of the Commission Study to make meaningful comparisons between programmes or Member States or to draw conclusions about performance or efficiency. Administrative costs only provide information on how much workload or money was used to administer the funds provided for EU co-financed support.

## A.5 CAN WE DO BETTER?

The results of the SAO's audits for previous programming periods show that one of the reasons that make it very difficult to clearly assess the reasonableness of administrative (transaction) costs is the **inappropriate design of targets and monitoring indicators.** This is one of the systemic errors that are regularly cited by the SAO.[20] Another reason is that the individual implementing bodies do not quantify and report separately on the costs of administering support provided from the EU budget. **Indeed, an essential prerequisite for assessing the adequacy of the costs of administering each programme is to compare these costs with the actual measurable results of the programme. As far as the ESIF is concerned, this has not yet been done either at EU level or at Member State level, even taking into account the application of the n+3 rule in PP14+.**

The Czech Republic is not an exception, as it also does not compare the transaction costs with the results of individual programmes so that relevant conclusions could be drawn for their assessment and possible decisions to adjust the administrative complexity of subsidy provision could be made, or to revise the administrative capacities dedicated to the administration of subsidy titles. **This is true not only for "European" subsidies but also for national subsidies.**

**Some authorities in the Czech Republic administer both national and "European" subsidies and thus essentially operate parallel administrative structures. This creates room for optimising these parallel structures to achieve cost and capacity savings.**

18 There are significant differences in administrative costs not only between Member States but also between ESIFs and types of OPs, with the programme characteristics that most influence administrative costs being the financial volume, the number of beneficiaries and the thematic focus of the programme.

19 As regards the administrative burden on beneficiaries within the EU, the Commission Study shows (on a limited sample of projects) that here too the size, duration and thematic complexity of the operation have a direct impact on the administrative burden. This burden appears to be around 11% of the total eligible funding, on average for the EU. This corresponds to EUR 107,800 or 1.5 FTE per EUR 1 million of eligible expenditure. However, given the relatively small sample size of 269 operations, these figures are only of indicative nature.

20 According to the NCA, the indicator system for PP21+ has been streamlined. The number of indicators has been reduced and the emphasis is on the use of common indicators defined at Commission level. The SAO will be able to verify the completeness and effectiveness of these measures only in future thematic audits.

**Each subsidy administrator should therefore consider the possibility of creating a single structure for the administration of all the support it provides.** The decision of the MoA to essentially transfer the administration of national subsidies to the SAIF[21] may be an inspiring step. This allowed to optimise the use of the expert capacities and the relevant technical resources of the SAIF and, where appropriate, to adapt the procedures for the administration of national subsidies to the procedures for the administration of "European" subsidies using best practices.

Optimising administrative structures and streamlining their procedures is not the only step that should lead to savings. The SAO's audit conclusions have long reiterated findings concerning the poor definition of targets and monitoring indicators. **The significant potential for savings lies primarily in changing the "subsidy architecture", i.e. in rethinking the way programmes are designed (real needs versus available resources) and the processes of their approval (avoiding duplication of support) in order to make the best use of the public resources and capacities. One of the prerequisites is the definition of a system of performance indicators that will enable an objective assessment of the performance of the relevant sectoral policies and the instruments used to implement them.**

**A necessary step in the programme approval process must therefore be a shift from output indicators to results and impact indicators.**

**The performance of individual spending policies must be assessed both continuously and ex-post, including over longer time horizons, and corrective action must be taken promptly.** Performance evaluation of budgets, including sectoral budgets, with a focus on results, is already being successfully applied in a number of countries and institutions[22]. This, of course, **requires much more sophisticated preparation of the budgets of the relevant ministries and the choice of appropriate evaluation indicators focused on results and impacts.** As a result, these steps could lead to a change in the approach of some programme administrators who are still ruled by the imperative of spending the allocated resources in the given budget year at any cost. This issue is also addressed in detail in the *EU Report 2021* (Section B).

21 Initially, the SAIF only performed the role of administrative body for "European" support.
22 E.g. in Australia, Canada, France, the Netherlands, the United Kingdom, and the World Bank, the World Health Organization, etc.

# B. SAO AUDIT WORK IN THE PERIOD UNDER REVIEW

## B.1 OVERVIEW OF APPROVED SAO AUDIT CONCLUSIONS

**In the period under review (i.e. from 1 April 2022 to 31 March 2023), the Board of the SAO approved fourteen audit conclusions** from Audits concerning (in full or at least in part) EU budget funds (the Audits under review). This number represents approximately one third of all ARs approved by the Board of the SAO each year. The high proportion shows that the **audit of funds related to the EU budget is a long-term priority for the SAO.**

Table 2: Overview of Audits under review

| Audit No | Audit subject | Publication in *SAO Bulletin* (volume/year) |
|---|---|---|
| 21/06 | *State and EU funds for the implementation of waste management measures* | 3/2022 |
| 21/09 | *Funds spent on environmental protection-related visitor infrastructure projects* | 3/2022 |
| 21/15 | *State and EU funds spent on the promotion of agricultural products and foodstuffs* | 3/2022 |
| 21/17 | *State and EU budget funds to support humanisation of psychiatric care* | 3/2022 |
| 21/20 | *State and EU funds spent on the ESF 2014+ information system* | 3/2022 |
| 21/22 | *State and EU budget funds to support social enterprises* | 4/2022 |
| 21/24 | *Closing account of the State budget chapter Ministry of Health for the year 2021, financial statements of the Ministry of Health for the year 2021 and data submitted by the Ministry of Health for the assessment of the implementation of the state budget for the year 2021* | 4/2022 |
| 21/28 | *Computerisation in the Ministry of Justice* | 6/2022 |
| 21/29 | *State budget and EU funds for support of family policy* | 6/2022 |
| 21/33 | *State and EU funds spent by the Ministry of Agriculture to support the processing of agricultural products* | 1/2023 |
| 21/36 | *State and EU funds for the reconstruction of selected off-corridor railway lines* | 4/2022 |
| 22/02 | *State and EU funds to support digital education* | 1/2023 |
| 22/04 | *Funds of the Integrated Regional Operational Programme intended to support regional healthcare infrastructure* | 1/2023 |
| 22/10 | *State and EU budget funds to support implementation of gender audits* | 1/2023 |

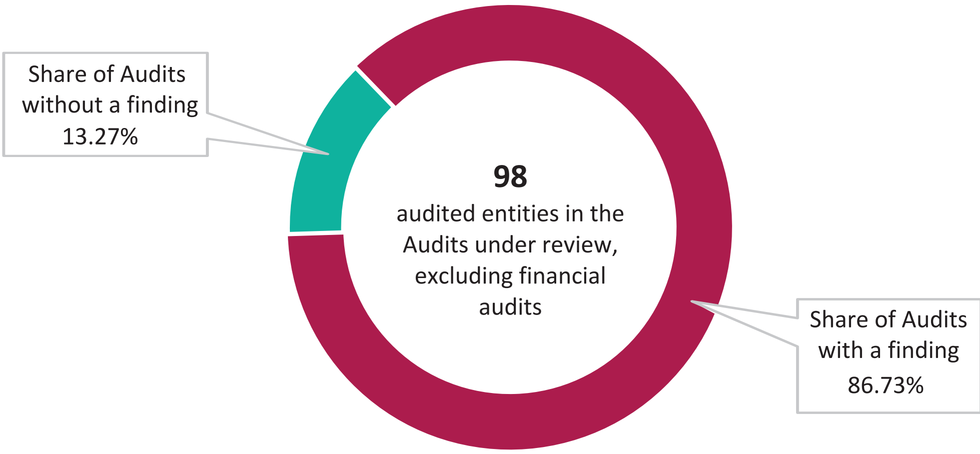
Source: AIS, March 2023.
Note: The colour designation of the monitored Audits corresponds to their purpose according to the legend:

| | |
|---|---|
| | Financial audit |
| | Natural resources |
| | Cohesion and competitiveness |

As can be seen from Table 2, the dominant audit area in the period under review was "*cohesion and competitiveness*" followed by "*natural resources*". Compared to legality audits or performance audits, financial audits (FA) have their own specific features and the nature of the audit findings is also different. As a rule, financial audit focuses on verifying the closing accounts of state budget chapters, book-keeping, financial statements, and verifying the accuracy of the data submitted for assessment of the state budget implementation. Therefore, Audit No 21/24 is not included in the following statistical summaries (in Section B.1) (see Section B.3 for more details).

**In the other thirteen Audits under review, a total of 98 entities were audited by the SAO – referred to herein as the audited entities (AE) – some of which were audited as part of several Audits**.

**Chart 2: Distribution of audited entities according to the SAO's audit findings**




Source: AIS, March 2023.

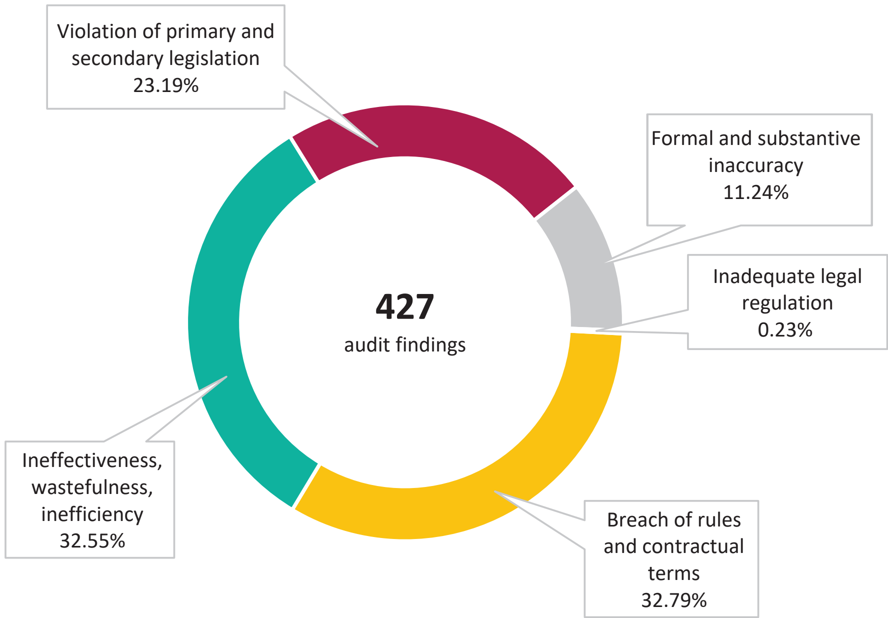
In these Audits under review, the SAO made a total of 427 audit findings. The volume of identified deficiencies quantified at the project level (selected sample) amounted to almost CZK 342.71 million. At system level, an amount of CZK 501.56 million was affected by deficiencies (errors in MCS).

The volume of enforceable deficiencies detected in the Audits under review amounted to CZK 90.33 million; of that sum, however, funds related to the EU budget accounted for CZK 60.42 million.

Four of fourteen Audits under review identified deficiencies which induced the SAO to submit a total of 10 notifications[23] to the competent tax administrator for further action.

23 The SAO submits notifications to tax administrators pursuant to Section 59 of Act No 280/2009 Coll., the Tax Code. In the period under review, the submissions concerned Audit No 21/06, No 21/22 and No 22/10 (three notifications each) and Audit No 21/29 (one notification).

**Chart 3: Shares of the individual categories of audit findings**



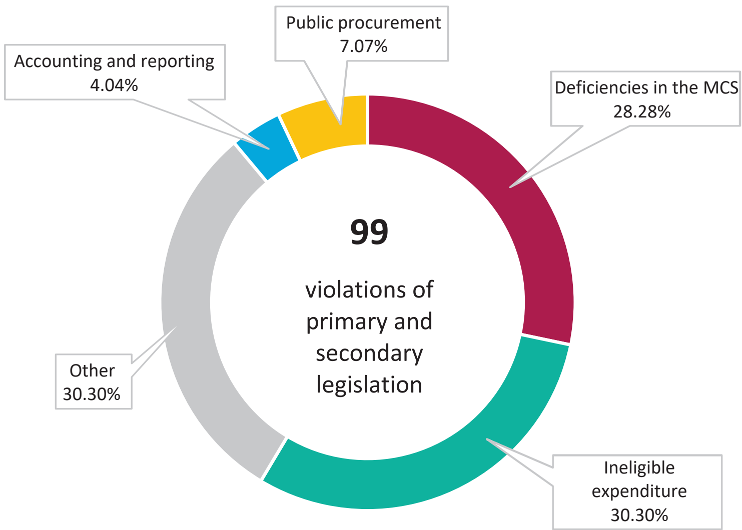

Source: AIS, March 2023.

In legality and performance audits, the SAO made a total of 427 audit findings, 99 of which were classified as *violations of primary and secondary legislation*.[24]

Chart 4 shows the SAO's audit findings in the category of *violations of primary and secondary legislation* (excluding findings made within the framework of the FA) broken down by category of violation.

24 This category includes breaches of binding EU law as well as national legislation in the form of laws, decrees and government regulations or resolutions.

**Chart 4: Nature and degree of violation of legal regulations**




Source: AIS, March 2023.
Note: Individual findings are classified according to the primary regulation violated – e.g. if there is a violation of the Public Procurement Act and which results in an ineligible expenditure qualified as a violation of the Budgetary Rules Act, this finding is classified only in the category *of public procurement*.
The *Other* category mainly includes infringements in the fields of regional development, public support and public administration information systems, and also in hydrogeology and pesticide use.

Compared to the previous period under review (see Section A.1 of *EU Report 2022*), the proportions of each category have not changed significantly. ***Ineligible expenditure***[25] remains the largest group of identified deficiencies (more than 30%), with a slight decrease. On the other hand, there was an 8% increase in the number of cases due to ***deficiencies in the MCS.*** Errors in ***public procurement*** continue to account for a relatively low percentage of the SAO's findings.

## B.2 LEGALITY AUDITS AND PERFORMANCE AUDITS IN THE FIELD OF EU BUDGET EXPENDITURE

The text of this subsection summarises the basic information and the main findings published by the SAO in 13 Audit reports under review, which were conducted as legality and performance audits.

### B.2.1 COHESION AND COMPETITIVENESS

The SAO's audit work focused on examining expenditure intended to support cohesion and competitiveness projects, which are traditionally the largest group of audits related to the EU budget. Ten audits fell under this Audit category in the period under review.

25 This category includes ineligible expenditure in individual projects, ineligible projects and ineligible beneficiaries.

**Audit No 21/09 – *Funds spent on environmental protection-related visitor infrastructure projects***

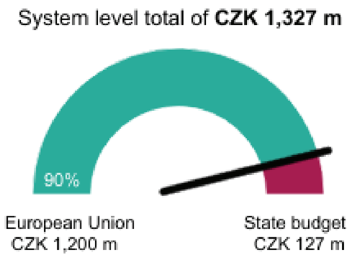
**The objective of the audit was to verify whether the support for visitor infrastructure projects related to nature conservation was set up and implemented in an economical and effective manner. The audit focused in particular on projects related to the construction and renovation of visitor centres (VC) and cave entrance facilities.**

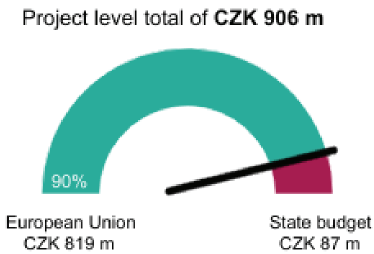
The audit covered the EU funds provided through OP *Environment 2007–2013* and OP *Environment 2014–2020* (OPEn14+) and the funds paid as co-financing from the state budget.

The SAO verified on the selected sample whether the VCs fulfilled the purpose of their establishment, i.e. whether they limited the negative impact of visitors on the object of protection, contributed to the control of visitor movement, ensured the necessary public awareness of the importance of the protection of the given areas and supported responsible behaviour towards nature and the environment. Furthermore, the SAO examined whether the monitoring of the projects showed that the purpose of the projects was fulfilled, whether the funds spent on the construction and renovation of the VCs were spent economically and whether the sustainability of the visitor centres was ensured. Audit No 21/09 focused on verifying the set up and functioning of the MCS and, at the same time, on auditing the individual projects.

In previous years, similar issues were covered by Audits No 10/12 and No 16/10[26].

**At system level, funds in excess of CZK 1,327 million were audited (of which more than CZK 1,200 million came from the EU budget) and at the project level funds worth over CZK 906 million were audited (of which more than CZK 819 million came from the EU budget).**




**DEFICIENCIES IDENTIFIED BY THE SAO**

**The audit found that the efficient and economical use of funds spent on visitor infrastructure projects was not sufficiently ensured.** The Ministry of the Environment (MoE) has not established clear evaluation criteria aimed at assessing the effectiveness of the spending of funds for the implementation of projects. The evaluation criteria were formulated in general terms and did not include the aspect of effectiveness in a sufficiently specific way. However, the MoE did not observe even such poorly defined conditions for project selection and approved a project that did not meet the conditions and should have been disqualified. The MoE created an uneven playing field for the applicants.

When selecting projects, the MoE did not take into account the number of visitors to the areas subject to special protection (SPNA), their attractiveness and size, or the distance of the planned VC from existing facilities of a similar nature. The only condition laid down by the MoE was the construction of only one VC per SPNA (except for national parks).

26 Audit No 10/12 – *Funds provided for the improvement of the state of nature and landscape* and No 16/10 – *Funds provided for the improvement of the state of nature and landscape.*

**It was not possible to evaluate the benefits of specific projects because the MoE did not set rules (criteria) for monitoring the reduction of negative anthropogenic impacts related to the construction of visitor infrastructure and does not monitor the impacts of project implementation.** The result of the comparison of the data on the number of visitors and the number of trespasses in the Šumava National Park and the Moravian Karst Protected Landscape Area in the years 2013–2020, which was carried out by the SAO, did not confirm the assumption of the Ministry of the Environment that the implementation of the VC projects would lead to positive changes in the behaviour of visitors. On the contrary, the number of trespasses committed in the SPNAs has been increasing in recent years. Neither has there been a demonstrable contribution of the VCs to halting biodiversity loss and reducing negative anthropogenic impacts.

**The level of the indicative investment cost limit as one of the criteria for project selection was significantly overestimated.** The SAO found that the MoE had used a significantly overestimated amount to calculate this limit. The increase in the upper limit of investment costs in PP14+ relative to PP7+ did not correspond to the inflation coefficients or the increase in prices in the construction sector. The amount of the indicative investment cost limit did not take into account the size or the number of visitors to the SPNA. **This resulted in the implementation of extraordinarily costly projects.**

**The operation of visitor centres generates a loss.** Part of their operating expenses are covered by the state budget. In many cases, the operation of the VCs depends on this operating subsidy. According to the SAO, this creates a **risk to their sustainability.**

**Proposals and implementation of measures to remedy identified deficiencies**

OP *Environment 2021–2027* (OPEn) within measure (activity) 1.6.1.5 *Visitor infrastructure serving to direct visitors in protected areas and to raise awareness of nature conservation issues* does not contain evaluation criteria for project selection, i.e. projects are not scored and are evaluated only according to acceptability criteria. The allocation for this supported measure has also been significantly reduced.

OPEn also newly defines the objectives and indicators of measures 1.6.1.5 with the aim of achieving the basic criteria for measurable impact of educational activities on the public.

**Audit No 21/17 – *State and EU budget funds to support humanisation of psychiatric care.***

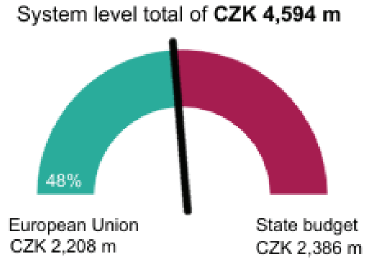
**The aim of the audit was to verify whether the state budget and EU funds earmarked for the humanisation of psychiatric care were provided and used efficiently, economically and in accordance with legal regulations.**

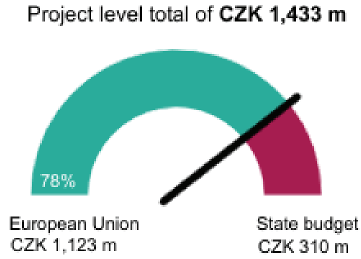
Two calls[27] of the *Integrated Regional Operational Programme* for PP14+ (IROP14+) were selected for audit at the MoRD and also two programmes of the Ministry of Health (MoH) targeting investments in state medical institutions and pre-financing of IROP14+ projects in organisations directly managed by the ministry.

The audit at the Ministry of Health focused on the design and management of programmes to support humanisation of psychiatric care, on the coordination of cooperation between the MoH and the MoRD in the preparation of IROP14+ calls and in the implementation of individual projects. The SAO also examined the distribution of support by the MoRD within the audited calls in terms of effectiveness and compliance with the set rules and legal regulations. Furthermore, the audit verified transparency and compliance with legal regulations in the process of evaluation and selection of applications for support as well as in the administration of grant procedures and implementation of selected projects. The selected beneficiaries (two contributory organisations [university hospitals] of the Ministry of Health) were audited for compliance with the conditions under which the funds from the state budget and the EU budget were granted to them, and it was also verified whether these funds were used economically, efficiently and in accordance with legal regulations.

27 Calls for applications for support (calls).

**The audited volume of funds at system level amounted to CZK 4,594 million (CZK 2,208 million from the EU budget); CZK 1,433 million at the project level (of which CZK 1,123 million came from the EU budget).**




### DEFICIENCIES IDENTIFIED BY THE SAO

The audit found that the **MoRD, as the managing authority of IROP14+, did not ensure the introduction and effective functioning of the MCS by effectively transferring the responsibility for the continuous control of the fulfilment of conditions by selected beneficiaries to the MoH,** which pre-finances investment projects from its own budget chapter. However, the MoRD is supposed to check the set conditions and pay eligible project expenditure only after the completion of the project or project phase. If irregularities are detected on the part of the beneficiary, the EU subsidy will not be paid, although the MoH has already incurred expenditure from the state budget.

**The MoRD did not ensure that it was possible to fully assess the actual impact of the support provided from IROP14+** on the area of deinstitutionalisation of psychiatric care because it set only one specific programme result indicator and monitored data for only a narrowly defined part of the target group. Based on the set of indicators, it was not possible to assess the impact of the support on the target group, i.e. on people with mental and behavioural disorders and their families.

Other deficiencies found in the MA were in the area of control. The MoRD did not proceed in accordance with the IROP14+ Operational Manual and the main objectives of financial control. The on-the-spot control reports and other documents submitted show that the **MoRD did not assess the economy, efficiency and effectiveness of the use of public funds** and did not consistently require the fulfilment of the conditions set out in the decisions to grant the subsidy.

Within the framework of the national pre-financing subsidy programme, the MoH provided the beneficiary with a subsidy for the implementation of the project. **However, these funds were in fact used to cover ineligible expenditure of CZK 50.24 million**. The MoH did not comply with and did not respect the rules set by the managing authority, which stipulated that the ineligible project expenditures were to be covered by the beneficiary of the subsidy exclusively from its own resources.

Although the MoH spent billions of CZK through subsidies intended for the humanisation of psychiatric care, its **internal control system for the provision and administration of this support was not functional. The MoH did not carry out any public administration audits of the beneficiaries of the two programmes. In some cases, the evaluation process included applications that did not meet all the requisites and the evaluation itself was not transparent on the part of the MoH.**

**Proposals and implementation of measures to remedy identified deficiencies**

The MoRD has already modified the indicator system for the programming period 2021–2027 (PP21+) and added a new indicator that measures the actual number of users (patients) in addition to the supported capacity.

Further, in cooperation with the MoRD, the MoH has modified the terms of management documents for projects implemented by the MoH's contributory organisations and financed from the *Integrated Regional*

*Operational Programme 2021–2027* (IROP) so as to ensure that the financing of ineligible expenditure is clearly defined.

In the methodology for PP21+, the MoRD has set up a record of the fact that there is a reservation to the application and what documents the applicant has to provide in order to be able to issue a legal act, i.e. a subsidy decision.

The MoH undertook to modify the wording of the methodology for controlling projects of its contributory organisations and organisational units of the state under its responsibility that are financed from IROP. It also promised to guide the performance of public administration controls in national investment programmes by issuing a methodological instruction.

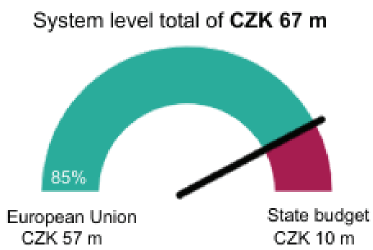
**Audit No 21/20 – *State and EU funds spent on the ESF 2014+ information system***

**The aim of the audit was to verify whether the state and EU funds earmarked for the development, growth, operation and administration of the ESF 2014+ information system (IS ESF) were spent efficiently, economically and in accordance with the legal regulations.**

In the previous years, this issue was mainly addressed in Audits No 16/01, No 18/33 and No 18/28[28].

The audit covered both EU funds earmarked for the establishment of the IS ESF and provided from the OP *Human Resources and Employment* and OPTA14+, as well as funds paid from the state budget as co-financing. The audit also verified the design and functioning of the IS ESF.

Due to the subject matter of this Audit, it was carried out **only at system level and the audited funds amounted to CZK 67.04 million** (of which CZK 56.74 million came from the EU budget).




**DEFICIENCIES IDENTIFIED BY THE SAO**

The audit verified that the state and EU funds for the development, growth, operation and administration of the IS ESF were spent efficiently, economically and in accordance with legal regulations. The minor deficiencies identified are listed in the following paragraphs.

Through data analysis, the SAO verified that some of the data in the IS ESF were incorrect, but the **proportion of errors found was below the statistical significance level[29]**. The SAO found weaknesses the remedy of which would improve the accuracy of the data. **Insufficient use of the IS ESF in control activities limits the possibility of detecting irregularities in individual projects.**

The effectiveness of the funds spent by the Ministry of Labour and Social Affairs (MoLSA) on the IS ESF is reduced by the fact that **some of the acquired functions have never been utilised.**

28 Audit No 16/01 – *EU and state budget funds earmarked for financing measures under the Operational Programme Enterprise and Innovation in terms of achieving the objectives;* No 18/33 – *Support from the Operational Programme Prague – Growth Pole of the CR provided for social inclusion and combating poverty;* and No 18/28 – *Funds for the implementation of measures under the Operational Programme Employment 2014–2020 to increase employment and adaptability of the workforce.*

29 The SAO set the significance level at 2% of the data volume.

The **SAO found only minor deficiencies in the audit of the public procurement of the IS ESF supplier and the subsequent contractual relationship,** and the risk of vendor lock-in[30] was not confirmed. The SAO found no shortcomings in the methodological support of the IS ESF and the accessibility of the system for users.

**Proposals and implementation of measures to remedy identified deficiencies**

The MoLSA decided to refrain from monitoring additional data for PP21+, such as the economic sector of the supported person. Only the data necessary to calculate the values of the relevant indicators on the persons supported will be monitored.

For PP21+, based on the experience from OP *Employment 2014–2020* (OPEm), a design of forms in the IS ESF is being prepared, which, thanks to logical controls, minimises the risk of entering incorrect data on supported persons by beneficiaries. Furthermore, the internal instructions for project managers will specify in which cases it is appropriate to carry out random checks of data entered into the IS ESF.

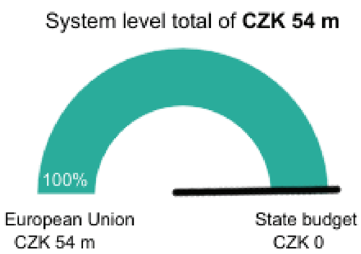
**Audit No 21/22 – *State and EU budget funds to support social enterprises***

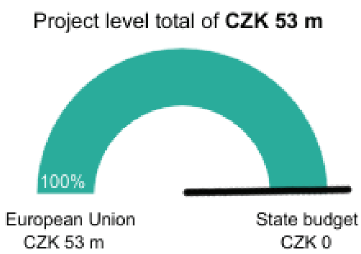
**The aim of the audit was to verify whether the state budget and EU funds for the support of social enterprises were provided and used efficiently, effectively and in accordance with the legal regulations.**

The audit covered EU funds provided from OPEm and IROP14+ to support social enterprises. The audit verified the design and functioning of the MCS of both OPs and examined the individual supported projects selected to appropriately represent both programmes and the range of supported social enterprises.

**At system level, funds amounting to CZK 54.41 million (100% from the EU budget) were audited and the identified deficiencies were quantified at CZK 3.89 million. At project level, funds amounting to CZK 53.38 million were audited (again 100% from the EU budget), while deficiencies amounting to CZK 3.85 million were quantified. The SAO also sent three notifications to the tax administrator, with a total value of nearly CZK 3.76 million.**

In the previous years, this issue was mainly addressed in Audits No 18/28 and No 18/33.[31]




**DEFICIENCIES IDENTIFIED BY THE SAO**

**The audit identified deficiencies in the design, management and implementation of OPEm and IROP14+ on the part of both providers and beneficiaries of support, which significantly reduced the effectiveness and efficiency of the provided and utilised funding.**

This assessment is based primarily on **the fact that the principles of social entrepreneurship were set by the MoLSA and the MoRD in a vague manner and without setting a clear minimum threshold necessary to meet them. Therefore, it was not possible to reliably verify the fulfilment of these principles.** The monitoring system for tracking the achievement of the objectives and benefits of the support was also assessed as insufficient.

30 "Vendor lock-in" describes a situation where the contracting authority, through its previous procurement process in the field of information technology, has been placed in a position where it is unable to escape from its dependence on a particular vendor and its solution when changes or modifications to the system are necessary.

31 Audit No 18/28 – *Funds for the implementation of measures of the Operational Programme Employment 2014–2020 to increase employment and adaptability of the workforce;* and No 18/33 – *Support from the Operational Programme Prague – Growth Pole of the CR provided for social inclusion and combating poverty.*

Although both the MoLSA and the MoRD (or the Centre for Regional Development of the Czech Republic – CRD) rejected a large number of applications that did not meet the criteria for granting support, the **SAO found deficiencies in the system that enabled to select and support projects where funds were not spent efficiently and effectively. The SAO assessed half of the projects selected for the audit sample as being of limited effectiveness or limited efficiency or completely ineffective and inefficient.** The SAO also found that new social enterprises were often established with significant personnel ties to their intended customers and suppliers. The vast majority of the audited enterprises did not achieve the economic assumptions stated in the business plans submitted by the applicants for support under OPEm and IROP14+.

Neither the MoLSA nor the MoRD set a maximum amount of support per participant or per full-time job created. As a result, support was also provided for projects where the intensity of support was significantly higher than the average value for operational programmes. In one case, the annual cost per full-time equivalent worker was as high as CZK 1 million.

**The SAO found violations of legal regulations by three beneficiaries.** The deficiencies relating to breaches of budgetary discipline were classified as enforceable and, as a result, a notice was filed with the tax administrator in the amount of CZK 2.86 million (see above).

**In the case of the IROP14+, the SAO found a significant systemic shortcoming consisting in reimbursement of ineligible expenditure for the purchase of real estate from close relatives.**

**Proposals and implementation of measures to remedy identified deficiencies**

In the new programming period, support for social enterprises co-funded by the EU will be provided exclusively by the MoLSA under the OP *Employment plus 2021–2027* (OPEm+). The MoLSA undertook, *inter alia*, to adjust the indicator system (especially in terms of setting quantified targets) so that it will be possible to obtain a comprehensive view of the intervention and its impact, to refine the definition of the principles of social entrepreneurship, to place greater emphasis on the efficiency and economy of the supported projects, to adjust the process of evaluation and selection of projects for support along these lines, and to pay attention to the economic sustainability of social entrepreneurship projects.

On the basis of the discovery of the above-described systemic deficiency consisting in the reimbursement of real estate purchases from close relatives, the MoRD, in cooperation with the CRD, initiated an extraordinary audit of all supported social entrepreneurship projects.[32] In addition to solving this problem, the MoRD and CRD undertook, inter alia, to ensure a uniform procedure for monitoring the fulfilment of subsidy conditions (fulfilment of the set monitoring indicators at the date of project completion and after the specified sustainability period).

**Audit No 21/28 – *Computerisation in the Ministry of Justice***

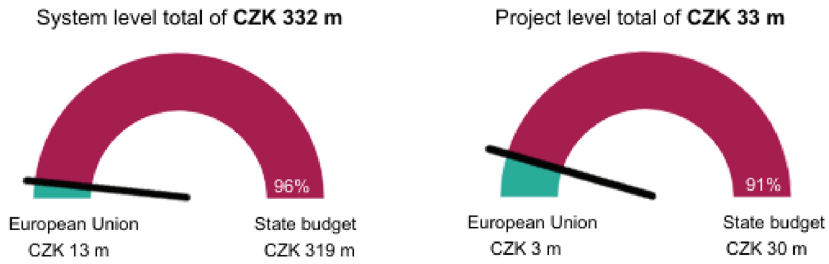
The aim of the audit was to **examine the economy and effectiveness of spending funds on computerisation in the Ministry of Justice (MoJ).**

In the audit, the SAO examined the design and implementation of the strategic and specific objectives (SO) of the *Ministerial Strategy for the Development of eJustice 2016–2020* (eJustice Strategy). The SAO focused on the implementation of planned activities and projects, some of which were to be co-financed from EU funds. It also audited the design and implementation of three selected projects. The SAO also examined how the MoJ managed the operation and development of information and communication technologies (ICT) in its area of competence.

This issue has not been addressed in any Audit in previous years.

32 This is the information provided in the response of the MoLSA and the MoRD on the Government's meeting.

**At system level, the audited volume of funds amounted to CZK 331.51 million (of which CZK 12.7 million came from the EU budget); the SAO quantified the identified deficiencies in the same amount. At project level, funds amounting to CZK 33.08 million were audited (of which CZK 3.35 million came from the EU budget)** and deficiencies in the amount of CZK 21.29 million were quantified (these funds did not come from the EU budget).




**DEFICIENCIES IDENTIFIED BY THE SAO**

The SAO found that the **MoJ made only minimal progress in the years 2016–2022 in the digitalisation of justice,** as it fulfilled only two of the 20 specific objectives. Out of 37 planned activities, it was only able to complete 8. However, most of the completed activities are to be followed by other, not yet implemented activities, without which the MoJ cannot fulfil the relevant SO. **The MoJ failed to eliminate any of the fundamental problems affecting the area of ICT.** Key projects have been delayed or postponed indefinitely. **The SAO assessed the implementation of the eJustice strategy, including its management, as inefficient.**

At the time of the audit, the MoJ had neither a departmental information policy nor an enterprise architecture, i.e. the basic management documents for ICT development and an effective management tool.

**Of the three projects examined, none was functioning at the time the audit was completed.**

**With the *eJustice 2020 – eISIR* project co-financed by IROP14+, the MoJ was to implement most of the key activities of the eJustice strategy,** which are related to the implementation of the electronic case file, the new modular electronic case file service (eSpis) and supporting applications (the justice centre). The total eligible expenditure (TEE) was set at CZK 219.9 million, of which the contribution from the EU was to amount to CZK 177.8 million. **The implementation of this project was already three years overdue at the time of the audit. The MoJ has repeatedly extended it to the latest possible date, i.e. until 31 December 2023. If the MoJ does not complete all planned activities, does not implement the developed information systems and does not meet the project objectives by the specified date, the expenditure of this project will become ineligible for reimbursement from EU funds.** Considering the progress in the project's implementation so far, the SAO assessed the likelihood of this risk materialising as very high. **As of 31 May 2022, the MoJ has completed and implemented only two supporting applications,** on which it has spent a total of CZK 4.1 million, of which CZK 3.3 million were paid from EU funds. The main public contract for the development and implementation of eSpis, eISIR and most of the supporting applications was not concluded by the MoJ until June 2022. **Compared to the original plan, MoJ had to shorten the term of performance of this contract by 15 months.** Without the successful completion of this project, it will not be possible to move the computerisation of justice to a qualitatively higher level, which threatens any efforts to make the work of the judiciary more efficient.

Similarly, the **Probation and Mediation Service (PMS) extended by 21 months the *Probation and Mediation Service Sectoral Information System* project** co-financed by IROP14+, the subject of which was the acquisition of a new PMS information system. TEE were set at CZK 48.6 million, of which the contribution from the EU was to amount to CZK 39.3 million. As at 31 May 2022, PMS spent a total of CZK 0.9 million for supporting activities. The supplier of the system was paid CZK 6.7 million for the first phase of implementation. No EU funds have been disbursed to date.

The ***Electronic Monitoring System*** **project had to be terminated early by the PMS after three years of operation** because the contractor failed to meet its contractual obligations. **The contractual penalties were quantified by the PMS at a total of CZK 139.5 million. It is now trying to recover these funds from the supplier through the courts.** Over the term of the contractual relationship, the PMS paid the contractor a total of CZK 13.4 million. In May 2022, a bank guarantee of CZK 15 million was paid to the Probation and Mediation Service. As of December 2021, convicts will again be monitored only by means of unannounced personal visits by probation officers. The average monthly cost of these checks ranged from CZK 232,000 to CZK 464,000. However, given inflation, especially rising fuel prices, these costs can be expected to increase.

**Proposals and implementation of measures to remedy identified deficiencies**

The MoJ has proposed the following corrective actions:

- prepare the *eJustice 2023+ Strategic Framework,* which will set out measures for further development of eJustice and elimination of the deficiencies that the justice sector has been facing in the field of ICT for a long time;
- adjust the timetable of the eISIR project, implementing some of its stages in parallel, with the aim of successfully completing and meeting its objectives by the end of 2023;
- announce and implement a new public contract for an electronic monitoring solution;
- prepare and have approved the information policy of the MoJ and the enterprise architecture of the justice system.

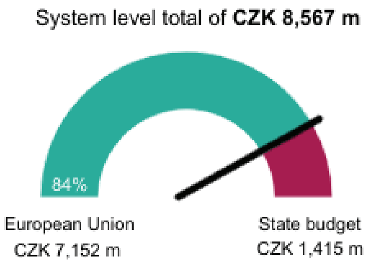
Overall, the SAO considers these corrective measures to be sufficient, but their effectiveness can only be verified by a follow-up audit.

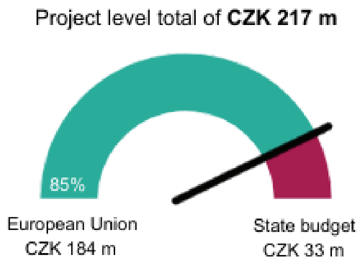
**Audit No 21/29 – *State budget and EU funds for support of family policy***

**The aim of the audit was to verify whether the State budget and EU funds spent on family policy measures contributed to the realisation of the set objectives and whether they were spent and used in accordance with the legal regulations.**

EU funds provided from the OPEm were audited. The Audit verified the design and functioning of the MCS and measures within the OPEm, and also examined individual OPEm projects supported (according to a selected sample of ten projects, of which seven were completed).

**The audited volume of funds at system level amounted to almost CZK 8,567.3 million (of which CZK 7,151.9 million came from the EU budget) and CZK 216.7 million (of which CZK 184.2 million came from EU funds) at the project level.**



### DEFICIENCIES IDENTIFIED BY THE SAO

The SAO found deficiencies in individual phases of the OPEm implementation. These **errors occurred mainly in the area of setting the system of some calls** (ambiguity), **not monitoring the qualitative impacts of projects** (indicators in priority axis (PAx) 2 did not allow this), **evaluation of the real impacts of projects, eligibility of expenditure, design of the compensation mechanism for calculating the overall rate of implementation of indicators,** design of the reporting of zero values for indicators that do not represent a commitment, and the **implementation of the target values of the indicator which was supposed to indicate the number of people from the target group who have gained qualifications after the completion of the project**[33].

Furthermore, partial deficiencies were found in the administration of OPEm projects by MoLSA as its managing authority. In three cases, the MA did not ensure preliminary control of planned and prepared operations in accordance with Act No 320/2001 Coll., on financial control in public administration and on amendment to certain laws (the Financial Control Act), as amended. The MA also did not proceed in accordance with Decree No 367/2015 Coll., on the principles and deadlines of financial settlement of relationships with the state budget, state financial assets and the National Fund (Decree on Financial Settlement), as it did not verify whether the individual beneficiaries had submitted documents for financial settlement of the subsidy.

For one beneficiary, the audit revealed facts indicating a breach of budgetary discipline, as the beneficiary had unjustifiably used project funds for ineligible expenditure. The funds in question were qualified as enforceable and a notification was made to the tax administrator in the amount of CZK 6,790 (CZK 5,771.50 from the EU budget).

**For four beneficiaries, the audit found that they did not proceed in accordance with the decision on the subsidy and Decree No 367/2015 Coll., as they did not prepare and send the financial settlement of the project to the MoLSA.**

**In two audited projects, it was found that the beneficiaries did not achieve the set subordinate objectives of the project,** while the achievement of these project objectives was the prerequisite for the effective spending of funds to support projects in the field of family policy.

For one of the beneficiaries, the audit found **partial deficiencies in the recording of work reports and in the procedure for conducting market research of potential service providers** for small-scale contracts.

**In addition, deficiencies were found in the audited projects of selected beneficiaries in the form of failure to set specific and measurable objectives or sub-objectives of the projects; failure to ensure that the original accounting document had the relevant project registration number; implementation of key project activities to a different extent than the beneficiaries stated in the application for support; failure to meet the target values of some indicators, but not to an extent that would constitute a breach of budgetary discipline.**

**The strategic level of family support management in the Czech Republic was also audited. In this respect, the SAO found that the MoLSA's *Family Policy Concept* (Concept) did not set specific, measurable and time-bound objectives and measures. The MoLSA has also not set any indicators for systematic monitoring and evaluation of the implementation of the objectives and measures.** There are also measures in the Concept that were not based on realistic starting points, were defined vaguely, were of a preliminary nature or would not be implemented at all according to the reports on the implementation of the Concept. The financial impact of the implementation of the measures of the Concept on the state budget is monitored by the MoLSA only to a limited extent. Therefore, **the 2017 Concept,** as a basic strategic document, **does not provide sufficient support for the effective use of state budget and EU funds to support family policy.**

33 Non-fulfilment of indicator 6 26 00 *Participants who gained qualifications after their participation* was found in 179 out of 331 (54%) completed projects aimed at supporting families. In 54% of the completed projects, the funds were not spent effectively.

**Proposals and implementation of measures to remedy identified deficiencies**

Although the MoLSA sent its response to the Audit to the SAO, the material has not yet been discussed by the Government.

**Audit No 21/36 – *State and EU funds for the reconstruction of selected off-corridor railway lines***

The aim of this audit was to verify whether the State and EU funds for the reconstruction of selected non-corridor railway lines were spent effectively, economically, efficiently and in accordance with legal regulations. During the audit, the SAO focused on:

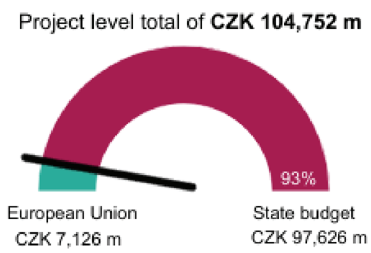
- The Ministry of Transport (MoT) in terms of the establishment the objectives and priorities for the reconstruction of non-corridor lines and in terms of approving and evaluating individual projects;
- Railway Administration (RAd) in terms of compliance with the implementation schedules specified in conceptual and strategic materials, control of the implementation of selected projects and evaluation of the fulfilment of the objectives and benefits of the audited projects;
- State Fund for Transport Infrastructure (SFTI) for the provision and accounting of funds intended for the preparation and implementation of projects.

In previous years, the issues of modernisation and reconstruction of railway lines were mainly addressed in Audits No 15/14 and No 13/14.[34]

The audit also focused on the conceptual, management and control work of the MoT in the audited area and the procedure followed by RAd when preparing and implementing projects.

At the system level, the SAO audited all 59 priority projects aimed at the reconstruction of non-corridor railway lines and listed in the *Transport Sectoral Strategy, Phase 2.* The SAO also carried out a detailed audit of the preparation and implementation of reconstruction of non-corridor railway lines in 15 projects.

**The audited volume of funds at system level amounted to CZK 440,806 million, while at the project level it was CZK 104,751.89 million (of which CZK 7,125.60 million came from the EU budget).**




**DEFICIENCIES IDENTIFIED BY THE SAO**

The audit found **deficiencies in the preparation and implementation of individual projects that reduced the effectiveness and efficiency of the funds provided.**

Priority projects **for the reconstruction of selected off-corridor railway lines were not prepared by** the milestones specified in the Ministry's strategy. Out of 59 priority projects, 39 projects should have been completed or at least initiated by 30 June 2021, but only nine completed projects (23%) met the implementation deadline. **Delays in the implementation of priority projects lead to an increase in their**

34 Audit No 15/14 – *Funds intended for modernisation of railway transit corridors III and IV* and No 13/14 – *Funds intended for modernisation of the railway network.*

**costs and, as a consequence, to the risk of not securing sufficient resources to cover them.** At the time of the SAO audit, RAd assumed costs of CZK 440,806 million for priority projects, exclusive of value-added tax (VAT), which was CZK 214,327 million (95%) more than assumed by the MoT in its strategic material *Transport Sectoral Strategy, Phase 2*.

Delays are also affecting priority projects on the Trans-European Transport Network (TEN-T), putting **at risk the objective set out in the Transport Policy[35] and Regulation 1315/2013[36]** to modernise the railway lines on the main TEN-T network by 2030.

The Ministry of Transport approved the implementation of projects that included **difficult-to-measure objectives,** such as increasing the competitiveness of rail transport, increasing the comfort and culture of travel and improving the quality and attractiveness of rail transport. The **MoT and RAd have not evaluated the fulfilment of these objectives** and the MoD has not developed a methodology on the basis of which these objectives could be evaluated. **The SAO found that two of the audited projects were only partially effective, as the project objectives** (increasing line speed and reducing journey times) **were not met,** five projects met their objectives and the remaining eight projects had not yet been completed at the time of the audit.

**Other deficiencies found at RAd were in the area of dealing with defects in project documentation, namely that RAd did not apply sanctions against the authors of defective project documentation. In eight tender procedures for the selection of an author of the design documents, the SAO identified mutual links among the participants and warned of the risk of an insufficiently competitive environment.**

**Proposals and implementation of measures to remedy identified deficiencies**

At the time of the SAO audit, the MoT was already preparing the *Transport Sectoral Strategy, Phase 3* document, which was expected to be submitted to the Government by the end of February 2023, but the deadline was repeatedly postponed. This revision was supposed to reflect changes in the legislative conditions and in the strategic and methodological environment that have occurred since the previous strategy document was prepared. However, by the time of the *EU Report 2023* editorial deadline, the strategy had not yet been approved by the Government.

As part of its corrective measures, RAd has modified its procedure in accordance with the SAO's opinion, i.e. in cases where defects are found in the design documents during the construction project's implementation, RAd will apply contractual sanctions against the author of the documents.

**Audit No 22/02 – *State and EU funds to support digital education***

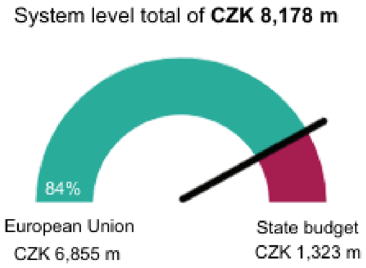
**The aim of the audit was to verify whether the Ministry of Education, Youth and Sports (MoEYS) spent and provided funds intended to support digital education effectively and in accordance with legal regulations.**

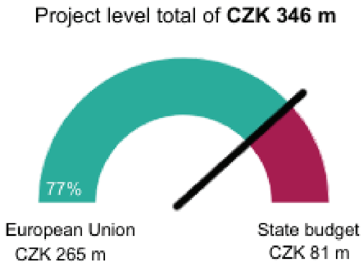
For MoEYS, the design of goals and implementation of the measures and activities *of the Digital Education Strategy 2020* (DES) and the *Strategy for the Education Policy of the Czech Republic up to 2030+* was verified. Furthermore, the SAO examined the design of the calls for proposals concerning digital education within the OP Research, Development and Education (OP RDE). At the level of the MoEYS as the managing authority, four system projects were audited and their benefits and impacts on the education system in primary and secondary schools were evaluated. For two selected system projects, the audit examined the fulfilment of project objectives, the implementation of key activities and the use of their outputs in practice.

**The audited volume of funds quantified at the system level for the MoEYS amounted to a total of CZK 8,177.60 million (**equal to the funds spent on projects supported under a total of 18 calls made within

35 *Transport Policy of the Czech Republic for the 2014–2020 Period, with a view to 2050.*
36 Regulation (EU) No 1315/2013 of the European Parliament and of the Council of 11 December 2013 on Union guidelines for the development of the trans-European transport network and repealing Decision No 661/2010/EU.

the OP RDE in connection with digital education, and within extraordinary one-off support provided from the state budget amounting to CZK 1,300 million, of which **CZK 6,854.97 million came from the EU budget.** The audited volume of funds at the National Pedagogical Institute of the Czech Republic (NPI) as a beneficiary of support (i.e. **at the project level) totalled CZK 345.80 million (of which CZK 264.95 million came from the EU budget).**




**DEFICIENCIES IDENTIFIED BY THE SAO**

The audit found that within the framework of the systemic projects implementing the DES, the project developers created and tested tools for the development of digital education. **However, the actual impact of these tools cannot be comprehensively assessed, because of the four system projects audited, only two of them have their outputs used in the field of education.** The outputs of the two other projects will be used only once the content of primary school education changes, which the MoEYS plans for 2024.

**The funds provided by the Ministry for the development of digital education have not been spent effectively,** as the benefits of some of these funds have not yet been positively reflected in the education system.

**The beneficiary (NPI) was found to have further shortcomings** in the area of non-fulfilment of the objective of one of the key activities of the *Building Capacities to Develop Basic pre/literacies in Preschool and Primary Education – Supporting Teachers' Work* project (PSTW). The aim of the key activity was to create the capacity for effective provision of methodological support to target groups through online services and the creation of suitable interfaces for mobile devices. For the implementation of this activity, NPI has allocated CZK 20 million out of the total of CZK 98.7 million earmarked for the PSTW project. **The target was not met because the outputs were not transferred to all learning areas. On the basis of the information found, it can be concluded that efficient provision of methodological support did not occur in some cases** (the use of the *Profil Učitel21 (Teacher21 Profile)* application and digital teaching materials was very low).

**Proposals and implementation of measures to remedy identified deficiencies**

The MoEYS sent its response to the Audit to the SAO after the editorial deadline of the *EU Report 2023*.

**Audit No 22/04 – *Funds of the Integrated Regional Operational Programme intended to support regional healthcare infrastructure***

**The aim of the audit was to examine how the managing authority (MoRD) and the intermediate body (IB), i.e. the CRD, administered and selected applications for subsidies, how they checked the fulfilment of subsidy conditions by applicants and how they monitored and evaluated the impact of the support provided. The SAO also assessed whether the subsidies were spent in accordance with the law, efficiently and economically.**

In the previous years, this issue was mainly addressed in Audits No 18/11 and No 21/17.[37]

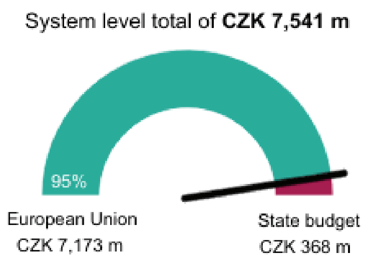
37 Audit No 18/11 – *State funds to support the development and restoration of the material and technical base of regional healthcare* and No 21/17 – State and EU budget funds to support humanisation of psychiatric care.

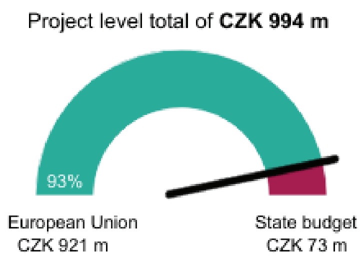
The audit at the MoRD and the CRD assessed the design and effectiveness of the system of providing funds to support regional healthcare infrastructure through two IROP14+ calls, in terms of ensuring the effectiveness and efficiency of the provision of public funds and compliance with legal regulations. During the audit of the support provision system, the SAO assessed in particular:

- setting of targets;
- monitoring of outputs and results;
- evaluation of the impact of the support provided;
- design and application of rules to ensure selection of projects meeting the conditions of effectiveness and economy;
- design and performance of control activities at the beneficiaries.

For the selected beneficiaries, the SAO's audit assessed in particular whether the beneficiaries used the public funds provided for the acquisition of the audited medical equipment efficiently and economically.[38] A sample of 16 projects implemented by eight beneficiaries was selected for audit. The sample consisted of six projects aimed at supporting highly specialised care (of which two were aimed at supporting gynaecologic oncology and four at supporting perinatology) and ten follow-up healthcare projects. With respect to the beneficiaries, the SAO audited the eligibility of expenditure and public procurement on a sample of expenditures incurred for the purchase of medical equipment and in one case for the implementation of construction works related to the introduction of new technologies. The SAO assessed the effectiveness and economy of the expenditure on the same sample, or on a sample narrowed down according to predefined criteria.

**At system level, funds amounting to CZK 7,540.8 million were audited (of which CZK 7,172.8 million came from the EU budget). At project level, funds worth CZK 994.4 million were audited (of which CZK 920.6 million came from the EU budget) and of this amount, deficiencies worth CZK 27.1 million were quantified (of which CZK 25.7 million came from the EU budget).[39]**




### DEFICIENCIES IDENTIFIED BY THE SAO

In an audit of the procurement of medical equipment in selected projects, the SAO found that the vast majority of the funds had been spent effectively and economically. The equipment purchased had contributed to qualitative improvements of regional healthcare. The beneficiaries had utilised the funds in accordance with the legislation. **However, the SAO found deficiencies which posed risks to the achievement of the set objective of the support.**

The SAO found **deficiencies in the administration of the audited calls. These errors occurred mainly in the area of designing the conditions of calls for project selection, application of criteria for project selection (especially necessity), setting the monitoring of the effectiveness of spent funds (specific and measurable objectives of individual projects), setting objectives and their implementation at the level of SO 2.3 *Integrated Regional Operational Programme 2014–2020,* designing indicators and evaluating the benefits of the support provided in relation to SO 2.3:**

38 The SAO evaluated the efficiency and economy of the funds spent for each medical equipment on the basis of the facts found using a four-level scale.

39 The audited volume of funds subject to the verification of eligibility amounted to CZK 602.2 million, i.e. 60.6% of the total audited volume, and CZK 614.6 million, i.e. 61.8% of the total audited volume, for the verification of economy.

- **The MoRD did not set targets and indicators to provide sufficient information on the benefits for the target group, i.e. patients in highly specialised and follow-up care. The objective of concentrating follow-up care and thus ultimately reducing the number of beds in highly specialised and follow-up care has not been met.**

  To support regional healthcare, the MoRD did not set targets and indicators so that patient outcomes and benefits could be monitored for highly specialised and follow-up care. For example, the MoRD set an indicator that measured the bed capacity for highly specialised and follow-up care together, although the support was intended to increase the number of beds for highly specialised care on the one hand and reduce the number of follow-up care beds on the other. In addition, the latest known figure for 2019 does not indicate that the target to reduce the number of follow-up care beds is being met, as there has been a slight increase of around 0.5% compared to 2014. **Therefore, the SAO does not consider it likely that the planned 13% reduction in the capacity of beds in regional healthcare will be achieved by the end of 2023. Insufficient information on the results and benefits of the support provided does not allow the MoRD to evaluate whether the set objectives were achieved, i.e. whether the funds were provided effectively, nor did it evaluate the achievement of the objectives. The MoRD thus failed to comply with its duties imposed on it by the legal regulations of the Czech Republic and the European Union.**

- **The MoRD set inappropriate conditions for the call for support for follow-up care; without additional resources transferred from another OP, interventions under SO 2.3 (IROP14+) would not reduce regional disparities in the provision of follow-up care.**

  Support for follow-up care infrastructure without additional resources transferred from another OP would not reduce regional differences in the quality of provision of such care. The MoRD set inappropriate conditions of the call in relation to the available resources and the expected demand from applicants, e.g. the possibility of submission of an unlimited number of applications by one applicant or the absence of substantive evaluation of the submitted projects. The MoRD did not respect the principle of effectiveness set out in EU law when setting the conditions of the call[40] because it did not create the preconditions for achieving the set SO. The combination of inappropriate conditions allowed the MoRD to provide support in an unbalanced way in individual regions, without the Ministry determining what impact this would have on compensating for regional differences in the quality of healthcare. As a result of the conditions set in this way, the Pardubice Region, for example, would not receive any support, while the MoRD provided support to all the submitted projects in six other regions. It was only in March 2019, i.e. almost three years after the end of the call for applications for support for follow-up care infrastructure, that the MoRD increased the allocation thanks to unspent resources transferred from the OP *Enterprise and Innovation for Competitiveness* (OP EIC) and provided support for the implementation of the remaining positively evaluated projects.

- **The MoRD approved projects for support without verifying whether they were aimed at a specific and measurable objective. The MoRD did not specify the condition of exclusive use of the subsidy by a specific specialised department and its fulfilment was not verified in the evaluation. When selecting projects for support, the MoRD applied some criteria that did not assess the need for the projects; it did not sufficiently verify the need even when approving purchases of medical equipment from project savings.**

  The MoRD approved projects for support on the basis of evaluations that showed some shortcomings. In particular, there was a lack of verification that the applicants had defined the objectives of the project in a specific and measurable manner and that they would comply with the condition of exclusive use of the subsidy and that the equipment purchased would be used only by patients of the supported highly specialised care unit. According to the MoRD's criteria for assessing need, the application was only formally checked to determine whether it contained a section justifying the purchase of the required medical equipment. The SAO found three such cases during its audit of the recipients of the support.

40 Article 30 of Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002.

- **The control system was set up effectively by the MoRD except for verifying the actual operation and use of all functions that the acquired medical equipment had.**

  The control system set up by the MoRD did not ensure full verification that the beneficiary was operating the purchased medical equipment in its full scope since the end of the project implementation and providing health services to the patients for whom the equipment was intended.

**Other identified deficiencies (in the case of beneficiaries) were in the area of effectiveness and economy of funds** spent on the acquisition of the audited medical equipment:

- In one case, the SAO assessed public funds for the purchase of medical equipment as having limited effectiveness. This was an anaesthesia device to be used with Magnetic Resonance Imaging, which the beneficiary acquired ex post from project savings. Subsidies totalling CZK 3.1 million were spent on the purchase of the device (all from EU sources). This represents 0.5% of the funds audited.

- In three cases (three beneficiaries) the SAO assessed the use of public funds in the total amount of CZK 27.1 million (of which CZK 25.7 million came from EU sources) – i.e. 4.4% of the audited funds earmarked for the purchase of medical equipment – as being of limited economy. This was the expenditure incurred on the purchase of:

  - an anaesthesia device to be used with Magnetic Resonance Imaging purchased by the beneficiary with limited effectiveness;

  - operating tables purchased under two projects in inadequate quantity and quality, or with excessively robust technical parameters regarding their load capacity.

**Proposals and implementation of measures to remedy identified deficiencies**

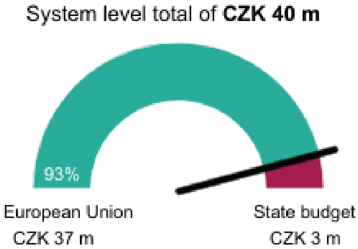
The response of the MoRD was not available for the Government's meeting by the editorial deadline of the *EU Report 2023*, so the proposed measures to correct the identified deficiency were not known to the SAO.

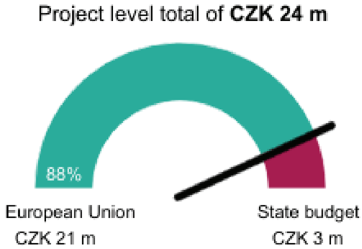
**Audit No 22/10 – *State and EU budget funds to support implementation of gender audits***

**The aim of the audit was to examine how the MoLSA administered and selected applications for subsidies, how it checked the fulfilment of subsidy conditions by applicants and how it monitored and evaluated the impact of the support provided. The SAO also assessed whether the subsidies were spent in accordance with the law, efficiently and economically.**

The effectiveness of the use of public funds was audited to ensure the optimum level of achievement of the objectives in the performance of the set tasks. The provision and utilisation of the funds was considered by the audit to be effective, as the objectives stated in the project application were met and the individual objectives of OPEm SO 1.2.1 were fulfilled, i.e. reduction of the differences in remuneration for equal work or work of equal value, reduction of vertical or horizontal segregation of women and men on the labour market, facilitation of work-life balance and reduction of the risk of harassment in the workplace. Spending funds on meaningful promotion and awareness-raising on the topic of gender inequality (e.g. through appropriate education of people at risk of discrimination on the labour market) was also considered appropriate, but only if the project also contributed to reducing the gender gap in the areas mentioned in the previous sentence. Ultimately, the support was to lead to the fulfilment of SO 1.2.1 of the OPEm, which is to reduce the differences in the position of women and men on the labour market.

**The audited volume of funds at system level amounted to CZK 40 million (CZK 37 million from the EU budget); CZK 24 million at project level (of which CZK 21 million came from the EU budget). The SAO quantified shortcomings at the project level in the amount of CZK 2 million (of which CZK 1 million came from the EU budget).**




**DEFICIENCIES IDENTIFIED BY THE SAO**

**The audited funds only made an insignificant contribution towards the purpose of the support. Only 8% of public funds audited fulfilled the purpose of support in all key areas of gender inequality.** The projects were mainly aimed at spreading awareness of gender equality issues and, for some employers, at creating internal regulations. **Due to the inappropriate setting of conditions by the provider of the support (the MoLSA), there was no evidence of the quality and scope of the work carried out by the beneficiaries of the support, and therefore it was not possible to assess the cost-effectiveness of the funds spent.**

The MoLSA set the conditions for the handling of subsidies in such a way that beneficiaries could draw subsidies without it being clear what measurable objectives they wanted to achieve with the support provided. **The MoLSA did not monitor the actual contribution of the subsidies provided towards reducing the gender gap in the labour market and did not fulfil its obligation to systematically evaluate the effectiveness of expenditure** in its budget chapter.

The conditions set by the MoLSA allowed the scope of measures towards closing the gender gap to be determined by the person implementing them. The SAO found paradoxical situations where **audited organisations that voluntarily underwent gender audits with the aim of using the audit results to achieve fair remuneration refused to provide the auditors with information on the remuneration of individual positions. In many cases, the training activities reimbursed by the MoLSA as part of the implementation were not related to gender issues** and related more to professional training.

**The results of the audit showed deficiencies relating to breaches of budgetary discipline; the funds concerned were qualified as enforceable and, as a result, three notifications were made to the tax administrator for a total amount of almost CZK 1.56 million.**

**Proposals and implementation of measures to remedy identified deficiencies**

The Audit did not contain any recommendations and had not been discussed by the Government as of the *EU Report 2023* editorial deadline.

## B.2.2 MANAGEMENT OF NATURAL RESOURCES

In the period under review, this category included three Audits.

**Audit No 21/06 – *State and EU funds for the implementation of waste management measures***

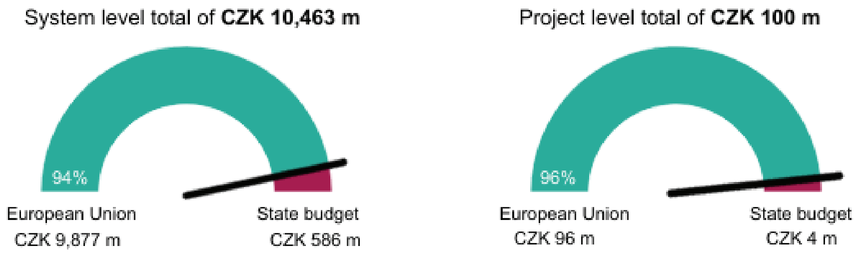
**The objective of this audit was to assess whether the funds for the implementation of waste management measures contributed to the achievement of the set objectives and whether they were**

**spent in accordance with the legislation.** The audit examined the implementation of measures under the responsibility of the MoE and the achievement of objectives based on EU and Czech legislation and the *Waste Management Plan of the Czech Republic for the period 2015–2024 with a view to 2035.*

The audit covered EU funds provided through OPEn14+ as well as funds of the State Environmental Fund of the Czech Republic (SEF) provided under the *National Environment Programme* (NEP). The audit verified the design and functioning of the MCS, examined supported projects (on a sample of completed projects) and disbursed EU and national funds in the field of waste prevention or management.

**At system level, the audited volume was CZK 10,463.03 million (of which CZK 9,877.03 million came from the EU budget). At project level, the audited volume was CZK 99.70 million (of which CZK 96.33 million came from the EU budget).**

In previous years, this issue was addressed in Audit No 16/23.[41]




**DEFICIENCIES IDENTIFIED BY THE SAO**

**The audit found deficiencies in virtually all phases of the implementation of OPEn14+. These errors occurred mainly in the areas of time delays in the final evaluation of projects, procurement, bookkeeping, eligibility of expenditure and also in the area of pre-payment checks.**

**The MoE, as the managing authority of OPEn14+ and at the same time the administrator of the NEP, did not proceed in accordance with Decree No 560/2006 Coll., on contribution of the state budget to financing of asset renewal programmes, as it did not carry out the final evaluation of the action for five completed audited projects.**

**The intermediate body (SEF) did not carry out the control of the final reports on project implementation within the ten-day deadline** set in the Operational Manual of OPEn14+ **for ten out of eleven audited projects;** in five cases it did so more than half a year later and in three cases in more than a year later. Further time delays at SEF were found in the process of checking and assessing project changes and project sustainability reports.

**In two projects of OPEn14+, it was found that the beneficiary of the subsidy included in the eligible project expenditure expenses that could not be considered eligible under the rules of OPEn14+, which the SAO assessed as facts indicating a breach of budgetary discipline under the budgetary rules and as an irregularity. In both cases, the SEF did not detect these shortcomings and approved the invoices in the amount requested by the beneficiary,** thus not proceeding in accordance with Act No 320/2001 Coll., on financial audits in the public administration and on amendment to certain laws (Act on Financial Audits), and its implementing Decree No 416/2004 Coll.

**The audit found that one beneficiary of the subsidy from OPEn14+ did not proceed in accordance with Act No 134/2016 Coll., on public procurement, as it defined the technical specification in the tender documentation in a way limiting the range of possible participants in the tender procedure, whereby it also failed to comply with the principle of non-discrimination,** which the SAO assessed as a fact indicating a breach of budgetary discipline in the amount of up to CZK 231,627.

41 Audit No 16/23 – *Funds for the implementation of waste management measures.*

**In the case of one beneficiary, the audit found that it did not keep separate records of all income and expenditure, or of income and costs of the project, and did not provide evidence of complete accounting records.** The SAO found that the project's accounting records were not kept in accordance with Act No 563/1991 Coll., on accounting, which the SAO assessed as an indication of a breach of budgetary discipline amounting to up to CZK 215,050.

The audit also found that, for example, the **objectives of the measure to increase waste recycling capacity and the objectives of the measure to build new capacities or upgrade existing facilities for energy recovery of other waste under PAx 3 of OPEn14+ were not met. The target values of the set indicators for these areas of supported measures will not be met by the end of the programming period.**

**For the audited projects, deficiencies in the total amount of CZK 2.35 million were quantified (the whole amount came from the EU budget). On the basis of the established facts, three notifications were filed with the tax administrator with a total amount of almost CZK 1.92 million.**

The audit also examined the national subsidy title NEP, where the SAO found that the MoE, within its 3rd priority area focusing on waste, old environmental burdens and environmental risks, did not provide funds in accordance with the hierarchy of waste management methods defined by Act No 541/2020 Coll., on waste, nor in accordance with the principles of *the Waste Management Plan of the Czech Republic for the period 2015–2024*.

**Proposals and implementation of measures to remedy identified deficiencies**

The SAO pointed out that delays in the administration of the final implementation reports have an impact on the determination of the starting point of the project sustainability period, for which the beneficiaries are obliged to monitor the effects of the project (5 years). According to the MoE and SEF, measures were taken to accelerate the assessment of the final implementation reports.

**Audit No 21/15 – *State and EU funds spent on the promotion of agricultural products and foodstuffs***

**The aim of the audit was to verify whether state and EU funds for the support of promotion of agricultural products and foodstuffs were provided and used in accordance with the legal regulations, effectively and in an economical manner.**

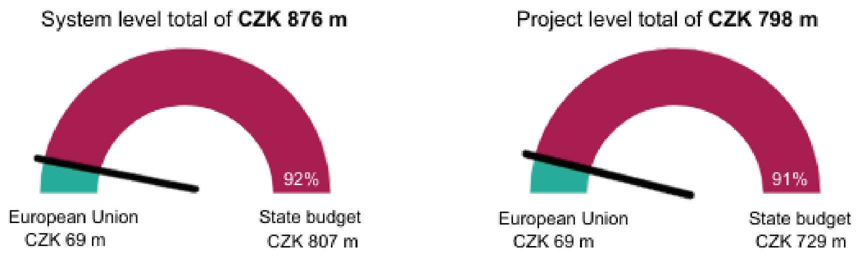
In the previous years, this issue was mainly addressed in Audits No 13/36, No 15/09 and No 18/03[42]. These Audits focused in particular on the state budget funds spent on activities related, *inter alia*, to the promotion of agricultural products and services.[43]

In the case of support provided for the implementation of EU promotion programmes, the audit examined whether the SAIF, as the body responsible for the administration and control of these programmes at the national level, fulfilled its obligations under EU regulations and whether it set up a control system to ensure the economy and effectiveness of the use of state and EU funds.

The SAO audit verified the design and functioning of the individual promotion programmes and the supported projects from the audit sample. **At system level, the audited amount of funds was CZK 875.5 million (of which CZK 69.2 million came from the EU resources). At project level, the audited volume amounted to CZK 798.4 million (of which CZK 69.2 million came from the EU budget);** the SAO quantified the identified deficiencies at CZK 89.3 million (of which CZK 55.7 million came from the EU budget).

42 Audit No 13/36 – *Funds spent on services aimed at supporting agricultural products and foodstuffs on the domestic market;* No 15/09 – *Funds spent to support education and consultancy and promotion in the Ministry of Agriculture;* and No 18/03 – *Funds provided to non-governmental non-profit organisations.*

43 Of these Audits, only Audit No 15/09 was at least partially concerned with EU budget resources.




**DEFICIENCIES IDENTIFIED BY THE SAO**

**The SAIF did not comply with Regulation 501/2008[44] when, for one of the EU promotion programmes audited, it approved and confirmed, despite partial differences, the compliance of the proposed programme with the applicable public procurement legislation and referred the programme to the Commission for approval.** However, during the audit period, the system settings were changed, and corrective action was no longer required for this deficiency.

**Beneficiaries made procurement errors in two of the three programmes audited.** These were serious errors, where one beneficiary did not follow the Public Procurement Act, although as a beneficiary of the subsidy (the subsidised contracting authority) it was obliged to proceed in accordance with this Act. In the second case, the recipient violated the Public Procurement Act by concluding a works contract with a price different from the price quoted in the successful tenderer's bid.

**The results of the audit showed deficiencies relating to irregularities with a financial loss (impact) for the EU and CR budget of up to CZK 79.12 million. This irregularity is further addressed by the SAIF within remedial measures in connection with the Audit.**

**Proposals and implementation of measures to remedy identified deficiencies**

In its response submitted for the Government meeting, the SAIF informed that it had already initiated the necessary steps to investigate the "irregularities" identified by the SAO.

**Audit No 21/33 – *State and EU funds spent by the Ministry of Agriculture to support the processing of agricultural products***

**The aim of this audit was to verify whether the state and EU funds earmarked by the Ministry of Agriculture (MoA) for the support of processing of agricultural products were provided and used by the audited persons in accordance with legal regulations, effectively and in an economical manner.**

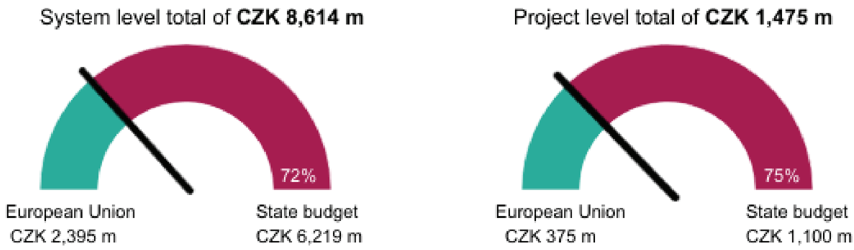
The audit covered EU funds provided through RDP14+ and funds paid as co-financing from the state budget in the form of national subsidy titles. The audit verified the design and functioning of the MCS, the conditions for the provision of funds (in terms of compliance with legal regulations, effectiveness and economy), examined some supported projects (selected in the audit sample, inter alia, by means of stratified sampling) and national funds paid out in the area of processing of agricultural products.

**The audited volume of funds at system level exceeded CZK 8,614.11 million (of which almost CZK 2,395.43 million came from the EU budget) and at the project level it reached almost CZK 1,475.21 million (of which CZK 375.37 million came from the EU budget).**

In the previous years, this issue was mainly addressed in Audits No 17/26 and No 18/08.[45]

44 Commission Regulation (EC) No 501/2008 of 5 June 2008 laying down detailed rules for the application of Council Regulation (EC) No 3/2008 on information provision and promotion measures for agricultural products on the internal market and in third countries.

45 Audit No 17/26 – *Funds for the Cooperation activities under the Rural Development Programme of the Czech Republic for 2014–2020* and No 18/08 – *Funds spent on support in the livestock sector.*




**DEFICIENCIES IDENTIFIED BY THE SAO**

**The audit found deficiencies in the targeting of support to different enterprises according to size (micro, small and medium-sized enterprises vs. large enterprises).**

**The MoA failed to support micro-enterprises and small and medium-sized enterprises as determined by the *Strategy of the Ministry of Agriculture of the Czech Republic with an outlook to 2030* and the RDP14+ programme document.** The MoA focused its support mainly on large processing enterprises. These companies were able to draw support not only from the RDP14+, but the MoA also prepared an investment national subsidy programme for them, where the conditions for obtaining national support were easier. **In 2020, the MoA changed the rules of RDP14+ to allow large enterprises to submit applications for support, although this type of support was until then mainly meant only for micro, small and medium-sized enterprises under RDP14+. This favoured large enterprises as they thus acquired a third area where they could apply for aid to finance investments.**

**Further deficiencies found occurred in the process of assessing the innovativeness of the projects,** where the MA failed to determine how, after completion of innovative projects, it was to be assessed that the result was indeed an innovation, rather than a mere change in technology.

Two national subsidy programmes were also subject to the audit. The SAO noted that the conditions for obtaining national subsidies were simpler than those implemented with the support of RDP14+. At the same time, the MoA did not create the basic conditions for the economical use of funds and did not sufficiently monitor and evaluate the fulfilment of the objectives of the national subsidy programmes.

The results of the audit did not point to deficiencies which would indicate a breach of budgetary discipline.

**Proposals and implementation of measures to remedy identified deficiencies**

In the context of the comment procedure on the draft response of the MoA (submitted in connection with the discussion of the AR from the audit in question by the Government), the SAO made several comments on the measures taken to remedy the identified deficiencies. In total, the SAO assessed four proposed measures as insufficient, one proposed measure as sufficient in most respects and five measures as sufficient in their entirety. By the end of the period under review, i.e. 31 March 2023, the measures proposed by the Ministry of Agriculture had not been discussed by the Government.[46]

46 The SAO's audit conclusion together with the response of the MoA was discussed by the Government of the Czech Republic on 12 April 2023 and Resolution No 246 was adopted in this regard.

## B.3 FINANCIAL AUDITS LINKED TO EU BUDGET FUNDS

The substantive focus of FA is usually the closing accounts of the relevant budget chapter and the financial statements of its administrator. The amounts of funds covered by FA are often many times higher than in the case of performance or legality audits. The accounting and reporting deficiencies identified in FA also usually involve significantly larger sums and, therefore, the results of the FA are given separately.

The remaining audit of the period under review was the FA, which took the form of a preliminary audit. In this type of audit, the audited entity can respond to and correct the deficiencies identified during the course of the audit.

**Audit No 21/24 – *Closing account of the state budget chapter Ministry of Health for the year 2021, financial statements of the Ministry of Health for the year 2021 and data submitted by the Ministry of Health for the assessment of the implementation of the state budget for the year 2021***

**The aim of this preliminary audit was to examine whether the MoH complied with the relevant legal provisions when preparing closing accounts, in its accounting and financial statements, and when submitting data for the assessment of the 2021 state budget implementation.**

This entails checking the findings' compliance with the law, and in particular Act No 563/1991 Coll., on accounting, Decree No 410/2009 Coll., implementing certain provisions of Act No 563/1991 Coll., on accounting, as amended, for certain selected accounting units, and further the Czech Accounting Standards for Certain Selected Accounting Units, Decree No 323/2002 Coll., on budgetary composition, and Decree No 419/2001 Coll., on the submission of data for the preparation of the draft state closing account. Using a selected sample, compliance with other legal regulations was also checked[47]. The SAO also evaluated the measures taken to correct the deficiencies identified in Audit No 18/13.[48]

As part of Audit No 21/24, the SAO also verified the correctness of reported data linked to EU funds. These were, in particular, the resources under OPEm and OP RDE. The SAO also looked into a grant provided by the Commission to support the interoperability of the digital green certificate in the context of the activation of the emergency support tool in response to the Covid-19 pandemic ("digital passports").

#### DEFICIENCIES IDENTIFIED BY THE SAO

The SAO found only insignificant deficiencies linked to EU funds in the sample. These included, for example, incorrect accounting for repayments of EU co-financed subsidies (systemic deficiency of CZK 18 million); all these deficiencies were corrected during the audit.

The SAO submitted notifications to the tax administrator worth CZK 4.08 million. These funds did not come from the EU budget.

**Proposals and implementation of measures to remedy identified deficiencies**

Due to the fact that this was a preliminary audit, the MoH duly corrected the identified deficiencies in relation to EU funds during the audit. The resulting financial statements as at 31 December 2021 were therefore no longer affected by these deficiencies. The MoH also adopted systemic remedial measures.

47 In particular, Act No 218/2000 Coll., on budgetary rules and on amendment to certain related laws (Budgetary Rules); No 219/2000 Coll., on the property of the Czech Republic and its representation in legal relations; No 340/2015 Coll., on special conditions for the effect of certain contracts, publication of such contracts and the Contracts Register (the Contracts Register Act); No 320/2001 Coll., on financial control in public administration and on amendment to certain laws (the Financial Control Act), and their related implementing decrees.

48 Audit No 18/13 – *Closing account of the State budget chapter Ministry of Health for the year 2017, financial statements of the Ministry of Health for the year 2017 and data submitted by the Ministry of Health for the assessment of the implementation of the State budget for the year 2017.*

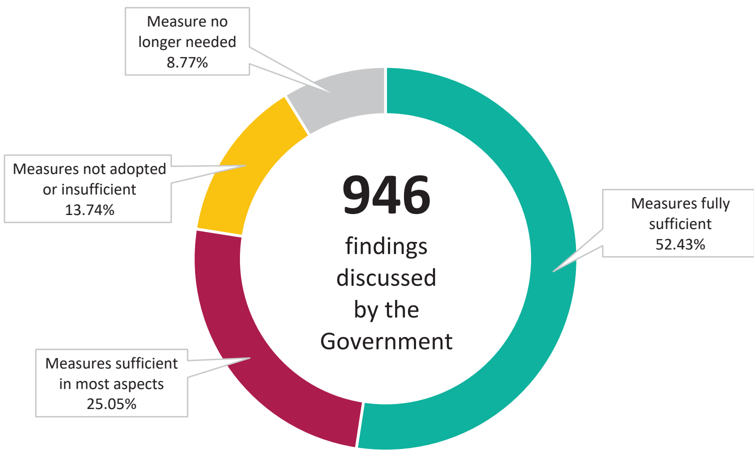
## B.4 MEASURES TAKEN BY THE CZECH GOVERNMENT TO REMEDY DEFICIENCIES IDENTIFIED BY THE SAO AUDITS

In accordance with the Act on SAO[49], the President of the SAO sends the audit conclusions approved by the Board of the SAO to the Government of the Czech Republic, the Chamber of Deputies of the Parliament of the Czech Republic (Chamber of Deputies) and the Senate of the Parliament of the Czech Republic (Senate). In accordance with the Government's rules of procedure[50], the individual SAO audit reports are submitted to the Government by its members together with the responses of their respective ministries. These responses contain comments on the SAO's audit findings, as well as proposals for specific measures to remedy the identified deficiencies.

The SAO is informed of these draft responses before they are discussed by the Government and can comment on the proposed measures. If some remedial measures are insufficient from the SAO's point of view or, in the SAO's opinion, they do not address the substance of the deficiency found, the resulting conflict is resolved directly with the relevant Government ministry. The SAO can thus significantly influence the quality of the proposed measures.

The SAO has been systematically monitoring the implementation of the corrective measures discussed by the Government and evaluating them since the fourth quarter of 2014. By the end of the period under review, i.e. by 31 March 2023, the SAO Audit Information System recorded a total of 112 completed Audits related to the EU budget. This means Audits focused fully or at least partly on auditing of programmes and projects co-financed from EU funds, or on income or final accounts of chapters of the state budget. Specific data on the measures monitored are recorded for 106 Audits.[51] On the basis of these Audits, a total of 946 audit findings discussed by the Government were entered into the AIS. In relation to each Audit, the SAO monitors the implementation of the declared corrective measures and assesses the SAO's satisfaction with the level of implementation of these measures. The assessment of the remedial measures in terms of the sufficiency of their implementation is categorised into four groups, as demonstrated in the following graph.

**Chart 5: Assessment of the measures taken by the Government to remedy the identified deficiencies for the period from Q4 2014 to Q1 2023**




Source: AIS, data as at 6 April 2023.

49 Section 30 (1) of Act No 166/1993 Coll., on the Supreme Audit Office.
50 Rules of Procedure of the Government approved by Government resolution No 610 of 16 September 1998 and amended by a number of Government resolutions; last amended by Government resolution No 22 of 11 January 2023, effective 1 February 2023.
51 The data were updated as of 6 April 2023, while six AR had not been discussed in the Government as of that date.

**Out of a total of 946 identified deficiencies** listed in the approved ARs reviewed by the Government by the end of the period under review, **sufficient measures were taken in 496 cases and in 237 cases the measures taken responded to the identified deficiencies in most respects. No measures were taken on the 130 deficiencies or the measures taken were not considered sufficient by the SAO. In the remaining 83 cases, measures were no longer needed for various reasons.**[52]

Data on the nature, extent and level of implementation of individual measures to remedy deficiencies identified by the audits are continuously added to the AIS and subsequently evaluated. On the basis of data updates in the AIS and analysis of individual categories of measures in terms of their effectiveness in correcting deficiencies, the SAO determines its **overall satisfaction rate** each year according to the following formula:

$$\frac{(\text{number of measures fully sufficient} + (0.75 \times \text{number of measures sufficient in most aspects}))}{\text{total number of SAO findings}} \times 100$$

**The SAO's overall level of satisfaction with the corrective measures taken (cumulatively for the period from Q4 2014 to 6 April 2023) was 71.2%, an increase of almost four percentage points year-on-year.**

If we look at the evolution of the overall (cumulative) level of satisfaction with the measures taken by the Government to remedy the deficiencies listed in the ARs over the last five reporting periods (for more details, see the EU reports from 2019 to 2022), the following can be observed:

- The SAO's satisfaction rate with the corrective measures taken ranged from 66.5% to 67.4% in the first three reporting periods and remained essentially stagnant;
- In the next two reporting periods, the satisfaction rate increased significantly to 68.2% and 71.2% respectively;
- the proportion of "measures fully sufficient" has increased over the last three reporting periods, from 47.0% to 52.4%;
- The proportion of "measures not adopted or insufficient" has been decreasing over the last three reporting periods, from 17.2% overall to 13.7%.

**The above facts demonstrate the success of the procedure introduced in recent years of discussing and jointly formulating proposals for measures to remedy the identified deficiencies between the SAO and the relevant MAs (ministries) before the actual discussion of the AR and the response of the relevant ministry by the Government.**

52 For example, measures were taken at the same time as the SAO audit was completed, the audited entity itself reported the irregularity, etc. This category also includes cases where deficiencies have been identified in the governing documents of the programmes of the previous programming period which have not been reflected in the documents of the subsequent programming period.

# C. AUDIT ACTIVITIES OF OTHER AUDIT BODIES IN THE CZECH REPUBLIC IN 2022

The SAO audits funds granted to the Czech Republic from abroad as an integral part of its audit competence enshrined in Act No 166/1993 Coll., on the Supreme Audit Office (Act on SAO). Its audit findings are presented in Section B. According to EU law, audits of funds relating to the EU budget are systematically carried out by the AA, the European Court of Auditors (ECA) and the individual Directorates-General of the Commission. Despite the differences in their audit powers, the findings of these institutions are similar in many cases, especially in the area of ineligible expenditure, deficiencies in the design and functioning of the MCS and breaches of public procurement rules. In order to be able to compare the nature and significance of the SAO's findings, we also present in Section C. the outputs of other bodies controlling EU budget funds in the Czech Republic.

## C.1 OUTPUTS OF THE AUDIT AUTHORITY

### C.1.1 PUBLIC ADMINISTRATION CONTROL AND AUDIT OF ESIF FINANCES

The Ministry of Finance performs the tasks of the audit authority for EU funds provided to the Czech Republic under the ESIF, i.e. the *European Social Fund* (ESF), the *European Regional Development Fund* (ERDF), the *Cohesion Fund* (CF) and the *European Maritime and Fisheries Fund* (EMFF), as well as the *Asylum, Migration and Integration Fund* (AMIF) and the *Internal Security Fund* (ISF).

In 2022, the AA focused its activities on audits of operations, audits of systems and audits of operational programmes' financial statements in PP14+. Preparations for PP21+ have also started.

With regard to full audit activity for PP14+, it can be concluded that the MCS is working effectively and provides reasonable assurance that the statements of expenditure submitted to the Commission were correct and the related transactions were legal and regular, except in the case of OP EIC.

For PP14+, the AA's main activities focused on work linked to the annual audit report (AAR) for individual OPs, i.e. both audits of operations and assessment of the functioning of the MCS for individual OPs on the basis of the audits of systems and audits of financial statements for the accounting period from 1 January 2021 to 30 June 2022. While the audits of operations were focused on the operations' compliance with EU and Czech legislation, with publicity rules, the proportionality of the audit trail, fulfilment of relevant monitoring indicators etc., systems audits mainly assessed the functionality of the management and control systems put in place by the respective MAs or IBs.

Complications related to the state of emergency declared due to the COVID-19 pandemic in 2020 persisted until 2022, as the state of emergency made it impossible to carry out audit work to the extent foreseen in the Audit Strategy (AUS) valid for 2020, 2021 and 2022. On the basis of the changes made to the AUS for these years, a follow-up of the previous system audit No ESIF/2019/S/001 entitled *Audit of the proper functioning of the management and control system of the Paying and Certifying Authority* was carried out in 2022. The follow-up audit was not initiated separately but was carried out as part of the audit of the financial statements.

Complete audit work for all OPs was carried out by the AA in 2022. This included a total of 444 audits, with 427 audits of operations, 13 system audits and 3 financial statement audits, covering ten OPs (under ESIF), the *National Programme for Internal Security* (NISP) and the *Asylum, Migration and Integration Fund.* On the basis of the recommendations resulting from system audit No DAS5.9011.34.2021.AAKV.5, an audit of the *National Authority – Follow-up* system was also carried out for the *Interreg V-A Czech Republic – Poland* cross-border cooperation programme (INTERREG CR–PL). The figures for each OP, further broken down into system audits, audits of operations and financial statement audits, are given in the tables below.

Audits of operations involving expenditure reported to the Commission for the given accounting period are based on a representative sample and draw on statistical sampling techniques. Detailed information on audit activities for NISP and AMIF is provided in Subsection C.1.1.1.

**Table 3: Overview of audits carried out by the AA in individual PP14+ operational programmes in 2022**

| Name of the programme | System audit | Audits of operations | Financial statement audits | *National Authority – Follow-up* |
|---|---|---|---|---|
| *Integrated Regional Operational Programme* | 1 | 47 | 1 | – |
| OP *Enterprise and Innovation for Competitiveness* | 1 | 74 | 1 | – |
| OP *Employment 2014–2020* | 1 | 31 | 1 | – |
| OP *Prague – Growth Pole of the CR* | 1 | 29 | 1 | – |
| OP *Research, Development and Education* | 1 | 33 | 1 | – |
| OP *Environment 2014–2020* | 1 | 37 | 1 | – |
| OP *Transport 2014–2020* | 1 | 28 | 1 | – |
| OP *Technical Assistance 2014–2020* | 1 | 21 | 1 | – |
| OP *Fisheries 2014–2020* | 1 | 30 | 1 | – |
| *Interreg V-A Czech Republic – Poland* | 1 | 29 | 1 | 1 |
| *Interreg V-A Free State of Bavaria – Czech Republic* | – | 16 | – | – |
| *Interreg V-A Free State of Saxony – Czech Republic* | – | 26 | – | – |
| *Interreg V-A Austria – Czech Republic* | – | 6 | – | – |
| *Interreg V-A Slovak Republic – Czech Republic* | 1 | 12 | – | – |
| *National Internal Security Programme* | 1 | 6* | 1 | – |
| *Asylum, Migration and Integration Fund* | 1 | 2 | 1 | – |
| Total | 13 | 427 | 3** | 1 |

Source: information system *Application support of the audit authority.*
* One audit was carried out in respect of a technical assistance project. These projects draw funding from both funds, i.e. AMIF and ISF.
** In the framework of the ESIF, one audit of the financial statements was carried out for the ten OPs mentioned above, while AMIF and NISP were audited separately.

With regard to the relevant EU regulations and the Commission's methodological guidelines, the annual audit reports (AAR) and the auditor's opinions for the relevant OPs for 2022 were prepared and sent to the Commission by 15 February 2023 at the latest, except for OP EIC, for which the AAR and the auditor's opinions were sent to the Commission by 1 March 2023.

**System audits**

The AA assessed the MCS of all MAs in terms of their compliance with the requirements set out in Regulation (EU) No 1303/2013[53] (General Regulation), i.e. whether the MCS worked effectively and thus provided reasonable assurance that statements of expenditure submitted to the Commission were correct and the related transactions were legal and regular, and this assessment of the management and control systems of the OPs was reported by the AA in its audit opinion.

To evaluate the effectiveness of an MCS, the following categories and corresponding reliability levels of the system are used.

53 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, laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006.

**Table 4: Categories and corresponding levels of the MCS reliability**

| Category | Level of assurance resulting from the system audit | Corresponding level of system reliability |
|---|---|---|
| 1 | Works well. Improvements are not necessary, or only minor improvements are necessary. | High |
| 2 | Works. Some improvements needed. | Average |
| 3 | Functioning partially. Substantial improvement needed. | Average |
| 4 | Basically non-functional. | Low |

Source: AA data, April 2023.

**Table 5: Evaluation of MCS for individual PP14+ operational programmes according to performed system audits in 2022**

| Name of the programme | MCS Category | Findings in total | Severity of findings | | |
|---|---|---|---|---|---|
| | | | High | Medium | Low |
| *Integrated Regional Operational Programme* | 2 | 2 | 0 | 2 | 0 |
| OP *Enterprise and Innovation for Competitiveness* | 3 | 18 | 3 | 4 | 11 |
| OP *Employment 2014–2020* | 1 | 2 | 0 | 0 | 2 |
| OP *Prague – Growth Pole of the CR* | 2 | 1 | 0 | 1 | 0 |
| OP *Research, Development and Education* | 2 | 3 | 0 | 2 | 1 |
| OP *Environment 2014–2020* | 2 | 5 | 0 | 3 | 2 |
| OP *Transport 2014–2020* | 1 | 3 | 0 | 1 | 2 |
| OP *Technical Assistance 2014–2020* | 1 | 0 | 0 | 0 | 0 |
| OP *Fisheries 2014–2020* | 2 | 6 | 0 | 1 | 5 |
| *Interreg V-A Czech Republic – Poland* | 2 | 4 | 0 | 4 | 0 |
| Total | – | 44 | 3 | 18 | 23 |

Source: information system *Application support of the audit authority.*

The results of the system audits are linked to the findings of the audits of operations and these findings (from the audits of operations) serve as the basis for defining systemic findings.

Unqualified opinions were issued for seven OPs. A qualified opinion with limited impact was issued for INTERREG CR-PL due to an error rate above significance level and a residual risk (2.93%). An opinion with significant impact was issued for OP EIC due to the high error rate (above 2%) and also because of the category 3 MCS rating, and also for OPEn14+ due to the high error rate (above 2%).

The volume of audited funds selected by the AA for the 2022 sample for all OPs was approx. CZK 25,044.31 million (23.39% of CZK 107,052.38 in expenditure reported to the Commission was audited). Identified ineligible expenditure amounted to approx. CZK 57.63 million, which is roughly 0.22% of the audited expenditure.

**Audits of operations**

The results of audits of operations show that out of 419 audits of operations carried out, 73 audits identified ineligible expenditure, i.e. the audit had a financial impact on the audited entity. This represents 17.42% of the audited projects. A total of 5.49% (23 of the audits carried out) ended with no financial impact on the audited entity and 77.09% of audits (323) were completely without findings.

**Table 6: Overview of the results of audits carried out for the operational programmes PP14+ in 2022**

| Name of the programme | Number of audits | Audits with findings | | Audits without findings |
|---|---|---|---|---|
| | | with financial impact | without financial impact | |
| *Integrated Regional Operational Programme* | 47 | 7 | 3 | 37 |
| OP *Enterprise and Innovation for Competitiveness* | 74 | 16 | 1 | 57 |
| OP *Employment 2014–2020* | 31 | 4 | 0 | 27 |
| OP *Prague – Growth Pole of the CR* | 29 | 1 | 0 | 28 |
| OP *Research, Development and Education* | 33 | 2 | 13 | 18 |
| OP *Environment 2014–2020* | 37 | 11 | 1 | 25 |
| OP *Transport 2014–2020* | 28 | 2 | 1 | 25 |
| OP *Technical Assistance 2014–2020* | 21 | 3 | 0 | 18 |
| OP *Fisheries 2014–2020* | 30 | 7 | 1 | 22 |
| *Interreg V-A Czech Republic – Poland* | 29 | 3 | 0 | 26 |
| *Interreg V-A Free State of Bavaria – Czech Republic* | 16 | 4 | 1 | 11 |
| *Interreg V-A Free State of Saxony – Czech Republic* | 26 | 9 | 1 | 16 |
| *Interreg V-A Austria – Czech Republic* | 6 | 0 | 0 | 6 |
| *Interreg V-A Slovak Republic – Czech Republic* | 12 | 4 | 1 | 7 |
| Total | **419** | **73** | **23** | **323** |

Source: information system *Application support of the audit authority*.

**Table 7: Number of findings with and without financial impact for audits of operations carried out for PP14+ operational programmes in 2022**

| Name of the programme | Findings in total | Finding | |
|---|---|---|---|
| | | without financial impact | with financial impact |
| *Integrated Regional Operational Programme* | 17 | 10 | 7 |
| OP *Enterprise and Innovation for Competitiveness* | 41 | 17 | 24 |
| OP *Employment 2014–2020* | 9 | 2 | 7 |
| OP *Prague – Growth Pole of the CR* | 2 | 1 | 1 |
| OP *Research, Development and Education* | 21 | 19 | 2 |
| OP *Environment 2014–2020* | 17 | 3 | 14 |
| OP *Transport 2014–2020* | 6 | 3 | 3 |
| OP *Technical Assistance 2014–2020* | 4 | 1 | 3 |
| OP *Fisheries 2014–2020* | 11 | 2 | 9 |
| *Interreg V-A Czech Republic – Poland* | 6 | 1 | 5 |
| *Interreg V-A Free State of Bavaria – Czech Republic* | 7 | 3 | 4 |
| *Interreg V-A Free State of Saxony – Czech Republic* | 14 | 2 | 12 |
| *Interreg V-A Austria – Czech Republic* | 0 | 0 | 0 |
| *Interreg V-A Slovak Republic – Czech Republic* | 6 | 1 | 5 |
| Total | **161** | **65** | **96** |

Source: information system *Application support of the audit authority.*

Table 7 shows that a total of 161 findings were identified in 2022, 65 of which had no financial impact and 96 had a financial impact with a total value of CZK 57,634,430.13.

**Table 8: Areas of violation of financing conditions according to audits of operations for all PP14+ operational programmes in 2022**

| Area of violation | Number | Share (in %) | Financial impact (in CZK thous.) | Financial impact (in %) |
|---|---|---|---|---|
| 01.I Public procurement – contract notice, tender documentation | 28 | 17.39 | 15,989 | 27.74 |
| 01.II Public procurement – evaluation of tender bids | 5 | 3.11 | 1,196 | 2.07 |
| 01.III Public procurement – execution of the contract | 2 | 1.24 | 80 | 0.14 |
| 01.IV Public procurement – others | 13 | 8.07 | 556 | 0.97 |
| 02. Public support | 1 | 0.62 | 99 | 0.17 |
| 03. Revenue-generating projects | 1 | 0.62 | 827 | 1.43 |
| 04. Financial instruments | 5 | 3.11 | 0 | 0.00 |
| 05. Missing background information or documentation | 16 | 9.94 | 2,384 | 4.14 |
| 06. Ineligible project | 2 | 1.24 | 4,069 | 7.06 |
| 07. Errors in accounting and project calculation | 6 | 3.73 | 71 | 0.12 |
| 08. Other ineligible expenditure | 68 | 42.24 | 32,346 | 56.12 |
| 13. Sound financial management (3E, sound financial manager) | 6 | 3.73 | 17 | 0.03 |
| 15. Performance indicators | 3 | 1.86 | 0 | 0.00 |
| 99. Other | 5 | 3.11 | 0 | 0.00 |
| **Total** | **161** | **100.00** | **57,634** | **100.00** |

Source: information system *Application support of the audit authority.*

The most frequent errors were identified in the area of documenting eligible expenditure, where the beneficiary did not prove the connection of the expenditure with the project or a discrepancy was found between the invoiced items and the actual delivery, as well as incorrectly determined salary compensation or unjustified increases in salary rates and remuneration.

Other frequent errors occurred in the area of procurement procedures. These were cases where the contracting authority restricted competition by including items containing references to companies, trade names of products, materials etc. in the contracting notification or tender documentation. Several cases of unauthorised splitting of the subject of the contract in order to avoid the stricter conditions set for the higher financial limit of the public contract were also identified.

The most serious finding identified in 2022 was the provision of false, incomplete and insufficiently substantiated data in the application for support and its annexes, in the decision on the provision of subsidies and in payment claims, which contained false data, information and supporting documents, incomplete or inadequate facts that could have had an impact on the selection and approval of the project. Furthermore, the application for support declared activities and project objectives that were not met during the project implementation. On the basis of the facts found, all the expenditure included in the payment claim was determined to be ineligible for funding from the subsidy, i.e. 100%.

Another serious finding was a breach of established procurement procedures. The audit team found that the construction works for the implementation of the *Municipal House Insulation* project were partially executed, invoiced and paid for before the tender was even announced. The beneficiary had purchased part of the construction works directly before the conclusion of the works contract and had been invoiced by the contractor for these works. The performance that was the subject of the invoice (disassembly of the original windows, supply and assembly of windows and window sills, blown insulation in ceiling cavities, building insulation) was also part of the tender dossier for the subsequently implemented tender procedure for the construction contractor. This action, i.e. the direct award of (part of) the construction works, violated the *Guidelines for public procurement in OPEn 2014–2020*, because the contract was not awarded in an open call.

The highest amount of ineligible expenditure (approximately CZK 12.7 million) was related to a finding in which the audit team identified changes in ownership of the property where the project was implemented.

The subject of the audit was the project “Renovation of Building B”, which claimed eligible expenditure for the renovation of the building (in the amount of 81.61% of the total cost of the construction works) in order to achieve energy savings, in the amount of the beneficiary’s ownership share of the property according to the entry in the Land Registry at the date of submission of the payment claim. In addition, an expenditure for an energy assessment was claimed on the inventory, which accepted that ownership interest. During the course of the audit, a change in the beneficiary’s ownership of the renovated building was registered with the Land Registry, reducing its share to 68.62%. The beneficiary informed the MA of the planned change of ownership by means of a dispatch. Due to the change in ownership of the building, the eligible expenditure for the construction works and the energy assessment was reduced by the same percentage by which the beneficiary’s ownership share in the property was reduced, from 81.61% to 68.62%.

In 2022, the AA also carried out audit work under the European Territorial Cooperation programmes. Within the framework of the OP cross-border cooperation and transnational cooperation, the following programmes were audited:

- Within the ***INTERREG V-A Czech Republic–Poland*** programme, where the MoRD is the MA, the AO carried out a total of 29 audits of operations in 2022, with a total scope of CZK 161,574,726.37, and identified six findings with a total financial impact of CZK 4,268,450.40. The audit authority also carried out a system audit, which identified four findings of medium severity.

- For the ***INTERREG V-A Saxony–Czech Republic*** programme, the Saxon State Office for Environment and Agriculture is the MA, and the Czech Republic is a member of the group of auditors. In 2022, the AA carried out 26 audits of operations at beneficiaries in the Czech Republic in the total amount of CZK 17,192,394.92 and identified 14 findings with a financial impact of CZK 581,468.27.

- For the ***INTERREG V-A Bavaria–Czech Republic*** programme, the Bavarian State Ministry of Economic Affairs and Media, Energy and Technology is the MA, and the Czech Republic is a member of the group of auditors. In 2022, the AA carried out 16 audits of operations at beneficiaries in the Czech Republic in the total amount of CZK 76,139,283.88 and identified seven findings with a financial impact of CZK 979,665.32.

- For the ***INTERREG V-A Austria–Czech Republic*** programme, the Office of the Provincial Government of Lower Austria and the Czech Republic are members of a group of auditors. In 2022, the AO carried out six audits of operations with beneficiaries in the Czech Republic in the total amount of CZK 33,848,636.81. No findings were identified in the audits.

- For the ***INTERREG V-A Slovakia–Czech Republic*** programme, the Ministry of Agriculture and Rural Development of the Slovak Republic is the MA, and the Czech Republic is a member of the group of auditors. In 2022, the AA carried out 12 audits of operations at beneficiaries in the Czech Republic in the total amount of CZK 59,932,623.42 and identified six findings with a financial impact of CZK 1,448,773.21. The AA also carried out a system audit, which identified two findings of medium severity.

**Information on audits of financial statements**

An audit of financial statements is performed for each financial year and is designed to provide reasonable assurance regarding the completeness, accuracy and truthfulness of the amounts reported in the financial statements. With due regard to these requirements and in order to comply with the 3E principle (effectiveness, efficiency, economy), the results of the system audits carried out by the Paying and Certifying Authority and the Managing Authority and the results of the audits of operations are taken into account when assessing the financial statements submitted. The results of audits carried out by the Commission and the ECA are also taken into account.

In 2022, the AA carried out three audits of the financial statements for ESIF, ISF and AMIF programmes. Details of the financial statements for ISF and AMIF are presented in a separate subsection.

**Financial statement audit No ESIF/2022/U/001 – *Audit of the financial statements of ESIF programmes for the financial period 1 July 2021 – 30 June 2022***

The goal of the audit was to verify that all the elements required under Article 137 of the General Regulation were duly presented in the financial statements and were consistent with the underlying accounting records kept by all the competent authorities or bodies and all beneficiaries. On the basis of the financial statements provided by the certifying authority, the AA checked whether:

1. the total amount of eligible expenditure declared in accordance with Article 137(1)(a) of the General Regulation tallied with the expenditure and the corresponding contribution from public sources shown in payment claims submitted to the Commission for the accounting period concerned and, if there were discrepancies, whether adequate explanations for the discrepancies were given in the accounts;

2. amounts withdrawn and recovered during the accounting period, amounts to be recovered at the end of the accounting period, amounts recovered under Article 71 of the General Regulation and amounts that cannot be recovered, as shown in the financial statements, corresponded to the amounts contained in the accounting systems of the certifying authority and were based on decisions of the responsible managing or certifying authority;

3. where applicable, expenditure was removed from financial statements in accordance with Article 137(2) of the General Regulation and all the necessary corrections were applied in the financial statements for the given financial year;

4. the amount of contributions sent from programmes to financial instruments (FI) and the amount of state aid advance payments to beneficiaries tallied with the information provided by the managing or certifying authority.

The following PP14+ operational programmes were audited: OP *Prague – Growth Pole of the CR* (OP PGP), OP EIC, OP RDE, OPEn14+, OP *Transport 2014–2020* (OPT14+), INTERREG CR-PL, OPEm, IROP14+, OPTA14+ and OP *Fisheries 2014–2020* (OPF14+). No findings were identified in the financial statement audit.

Verification of the corrective measures for the low severity finding identified in the audit of the financial statements No ESIF/2021/U/002 was also carried out. The results of the audit showed that the AA's recommendations were met.

As part of the audit of the financial statements, a follow-up system audit No ESIF/2019/S/001 *Audit of the proper functioning of the PCO management and control system* was also conducted. The AA verified compliance with the corrective measures pursuant to the system audit action plan No ESIF/2019/S/001 for three findings with low severity. One finding related to all audited OPs and consisted in the failure to update documentation on the ICT management process. The other two findings related only to INTERREG CR-PL (incorrect classification of expenditure and errors in the calculation of the individual correction).

Corrective action was taken on all three findings and the recommendations were implemented.

**Table 9: Overview of opinions, projected error rate and values of certified, audited and ineligible expenses for individual PP14+ operational programmes in 2022**

| OP Name | AAR | | Audits of operations | | | |
|---|---|---|---|---|---|---|
| | Opinion | Projected error rate | Certified* (in EUR million) | Audited (in EUR million) | Sample (in %) | Irregularity** (in EUR) |
| IROP14+ | Unqualified | 0.42% | 1,106.50 | 125.84 | 11.40 | 297,183 |
| OP EIC | Qualified | 2.30% | 1,077.36 | 291.42 | 27.10 | 1,220,758 |
| OPEm | Unqualified | 1.09% | 577.49 | 227.34 | 39.55 | 16,881 |
| OP PGP | Unqualified | 0.26% | 49.42 | 28.43 | 57.71 | 18,326 |
| OP RDE | Unqualified | 0.00% | 64.17 | 47.42 | 74.02 | 709 |
| OPEn14+ | Qualified | 3.16% | 621.22 | 34.68 | 5.58 | 281,587 |
| OPT14+ | Unqualified | 0.01% | 685.58 | 218.36 | 31.84 | 48,557 |
| OPTA14+ | Unqualified | 0.08% | 40.10 | 27.49 | 68.72 | 10,731 |
| OPF14+ | Unqualified | 1.78% | 13.25 | 5.36 | 40.64 | 86,821 |
| INTERREG CR–PL | Qualified | 3.43% | 33.98 | 6.37 | 18.98 | 167,436 |
| **Total*** | | | **4,269.07** | **1,012.71** | **23.39** | **2,148,989** |

Source: Annual Audit Reports of the Audit Authority
* The amounts in this column represent the certified expenditure the sample was drawn from (the "positive population").
** Amount of ineligible expenditure in the random sample according to the AAR.
*** The table does not include cross-border cooperation programmes with a MA based outside the Czech Republic and an auditor's opinion could thus not be issued.

## C.1.1.1 AA ACTIVITIES IN THE FIELD OF PUBLIC AUDIT AND AUDITS OF OTHER FOREIGN FUNDS

***Asylum, Migration and Integration Fund and Internal Security Fund for the 2014–2020 programming period***

The Ministry of Finance performs the tasks of the audit authority not only for ESIF, but also for AMIF and ISF funds. For these funds, systems audits, audits of operations and financial statement audits were carried out in 2022. The work on the audits of financial statements was completed in time to issue an opinion by the 15 February 2023 deadline.

In 2022, the AA conducted two audits of operations for ISF and five for AMIF. In addition, the AA carried out one audit of "technical assistance" projects receiving funding from both the aforementioned Funds.

In AMIF, one finding of medium severity was identified. The ineligible expenditure was quantified at CZK 4,752.00 (EUR 155.92).

No findings were identified for the ISF. No findings were also identified in the audit of "technical assistance" projects.

**Table 10: Overview of error rate and values of audited expenditures and ineligible expenditures for individual PP14+ programmes in 2022**

| Name of the programme | Opinion on the programme | Approved (in EUR) | Audited (in EUR) | Sample (in %) | Irregularities (in EUR) | Error rate (in %) |
|---|---|---|---|---|---|---|
| *National Internal Security Programme* | Unqualified | 6,576,709 | 3,731,084 | 56.7 | 0.00 | 0.00 |
| *National Programme for the Asylum, Migration and Integration Fund* | Unqualified | 5,045,183 | 1,193,960 | 23.7 | 155.92 | 0.03 |
| Total | | **11,621,892** | **4,925,044** | – | **155.92** | – |

Source: Annual Audit Reports of the Audit Authority

In 2022, system audit No AMIF/2022/S/001 entitled *Audit of the Management and Control System of RA AMIF 2022* was carried out by the responsible authority (RA), i.e. the Ministry of the Interior (MoI). During the audit, three findings of low severity were identified. At the same time, the implementation of corrective measures from the system audit No AMIF/2021/S/001 was verified.

In the reference period, the AA also carried out system audit No ISF/2022/S/001 in accordance with the 2022 audit strategy, entitled *Audit of the Management and Control System of the Responsible Body – ISF*. The objective was to verify the effective functioning of the MCS of the *National Internal Security* Programme for the period 2014–2020, check compliance with the requirements of the applicable legal framework for PP14+ and to determine whether the RA still meets the designation criteria. During the audit, two findings of low severity were identified.

Based on the audit work performed, an unqualified opinion was issued for AMIF and ISF.

**Table 11: Evaluation of MCS according to performed system audits in 2022**

| Name of the programme | Opinion | MCS Category | Findings in total | Severity of findings | |
|---|---|---|---|---|---|
| | | | | Medium | Low |
| *National Internal Security Programme* | Unqualified | 2 | 2 | 0 | 2 |
| *National Programme for the Asylum, Migration and Integration Fund* | Unqualified | 2 | 3 | 0 | 3 |
| Total | | | **5** | **0** | **5** |

Source: Annual Audit Reports of the Audit Authority

## INFORMATION ON AUDITS OF FINANCIAL STATEMENTS

### Audit of AMIF 2022 financial statements

The goal of audit No AMIF/2022/U/001 entitled *Audit of Financial Statements of AMIF 2022* was to verify that all the particulars required by Regulation (EU) 514/2014[54] and Article 63(5) of Regulation (EU) 2018/1046[55] were duly included in the financial statements and were consistent with the underlying accounting records of the RA and the beneficiaries.

No findings were identified in the audit.

### Audit of the financial statements of ISF 2022

The goal of audit No ISF/2022/U/001 entitled *Audit of Financial Statements of ISF 2022* was to verify that all the particulars required by Regulation (EU) 514/2014 and Article 63(5) of Regulation (EU) 2018/1046 were duly included in the financial statements and were consistent with the underlying accounting records of the RA and the beneficiaries.

54 Regulation (EU) No 514/2014 of the European Parliament and of the Council of 16 April 2014 laying down general provisions on the Asylum, Migration and Integration Fund and on the instrument for financial support for police cooperation, preventing and combating crime, and crisis management.

55 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, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012.

No findings were identified in the audit.

### C.1.1.2 INFORMATION ON THE PREPAREDNESS OF CZECH IMPLEMENTING BODIES' MANAGEMENT AND CONTROL SYSTEMS TO UTILISE THE 2021–2027 PROGRAMMING PERIOD ALLOCATION

In accordance with Article 78 of the Regulation (EU) 2021/1060[56] (New General Regulation), the AA has developed audit strategies for the period 2021–2027 for each operational programme, namely:

- OP *Jan Amos Komenský (OP JAK);*
- OP *Technical Assistance (OP TA);*
- *Integrated Regional Operational Programme;*
- OP *Transport 2021–2027 (OPT);*
- OP *Fisheries 2021–2027 (OPF);*
- OP *Employment plus;*
- OP *Environment 2021–2027;*
- OP *Technologies and Applications for Competitiveness (OP TAC).*

The audit authority invited the MA to fill in the change form for the MCS. This was to record changes in the management documentation between PP14+ and PP21+. The audit authority examined the changes and issued the *Report on the assessment of the management and control system of the programmes in the programming period 2021–2027.*

On the basis of the MCS descriptions, the AA drew up an audit strategy in accordance with Article 78(1) of the New General Regulation. System audits will be conducted on the MAs of operational programmes where significant changes to the MCS are identified or where a new MCS is put in place. The AA anticipates that these audits will be performed during 2023.

## C.2 ECA AUDIT WORK IN RELATION TO THE CZECH REPUBLIC

The European Court of Auditors performs the role of an external auditor of the EU. The ECA's audit work focuses primarily on assessing the reliability of the EU's financial statements and the subsequent issuance of the Statement of Assurance (DAS), as well as on stand-alone audits, whose results it publishes mostly in the form of ECA Special Reports (SR).

Annex 3 provides an overview of audit missions carried out in the Czech Republic by ECA staff in 2021 and 2022.

56 Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy.

## C.2.1 DAS AUDITS

**ESIF absorption level**

The average absorption rate for all 27 EU Member States and the UK (EU-28) was 67% (excluding the *European Union Recovery Instrument* (NGEU), but including additional allocations from the *European Agricultural Fund for Rural Development* (EAFRD). In the case of the Czech Republic, Hungary and Greece, the absorption reached 73% and together they ranked ninth in the notional ranking, just 3% behind Cyprus and Estonia, which are in third place among EU Member States.

***Recovery and Resilience Facility* grants**

According to incomplete ECA data, EUR 915 million of these funds were paid out in the Czech Republic in 2021 – the eighth highest amount in the EU. EUR 6,121 million remain to be paid. This also represents the eighth highest amount among the Member States.

**Financial instruments**

According to data received by the ECA from the Commission, the percentage of payments to final beneficiaries out of the total amounts allocated from the EU budget for financial instrument commitments under shared management will reach around 50% in the Czech Republic by the end of 2020, which is in line with the EU-28 average.

The annual report also provides an interesting comparison of management costs in relation to total FI payments (also by the end of 2020). In the Czech Republic, these costs represent less than 2% (i.e. the sixth lowest in the EU), while the EU-28 average is almost double. The highest costs were in Sweden (around 11%) and Germany (more than 7%).

**Unresolved comments in the area of revenues**

The annual report provides an overview of the number of unresolved reservations on gross national income (GNI) and VAT and open cases in the area of traditional own resources (TOR) as at 31 December 2021. With respect to the Czech Republic, the ECA records five open TOR cases, two VAT reservations and one GNI reservation. In total, there are eight deficiencies, the same number as in Estonia, Hungary, Lithuania and Slovakia. Together, these Member States rank fifth in the EU-28.

**Heading 2 – *Cohesion, Resilience and Values***

The ECA audit sample included 21 countries from the EU-28, with a total of 212 transactions audited, 14 of which were in the Czech Republic. In terms of quantifiable errors, the ECA found a total of 28, of which two were identified in the Czech Republic.

**Heading 3 – *Natural Resources and Environment***

The ECA control sample comprised a total of 212 operations carried out in 18 EU-28 countries. The Czech Republic was not part of the control sample.

## C.2.2 ECA SPECIAL REPORTS

During the period under review, the ECA issued a total of 31 special reports presenting the results of selected performance and compliance audits. The Czech Republic was included in the audit sample in four audits (see below) and participated in several others through questionnaire surveys.

**Special Report 10/2022: *LEADER and community-led local development facilitates local engagement but additional benefits still not sufficiently demonstrated***

The LEADER (Community-led Local Development) programme was introduced by the EU in 1991. It is a "bottom-up" initiative to support the development of disadvantaged rural regions through projects focused on local needs. LEADER activities are managed by Local Action Groups made up of public, private and civil society partners. In PP14+, the EU planned to provide up to EUR 9.2 billion for this programme.

**The ECA auditors examined whether the LEADER approach delivers benefits that justify its additional costs and risks, particularly compared to conventional ("top-down") EU spending programmes.** Among other things, they investigated whether the introduction of a new multi-fund approach has led to better coordination of support for local development.

The audit addressed whether:

- LEADER and community-led local development has facilitated local engagement;
- LEADER and community-led local development have led to projects with demonstrable benefits in terms of local governance, social capital and results;
- the introduction of a new multi-fund approach has led to better coordination of support for local development.

This audit also followed up on the previous 2010 LEADER audit and assessed whether the Commission had addressed the deficiencies identified at that time.

In the framework of this audit, ECA examined ten Member States[57] and included two LAGs in each of them.

The ECA has found that there have been improvements in some areas and that the LEADER approach is helping to engage local actors, but there is little evidence that the benefits of this approach outweigh the costs[58] and risks[59] that LEADER entails.

Some Member States and LAGs used LEADER to finance statutory tasks of national, regional or municipal authorities or other activities for which other specific EU and national funding programmes existed. The Czech Republic was one of these Member States.

The auditors concluded that the multi-fund approach in its current form increases the complexity of financing local development projects. In contrast to the Swedish multi-fund management approach, which the auditors found to be the most effective, the multi-fund approach in the Czech Republic and Portugal was found to be the most difficult due to the combination of different funds with different objectives and rules and different MAs applying different rules and guidelines. In Slovakia, there was a significant delay in the development of local strategies, resulting in no projects being funded at the time of the audit (i.e. three years after the regular deadline for approval of the strategies).

The ECA found that most LAGs were not gender balanced and young people were under-represented. This creates the risk that decision-makers will not take their views and interests into account.

In view of the additional costs and risks compared to other funding models and the continued lack of demonstrable benefits, the ECA recommended that the Commission should undertake a comprehensive assessment of the costs and benefits of the LEADER programme and assess the effectiveness and efficiency of community-led local development.

57 Austria, Czech Republic, Estonia, Germany, Greece, Ireland, Portugal, Romania, Slovakia, Sweden.

58 The additional costs include the costs incurred by LAGs in preparing and managing the implementation of their local development strategies and in supporting beneficiaries in the development of projects. It also includes the expenditure of the Member States on the approval of the LAGs (e.g. hiring consultants to support the approval process).

59 Additional risks arise from lengthy procedures, additional requirements for project implementers and potential conflicts of interest. Other risks are caused by decision-making bodies that are not representative of the local community or not gender balanced.

**Special Report 12/2022: *Durability in rural development – Most projects remain operational for the period required, but there are opportunities to achieve longer lasting result*s**

In previous audits, the ECA has identified the high significance of the funds spent (EUR 25 billion since 2007), as well as numerous problems with the sustainability of projects, particularly in the area of diversification of the rural economy[60]. For this reason, the ECA audit team examined whether investments in diversifying the rural economy and improving rural infrastructure have led to durable benefits. The ECA assessed whether the projects met the minimum durability requirements set out in the regulations (i.e. five years) and also examined other factors affecting the durability of the projects. The auditors looked at the extent to which EU funding can be shown to provide long-term diversification opportunities in rural areas.

In this performance audit, the ECA assessed the performance of the relevant programmes and spending streams and examined whether the financed projects:

- met the durability period set out in legislation;
- continued to operate beyond this durability period;
- brought lasting changes to rural areas.

The audit sample included tourist accommodation diversification projects implemented in 11 Member States[61], three of which[62] were also examined for infrastructure investments.

While the sustainability rate for infrastructure projects was high as expected and the supported projects were still functioning, only two thirds of diversification projects were functional in some Member States.[63] Here, the ECA found significant differences between different sectors and between different Member States. It also found that the supported activities were often terminated shortly after the end of the durability period defined in the regulations, even in the case of very high investments (up to EUR 9,000 per month of operation). In several Member States, some tourist accommodation facilities were not economically viable, a situation caused by their unauthorised use for private housing. In the ex-post evaluations of the 2007–2013 period, the ECA found that the contribution to diversification was low[64] (for tourism activities) to medium (for non-agricultural activities and business start-ups).

According to EU rules, Member States must set and apply selection criteria when deciding which operations to prioritise. However, the ECA found, among other things, that during PP7+ some Member States did not use such criteria at all. Other Member States[65] applied selection criteria without setting the minimum score to be achieved. The projects were ordered according to the score; however, if sufficient funds were available, projects with low scores were also supported. In PP14+, selection criteria and minimum score thresholds were already applied by all Member States, although these score thresholds did not usually exceed 50% of the maximum score.

The ECA auditors found that the overall quality of tenders in the 2014–2020 period improved compared to the 2007–2013 period, but that tenders did not have a significant impact on the overall quality of projects.

60 EU spending to support diversification includes support for non-agricultural activities for farmers and the creation and development of new business opportunities, including tourism.

61 Austria, Bulgaria, Czech Republic, France, Greece, Hungary, Italy (Sicily), Lithuania, Poland, Romania and Slovakia.

62 Austria, Bulgaria and Poland.

63 In the Czech Republic, 84% of supported tourist accommodation projects remained in operation, the highest proportion in the audit sample after Austria (98%), Greece (94%) and France (89%). In contrast, the lowest proportion of active projects was found in Hungary (67%) and Sicily (60%).

64 For example, in the tourist accommodation sector, 29% of the projects audited in Bulgaria and 38% in Poland closed quickly or had a very low turnover.
In Greece, the national monitoring of tourist accommodation projects provided information on the income generated during the first three years. On average, each euro of total investment costs generated global revenues of EUR 0.4 over this period. This average figure points to a wide spread in the ability to generate income. Over three years, tourist accommodation projects have generated between EUR 0.02 and EUR 1.41 for every euro invested. Four of the supported projects (i.e. 20%) generated less than EUR 0.1 for every euro invested.
Building or renovating a house (guesthouse) with EU support can be attractive, as after three to five years the beneficiary can officially use it as a private home or sell it.

65 Bulgaria, Czech Republic, Poland (after 2009) and Slovakia.

The ECA recommended that the Commission:

- in its advisory capacity, share best practices in a way that limits the risk of selecting non-viable projects;
- promote long-lasting project benefits and value for money from EU support (project sustainability guarantees and safeguards against the transfer of funded assets to personal use);
- in consultation with Member States, identify relevant sources of information on the continued operation of projects and share best practices;
- use this information to draw up a list of risk factors based on examples of projects which are less durable.

**Special Report 22/2022: *EU support to coal regions – Limited focus on socio-economic and energy transition***

The European Parliament (EP) adopted the EU climate framework on 24 June 2021, making the targets to reduce emissions by 55% by 2030 and achieve climate neutrality by 2050 legally binding. *The European Green Deal*[66] identified the phasing-out of coal for energy production as an essential factor in achieving the climate targets.

The ECA's audit examined whether EU support has effectively contributed to the socio-economic and energy transition in EU regions where the coal industry has been in decline. The auditors focused on whether the laid-off workers in coal-related industries were provided with adequate training and assistance, whether the Member States together with the Commission identified socio-economic development needs and targeted funding accordingly, and whether greenhouse gas emissions from thermal coal had been decreasing in line with the fall in EU thermal coal production.

The results and recommendations should contribute to the cost-effective implementation of the *Just Transition Fund* (JTF), which aims to mitigate the socio-economic and environmental impact of the transition to climate neutrality, including the phase-out of coal.

The audit was carried out on a sample of seven regions of the five Member States and covered more than EUR 12.5 billion.

The ECA auditors concluded that EU support to coal regions has had limited focus and impact on job creation and energy transition, and that despite overall progress, coal remains a significant source of greenhouse gas emissions in some Member States (including the Czech Republic).

The auditors also found that in most of the regions in the audit sample, the funded projects did not have a significant impact on energy savings or renewable energy generation capacity.

The EU has set up the JTF with EUR 19.3 billion in available resources, but has not assessed the scale of funding required. In addition, the Member States have difficulties in absorbing the available funds within the timeframe.

According to the ECA, these shortcomings and problems carry the risk that funds meant to alleviate the socio-economic and environmental costs of the transition might be spent without the transition effectively taking place. This risk has increased with Russia's 2022 invasion of Ukraine.

$CO_2$ emissions from coal combustion have decreased significantly, but domestic coal has been sometimes

66 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: *The European Green Deal,* COM(2019) 640 final of 11 December 2019.

replaced by import or by other fossil fuels. The reporting of methane emissions from closed or abandoned mines has not been sufficiently reliable. The use of methane from the mines for energy purposes was marginal in the Member States included in the audit, with the exception of Germany.

The ECA recommended to the Commission:

- to check that the JFT is used effectively and efficiently to alleviate the socio-economic impact of the transition to climate-neutrality in coal and carbon-intensive regions;
- to share best practices for measuring and managing methane emissions from closed or abandoned coal mines.

**Special Report 28/2022:** ***Support to mitigate Unemployment Risks in an Emergency (SURE) – SURE financing contributed to preserving jobs during the COVID-19 crisis, but its full impact is not known***

The COVID-19 pandemic has put millions of jobs at risk in Europe. The EU has responded quickly and effectively by introducing the temporary SURE (Support to mitigate Unemployment Risks in an Emergency) instrument, which has provided Member States with long-term, low-cost loans.

Member States could use the money to create or expand their job retention programmes, such as short-time work schemes, wage subsidies and health measures. SURE financing is based on loans, not grants. The demand for these loans by the Member States corresponded to the EUR 100 billion budget proposed by the Commission. Nineteen Member States have applied for loans and almost EUR 92 billion has already been paid out before the end of 2022, when SR 28/2022 was published.[67]

As job retention programmes are prone to misuse, Regulation (EU) 2020/672[68] requires that the loan agreements with Member States to include provisions about controls and audits, to minimise the risk of fraud and irregularity. At the beginning of 2022, when most of the funding had already been disbursed to Member States, the Commission launched an *ad hoc* survey on national MCS. All Member States except one reported cases of irregularities and alleged fraud.

The ECA auditors assessed whether the SURE instrument is an effective and efficient response to mitigate the risk of unemployment in the EU due to the COVID-19 pandemic and whether the Commission is implementing the SURE instrument effectively. In particular, the audit examined whether:

- setting-up the instrument was timely;
- appropriate arrangements were put in place to limit the financial risk to the EU budget through SURE;
- the legislative framework for SURE and its implementation reflected the crisis situation while minimising the risk of fraud and irregularity;
- the Commission developed a robust framework for monitoring the implementation of national job retention schemes financed by SURE and evaluating their impact;
- SURE was effective in helping Member States to protect jobs.

The Commission estimated that, thanks to the EU's AAA credit rating, the financial assistance provided under SURE has led to a saving of EUR 8.5 billion in interest payments for Member States compared to what they would have hypothetically paid if they had borrowed the same amount on the capital market themselves. The ECA found that the savings were concentrated in five of the benefiting Member States

67 More than half of this amount was for loans to Italy and Spain.
68 Council Regulation (EU) 2020/672 of 19 May 2020 on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak.

(Italy, Spain, Romania, Poland and Greece), ranging between EUR 0.5 billion and EUR 3.8 billion, and accounting for almost 86% of the total estimated savings.

Given that SURE is a crisis response tool, its framework is deliberately simpler than the Commission's standard funding procedures. For example, it was not required for the Commission to carry out an analysis of the scope and design of the existing or planned national job retention schemes when assessing Member State requests for financial assistance.

The monitoring of the support provided under SURE focused mainly on the use of financial assistance and on outputs, rather than on the assessment of results achieved. However, the data reported by the Member States on outputs (such as the number of employees and firms covered), were generally based on estimates, were not always comprehensive, and sometimes varied significantly. The lack of detailed data on the outputs and outcomes of the national job retention programmes has meant that it has not been possible to identify the main beneficiaries of national SURE-funded measures.

The Commission's checks on the output data reported by Member States were limited and focused on general consistency with previous submissions and on the costs of the measures.

The design of SURE does not make it possible to identify separately the impact of SURE, in terms of outputs and results, within the national schemes. The Commission therefore cannot assess the results of SURE in each Member State. However, the SURE Regulation does not make the assessment mandatory.

The ECA recommends that the Commission carry out a comprehensive evaluation of SURE, with a view to learning lessons for potential future crisis instruments.

## C.3 EUROPEAN COMMISSION AUDIT MISSIONS IN THE CZECH REPUBLIC

The European Commission carried out three audit missions in the Czech Republic in 2022, which had not been completed by the editorial deadline of the *EU Report 2023*.

An overview of all Commission audit missions carried out in the Czech Republic in 2021 and 2022 is given in Annex 4.

# SECTION II.
FINANCIAL MANAGEMENT OF EU FUNDS IN THE CZECH REPUBLIC IN THE EUROPEAN CONTEXT

# D. EU BUDGET AND ITS RELATIONSHIP TO THE CR

## D.1 MULTIANNUAL FINANCIAL FRAMEWORK 2021–2027

**2021 was the first year of the new Multiannual Financial Framework** (MFF). To date, the European Union has adopted a total of six MFFs, including the current MFF for 2021–2027 (MFF21+), which was approved after 34 months of negotiations on 17 December 2020.[69] The MFF ensures that EU spending is properly managed within the limits of own resources and that financial budgetary discipline is maintained. The MFF is set for a minimum of five years, but only the very first MFF (1988–1992) actually lasted five years, with the subsequent five MFFs covering seven years each.

Regulation 2020/2093 [70] sets expenditure ceilings for the individual categories of expenditures or areas of expenditure, which are referred to as "headings".[71] **With the new MFF, the names and contents of the individual headings were modified, among other things.** The resources allocated to them are shown in the following table.

**Table 12: Multiannual Financial Framework 2021–2027** **(in EUR million)**

| Budget heading | | Total for 2021–2027 |
|---|---|---|
| 1. | Single Market, Innovation and Digital | 132,781 |
| 2. | Cohesion, Resilience and Values | 377,768 |
| 2a. | Economic, social and territorial cohesion | 330,235 |
| 2b. | Resilience and values | 47,533 |
| 3. | Natural Resources and Environment | 356,374 |
| | of which: market related expenditure and direct payments | 258,594 |
| 4. | Migration and Border Management | 22,671 |
| 5. | Security and Defence | 13,185 |
| 6. | Neighbourhood and the World | 98,419 |
| 7. | European Public Administration | 73,102 |
| | of which: Administrative expenditure of the institutions | 55,852 |
| Total commitment appropriations | | 1,074,300 |
| Total payment appropriations | | 1,061,058 |

Source: Regulation 2020/2093.
Note: The amounts listed in the table are broken down by individual headings.

For the period 2021–2027, the Common Agricultural Policy remains the largest MFF heading, together with the Common Fisheries Policy and Environmental protection. The second largest amount of money is allocated to economic, social and territorial cohesion programmes (cohesion policy), which are designed to reduce disparities in development among EU regions.

Unlike the previous MFF, the MFF21+ includes resources from the *European Development Fund.*

**The *Next Generation EU* recovery fund** with EUR 750 billion[72] to address the challenges of the COVID-19 pandemic is **outside the MFF21+ structure.** These funds can be used for loans (EUR 360 billion) and grants (EUR 390 billion) from MFF programmes.

69 Before this date, the longest negotiations were for the adoption of the 2007–2013 MFF, which took 22 months. On the other hand, the shortest negotiations were for the 1993–1999 MFF (10 months).
70 Council Regulation (EU, Euratom) 2020/2093 of 17 December 2020 laying down the multiannual financial framework for the years 2021 to 2027.
71 Individual budget headings often cover more than one EU policy.
72 These are funds that the Commission is authorised to borrow on the financial markets.

The allocations of the seven separate NGEU programmes are shown in the table below.

**Table 13: Allocation of programmes associated within NGEU** **(in EUR billion)**

| Instrument | Allocation in EUR billion |
|---|---|
| *Recovery and Resilience Facility* (RRF) | 672.5 |
| – of which loans | 360.0 |
| – of which grants | 312.5 |
| *REACT-EU* | 47.5 |
| *Rural development* | 7.5 |
| *Horizon Europe* | 5.0 |
| *InvestEU* | 5.6 |
| *JTF* | 10.0 |
| *RescEU* | 1.9 |
| **Total** | **750.0** |

Source: https://www.consilium.europa.eu/cs/policies/the-eu-budget/long-term-eu-budget-2021-2027/.

**New sources of revenue will be introduced** to ensure that the cost of repaying the NGEU loan does not burden taxpayers and does not come at the expense of existing EU programmes. These new sources of funding will include taxes on non-recycled plastic packaging waste, taxes on digital business activities of technology giants and taxes on financial transactions.

It was also decided that **at least 30% of the funding would be spent on climate protection and achieving climate goals,** both directly from the EU budget and from the NGEU.

## D.2 EUROPEAN UNION BUDGET IN 2021

Following previous negotiations with the Council of the European Union (Council), the EP approved the EU budget for 2021 on 18 December 2020.[73] During 2021, the Council adopted a total of six draft amending budgets.

The data published in subsections D.2 and D.3 are based on information published on the websites of the Commission[74], Eurostat and also the MoF.

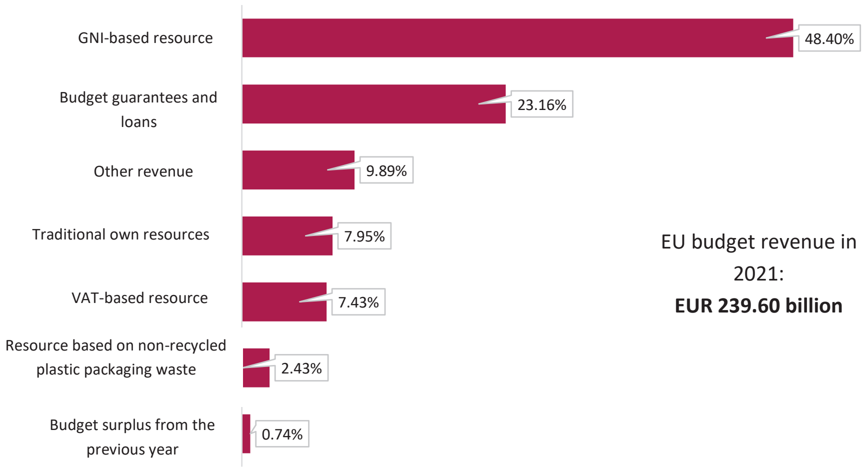
### D.2.1 EU REVENUES AND EXPENDITURE IN 2021

EU budget revenue exceeded EUR 239,596 million in 2021, and its expenditure exceeded EUR 227,996 million. In addition, EU spending was boosted by NGEU funds amounting to almost EUR 53,618 million. However, these funds are not subject to the budget as such and come from the Commission's borrowing on the financial markets (see also subsection D.1).

The income structure of the EU budget is shown in Chart 6, which does not display the loans to finance the NGEU.

73 Definitive adoption (EU, Euratom) 2021/417 of the European Union's general budget for the financial year 2021.
74 In particular https://commission.europa.eu/strategy-and-policy/eu-budget/long-term-eu-budget/2014-2020/spending-and-revenue_en.

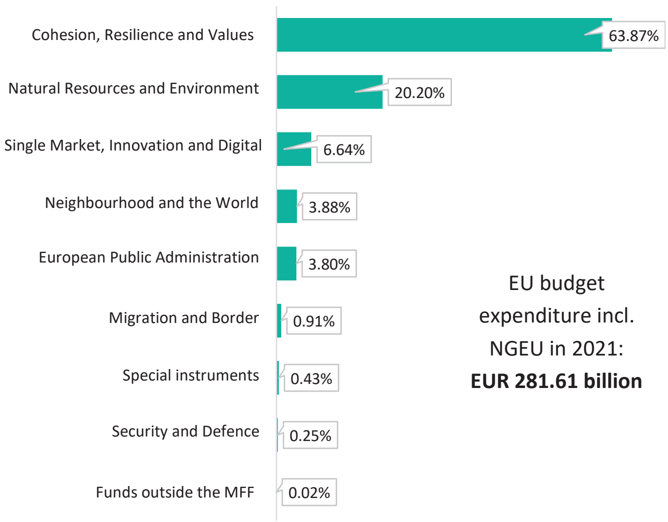
### Chart 6: Structure of the revenue side of the EU budget in 2021




Source: https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2014-2020/spending-and-revenue_en, Commission, 2022.

The netting of NGEU funds to the different expenditure headings of the EU budget has increased the dominance of the *Cohesion, Resilience and Values* heading, with almost EUR 179,838 million spent in 2021. In terms of the volume of funds used, the *Natural Resources and Environment* heading (at EUR 56,831 million) ranks behind both Cohesion sub-headings. The following chart shows the structure of EU spending by budget heading, including the NGEU funds used.

### Chart 7: Structure of the expenditure side of the EU budget in 2021, including NGEU funds




Source: https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2014-2020/spending-and-revenue_en, Commission, 2022.
Note: NGEU funds totalling almost EUR 53.62 million were mainly directed to activities financed under the heading Cohesion, Resilience and Values (EUR 53.38 million). The remaining appropriations were used to support the budget headings *Single market, innovation and digital and Natural Resources and Environment.*

### D.2.2 ANNUAL REPORT OF THE EUROPEAN COURT OF AUDITORS ON THE IMPLEMENTATION OF THE BUDGET FOR THE FINANCIAL YEAR 2021

The European Court of Auditors, at its meeting on 7 and 14 July 2022, adopted the annual reports for the financial year 2021, namely the *Annual Report on the Implementation of the EU Budget for the 2021 Financial Year* (Annual Report) and the *Annual Report on the Activities Funded by the Eighth, Ninth, Tenth and Eleventh European Development Funds (EDF) for the 2021 Financial Year.*

The **Statement of Assurance** (DAS) presented by the European Court of Auditors as the independent auditor's report to the European Parliament and the Council forms the main part of the Annual Report.[75] Pursuant to Article 287 of the *Treaty on the Functioning of the European Union,* the ECA issued the opinions cited here.

**Opinion on the reliability of the financial statements**

*"In our opinion, the **consolidated accounts of the European Union** (EU) for the year ended 31 December 2021 **present fairly, in all material respects, the EU's financial position** as at 31 December 2021, 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."*

**Opinion on the legality and regularity of revenue**

*"In our opinion, the **revenue** underlying the accounts for the year ended 31 December 2021 is **legal and regular in all material respects."***

**Adverse opinion on the legality and regularity of budget expenditure**

*"In our opinion, owing to the significance of the matter described under 'Basis for adverse opinion on the legality and regularity of budget expenditure',[76] **the budget expenditure accepted in the accounts for the year ended 31 December 2021 is materially affected by error."***

**Opinion on the legality and regularity of RRF expenditure**

*"In our opinion, the **RRF expenditure** accepted in the accounts for the year ended 31 December 2021 is **legal and regular in all material respects."***

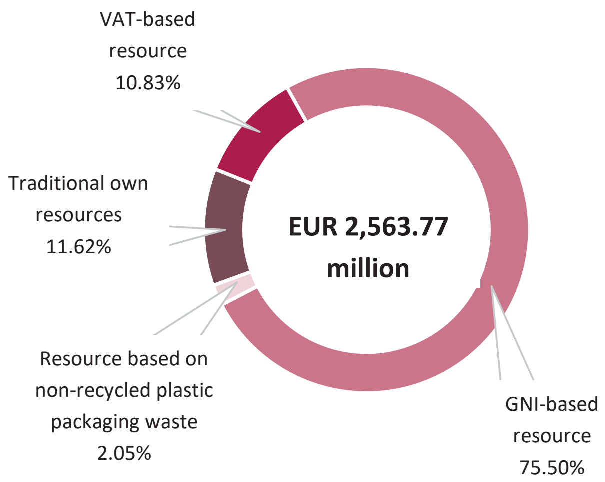
## D.3 EU BUDGET AND ITS RELATIONSHIP TO THE CR

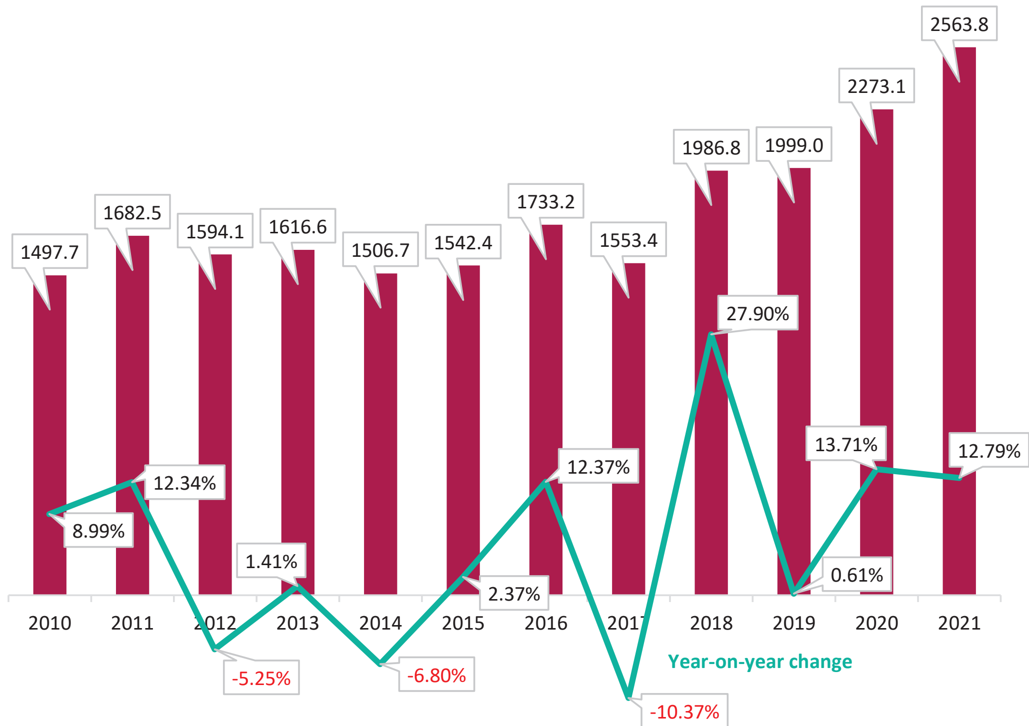
**Payments made by the Czech Republic to the EU budget have been increasing for four subsequent years, reaching the highest level in 2022** at EUR 2,563.77 million; this figure represents a year-on-year increase of 12.79% (see bar chart below). The structure of payments for 2021 is also shown in the following circular chart.

75 The ECA's Statement of Assurance provided to the European Parliament and the Council – independent auditor's report, Official Journal of the European Union, 2022/C 399/02.

76 ***"Basis for adverse opinion on the legality and regularity of budget expenditure: Our overall estimated level of error for budget expenditure accepted in the accounts for the year ended 31 December 2021 is 3.0%.** A substantial proportion of this expenditure is materially affected by error. This mainly concerns **reimbursement-based expenditure, where the estimated level of error was 4.7%.** Such expenditure increased to EUR 90.1 billion in 2021, representing 63.2% of audited population. **The effects of the errors we found are therefore both material and pervasive to the year's accepted expenditure.***

**Chart 8: The structure of the CR's payments to the EU budget in 2021 (in %) and the development of the total amount of these payments (in EUR millions) and their year-on-year changes (in %) in the years 2010–2021**



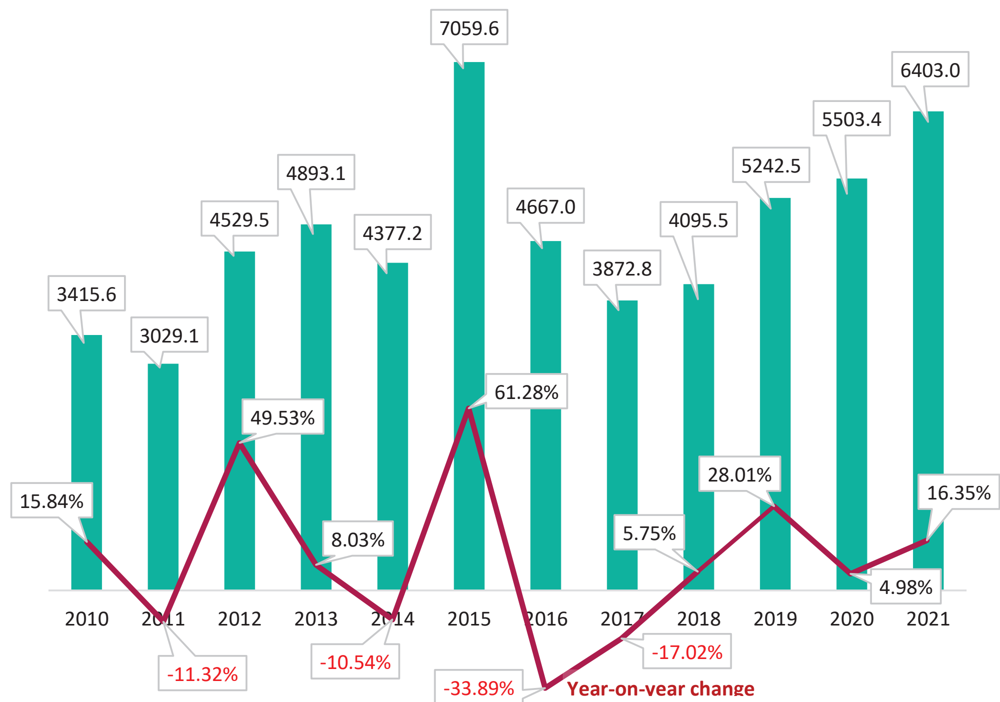




Source: https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2014-2020/spending-and-revenue_en, Commission, 2022.

As shown in bar chart 8, the CR's contributions to the EU budget have been on a clear upward trend in recent years. This is mainly due to the relatively fast growth of the Czech Republic's GNI compared to the average of all 27 Member States of the EU (EU-27)[77] and the overall growth of the EU budget (and its revenue side).

77 The GNI-based resource is by far the most important in terms of the overall EU budget, accounting for almost 50% of total EU budget revenue – see Chart 6.

**Chart 9: The structure of the CR's revenues from the EU budget in 2021 (in %) and the development of the total amount of these revenues (in EUR millions) and their year-on-year changes (in %) in the years 2010–2021**


Source: https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2014-2020/spending-and-revenue_en, Commission, 2022.

In 2021, the CR's revenues from the EU budget reached the second highest value ever, namely EUR 6,403.03 million, representing a year-on-year increase of 16.35%. The evolution of revenues depends (besides the CZK/EUR exchange rate) mainly on the phase of the seven-year programming period, or more precisely the related intensity of ESIF drawdown. This fact is also visualised in the above bar chart. It clearly shows that PP14+ features a significantly more even increase in drawdown over its course than over PP7+.

## D.3.1 DEVELOPMENT OF THE CR'S NET POSITION IN RELATION TO THE EU BUDGET UP TO 2022

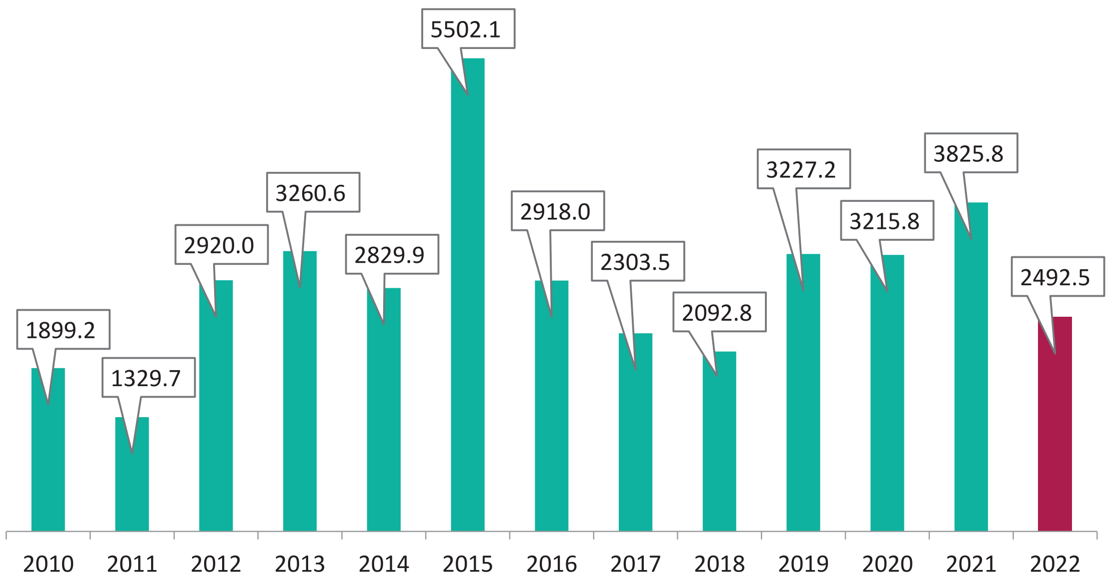
**Throughout its membership in the EU, the Czech Republic has been one of the net beneficiaries,** i.e. those Member States that receive more money from the EU budget than they pay in. The difference between receipts from the EU budget and payments into it gives the value of the net position.

The value of the net position below is determined by deducting from the total revenue of the MS from the EU budget, net of the appropriations under the *European Public Administration* budget heading (i.e. EU administrative costs) and the appropriations intended to cover the costs of the Commission's decentralised agencies, the total contributions from the MS to the EU budget, including TOR (customs duties and sugar levies) net of the costs of collecting customs duties.

**For the 2004–2021 period, the CR's net position amounted to more than EUR 39.04 billion.**

**In 2021, the CR's net position increased by almost 19% year-on-year, reaching its second highest value over the period of its membership in the EU at EUR 3,825.83 million.** The evolution of the CR's net position for the period 2010–2022 is shown in Chart 10, with the data for 2010–2021 coming from the Commission's sources, and the value for 2022 being obtained from the MoF, as the relevant Commission data audited by the ECA were not available at the time of the *EU Report 2023* editorial deadline.

**Chart 10: The CR's net position in 2010–2021 (with added MoF data for 2022)** **(in EUR million)**




Source: https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2014-2020/spending-and-revenue_en, Commission, 2022;
Press release: The Czech Republic became a net recipient of trillions from European funds last year, MoF, 8 February 2023.
Note: The 2022 net position published by the Ministry of Finance is shown here with the NextGenerationEU advance.

**After accounting for the NGEU advance, the Czech Republic** (with a net position of almost EUR 3,825 million) **drops from fifth to eighth in the ranking of the largest MS net beneficiaries in 2021.** The largest net beneficiary (after accounting for the NGEU advance) was Spain (EUR 22,035 million), and in addition to Greece (3rd place), which has long been one of the largest net beneficiaries, Italy (4th place) and Portugal (6th place) also appeared in the top ten. On the other hand, the biggest net contributors are Germany (over EUR 23 billion), France and the Netherlands (both over EUR 7 billion).

Once the net position (again after accounting for the NGEU advances) is recalculated on a per capita basis, the ranking of MS changes further. In 2021, the Czech Republic dropped out of the top ten and, with a value of EUR 364.14 per person, ranked 11th among the MS, with four "old EU Member States" – Greece, Portugal, Spain and Luxembourg – ahead of it. A detailed overview is provided in Chart 11.

**Chart 11: Net position per capita in 2021** **(in EUR)**


Source: https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2014-2020/spending-and-revenue_en, Commission, 2022; Eurostat, 26 January 2023.
Note: The values shown do not include expenditure from the budget heading *European Public Administration* (formerly *Administration*) and expenditure of the Commission's decentralised agencies. Revenue, on the other hand, includes advances granted to Member States from the NGEU.

On 8 February 2023, the Ministry of Finance issued a press release[78], according to which the Czech Republic has crossed the cumulative net income threshold of one trillion CZK in 2022. The press release also informs that the CR's revenues from the EU were CZK 61.2 billion higher than its contributions to the EU budget.[79] The MoF also includes in this amount the advance provided by the Commission from the NGEU in the amount of CZK 10.3 billion.

78 See https://www.mfcr.cz/cs/aktualne/tiskove-zpravy/2023/cr-se-loni-stala-bilionovym-cistym-prije-50304.
79 The values reported by the Ministry of Finance are somewhat different from those subsequently reported by the Commission.

# D.4 PROTECTION OF THE EU'S FINANCIAL INTERESTS

## D.4.1 ANNUAL REPORT ON THE PROTECTION OF THE EU'S FINANCIAL INTERESTS IN 2021

In September 2022, the Commission published its annual report on the measures taken to combat fraud and other illegal activities affecting the EU's financial interests in 2021[80] (Report).

In the introduction to the Report, the Commission welcomes the EU's swift response to the consequences of the COVID-19 pandemic through the mobilisation of resources and the introduction of new instruments, in particular the *Recovery and Resilience Facility* (RRF[81]).

The fact that the RRF is implemented through national recovery and resilience plans has significantly strengthened the role of MS in ensuring the protection of the EU's financial interests. For this reason, the Commission's assessment of the national plans has focused on proposals for measures to protect RRF resources from fraud, corruption, conflicts of interest and double funding.

In 2021, the approval process for the PP21+ expenditure programmes was completed and the necessary legislation to exercise the mandate of the implementing bodies at EU level and for national authorities to put anti-fraud measures in place was adopted. The European Public Prosecutor's Office started its activities in June 2021[82].

For expenditure incurred under shared management of the EU budget, individual MS are obliged to report irregularities[83] of a fraudulent or non-fraudulent nature (other irregularities) to the European Anti-Fraud Office (OLAF). Reports are carried out through the IMS system for management and analysis of irregularities[84]. Irregularities relating to expenditure under direct management of the EU budget are reported by the Commission to through the ABAC accounting system[85].

In the area of EU revenue, Member States are responsible for implementing customs rules, customs controls and collecting customs duties, excise duties and VAT payable on imports. Customs authorities also implement non-fiscal measures aimed at improving the EU's internal security and protecting the EU from unfair and illegal trade.

**According to the data presented in the Report, a total of 11,218 irregularities of both fraudulent and non-fraudulent nature were reported through all systems in the area of revenue and expenditure, which was assessed as a slight decrease of around 5% compared to the previous year 2020. The total volume of the reported irregularities was EUR 3.24 billion. In this area, on the other hand, a significant year-on-year increase of more than 121% was recorded.**

This trend was driven by most of the aggregate value indicators reported by Member States, as can be seen in the bottom row of Table 14.

**In the area of revenue** (TOR), the year-on-year increase in both the number and volume of fraudulent and other irregularities was essentially moderate at around 10%. The only exception was an increase in the volume of reported fraud, which grew by about 50%. The detection rate for fraud was 0.63% and 1.48% for other irregularities. Most of the cases reported in 2021 as irregularities (both fraudulent and non-fraudulent) involved **undervaluation, incorrect origin or misclassification of goods.** The types of goods most affected by fraud and irregularities in terms of number of cases and monetary value were **textiles,**

80 Report From the Commission to the Council and the European Parliament, *33rd Annual Report on the protection of the European Union's financial interests and the fight against fraud – 2021*, COM(2022) 482 final of 23 September 2022.

81 *Recovery and Resilience Facility.*

82 European Public Prosecutor's Office (EPPO).

83 Member States are obliged to notify the Commission of any suspected fraud (regardless of the amount involved) and any other irregularities exceeding EUR 10,000 provided from EU funds.

84 *Irregularities Management System.*

85 *Accrual Based Accounting*.

**electrical machinery and equipment, followed by various chemical products, footwear and tobacco products. Smuggling remains one of the main types of fraud.** In 2021, China was again the main country of origin of the goods most affected by the reported irregularities in both categories.

**In the area of expenditure (shared management),** the year-on-year increase in reported cases was more pronounced. While the number of suspected fraud cases was stagnant, the associated volume of irregularities was more than sixfold. The number of other irregularities was 28% higher than in 2020 and the associated reported volume was more than 61% higher. The fraud detection rate was 1%, mainly due to reports related to ESIF expenditure (2.57%). The detection rate of other irregularities was quantified at 0.63% and again ESIF-related expenditure dominated the development of this indicator (1.29%). OLAF's analysis showed higher risks of irregularities for expenditure in cohesion policy areas related to **transport, environmental protection, research, technological development and innovation, social inclusion and support for employment and labour mobility.** However, information from civil society, together with information published in the media, is increasingly contributing to the detection of irregularities, particularly of a fraudulent nature.

**Under direct management, the areas most affected by irregularities in 2021 were research and innovation, single market, security, defence and border management, European strategic investments and external action.**

The following table shows the values of irregularities reported by EU Member States under shared management, based on data from the published Annex 2 of the Report (excluding third countries and direct expenditure).

**Table 14: Number and monetary value of suspected fraud and other irregularities reported by EU Member States in 2021 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 | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2021 | YoY change | 2021 (in EUR million) | YoY change | 2021 | YoY change | 2021 (in EUR million) | YoY change |
| Agriculture | EU | 250 | –2% | 30.01 | 6% | 3,454 | 15% | 204.02 | 26% |
| | of which CR | 1 | –50% | 0.01 | –95% | 60 | 36% | 1.05 | 20% |
| Cohesion Policy and Fisheries | EU | 215 | –23% | 1,624.05 | 634%[86] | 2,271 | –1% | 812.93 | 66% |
| | of which CR | 20 | –10% | 6.52 | 12% | 288 | 65% | 28.73 | 167% |
| Internal policies total | EU | 0 | –100% | 0.00 | –100% | 45 | –17% | 4.30 | 53% |
| | of which CR | - | - | - | - | 1 | –50% | 0.19 | 27% |
| Pre-accession policy | EU | 1 | –50% | 0.01 | –97% | 7 | 75% | 0.66 | 175% |
| | of which CR | - | - | - | - | - | - | - | - |
| **Total expenditures** | EU | **466** | **–14%** | **1,654.07** | **550%** | **5 777** | **8%** | **1,021.91** | **56%** |
| | of which CR | **21** | **–12%** | **6.53** | **8%** | **349** | **58%** | **29.97** | **155%** |
| **Total revenues** | EU | **482** | **7%** | **157.17** | **46%** | **3 506** | **4%** | **367.64** | **18%** |
| | of which CR | **1** | **N/A** | **0.02** | **N/A** | **64** | **7%** | **2.86** | **–40%** |
| **Total** | EU | **948** | **–4%** | **1,811.24** | **400%** | **9 283** | **6%** | **1,389.55** | **44%** |
| | of which CR | **22** | **–8%** | **6.55** | **15%** | **413** | **47%** | **32.83** | **98%** |

Source: Report from the Commission to the Council and the European Parliament: *33rd Annual Report on the protection of the European Union's financial interests and the fight against fraud – 2021,* COM(2022) 482 final of 23 September 2022.
Note: Ministry of Health – year-on-year change, i.e. deviation from 2020, expressed in %.

86 This more than sixfold year-on-year increase in suspected fraudulent behaviour across the EU is due to cases in the areas of Cohesion Policy and Fisheries reported by Romania, where the amount for 2021 reached EUR 1,400.3 million, representing almost 85% of the volume of all suspected fraud irregularities reported by EU Member States.

**The overview shows that the MS reported a total of 10,231 cases of irregularities of both fraudulent and non-fraudulent nature for 2021 in the area of revenue and expenditure, totalling more than EUR 3,200 million.**

The table shows that **the Czech Republic reported a total of 22 suspected fraudulent irregularities in 2021 (2.3% of the EU total), an 8% reduction year-on-year.** The total number comprised primarily the expenditure area, mainly in Cohesion Policy and Fisheries expenditures, as only a single report was made in the revenue area (0.2% of the EU total). **The related volume of suspected fraud was estimated at EUR 6.55 million (0.4% of the EU total), a slight increase of 15% year-on-year.**

**The number of other irregularities reported by entities from the CR amounted to 413 (4.4% of the EU total), representing an increase of approx. 47% compared to 2020.** This year-on-year increase was mainly due to an increase in reported cases in the area of Cohesion Policy and Fisheries expenditure. **The related volume of other irregularities amounted to EUR 32.83 million (2.4% of the EU total), an increase of 98% year-on-year.** The significant increase in the volume of other irregularities reported by the CR is again primarily due to the area of Cohesion Policy and Fisheries expenditure.

## D.5 MEASURES FOR IMPLEMENTING THE EU BUDGET IN 2022

### D.5.1 COORDINATED MEASURES OF EU ECONOMIC POLICY

The EU's **coordinated economic and employment policies** are part of the **European Semester,** under which the EU and individual Member States address the challenges of economic recovery and resilience.

**The Commission launched the European Semester 2022 with the publication of the *Annual Sustainable Growth Survey 2022*[87]** (Annual Survey). The Annual Survey is the principal document of the 'autumn package'[88] setting out the EU's economic priorities. The Annual Survey shows that economic policy coordination has already moved towards laying the foundations for a recovery that supports transformation, inclusion and greater resilience.

The RRF [89]will play a central role in building a resilient economy in the coming period, having been established as part of the EU's direct response to the COVID-19 pandemic. The implementation of mutually reinforcing measures in MS' recovery and resilience plans will be essential to stimulate economic activity and employment and to ensure fair and inclusive green and digital transitions. A sustainable economy that enables policies for a long-term, fair and inclusive transformation for all EU citizens and regions will remain at the core of the EU's recovery agenda.

The **Annual Survey places the highest priority** on **aligning economic activity with the four mutually reinforcing dimensions of competitive sustainability,** which are:

**Environmental sustainability**

Climate change and environmental degradation have a major economic impact. The proposed green reform programme, which aims to decarbonise the EU economy and ensure a socially just green transition, includes the following elements:

87 Communication From the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Economic and Social Committee, The Committee of the Regions and the European Investment Bank: Annual Sustainable Growth Survey 2022, COM(2021) 740 final of 24 November 2021.

88 The 2021 package of documents published on 24 November 2021 following the Annual Survey, includes, among others, the Recommendation on the economic policy of the euro area, the Proposal for a Joint Employment Report, the Alert Mechanism Report and the 2022 Draft Budgetary Plans: Overall Assessment.

89 Recovery and Resilience Facility established by Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021.

- The ***European Green Deal,*** which will require private and public investment of around EUR 520 billion per year over the next ten years to deliver the green transition. Further support of around EUR 192 billion will come from the National Recovery and Resilience Plans over the next six years in the areas of energy generation, building renovation, sustainable transport and climate change adaptation. An additional EUR 150 billion will be spent on green investments in this decade under the cohesion policy.

- The social dimension is central to the reform, as the green transition will not only bring new jobs and innovation, but the restructuring processes will often also cause job and income losses. For these reasons, a ***Social Climate Fund*** is proposed to support vulnerable low- and middle-income households and entities that will be most affected by the introduction of a new carbon price in road transport and buildings.

- The green transition promotes a **shift to clean energy** from local renewable sources, preventing price shocks and the risk of worsening energy poverty. Investments in environmental infrastructure will strengthen resilience, create new business opportunities and improve public health.

- The green and digital transitions are intrinsically linked, and the **digitalisation of society** will contribute to reducing our carbon footprint, for example through more efficient use of energy and resources.

**Productivity**

Future prosperity will depend on increasing productivity and innovation through a balanced combination of reforms and private and public investment, including the following steps:

- A **functioning single market with fair and effective competition** will be a source of productivity for the EU economy, allowing the spread of technological progress. **Competitive product and service markets** will then be a key driver of productivity growth.

- A comprehensive set of reforms aimed at improving the business environment will be brought about by **Member States' recovery and resilience plans, including in particular support for the introduction of digital and green technologies.** This support must be accompanied by investment in people and skills, in particular in strengthening digital skills, through reforms of education and training systems.

- **Responsible, efficient and sustainable use of resources** that reduce the footprint of consumption is important for both environmental well-being and economic prosperity.

- **Strengthening the robust supply chains** that underpin the resilience of the EU economy requires an **update of the 2021 European Industrial Strategy[90].** The green and digital transitions require a policy shift to reduce current or future strategic dependence on the products and technologies that will drive Europe's industrial transformation.

**Fairness**

The COVID-19 pandemic had a disproportionate impact on the different populations, regions and sectors. The crisis has brought or accelerated changes in demand, consumption patterns and business models. The following measures should contribute to reducing inequalities:

- **Set active labour market policies** with support from public employment services and social protection systems as part of the green and digital transitions.

90 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: *Updating the 2020 New Industrial Strategy: Building a stronger Single Market for Europe's recovery,* COM(2021) 350 final of 5 May 2021.

- MS need to **strengthen and improve education, training and basic skills systems** as key enablers for social inclusion and economic growth.

- The **European Pillar of Social Rights** is essential for achieving upward social and economic convergence **and the Commission has set out an Action Plan** with objectives up to 2030.

- The **Recovery and Resilience Plans** will contribute to strengthening social cohesion and resilience **with a series of reforms and large-scale investments of around EUR 135 billion,** including measures to make the labour market more efficient, increase the capacity of public employment services and promote the participation of women and disadvantaged groups in the labour market. In addition, the ***Just Transition Fund* will mobilise around EUR 55 billion over the period 2021–2027 in the most affected regions** to mitigate the socio-economic impact of the transition to climate neutrality.

**Macroeconomic stability**

A strong and coordinated policy response to the COVID-19 crisis significantly reduced its economic and social impact, while having a positive impact on macroeconomic stability. The following steps are necessary to build economic and social resilience to unexpected shocks, e.g. by creating a fiscal buffer to be used in times of downturn:

- Member States should continue to implement a fiscal policy aimed at **achieving prudent medium-term fiscal positions and ensuring fiscal sustainability** over the medium term.

- **Adjusting the structure of public finances to support growth and fair and efficient taxation** will be crucial to increase investment to achieve transformation and to support a fair, sustainable and inclusive recovery.

- The **completion of the Capital Markets Union and the Banking Union** would strengthen financing options for the economy and encourage the private sector to contribute to investment efforts. At the same time, it would contribute to increasing economic and social resilience.

Further to the published Annual Survey, the Czech Government Office (OoG) prepared the ***2022 National Reform Programme of Czechia*** (NPR 2022) as part of the EU economic policy coordination, which presents a set of reforms and investment plans that the Government plans to implement approx. over the next 12 months. NPR 2022 also contains an overview of the measures adopted by the Government in response to the armed conflict in Ukraine accompanied by the refugee crisis. NPR 2022 also provides information on the progress in the implementation of the NRP, through which the Czech Republic can draw financial support from the *Recovery and Resilience Facility*.

In line with the Commission's recommendations, the Czech Republic drew up the ***Convergence Programme of the Czech Republic (April 2022)*** (CP 2022). This document[91] prepared by the Ministry of Finance describes the Government's budget strategy and the planned development of public finances in the coming years. For example, in the macroeconomic forecast for 2022, CP 2022 foresees a decline in the general Government deficit to 4.5% of gross domestic product (GDP) compared to 2021. The deficit is expected to decline further in the following years to 2.7% of GDP in 2025.

**NPR 2022 was** approved by the **Committee for the EU** at government level by Resolution of the Government of the Czech Republic No 7 on 27 April 2022. The Czech Republic submitted the NPR 2022 to the Commission on 28 April 2022.

**On 27 April 2022, the Government of the Czech Republic started discussions on the CP 2022 together with the *Budgetary Strategy for the Public Institutions Sector for 2023–2025* and approved both strategic materials at its next meeting[92].** The Czech Republic submitted its 2022 convergence programme to the Commission on 11 May 2022.

91 The macroeconomic data used are as at 31 March 2022 and the fiscal data and policies are as at 7 April 2022.
92 Resolution of the Czech Government of 11 May 2022, No 372.

Due to their interconnectedness, the Commission assessed the NPR 2022 and the CP 2022 together. On the basis of a Commission Recommendation[93] issued under Article 9(2) of Regulation 1466/97[94], the Council examined both documents and issued a Council Recommendation[95] with the following recommendations for the Czech Republic for 2022 and 2023:

1. In 2023, ensure that the growth of nationally financed primary current expenditure is in line with an overall neutral policy stance, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. The CR must stand ready to adjust current spending to the evolving situation, expand public investment for the green and digital transitions, and for energy security taking into account the *REPowerEU* initiative, including by making use of the *Recovery and Resilience Facility* and other Union funds. For the period beyond 2023, it should pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and take measures to ensure the long-term fiscal sustainability of public finances, including the sustainability of the pension system;

2. proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Commission Staff Working Document[96], swiftly finalise the negotiations with the Commission on the 2021–2027 cohesion policy programming documents with a view to starting their implementation;

3. strengthen the provision of social and affordable housing, including by adopting a specific legislative framework for social housing and improved coordination between different public bodies;

4. reduce overall reliance on fossil fuels and diversify imports of fossil fuel, accelerate the deployment of renewables, streamline permit procedures and make grid access easier, increase the energy efficiency of district heating systems and of the building stock by incentivising deep renovations and renewable heat sources.

**Commenting on the *National Recovery Plan* and the Cohesion Policy programmes for the period 2021–2027, the Council noted** that while they contain significant building renovation investments, further efforts will be needed to address Czechia's above-average unitary heat consumption in the building sector. According to the Council's statement, there is scope to accelerate and deepen the energy renovation of buildings, requiring in particular to consistently apply the 'Energy Efficiency First' principle. Furthermore, the Council stated that there is scope to invest in renewable heat sources and to prepare a national strategy for the decarbonisation of building stock heating. It will be necessary to establish a sustainable energy agency at national level, and adopt an auction support scheme for energy efficiency measures in industry and small businesses. Buildings and heating networks connected to coal-based district heating need to be renovated to the highest energy efficiency standards as soon as possible to ensure a cost-effective coal phase-out.

## D.5.2 IMPLEMENTATION OF THE NATIONAL REFORM PROGRAMME OF CZECHIA 2022

On 21 December 2022, at the meeting of the Committee for the EU at government level, the ***Report on Implementation of the National Reform Programme of the Czech Republic 2022*** (Report 2022), which is prepared by the OoG and submitted to the Commission as part of the EU economic policy coordination, was approved after prior discussion with the social partners.[97]

93 Recommendation for a Council Recommendation on the 2022 National Reform Programme of Czechia and Delivering a Council Opinion on the 2022 Convergence Programme of Czechia, COM(2022) 605 final of 23 May 2022.

94 Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies.

95 *Council Recommendation of 12 July 2022 on the 2022 National Reform Programme of Czechia and delivering a Council opinion on the 2022 Convergence Programme of Czechia, Official Journal of the European Union* (2022/C 334/03) of 1 September 2022.

96 *Analysis of the recovery and resilience plan of Czechia,* SWD(2021) 211 final of 19 July 2021.

97 The full report is available at: https://www.vlada.cz/assets/evropske-zalezitosti/aktualne/Zprava-o-realizaci-NPR-2022.pdf.

Among other things, Report 2022 shows:

**1. Introduction**

The **European Semester 2022** was significantly adapted to the launch of the ***Recovery and Resilience Facility*** (a programme directly managed by the EU), which is implemented in the Czech Republic through the NRP. The implementation of the NPR 2022 and the NRP was significantly affected by the **armed conflict in Ukraine and inflationary pressures,** mainly caused by high energy prices, which led to a general increase in prices. The massive **refugee wave** in response to the invasion of Ukraine has also had an impact on the implementation of reforms.

**2. Energy sector**

The energy sector was dealing with alternative routes and sources for replacing natural gas supplied from the Russian Federation mainly through intensive efforts to secure **LNG[98] terminal** capacities (in the Netherlands and Poland) and renewed cooperation with Poland on the preparation of t**he Stork II pipeline project** (REPowerEU funding under the NRP). **An amendment to the Energy Act "LEX OZE I"** was approved by the Government of the Czech Republic and discussed by the Chamber of Deputies, as well as the related amendments to the Construction Code. Another **amendment to the Energy Act "LEX OZE II"** deals with **electricity sharing, energy communities and renewable energy communities.** To secure oil **supplies,** the ***TAL Plus*** project is being prepared to replace oil supplies from the Russian Federation within two years. **In order to adopt Regulation 2022/1854[99], the Government approved** another **amendment to the Energy Act** in November 2022, setting out the rules for an excess revenue levy and a market revenue cap for each generation technology.

**3. Reforms and public investment**

In this chapter, the 2022 Report reports on developments in the following areas: ***environmental sustainability*** (physical infrastructure and green transition), ***productivity, social equity,*** and ***macroeconomic stability,*** **primarily through the implementation of the individual components, which are appropriately based in the NRP.** For each component, the responsible ministries, the substantive content of the reforms and the focus of the investment areas that will be used to implement the reforms are specified. At the same time, the objectives of the components, the allocation of resources, the substantive steps with timelines and, where appropriate, the necessary strategic materials and legislative instruments required to meet the objectives are structured in detail.

For the sake of comprehensiveness, the information is supplemented with reforms implemented beyond the individual components within the NPR. This applies in particular to the area of ***macroeconomic stability,*** which focuses on addressing the budget deficit, primarily by seeking savings on the expenditure side, as well as on measures to reduce inflation or the necessary tax adjustments. An example of a tax regulation is the imposition of a **windfall tax** on energy companies and banks in the form of a surtax on statutorily defined excess profits in connection with the need to find resources to finance measures taken by the Government to mitigate the effects of the energy crisis.

**4. Implementation of the Sustainable Development Goals**

The ***Sustainable Development Goals[100]***, approved by the United Nations, are included in the NPR together with measures for their implementation according to the ***Czech Republic 2030*** **strategic framework** (CR 2030). During 2022, the ***2nd Implementation Plan of the Czech Republic 2030 Strategic Framework[101]*** for 2022–2025 was approved, which identifies coverage of gaps in existing policies and forms the basis for new sectoral and departmental strategies. CR 2030 should be updated in the course of 2023 to take new major challenges affecting the relevance of the current definition of some of the objectives into account.

98 Liquefied natural gas.

99 Council Regulation (EU) 2022/1854 of 6 October 2022 on an emergency intervention to address high energy prices.

*100* Published under the title Sustainable Development Goals.

101 Approved by Resolution of the Government of the CR on 14 September 2022, No 766.

# E. SECTOR MATTERS 2022

## E.1 REVENUES LINKED TO FUNDS FROM THE EU BUDGET

### E.1.1 DEVELOPMENTS IN EU REVENUE SOURCES IN 2022

With effect from 1 January 2021, the **own resources ceilings for payments for all MS are set at 1.40% of GNI and for liabilities at 1.46% of GNI. In order to cover all EU commitments arising from borrowings to finance operations under the *Next Generation EU* instrument, these ceilings will be temporarily and exceptionally increased by an additional 0.6% until all borrowed funds have been repaid.**

The existing EU own resources system[102] is extended from 1 January 2021 to include a new own resource based on a levy on non-recycled plastic packaging waste. This own resource is determined on the basis of the weight of non-recycled plastic packaging waste in each MS, at a rate of EUR 0.80 per kilogram. The fee is intended to provide an incentive for MS to strengthen the circular economy and promote recycling. This incentive is in line with the EU's environmental targets and is intended to lead to a reduction in the consumption of single-use plastics. However, there is also a mechanism in place to prevent an excessively regressive impact on Member States' contributions.

In December 2021, the Commission proposed the next generation of own resources[103]. Under the proposal, 25% of the revenues from the auctioning of emission allowances, 75% of the revenues from the carbon border adjustment mechanism and 15% of the residual profits redistributed to EU Member States under the OECD/G20 agreement on international taxation of multinational enterprises (Pillar One) would be paid into the EU budget as an own resource. The revenue from the new own resources introduced after 2021 will be used for the early repayment of *NextGenerationEU* loans. By the end of 2023, the Commission will present a proposal for a second set of new own resources.

On 15 March 2022, the Council reached an agreement on regulation on a carbon border adjustment mechanism[104]. Its purpose is to encourage partner countries to introduce carbon pricing policies in order to prevent its leakage in order to combat climate change. The mechanism then targets imports of carbon-intensive products so that the EU's efforts to reduce greenhouse gas emissions are not negated by imports of products made in third countries. In December 2022, the EP and the Council reached a preliminary political agreement on this mechanism. This mechanism will initially apply to imports of certain goods and selected precursors whose production is carbon-intensive and poses the greatest risk of carbon leakage[105]. The carbon border adjustment mechanism in its transitional phase should enter into force from October 2023, initially only in a reporting regime with the aim of collecting data.

In June 2022, the Commission published the ***Annual Report on Taxation 2022***[106] (Report on Taxation), which provides an analysis of tax rules in the EU, assesses recent developments in tax systems and sets out how tax rules and their implementation and compliance could be improved across the EU.

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102 GNI-based own resources, VAT-based own resources and traditional own resources – see Council Decision (EU, Euratom) 2020/2053 of 14 December 2020 on the system of own resources of the European Union and repealing Decision 2014/335/EU, Euratom. The flat-rate corrections further reduce the annual GNI-based contribution of the Netherlands, Austria, Sweden, Denmark and Germany. In addition to the resources mentioned above, other revenue, the balance carried over from the previous year and borrowing are also used to finance the budget.

103 Proposal for a Council Decision amending Decision (EU, Euratom) 2020/2053 on the system of own resources of the European Union, COM(2021) 570 final of 22 December 2021.

104 Proposal for a regulation of the European Parliament and of the Council establishing a carbon border adjustment mechanism, INIT 7226/22 final of 15 March 2022.

105 These are cement, iron and steel, aluminium, fertilisers, electricity and hydrogen.

106 *Annual Report on Taxation 2022,* Directorate-General for Taxation and Customs Union, European Commission, Luxembourg, Publications Office of the European Union, 2022.

Among other things, the Report on Taxation states that the annual tax burden in the EU has increased to 40.1% in 2020 despite the COVID-19 pandemic. However, in nominal terms, tax revenues fell by 3.9% overall in 2020. This is the first reduction in tax revenues since the 2009 economic and financial crisis. In 2020 and 2021, Member States implemented a number of tax reforms to support business activity and mitigate the impact of the COVID-19 pandemic on households, such as reducing rates or adjusting tax brackets, tax relief for households, employers and self-employed persons, and offsetting revenue shortfalls or supporting the digitisation of tax administrations.

The *Next Generation EU* instrument allows for significant investments and reforms to improve national tax systems. In each Member State, the plans for this instrument also focused on tax reforms, digitisation of public administration systems and green tax measures and measures with labour taxation implications. In addition to the green and digital transitions, tax systems must also address the changes associated with an ageing population in order to maintain the ability to generate revenue from labour taxation and social security contributions.

To promote productivity and innovation, Member States increasingly encourage private research and development by offering tax incentives for revenue and expenditure. However, all support must be effective, should not create loopholes that could be used for tax avoidance and should not make tax systems too complex or adversely affect fiscal sustainability.

On labour taxation, the Report on Taxation states that the average tax burden on labour in the EU still represents 40% of labour costs, despite a certain decline. However, there are large differences in the degree of progressivity of labour income taxation between the individual MS. Labour taxation is the main source of public funding. Broadening the tax base and tax mix (including environmental and health taxes), property taxes (including inheritance taxes) and capital gains taxes can, however, help generate revenue, promote sustainable behaviour and address inequalities.

The Annual Report also provides an overview of developments in tax compliance, tax fraud, tax evasion and tax avoidance in the MS. In a number of countries, opportunities for aggressive tax planning are being exploited as some Member States do not have withholding tax or similar defence mechanisms in place for outgoing payments from the EU. Transparency requirements have increased, but tax evasion by individuals in offshore financial centres (tax havens) still represents significant tax losses for the MS. Greater digitisation of tax administrations should help to improve tax collection and reduce tax avoidance, which should also reduce the administrative burden of tax administration on taxpayers.

The current rise in energy prices, exacerbated by the war in Ukraine, requires an acceleration of the green transition. This should be supported by a balanced environmental taxation allowing a shift away from labour taxation. Environmental taxation is still underutilised in many MS, despite its potential as a key factor in the transition towards a greener economy. As part of the *Fit for 55* package, the Report on Taxation proposes a revision of the Energy Taxation Directive to align the taxation of energy products with the EU's energy and climate goals, promote clean technologies and remove outdated exemptions and reduced rates that encourage the use of fossil fuels. Although not a taxation instrument, it will be an important instrument to address the risks of carbon leakage due to the EU's increased climate-related ambitions and for a carbon border adjustment mechanism.

In December 2022, the Commission published its tenth **report on VAT collection**[107]. This is an annual report on the VAT revenue gap (VAT gap), which measures the effectiveness of VAT enforcement measures in each MS. It also estimates the revenue foregone due to fraud and tax evasion, tax avoidance, as well as bankruptcies, cases of financial insolvency and miscalculations. In 2020, the share of VAT revenue in total national tax revenue ranged from 20% to 50%, representing around 26% of total annual tax revenue in the EU-27.

107 *VAT gap in the EU, Report 2022*, Commission, 8 December 2022.

The VAT collection report provides annual estimates of the shortfall in VAT revenue for the EU-27 over the five-year period 2016–2020. Overall, the VAT gap in the EU-27 has decreased by EUR 31 billion year-on-year to EUR 93 billion in 2020[108]. As the statistical analysis of VAT gap shifts and other developments following the Covid-19 pandemic have shown, government policies have been the main drivers in reducing the VAT gap and achieving greater VAT compliance. The Member States that have introduced the most extensive supporting measures – often dependent on the payment of taxes – have also seen the largest reduction in the VAT gap. In addition, there were also those MS where the VAT burden was significantly reduced.

In the Czech Republic, the VAT gap fell by 2.3% in 2020 with a continuing downward trend. In order to prevent tax evasion, the Czech Republic has extended the application of the reverse charge mechanism to domestic supplies of natural gas and electricity, construction, scrap metal, computer chips, mobile phones, game consoles, laptops and tablets, certain commodities and $CO_2$ emission certificates.

Also in the area of combating tax evasion, changes and updates to existing measures have been made within the EU to strengthen cooperation to prevent tax evasion. In February 2022, the Council reviewed the **list of non-cooperative jurisdictions for tax purposes[109]**. This list was compiled in December 2017 and is updated twice a year. Countries are assessed on the basis of compliance with tax good governance criteria. These include meeting international standards aimed at preventing tax base erosion and profit shifting. Furthermore, this set of objective tax good governance criteria also includes tax transparency and fair taxation. According to the Council's decision, nine countries[110] that have not fully met their commitments to implement the necessary reforms or have not engaged in a constructive dialogue with the EU on tax administration were listed. In October 2022, the EU list was revised by the Council for the second time[111]. 12 countries were listed[112].

**In November 2022, the Council approved the first revision of the Code of Conduct for Business Taxation since 1997[113].** The code represents an intergovernmental political commitment by Member States to apply stricter rules of scrutiny, both in seeking and correcting tax measures that could damage the tax bases of other Member States. Previously, only preferential measures were assessed. These include exemptions from the general tax system or special schemes. However, the MS decided to expand the range of tax measures that are subject to assessment when examining harmful tax practices within the EU. Such practices will be regarded as harmful if they can lead to the double or multiple use of tax benefits or double non-taxation.

**At the end of 2022, the Council adopted a Directive[114], which aims to introduce a minimum tax component for the global activities of large-scale multinational enterprise groups at EU level** and which the Commission proposed in December 2021[115]. The Directive aims to implement into EU law the two-pillar reform of international corporate tax rules agreed in the OECD/G20 Inclusive Framework against base erosion and profit shifting. These rules will ensure that the largest multinational enterprise groups[116] pay an agreed global minimum corporate income tax rate of 15%. The Pillar Two Directive, once effectively implemented, should thus limit competition between countries over the lowest corporate income tax rates. The Directive must be transposed into national law by the end of 2023.

108 The lowest quantified relative VAT gap was in Finland (1.3%) and the highest in Romania (35.7%). In nominal terms, the highest VAT gap was ascertained in Italy (EUR 26.2 billion). The most significant year-on-year reductions in the VAT gap were achieved by Hungary, Germany, the Netherlands and Greece.

109 Council conclusions on the revised EU list of non-cooperative jurisdictions for tax purposes, 6437/22 FISC 50 ECOFIN 156, of 24 February 2022.

110 American Samoa, American Virgin Islands, Fiji, Guam, Palau, Panama, Samoa, Trinidad and Tobago, and Vanuatu.

111 Council conclusions on the revised EU list of non-cooperative jurisdictions for tax purposes, 13092/22 FISC 197 ECOFIN 954, of 4 October 2022.

112 The Council has now decided to add Anguilla, the Bahamas, and the Turks and Caicos Islands as non-cooperative jurisdictions for tax purposes.

113 Council conclusions on the reform of the Code of Conduct for Business Taxation, 14452/22 FISC 214 ECOFIN 1131, of 8 November 2022.

114 Council Directive (EU) 2022/2523 of 14 December 2022 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union.

115 *See EU Report 2022.*

116 Large-scale multinational and domestic enterprise groups or companies with a total annual turnover of at least EUR 750 million.

In its 2020 *Action Plan for Fair and Simple Taxation Supporting the Recovery Strategy*[117], the Commission announced a legislative package of VAT rules for the digital age, which was also included in the 2022 Commission Work Programme[118]. Thirty year old VAT rules on cross-border trade are not adapted to business in the digital age and need to be adapted to take advantage of technology to reduce the administrative burden and associated costs for businesses while fighting tax fraud. **The VAT rules package for the digital age has three main objectives:**

- **Modernising VAT reporting obligations[119]** by introducing digital reporting requirements, and requiring the use of e-invoicing for cross-border transactions;
- **Addressing the problems associated with the platform economy[120]** by updating the VAT rules applicable to the platform economy;
- **Avoiding the need for multiple VAT registrations in the EU and improving the functioning of the instrument in place for declaring and remitting the tax due on distance sales by** introducing a single VAT registration. This means improving and extending the existing One Stop Shop, Import One Stop Shop and reverse charge schemes.

**In line with the implementation of this package, in December 2022 the Commission presented a proposal for VAT rules for the digital age[121], a proposal for a Council Regulation containing the VAT administrative cooperation arrangements needed for the digital age[122] and a proposal for a Council Implementing Regulation as regards information requirements for certain VAT schemes[123].** The purpose of the VAT reporting (recapitulative statements) in digital form and in real time on the basis of electronic invoicing is to reduce administrative and compliance costs and at the same time reduce VAT fraud. This reporting is to be introduced by a new information system. The European electronic invoicing standard will be the standard method for the purposes of the digital VAT reporting requirements. The changes proposed for the platform economy will make platforms responsible for paying the tax due under certain conditions, rather than the small providers using the platform. This will improve VAT collection as many of these providers are unaware of their potential VAT obligations. The improvement of the Import One Stop Shop in this proposal is limited to the mandatory establishment of this regime for platforms.

## E.1.2 DEVELOPMENT OF BUDGET REVENUES IN THE CZECH REPUBLIC IN 2022

In 2022, the VAT Act was amended by Act No 93/2022 Coll.[124], which implemented the directive regulating VAT exemption for selected types of goods in connection with the COVID-19 pandemic[125] and the directive concerning defence efforts within the EU[126] into the Czech legal system. With effect from 27 April 2022, the VAT exemption applies retroactively from 1 January 2021 to purchases made in connection with COVID-19 by the European Commission or bodies such as the European Medicines Agency (EMA), the European Centre for Disease Prevention and Control (ECDC) or the Health Emergency Preparedness and Response Authority. Following the EU's Common Security and Defence Policy (CSDP), Member States have been obliged to introduce an exemption for goods and services provided to the

117 *Action Plan for Fair and Simple Taxation Supporting the Recovery Strategy,* COM(2020) 312 final of 15 July 2020.

118 2022 Commission Work Programme: *Making Europe stronger together* (Annex II, paragraph 20), COM(2021) 645 final of 19 October 2021.

119 VAT reporting obligations relate to the obligation of VAT-registered businesses to report their transactions to the tax authorities on a regular basis in order to monitor tax collection.

120 "Platform economy" describes a multi-party model of transactions involving three or more parties. In these transactions, the online platform facilitates the connection between two or more different, but interdependent, groups of users. In these interactions, one of the parties to the platform (provide-rs or originators) may offer services to the other party (the consumer) in exchange for monetary consideration. The platform usually charges a fee for facilitating transactions.

121 Proposal for a Council Directive amending Directive 2006/112/EC as regards VAT rules for the digital age, COM(2022) 701 final of 8 December 2022.

122 Proposal for a Council Regulation amending Regulation (EU) No 904/2010 as regards the VAT administrative cooperation arrangements needed for the digital age, COM(2022) 703 final of 8 December 2022.

123 Proposal for a Council Implementing Regulation amending Implementing Regulation (EU) No 282/2011 as regards information requirements for certain VAT schemes, COM(2022) 704 final of 8 December 2022.

124 Act No 93/2022 Coll., amending Act No 353/2003 Coll., on excise duties, as amended, and Act No 235/2004 Coll., on value added tax, as amended.

125 Council Directive (EU) 2021/1159 of 13 July 2021 amending Directive 2006/112/EC as regards temporary exemptions on importations and on certain supplies, in response to the COVID-19 pandemic.

126 Council Directive (EU) 2019/2235 of 16 December 2019 amending Directive 2006/112/EC on the common system of value added tax and Directive 2008/118/EC concerning the general arrangements for excise duty as regards defence efforts within the Union framework.

Member States' armed forces from 1 July 2022 if they participate in the CSDP. The Act also implemented new EU legislation[127] on alcohol and alcoholic beverages taxes into the Excise Duties Act[128] and extended the provisions governing the regime for North Atlantic Treaty and Partnership for Peace forces to include the armed forces of the MS participating in the defence efforts undertaken to implement the CSDP.

The Excise Duties Act was further amended[129], including in the area of mineral oil tax. The main reason were the Government's efforts to mitigate the impact of the energy crisis reflected in fuel prices (a consequence of the invasion of the territory of Ukraine by the armed forces of the Russian Federation) on business entities and citizens of the Czech Republic. Excise duty on diesel fuel and unleaded petrol was temporarily reduced by CZK 1.50 per litre from 1 June 2022 to 30 September 2022. Another amendment[130] extended the current reduced excise duty rate on diesel until the end of 2023.[131] This reduction in excise duty was technically the highest possible as permitted to the Czech Republic by the EU Directive[132] laying down mandatory minimum rates of excise duties.

Part of the 2023 tax package[133] is an increase in the turnover limit for mandatory VAT registration from CZK 1 million to CZK 2 million and a new regulation of the flat-rate income tax, which will allow self-employed persons with annual income up to CZK 2 million to apply it from 2023. An important change in income taxes for 2023 are the new income limits applicable to, for example, the obligation to file a tax return. In practice, this means, for example, that employees will be obliged to file a tax return for 2023 if their other income exceeds CZK 20,000. In the VAT Act[134], the tax package also introduces mainly changes related to the control report, e.g. exclusion or reduction of penalties in certain cases or the possibility to respond to a request to submit a subsequent control report within 17 days of delivery to the data box, regardless of the moment of logging into the data box.

The tax package also introduces a windfall tax. The temporary extraordinary tax will apply for a period of three years from 1 January 2023 (i.e. 2023–2025) for extraordinarily profitable companies in the energy production and trading, banking, petroleum, and fossil fuel extraction and processing sectors. The windfall tax will operate as a 60% tax surcharge applied to the excess profits of these companies, determined as the difference between the tax base in 2023–2025 and the average of the tax bases for the last four years of the previous period (i.e. 2018–2021) increased by 20%.

In the period from 27 March 2020 to 31 December 2022, the electronic records of sales[135] (ERS) system was suspended in the sense that it was no longer mandatory. The ERS system was therefore in operation until 31 December 2022 and could be used, but on a completely voluntary basis. Natural persons who voluntarily recorded sales in 2022 were no longer allowed to apply the sales registration discount in their 2022 tax return. The Electronic Records of Sales Act was repealed with effect from 1 January 2023[136]. The ERS system is no longer in use as of 1 January 2023. The discontinuation of the ERS system may have caused problems with the internal recording of sales by cash registers using the ERS system because the cash register does not receive a fiscal identification code from the tax administrator.

127 Council Directive (EU) 2020/1151 of 29 July 2020 amending Directive 92/83/EEC on the harmonization of the structures of excise duties on alcohol and alcoholic beverages.

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

129 Act No 131/2022 Coll., amending Act No 353/2003 Coll., on excise duties, as amended.

130 Act No 286/2022 amending Act No 353/2003 Coll., on excise duties, as amended.

131 Act No 234/2023 Coll. subsequently shortened the effective period of the reduced excise duty rate on diesel fuel to 31 July 2023 in view of the need to consolidate public budgets.

132 Council Directive 2003/96/EC restructuring the Community framework for the taxation of energy products and electricity.

133 Act No 366/2022 Coll., amending Act No 235/2004 Coll., on value added tax, as amended, Act No 586/1992 Coll., on income taxes, as amended, and certain other laws.

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

135 Act No 112/2016 Coll., on records of sales.

136 Act No 458/2022 repealing Act No 112/2016 Coll., on the records of sales, as amended, and amending and repealing other related regulations.

With effect from 1 July 2022, the Income Tax Act[137] has been amended[138] to provide tax support for low emission vehicles. The amendment reclassified electric and plug-in hybrid vehicle charging stations to a lower depreciation group and reduced the value of the non-cash income for employees who can use a low-emission vehicle for private purposes from 1% of the entry price to 0.5% of the entry price. In response to the rise in fuel prices, the Czech Government approved a significant reduction of vehicles subject to road tax with this amendment[139]. Due to the obligation to preserve the functioning of the road tax within the framework of the mandatory implementation of the *Eurovignette* Directive[140], this regulation has been subject to substantive and parametric changes so that only trucks over 3.5 tonnes and their trailers remain subject to the road tax. However, the amount of the tax may be set under certain conditions for heavy goods vehicles with a maximum technically permissible laden weight of at least 12 tonnes and their trailers with a maximum technically permissible weight of at least 12 tonnes.

## E.2 EXPENDITURE CO-FINANCED BY THE EUROPEAN STRUCTURAL AND INVESTMENT FUNDS

The cohesion policy, financed through the ESIF, has gradually become the EU's main spending policy, mainly aimed at deepening the economic integration of less developed regions. In the context of the significant expansion of the number of Member States since 2004, further reforms of the cohesion policy were associated in particular with re-channelling of expenditure to the new MS.

### E.2.1 PROGRAMMING PERIOD 2014–2020

Detailed documents on the following passages of the *EU Report 2023* (specifically on paragraphs E.2.1 to E.2.3) were prepared at the request of the SAO by the National Coordination Authority, which is integrated into the organisational structure of the MoRD[141]. In accordance with its role, the NCA places particular emphasis on the setting of the programming period as a whole and subsequently on the proper drawdown of the allocation and the fulfilment of the set indicators. Although the NCA does not overview the drawdown of EU budget funds as an audit authority and does not put emphasis on implementation shortcomings, its data are not and cannot be perceived as contradictory to the SAO's findings.

#### E.2.1.1 MEETING THE EXPECTED OBJECTIVES

With the **2014–2020 programming period** almost over in the timeframe covered by this EU report (i.e. April 2022 to March 2023), the implementing authorities have focused on effectively drawing down all available funds. In 2022, the Czech Republic ranked among the leaders in the rate of drawdown of the allocation compared to the other MS, with the annual setting of realistic drawdown forecasts and optimal planning of activities contributing to the smooth drawdown.

137 Act No 586/1992 Coll., on income taxes.
138 Act No 142/2022 amending Act No 586/1992 Coll., on income taxes, as amended, Act No 16/1993 Coll., on road tax, as amended, and Act No 201/2012 Coll., on protection of the air, as amended.
139 Act No 16/1993 Coll., on highway tax.
140 Directive (EU) 2022/362 of the European Parliament and of the Council of 24 February 2022 amending Directives 1999/62/EC, 1999/37/EC and (EU) 2019/520, as regards the charging of vehicles for the use of certain infrastructures.
141 Coordination of EU Funds, International Relations and Tourism Section

Nevertheless, the closure of programmes has been influenced by a combination of ongoing crises, to which the Commission has responded with legislative adjustments. Following adjustments involving the CRII[142] and CRII+[143] investment initiatives in response to COVID-19 in 2020, CARE[144], CARE+ and FAST-CARE[145] were adopted by the Commission in 2022 in response to the conflict in Ukraine and the related refugee crisis. The latest proposal to amend the FAST-CARE Regulation was initiated by the Czech Republic and was discussed and approved in record time during the Czech Presidency of the Council. The relaxation of the rules related to the closure of programmes at European level allows to focus on the specific problems of beneficiaries, mainly related to the rising prices of inputs and the consequent delays in the implementation of projects, which in turn helps the programmes to finish the drawdown of funds.

Although the targets were met for most of the themes, there are also areas with certain challenges. Energy, especially energy efficiency, has long been a problem area. Here, however, the interest in the implementation of the measures has increased significantly due to the sharp increase in energy prices and the surplus in the volume of registered applications is being used as a reservoir of projects for the new programming period.

In the area of employment, despite significant financial support and its successful implementation, gender gaps in employment have remained significant for a long time and the capacity of pre-school care facilities also remains insufficient in this context. This theme is therefore a particular focus of PP21+.

The fact that the substantive objectives of the partnership agreement (PA) have been met is evidenced, for example, by the OP RDE projects that have contributed to the construction, expansion or modernisation of infrastructures, both research centres of excellence (89 infrastructures and workplaces) and infrastructures for research-oriented study programmes (216 infrastructures). More than 6,600 students have used these infrastructures for study purposes. The projects also contributed to the involvement of more than 1,600 workers (measured in FTE) in newly created jobs in the supported entities. By the end of 2022, schools have used a total of 3,345 “support personnel measures” in the area of inclusion, e.g. the services of school psychologists and special pedagogues.

In the area of improving key competences, 524 training programmes for teachers were created and 1,811 other services were provided to teachers (mentor, supervisor). A system of strategic management at national and regional level was supported. To increase the relevance of vocational training for the labour market, 71 school curricula were modified. According to the set criteria, the quality of 10,606 schools has improved. Infrastructure was also supported for 1,939 schools depending on their needs.

In order to improve water quality by reducing the amount of discharged pollution, OPEn14+ has supported over 400 projects worth CZK 11.5 billion aimed at the construction or reconstruction of 245 wastewater treatment plants with a capacity of about 38,000 equivalent inhabitants and the new construction of 2,000 km of sewers. Almost 90,000 heat source replacements have already been carried out under the boiler subsidies to reduce air pollution and the target is almost reached. Measures to reduce emissions have already been implemented at 241 stationary sources.

The focus of the development of the road and rail network financed from the OPT14+ and IROP14+ programmes was on building the missing infrastructure of motorways and modernising railways with an emphasis on reducing the negative effects of transport on the environment. Thanks to EU funds, the key transport network of the Czech Republic was expanded by 188 km of new motorways and class I roads. 378 km of the railway network were modernised. A total of 26 km of roads of regional importance were newly built and almost 900 km were reconstructed.

142 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 the healthcare systems of Member States and in other sectors of their economies in response to the COVID-19 outbreak (Coronavirus Response Investment Initiative).

143 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 Investments Funds in response to the COVID-19 outbreak.

144 Regulation (EU) 2022/562 of the European Parliament and of the Council of 6 April 2022 amending Regulations (EU) No 1303/2013 and (EU) No 223/2014 as regards Cohesion’s Action for Refugees in Europe (CARE).

145 Regulation (EU) 2022/2039 of the European Parliament and of the Council of 19 October 2022 amending Regulations (EU) No 1303/2013 and (EU) 2021/1060 as regards additional flexibility to address the consequences of the military aggression of the Russian Federation FAST (Flexible Assistance for Territories) – CARE.

Within the framework of the OPEm and OP PGP, the establishment and operation of 2,466 children's groups with a total capacity of 43,093 places was supported. IROP14+ supported the expansion of the capacity of existing kindergartens by an additional 3,388 places.

Social exclusion, which is a persistent social phenomenon, is addressed within the OPEm by comprehensive support for people at risk, which includes their access to employment, education, housing, healthcare, social protection and opportunities to exercise their rights. The number of such people at risk provided with support has already exceeded 70,000. Training activities to support public administration expertise funded by EU funds focused primarily on communication with citizens, legislation, and cyber security. Most of the nearly 22,000 participants successfully completed their training.

Achievement of one of the OPEm objectives was also recorded in the area of increasing accessibility of social and health services. The main benefits identified are mainly in improving the way and conditions of providing social services, the environment of the provided services and their availability. More than 145,000 people have received support. IROP14+ continued to support the infrastructure of social services as well as the modernisation of equipment in health care facilities, with 142 workplaces supported. In the area of social housing (IROP14+ and OP PGP) almost 2,000 flats have been completed so far.

### E.2.1.2 CURRENT STATE OF PP14+ PROGRAMMES DRAWDOWN

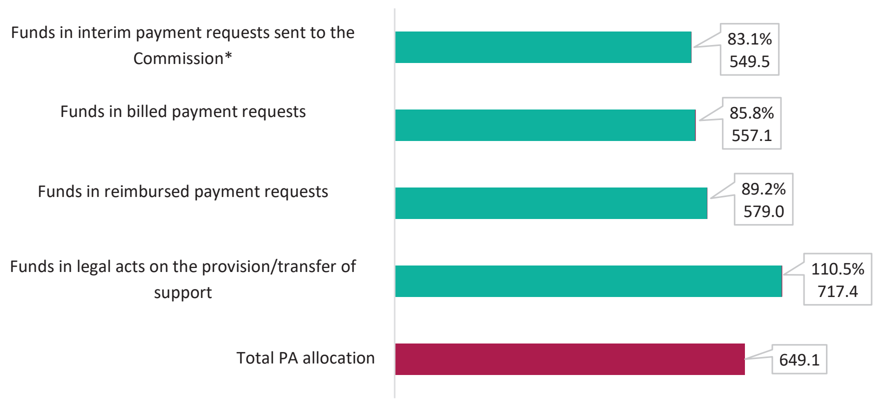
**By the end of March 2023, legal documents on granting/transferring support totalling CZK 717.4 billion had been issued under the announced calls, representing 110.5% of the total allocation for the programming period. OPF14+ had the highest share of funding in legal documents issued in relation to the total programme allocation, followed by OP TA14+ and OP EIC.**

By the end of March 2023, CZK 579.0 billion had been paid to beneficiaries, i.e. 89.2% of the total allocation. The largest amount of funds in relation to the total programme allocation was paid out in OP RDE, OP TA14+ and OPEm.

The volume of funds billed in payment requests at the end of March 2023 amounted to CZK 557.1 billion, i.e. 85.8% of the total allocation. Again, the highest billing of funds in relation to the total programme allocation occurred in OP TA14+, OP RDE and OPEm.

By the end of March 2023, payment requests worth CZK 549.5 billion, i.e. 83.1% of the total allocation, had been sent to the Commission (this figure takes into account financial corrections made in the context of the closure of accounts).

**Chart 12: PA utilisation status (EU contribution) as at 31 March 2023** **(in CZK billion)**




* This figure takes into account financial corrections in the context of the closure of accounts.
Source: MS2014+, MA, MoF-PCA, as at 31 March 2023.
Note: The graph does not cover programmes under the *European territorial cooperation objective*.

**Table 15: Cumulative drawdown of individual programmes in PP14+ as at 31 March 2023 (EU contribution)**
**(in CZK billion)**

| Programme | Fund | Number of legal documents* | Funds in legal acts on the provision/transfer of support | | Funds in reimbursed payment requests | | Funds in billed payment requests | |
|---|---|---|---|---|---|---|---|---|
| | | | CZK billion | % of total allocation | CZK billion | % of total allocation | CZK billion | % of total allocation |
| **OP EIC** | ERDF | 13,519 | 113.9 | 116.9 | 82.8 | 84.9 | 79.7 | 81.7 |
| **OP RDE** | ERDF+ESF | 21,116 | 79.8 | 113.0 | 75.9 | 107.5 | 67.8 | 96.0 |
| **OPEm** | ESF (+YEI) | 9,418 | 68.7 | 112.8 | 58.5 | 96.0 | 57.2 | 93.9 |
| **OPT 14+** | ERDF+CF | 313 | 134.0 | 115.3 | 108.8 | 93.6 | 104.8 | 90.1 |
| **OPEn 14+** | ERDF+CF | 9,673 | 68.2 | 96.8 | 58.1 | 82.4 | 57.7 | 81.9 |
| **IROP 14+** | ERDF | 12,692 | 163.8 | 110.4 | 113.3 | 76.3 | 113.6 | 76.5 |
| **OP PGP** | ERDF+ESF | 1,607 | 5.7 | 112.0 | 4.8 | 94.7 | 4.3 | 84.7 |
| **OP TA14+** | CF | 264 | 6.7 | 123.9 | 5.4 | 99.7 | 5.4 | 100.1 |
| **RDP14+** | EAFRD | 386,994 | 75.5 | 102.3 | 70.8 | 95.9 | 66.0 | 89.5 |
| **OPF14+** | EMFF | 1,237 | 1.0 | 132.3 | 0.7 | 90.7 | 0.7 | 90.7 |
| Total | ERDF | 29,651 | 365.9 | 112.9 | 272.3 | 84.1 | 262.4 | 81.0 |
| | CF | 7,821 | 169.4 | 108.1 | 142.0 | 90.6 | 140.1 | 89.5 |
| | ESF (+YEI) | 31,130 | 105.6 | 112.5 | 93.3 | 99.4 | 87.9 | 93.6 |
| | EAFRD | 386,994 | 75.5 | 102.3 | 70.8 | 95.9 | 66.0 | 89.5 |
| | EMFF | 1,237 | 1.0 | 132.3 | 0.7 | 90.7 | 0.7 | 90.7 |
| **Total** | | **456,833** | **717.4** | **110.5** | **579.0** | **89.2** | **557.1** | **85.8** |

* The total number of projects with a legal document granting/transferring support also includes area measures (including commitments from previous years) under the RDP.

Source: MoRD data (MS2014+, MA, as at 31 March 2023), April 2023.
Note: The funds billed may be higher than the funds disbursed in the case of programmes where ex-post funding is applied, as in this type of financing the funds are only disbursed some time after they are billed. In the case of financial instruments, the funds billed cover the funds provided to final beneficiaries (not the contribution to the financial instrument). Differences in the table totals are due to rounding to one decimal place.

## E.2.2 PROGRAMMING PERIOD 2021–2027

**By mid-2022, the negotiations on the PA and almost all programming documents for PP21+ were completed. OPFT was the last to be approved by the Commission at the end of September 2022. The Czech Republic was the second Member State to have all programmes approved. By the end of 2022, calls have already been announced in all programmes with a total volume of CZK 295.5 billion (i.e. 57.6% of the total allocation). The progress of implementation of support has been brisk from the very beginning, especially in some programmes and areas such as OPEm+, OP JAK and OPEn, or the areas of social inclusion, education and renewable energy.**

In 2022, in the context of dealing with the energy crisis, the MoRD-NCA proposed a reallocation from the IROP to OPEn (EUR 120 million in ERDF funding) to support energy efficiency and adaptation to climate change. This reallocation was approved by the Government on 2 November 2022, subsequently by the programme monitoring committees and sent to the Commission for approval.

### E.2.2.1 CURRENT STATE OF PP21+ PROGRAMMES DRAWDOWN AS AT 31 MARCH 2023

**By the end of March 2023, applications for support totalling CZK 186.9 billion had been registered under the calls announced under PP21+, representing 37.5% of the total allocation. The highest share of registered funds in the total allocation of the programme was reported by OP JAK, followed by OPEn and OPEm+.**

By 31 March 2023, legal documents on granting/transferring support totalling CZK 30.0 billion had been issued, representing 6.0% of the total allocation for the programming period. The highest share of issued legal acts in relation to the total allocation was reported under OPEm+, followed by OP JAK and OPEn.

Approximately CZK 7.0 billion had been paid to beneficiaries, i.e. 1.4% of the total allocation. Here too, the highest share was reported under OP JAK, OPEm+ and OPEn.

No interim payment requests have been sent to the Commission by 31 March 2023.

The status of drawdown of the allocation (EU contribution) for individual OPs from PP21+, including the designation of the relevant EU fund and the implementation of the n+3 rule, is apparent in the following tables.

**Table 16: Cumulative PP21+ drawdown according to the data presented in MS2021+ as at 31 March 2023 (EU contribution)** **(in CZK billion)**

| Programme | Fund | Funds in registered applications for support | | | Funds in legal acts on the provision/ transfer of support | | | Funds in reimbursed payment requests | |
|---|---|---|---|---|---|---|---|---|---|
| | | Number | CZK billion | % of total allocation | Number | CZK billion | % of total allocation | CZK billion | % of total allocation |
| **OP TAC** | ERDF | 1,222 | 19.4 | 26.2 | 0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **OP JAK** | ERDF+ESF+ | 6,214 | 40.9 | 67.9 | 4 139 | 9.3 | 15.4 | 4.2 | 7.1 |
| **OPEm+** | ESF+ | 2,008 | 18.7 | 54.3 | 309 | 7.9 | 22.8 | 1.6 | 4.7 |
| **OPT** | ERDF+CF | 18 | 14.7 | 12.8 | 2 | 0.7 | 0.6 | 0.0 | 0.0 |
| **OPEn** | ERDF+CF | 1,262 | 32.8 | 58.0 | 187 | 6.4 | 11.3 | 1.1 | 1.9 |
| **IROP** | ERDF | 2,491 | 46.5 | 41.0 | 189 | 5.6 | 4.9 | 0.0 | 0.0 |
| **OP TA** | ERDF+CF | 31 | 0.5 | 9.1 | 18 | 0.2 | 4.2 | 0.0 | 0.0 |
| **OPF** | EMFAF | 130 | 0.1 | 10.3 | 0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **OPFT** | JTF | 81 | 13.3 | 34.3 | 0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total | ERDF | 3,864 | 96.6 | 39.5 | 210 | 8.2 | 3.4 | 0.0 | 0.0 |
| | ESF+ | 8,102 | 29.5 | 51.5 | 4 431 | 14.7 | 25.5 | 5.8 | 10.2 |
| | CF | 1,280 | 47.4 | 30.2 | 203 | 7.1 | 4.6 | 1.1 | 0.7 |
| | EMFAF | 130 | 0.1 | 10.3 | 0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | JTF | 81 | 13.3 | 34.3 | 0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total** | | **13,457** | **186.9** | **37.5** | **4,844** | **30.0** | **6.0** | **7.0** | **1.4** |

Source: MoRD data (MS2021+, as at 31 March 2023), April 2023.
Note: Differences in the table totals are due to rounding to one decimal place.

**Table 17: Compliance with the n+3 rule for 2025 as at 31 March 2023 (EU contribution)** **(in EUR million)**

| Programme | Allocation until 2022 (n+3 rule) | Advance payments (2021–2025) | Payment requests sent | Fulfilment of the limit (in %) | Remains to be used by 2025 |
|---|---|---|---|---|---|
| **OP TAC** | 535.70 | 109.76 | 0.00 | 20.5 | 425.94 |
| **OP JAK** | 382.08 | 89.27 | 0.00 | 23.4 | 292.81 |
| **OPEm+** | 249.14 | 51.05 | 0.00 | 20.5 | 198.09 |
| **OPT** | 882.82 | 169.89 | 0.00 | 19.2 | 712.93 |
| **OPEn** | 408.31 | 83.66 | 0.00 | 20.5 | 324.66 |
| **IROP** | 820.43 | 168.10 | 0.00 | 20.5 | 652.33 |
| **OP TA** | 37.63 | 7.71 | 0.00 | 20.5 | 29.92 |
| **OPF** | 5.82 | 0.75 | 0.00 | 12.9 | 5.07 |
| **OPFT** | 580.47 | 41.04 | 0.00 | 7.1 | 539.44 |
| **Total** | **3,902.41** | **721.23** | **0.00** | **X** | **3,181.18** |

Source: MoRD data (MF-PA, as at 31 March 2023), April 2023.
Note: Differences in the table totals are due to rounding to two decimal places.

### E.2.2.2 MAIN THEMES OF THE PROGRAMMING PERIOD 2021–2027 AT THE PARTNERSHIP AGREEMENT LEVEL

**Territorial cohesion**

Reducing the disparities between the level of development of regions remains the basic principle of the cohesion policy for PP21+, taking into account the most disadvantaged regions, such as rural areas and areas affected by industrial change (e.g. the shift away from coal).

The aim is not to slow down the growth of the faster growing areas, but rather to find the potential of each region and in effect improve the quality of life of its inhabitants. The principles of sustainable development and environmental limits must also be respected in this effort.

The basic outlines and areas of support under the state's regional policy at the level of the Czech Republic are described in the *Regional Development Strategy of the Czech Republic,* which is also a key basis for the implementation of the objective of economic, social and territorial cohesion and the territorial dimension of EU funds in the Czech Republic. The National Standing Conference is the top platform for coordination of the territorial dimension at the national level and the Regional Standing Conferences at the regional level.

The purpose of applying the territorial dimension is to provide greater support or possibly support with other instruments to projects in areas that have the greatest potential for a certain type of intervention (e.g. metropolitan areas) or are disadvantaged in certain respects and require either increased support or a specific type of instrument (e.g. economically and socially vulnerable areas). Another objective of the territorial dimension is to help reduce regional disparities and thus improve the overall quality of life in the regions.

**Green transition**

In view of the growing importance of the fight against climate change and in line with the EU's commitments to the *Paris Agreement* and the United Nations Sustainable Development Goals, the commitment of MFF and NGEU expenditure in support of climate objectives has been increased to 30% for the period 2021–2027. Of the total allocations of the individual funds, the commitment accounts for about 37% of spending from the CF, 30% from the ERDF and 30% from *InvestEU (Investment Plan for Europe)*. The transition to a climate-neutral and circular economy is one of the EU's most important policy objectives. However, regions that are heavily dependent on fossil fuels for their energy use or on sectors with high greenhouse gas emissions will suffer greater social, economic and environmental impacts. For the transition to be successful and socially acceptable for all, the JTF is to be established as one of the pillars of the mechanism for a just transition within the framework of the cohesion policy. This fund aims to mitigate the adverse effects of climate transition by supporting the most affected areas and affected workers and promoting a balanced socio-economic transition. Commitments paid from the JTF are therefore automatically counted as 100% expenditure on combating climate change.

The indicative contribution to support the achievement of climate change objectives is set out in the PA on the basis of the types of interventions and the corresponding allocations specified in the programmes. The Czech Republic and the Commission will regularly monitor compliance with these objectives on the basis of the TEE reported by beneficiaries to the managing authority, broken down by type of intervention. If monitoring demonstrates insufficient progress towards the objective, both parties will agree on corrective actions at annual review meetings. If insufficient progress is made towards the national objective of combating climate change by 31 December 2024, the Czech Republic will take this into account in its mid-term review.

The energy sector in the EU is currently undergoing turbulent developments. The EU's ambitions in this area were set out in the Fit for 55 climate package and negotiations are currently underway to finalise the legislation contained therein. The EU's goal is to reduce greenhouse gas emissions by at least 55% by 2030 and make Europe a climate-neutral continent by 2050. The war in Ukraine has sped up the intention of a faster transition to clean energy and the phasing out of energy imports from Russia in the form of the proposed *REPowerEU* plan. In the Czech Republic, updates of strategic documents such as the *Czech National Energy and Climate Plan,* the *State Energy Policy,* the *Climate Protection Policy* and others are being prepared in relation to the current changes in the energy sector.

EU funds, in conjunction with the policies and objectives set out in the strategic documents, will support energy activities, in particular in the areas of increasing energy efficiency, developing renewable energy sources, modernising and increasing the capacity of distribution and transmission networks, including energy storage. Support for the energy transition should be directed towards efficient and innovative measures to ensure optimal use of the allocated funds.

Energy savings are seen as a priority measure by the EU under the "Energy Efficiency First" principle; at the same time, the EU is increasing its ambition to increase the share of renewables in energy consumption. The development of renewables practically means decentralisation of energy production and in this context distribution networks need to be modernised and their capacity increased; the emerging community energy sector is an example of this new situation. In particular, transmission networks should seek to address sufficient capacity, security of supply and functional interconnection of the internal and international markets.

In addition to EU funds, the energy sector in the Czech Republic is also supported through other instruments, in particular the *Modernisation Fund* and the *National Recovery Plan.*

**Digital transformation**

In the wake of the COVID-19 pandemic, the EU has become aware of its vulnerability and lack of digital sovereignty. The Commission has therefore decided to make the new decade Europe's "digital decade", with the aim of strengthening its digital sovereignty, cybersecurity and a clear focus on data, technology and infrastructure. Within the PA, this issue is addressed under the IROP, where there has been a significant increase in the interest in calls for proposals related to cybersecurity over the past year. In order to support eGovernment and accelerate the digitisation of the state administration, the Czech Digital and Information Agency was established, which started its activities in 2023 and takes over matters related to digitalisation from the Ministry of the Interior, including the activities of the Department of the eGovernment Chief Architect.

To support the digitalisation of businesses, the *Platform for Digitalisation of the Economy* has been established under the NRP. The platform coordinates the interconnection of all actors in the national digital ecosystem, such as European and national digital innovation centres, centres of excellence in artificial intelligence, national competence centres for high-performance computing and cybersecurity, European reference test and experimentation facilities, innovation centres and the clients of all these centres.

**European Pillar of Social Rights**

The *European Pillar of Social Rights* (EPSR), and in particular its Action Plan proposing concrete measures, is the framework for the social themes of the new programming period. EU funding is available for the implementation of the EPSR, notably under ESF+, which funds projects that promote social inclusion, fight poverty and invest in people. However, the ERDF and JTF and, outside the cohesion policy, the NRP also contributes to these objectives.

OPEm+, OP JAK, OPFT and partly also IROP contribute to the fulfilment of the EPSR objectives.

Employment objectives:

- Increasing the employment rate for people aged 20–64 to 83%;
- Establishing an additional 7 500 places in pre-school groups for children of pre-school age;
- Reducing the share of young people aged 15–29 who are not in employment, education, or training (NEET[146]) to 9%.

Through the IROP and OPEm+ programmes, there will be a further increase in places in kindergartens (9,525 new places) and children's groups (5,175 new places). Support will also be complemented by possible investments for children's groups through the NRP (CZK 7 billion available). Other measures to improve the position of women on the labour market, such as support for flexible forms of work, will be implemented from the OPEm+.

As regards reducing the NEET rate, measures to reduce inequalities and inclusion of pupils with socio-economic disadvantages through inclusion in education (OP JAK) will continue. A concrete form of support is, for example, the provision of a school assistant or a special pedagogue within the framework of projects implemented directly by schools, also called "templates". A coordinated approach to the socially excluded, which combines efforts in the area of employment services, the education system and social services (OP JAK, OPEm+), will also be a key form of support here. The objectives for the socially excluded group are defined as follows:

In the area of skills:

- Increasing the proportion of adults participating in training in the last 12 months to 45%;
- Increasing the proportion of people aged 16–74 with at least basic digital skills to 80%;
- Reducing the rate of early school leaving to 5.5%.

Once again, both in-company training for employees and self-employed persons will be supported, as well as training in the form of retraining. All skill types, except for digitalisation and education for *Industry 4.0,*[147] will be supported by EU funds. Digitalisation and education for *Industry 4.0* will be synergistically supported from the NRP. As regards digital skills, support for their improvement at all levels of the education system, including the aforementioned further education, will be implemented mainly through the NRP.

In the area of social inclusion:

- Reducing the number of people at risk of poverty or social exclusion by 100,000 by 2030;
- Reducing the number of children (0–17 years) at risk of poverty or social exclusion by 33,000 by 2030.

Supporting the creation of suitable job opportunities will ensure an individual and comprehensive approach to disadvantaged groups in the labour market. In order to fulfil this objective, the social inclusion of socially excluded persons and groups will be supported in particular through social services, services for families and children and services at the borderline between social and health work. Support is also to be directed towards social housing, prevention programmes and tackling indebtedness and over-indebtedness of individuals and households. As regards children, social work will focus on supporting families with children, with an emphasis on children's needs, and on supporting other services and activities to prevent and address early school leaving. Measures will be aimed at improving access to effective and free pre-school and school education, to healthy school meals, to adequate and healthy nutrition and to adequate housing for children in need.

146 "Not in Education, Employment, or Training".

147 The *Industry 4.0* initiative was developed by the Ministry of Industry and Trade with the aim of maintaining and strengthening the competitiveness of the Czech Republic at the onset of the fourth industrial revolution.

**Integrated instruments**

In the 2021–2027 programming period, the *Integrated Territorial Investment* tool will address topics such as stimulating cultural capital and tourism, supporting pre-application research, circular economy, transport with a focus on improving its safety and reducing its carbon footprint, combating drought and adapting to climate change.

**Administrative capacity**

The Commission considers stable and qualified administrative capacity as one of the conditions for quality implementation of aid.

With regard to the currently overlapping two programming periods, the staff in the implementation structure is smoothly transitioning from working on PP14+ to PP21+. This ensures better continuity, but on the other hand there is a potential risk of overloading staff if human resources are insufficient. Despite the relatively high stability, the administrative capacity reserves for new or unexpected tasks are perceived by the implementation structure as insufficient and in many programmes the administrative capacity is at the very limit of its capacity in a situation where new responsibilities are constantly being added.

### E.2.3 REACT-EU FUNDING TO ADDRESS THE ECONOMIC IMPACT OF THE COVID-19 PANDEMIC

Under ***REACT-EU,*** the EU's instrument to support the recovery from the crisis caused by the Covid-19 pandemic, the Czech Republic was allocated a total of approx. EUR 1,151.8 million. The allocation was divided into two tranches. The first tranche amounting to approx. EUR 834.7 million was transferred to IROP14+ on the basis of Czech Government resolution No 811 of 27 July 2020. The related request for revision of the programme was approved by the Commission on 27 May 2021. The financial volume of the second tranche was fixed on the basis of GDP and unemployment data for the Czech Republic and the EU-27 available on 19 October 2021 and amounted to approx. EUR 317.1 million. Based on Government resolution No 983 of 5 November 2021, this allocation was split between IROP14+ (EUR 313,203,897) and the *Operational Programme for Food and Material Assistance*[148] (OP FMA) (EUR 3,889,688). The request for revision of IROP for the second tranche was sent to the Commission on 17 December 2021 (approved in January 2022).

The additional funding can be used exclusively for operations supporting recovery from the COVID-19 pandemic and for preparing for a green, digital and resilient recovery by investing in operations contributing to the transition to digital and green economy. Expenditure is eligible from 1 February 2020 and funded projects must be completed by the end of 2023.

**Table 18: Overview of the use of the additional allocation for the Czech Republic provided under REACT-EU**

**(in EUR million)**

| Programme | Managing authority | Allocation per year | | Supported activities |
|---|---|---|---|---|
| | | 2021 | 2022 | |
| IROP14+ | MoRD | 834.78 | 313.20 | Support for health, integrated rescue system and social infrastructure, additional technical assistance from the programme |
| OP FMA (FEAD) | MoLSA | - | 3.89 | Food and material assistance to the most vulnerable (food banks, etc.) |

Source: documents prepared by the MoRD–NCA at SAO's request in April 2023.

148 OP FMA draws funding from the *Fund for European Aid to the Most Deprived* (FEAD). These funds are used to help the most vulnerable people (homeless people, single parents, seniors etc.). The aid is of a non-financial nature, mostly food, hygiene products etc. In the Czech Republic, the Ministry of Labour and Social Affairs is responsible for drawdown from the FEAD. The FEAD programme is not part of the EU funds and is therefore not a direct part of the PA.

**Table 19: REACT-EU utilisation status as at 31 March 2023 (EU contribution)**

| IROP | Total allocation | Funds | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | in registered applications for support | | | in legal acts on the provision/ transfer of support | | | in reimbursed payment requests | | in billed payment requests | |
| | CZK million | Number | CZK million | % of allocation | Number | CZK million | % of allocation | CZK million | % of allocation | CZK million | % of allocation |
| REACT-EU | 27,207.0 | 728 | 33,351.1 | 122.6 | 616 | 29,158.0 | 107.2 | 4,599.9 | 16.9 | 4,745.8 | 17.4 |
| Technical assistance | 28.0 | 3 | 49.9 | 178.2 | 1 | 18.8 | 67.1 | 1.7 | 6.1 | 1.7 | 6.1 |
| **Total** | **27,235.0** | **731** | **33,401.0** | **122.6** | **617** | **29,176.9** | **107.1** | **4,601.6** | **16.9** | **4,747.5** | **17.4** |

Source: MS2014+.

European funds have also responded to the situation caused by the war crisis in Ukraine. Within IROP14+, a **new OP 8 *Support for refugees from Ukraine*** was established, to which unused funds in the amount of EUR 10.74 million were transferred. The revision of the programme was approved by the Commission on 2 December 2022. The support is aimed at reimbursing the contribution for “solidary households”.

In April 2022, two extraordinary calls for support for the establishment and operation of children’s groups in the amount of CZK 400 million were announced under OPEm+. From the OPEm+ allocation, legal acts were concluded for the provision of CZK 340 million for support of social housing (not only for refugees) and CZK 200 million for social inclusion of refugees.

In response to the crisis situation, where there is a greater demand for aid from food banks, the OPEn has announced a call for CZK 200 million in 2022 towards increasing their capacity.

## E.3 *MODERNISATION FUND* AND THE *NATIONAL RECOVERY PLAN*

### E.3.1 *MODERNISATION FUND*

The *Modernisation Fund* was established by Directive 2003/87/EC[149]. Its implementation is intended to contribute to achieving the objectives of the European Green Deal by promoting an environmentally and socially just transformation. Directive 2003/87/EC has been transposed to the Czech legislation through Act No 1/2020 Coll.[150] The implementing rules for Directive 2003/87/EC are set out in Regulation 2021/1001[151].

The objective of the MF is to support investments in the period 2021–2030 to modernise energy systems and improve energy efficiency in ten Member States: Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia. MF focuses on investments in renewable energy, energy efficiency, energy storage, energy networks and transition in carbon-dependent areas.

149 Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC.

150 Act No 1/2020 Coll., amending Act No 383/2012 Coll., on the conditions for greenhouse gas emission allowance trading, as amended, and Act No 458/2000 Coll., on the conditions for operating business and on performance of State administration in energy sectors and on amendment to some laws (the Energy Act), as amended.

151 Commission Implementing Regulation (EU) 2021/1001 of 9 July 2020 laying down detailed rules for the application of Directive 2003/87/EC of the European Parliament and of the Council as regards the operation of the Modernisation Fund supporting investments to modernise the energy systems and to improve energy efficiency of certain Member States.

The MF expects to finance the following two types of investments:

1. Priority investment – the project falls under at least one priority area as defined in Directive 2003/87/EC (e.g. production and use of energy from renewable sources, energy efficiency improvement, energy storage and distribution facilities, etc.).

2. Non-priority investment – the project does not fall within a priority area by its nature, but meets the MF targets and demonstrates greenhouse gas emission reductions.

The administration of the MF takes place at two levels:

1. At EU level, the European Investment Bank, the Investment Committee and the Commission play a decisive role. These bodies assess and approve the priority and non-priority projects submitted by Member States.

2. In the Czech Republic, the Modernisation Fund Committee and the Modernisation Fund Platform[152] are involved in the preparation and administration of the MF. A crucial role in the implementation and administration of the MF is played by the SEF, which is the beneficiary of the MF and plays the role of the IB.

MF funding is divided into two levels:

1. Within the EU, this is the revenue from auctioning 2% of emission allowances in the period 2021–2030 (according to Article 10 of Directive 2003/87/EC), with each of the Member States having a designated share of this total. The Czech Republic will receive the second highest share in the period, i.e. 15.59%.

2. Within the Czech Republic, MF funding was supplemented by the following revenues:

    - revenue from allowances that have been allocated free of charge up to now ("derogation allowances") (Article 10c(4) of Directive 2003/87/EC);

    - revenues from 50% of allowances earmarked to support growth and interconnections measures within the EU, ("solidarity allowances") (Article 10(2)(b) of Directive 2003/87/EC).

Allowances are continuously sold on the market, so the total amount of funds depends on the price of emission allowances and the exact amount cannot be determined in advance, it can only be estimated. Current estimates of the total amount of funding for the Czech Republic range from **CZK 150 to 300 billion** (the range of EU, MoE and SEF estimates).

The programme document, which was approved in January 2021[153], set out the following core support programmes:

1. *Modernisation of Thermal Energy Supply Systems* (HEAT);

2. *New Renewable Energy Sources in the Energy Sector* (RES+);

3. *Improving Energy Efficiency and Reducing Greenhouse Gas Emissions in Industry in the EU ETS* (ENERG ETS);

4. *Improving Energy Efficiency in Business* (ENERG);

5. *Modernisation of Transport in the Business Sector* (TRANSCom);

6. *Modernisation of Public Transport* (TRANSGov);

152 Composition: https://www.mzp.cz/cz/modernizacni_fond.

153 The Government approved the programme document for the implementation of the Modernisation Fund in the Czech Republic by Resolution No 64 of 25 January 2021.

7. *Energy Efficiency in Public Buildings and Infrastructure* (ENERGov);

8. *Community Energy* (KOMUENERG);

9. *Modernisation of Public Lighting Systems* (LIGHTPUB);

10. *Energy Efficiency in the Residential Sector* (HOUSEnerg).

According to the data of the SEF available as at 31 March 2023, the MF support approved for the Czech Republic includes a total of 464 projects with a total cost of almost CZK 17.46 billion.

### E.3.2 NATIONAL RECOVERY PLAN

The *National Recovery Plan* is a strategic document by which the Czech Republic applied for a financial contribution from the Recovery and Resilience Facility for a total amount of EUR 7,035.7 million (CZK 179.1 billion) in grants/subsidies.

The Government of the Czech Republic approved[154] the NRP in May 2021 after several months of preparation and consultation with national stakeholders and the Commission. In June 2021, the NRP was officially submitted to the Commission, which approved it in July 2021[155]. The Czech NRP was approved[156] by the Council in early September 2021. The Council Implementing Decision (CID[157]) is binding on the Czech Republic during the implementation of the NRP. The CID contains sets of binding milestones and targets with fixed deadlines for achievement. Primarily, the Commission uses the CID as a basis for monitoring the implementation of the NRP.

The investments included in the NRP are divided into six pillars, which are further subdivided into components, specific reforms and investment actions. These pillars contain a total of 27 components, which are further divided into 244 milestones and objectives.

**Table 20: The six pillars of the NRP and the projected costs financed from the RRF (in EUR million)**

| NRP Pillar | | Estimated expenses paid from the RRF |
|---|---|---|
| 1. | *Digital transformation* | 1,093 |
| 2. | *Physical infrastructure and green transition* | 3,285 |
| 3. | *Education and the labour market* | 254 |
| 4. | *Institutions, regulations and business support in response to Covid-19* | 322 |
| 5. | *Research, development and innovation* | 1,594 |
| 6. | *Population health and resilience* | 488 |
| Total | | **7,036** |

Source: Commission Staff Working Document, *Analysis of the Recovery and Resilience Plan of Czechia* accompanying the document Proposal for a Council Implementing Decision on the Approval of the Assessment of the Recovery and Resilience Plan for Czechia, COM(2021) 431 final of 19 July 2021; com-2021-431_swd_cz.pdf (europa.eu).

Note: These are the estimated expenses covered by the RRF, i.e. without the expected national funding.

The EU financial contribution to the Czech Republic will be provided by the Commission in nine instalments. The release of the instalments in accordance with the financing agreement is conditional upon the Commission's decision that the CR has satisfactorily met the relevant milestones and objectives identified in the context of the implementation of the plan. In order to receive funding, the Czech Republic must meet the milestones and objectives on an ongoing basis, and all of them must be met by 31 August 2026 at the latest.

154 Resolution of the Czech Government of 17 May 2021, No 467.

155 The Commission assessed the plan of the Czech Republic on the basis of the criteria set out in the Regulation establishing the *Recovery and Resilience Facility* (2021/241 of 12 February 2021). In particular, the Commission's analysis assessed whether the investments and reforms set out in CR's plan will support the green and digital transitions, contribute to effectively addressing the challenges identified in the European Semester and strengthen growth potential, job creation and economic and social resilience.

156 On 6 September 2021, the NRP was discussed and approved by the ECOFIN Council.

157 Council Implementing Decision.

On 28 September 2021, the Commission made an advance payment of EUR 915 million from the *Recovery and Resilience Facility* to the Czech Republic. The first payment from the RRF of EUR 928 million was made in March 2023 based on the achievement of 37 of the NRP's milestones and objectives.[158] In total, the Czech Republic received EUR 1,843 million, corresponding to about 26% of the total amount earmarked for subsidies/grants.

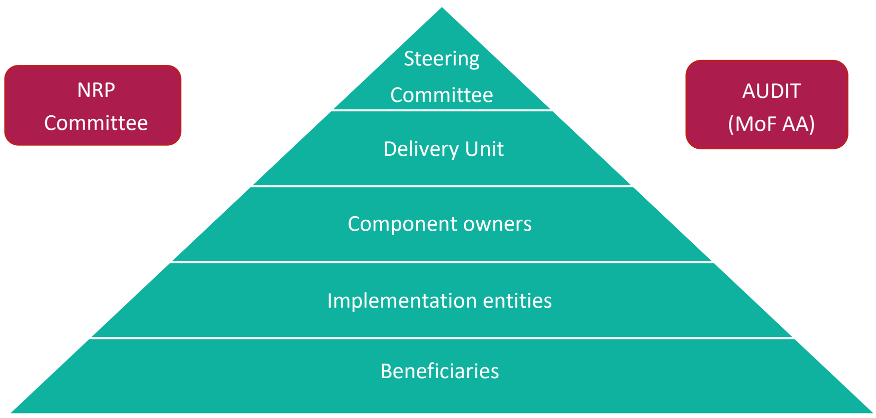
In March 2023, the Government approved[159] the task of notifying the Commission by the end of March of preliminary interest in a loan of at least EUR 2.9 billion, while indicating the possibility of using a loan of up to EUR 11 billion, and to prepare and submit to the Government for approval by 17 May 2023 an updated version of the NRP (including a loan from the *Recovery and Resilience Facility)*, which will form the basis for further discussions with the Commission. Negotiations with the Commission on the loan and related NRP arrangements are expected to be completed by the end of August 2023[160].

The Ministry of Industry and Trade (MoIT) is responsible for co-ordination of the NRP. To ensure coordination, to maintain uniform standards of reporting and monitoring and to communicate with the Commission, the MoIT has established an NRP delivery unit.

The entire process associated with the NRP, including implementation, is overseen by the NRP Steering Committee (NRP SC). The NRP SC is the supreme decision-making and approval body of the NRP[161]. The members of the NRP SC are appointed by the individual component owners and its chairperson is appointed by the Minister of Industry and Trade.

The NRP Committee is also involved in the process of implementation of the NRP. Members of the NRP Committee include representatives of the component owners, as well as representatives of social and economic and other stakeholders. The NRP Committee monitors the NRP and may submit proposals to the NRP SC.

**Figure 3: Entities involved in the implementation of the NRP**




Source: Methodological guideline on management and control systems for the National Recovery Plan for the period 2021–2026, issued by the MoIT with effect from 11 May 2022.

The owner of the component, i.e. the relevant ministry, is responsible for the implementation of the component. These are the MoIT, MoI, MoRD, MoT, MoE, MoA, MoEYS, MoLSA, Ministry of Culture, MoH, and MoJ – 11 ministries in total.

158 The European Commission issued a positive preliminary assessment of the achievement of the relevant milestones and objectives on 8 February 2023 and the application was also positively assessed by the Council's Economic and Financial Committee. See also: C_2023_1037_1_annexe_EN.pdf (europa.eu).

159 Government Resolution No 212 of 29 March 2023.

160 According to the current RRF regulation, the loan must be applied for by August 2023. According to the draft revision of the RRF Regulation presented in the context of the REPowerEU plan, if the MS are interested in a loan, they must inform the Commission of the parameters of their request within 30 days of the entry into force of this amendment. If a MS does not show interest in the loan, these resources will be provided to other MS.

161 The NRP SC was approved by Government Resolution No 467 of 17 May 2021, which also approved the NRP SC Statute, the NRP SC Rules of Procedure and the NRP SC Code of Ethics.

Some component owners delegate part of their authority to "implementation entities" – usually subordinate organisations of individual component owners. These include, for example, the Agency for Nature Conservation and Landscape Protection, the State Investment Support Fund, the Technology Agency of the Czech Republic and the State Land Office. For example, these bodies receive and evaluate applications for grants.

The Audit Authority is also involved in the implementation. The role of the audit performed by the AA is to provide independent assurance that milestones and objectives of individual components are actually met according to the set objectives and deadlines and that the set MCS of the component owners are in compliance with the Czech and EU legislation and in line with the set objectives of the NRP. The Audit Authority further verifies whether the audited entity has set procedures to ensure implementation, whether these procedures are followed in practice during implementation and whether the MCS are functional, i.e. whether the MCS function in such a way as to effectively prevent irregularities and assist in detecting irregularities and taking corrective measures.

Beneficiaries implement individual projects, which they submit for consideration according to the conditions of individual calls. The target groups of beneficiaries vary depending on the conditions of the call. Beneficiaries of NRP support can be not only private entities, but also public institutions such as ministries, regions, municipalities or their subordinate organisations.

While the structure and administration of the NRP shows some similarities to that of the ESIF, it also has a number of differences.

The specifics of the NRP include, in particular:

- The focus of NRP support reflects the requirement of European legislation, with a minimum of 37% of spending to support the climate transition and a further 20% to support the digital transition (42% of NRP expenditure will support climate targets and 22% will support the digital transition);

- Short timeframe (all reforms and investments must be completed by August 2026. It is to be possible to apply for payments by September 2026 at the latest. Expenditure from 1 February 2020 will be retroactively eligible);

- High amount of support (approx. EUR 7 billion with expected further approx. EUR 1.2 billion, including the possibility to apply for a loan from the RRF);

- Different implementation structure (component owners, MoIT, NRP SC, Commission);

- Payments based on the achievement of milestones and objectives (the Commission will only pay grants based on documented achievement of NRP milestones/objectives, which is not the case for other EU funds);

- Monitoring of support in multiple information systems (individual component owners use their own information systems for administration; the MoIT has introduced the NRP AIS, a central monitoring tool for plan implementation, where component owners report all reports).

## E.4 EXPENDITURE ON THE COMMON AGRICULTURAL POLICY

### E.4.1 RECENT DEVELOPMENTS IN THE COMMON AGRICULTURAL POLICY[162]

The Common Agricultural Policy (CAP) has undergone significant reforms throughout its existence. The latest, which was originally due to apply from 2021 has been postponed for the period 2023–2027. In order to continue payments to farmers and other beneficiaries of CAP subsidies, a transition period was

162 Sources: http://eagri.cz/public/web/mze/dotace/szp-pro-obdobi-2021-2027/; https://www.europarl.europa.eu/factsheets/cs/sheet/106/financovani-spolecne-zemedelske-politiky; https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/new-cap-2023-27/key-policy-objectives-new-cap_cs and https://www.mfcr.cz/cs/zahranici-a-eu/hospodareni-eu/prostredky-alokovane-pro-cr.

introduced for 2021 and 2022[163]. During this two-year period, funding was drawn from the CAP budget allocation for 2021–2027 and most of the CAP rules effective for PP14+ remained in place.

The total amount of CAP funding for PP21+ is set at EUR 378.53 billion. These CAP funds are reinforced by an additional EUR 8.07 billion allocated from the *Next Generation EU* renewal facility to the *European Agricultural Fund for Rural Development* for rural development measures. The total amount thus reached EUR 386.60 billion. The share of the EU budget spent on agriculture has been declining for many years. Whereas in the early 1980s the CAP accounted for up to 66% of the EU budget, in PP14+ it was only 37.8% and for PP21+ it is just 31%.

The Czech Republic is expected to receive a total of EUR 8.04 billion under the CAP in PP21+, EUR 5.98 billion of which is for direct payments and EUR 2.06 billion for rural development. This is a decrease compared to PP14+, when the Czech Republic had a total of EUR 8.28 billion available. At the same time, national co-financing of rural development support is expected to be higher than in the previous period.

In order to implement the CAP, each MS must have a CAP strategic plan for the period 2023–2027 (CAP SP). The draft CAP SP was submitted by the Czech Republic to the Commission on 28 January 2022. The Commission made numerous comments on this proposal in April 2022. The Czech Republic resubmitted the modified proposal on 3 November 2022, and it was approved by the Commission on 24 November 2022[164]. It officially confirmed the rules that farmers in the Czech Republic must follow from 1 January 2023. At the end of 2022 and during 2023, the MoA is finalising national implementing regulations, i.e. regulations approved by the Government of the Czech Republic and rules for the provision of rural development subsidies approved by the Minister of Agriculture.

The aim of the Czech CAP SP is to ensure the sustainable competitiveness and resilience of farms while strengthening the protection of natural resources and the climate. It will also contribute significantly to a fairer redistribution of financial support to small and medium-sized farms, to a stronger position for organic farming and, through investment, to greater prosperity and quality of life in rural areas.

The CAP SP is a key instrument to support the agricultural sector and rural areas for the period 2023–2027. It sets out agricultural, food and forestry objectives, which will receive subsidies from European and national sources, amounting to approximately CZK 200 billion. The CAP SP comprises three areas of intervention, namely direct payments, sectoral interventions and rural development.

**Table 21: Planned CAP SP budget in the Czech Republic for the period 2023–2027** **(in EUR)**

| Intervention area | EU contribution | CR contribution | Total |
|---|---|---|---|
| Direct payments | 4,117,668,073 | 0 | 4,117,668,073 |
| Sectoral interventions | 118,517,918 | 10,152,574 | 128,670,492 |
| Rural development | 1,410,633,807 | 2,356,159,078 | 3,766,792,885 |
| **Total** | **5,646,819,798** | **2,366,311,652** | **8,013,131,450** |

Source: *Brief overview: CAP Strategic Plan of the Czech Republic,* issued by the Commission and published at: http://eagri.cz/public/web/mze/dotace/szp-pro-obdobi-2021-2027/.

Direct payments, fully funded by the EU, remain the main agricultural subsidy. In addition to the established payments, a payment for small farmers farming up to 10 hectares, a supplementary redistributive support for all applicants for the first 150 hectares and an "eco-payment" to promote environmentally friendly and sustainable practices will be introduced from 2023. Direct payments should thus contribute more to the development of smaller farms and encourage more environmentally friendly farming practices.

Rural development interventions are divided into area interventions, interventions targeted at livestock farming, sectoral interventions (set for the fruit and vegetables, potatoes, eggs, ornamental plants, wine and beekeeping products sectors) and project interventions. Project interventions will also be used to pay for forestry or water management measures. Project interventions should contribute to the creation

163 Regulation (EU) 2020/2220 of the European Parliament and of the Council of 23 December 2020 laying down certain transitional provisions for support from the European Agricultural Fund for Rural Development (EAFRD) and from the European Agricultural Guarantee Fund (EAGF) in the years 2021 and 2022 and amending Regulations (EU) No 1305/2013, (EU) No 1306/2013 and (EU) No 1307/2013 as regards resources and application in the years 2021 and 2022 and Regulation (EU) No 1308/2013 as regards resources and the distribution of such support in respect of the years 2021 and 2022.

164 Commission Implementing Decision C(2022) 8338 final of 24 November 2022 approving the *2023–2027 CAP Strategic Plan of the Czech Republic* for Union support financed by the *European Agricultural Guarantee Fund and the European Agricultural Fund for Rural Development.*

of new jobs in rural areas and support the purchase of modern technologies and innovation.

The first intakes of applications for CAP SP interventions were announced in March 2023, specifically for direct payments and rural development area interventions submitted under the single application. The first intake of applications for project interventions and sectoral interventions is expected in the second half of 2023.

## E.4.2 STATE OF CAP DRAWDOWN ALLOCATED TO THE CZECH REPUBLIC IN 2022

**According to SAIF data, a total of CZK 38.88 billion was paid out in the CR under CAP in 2022,** of which EU funding amounted to CZK 32.42 billion and national funding CZK 6.45 billion. The largest item was direct payments. More detailed data are given in Table 21.

**Table 22: Overview of funds paid out in the main CAP areas in 2022** **(in CZK mil.)**

| Area of expenditure | EU contribution | CR contribution | Total |
|---|---|---|---|
| Direct payments* | 22,407 | 551 | 22,958 |
| Common Market Organisation | 734 | 1,127 | 1,861 |
| Rural Development Programme** | 9,283 | 4,776 | 14,059 |
| **Total** | **32,424** | **6,454** | **38,878** |

* This includes a financial discipline adjustment (refund of the part of the subsidy to farmers by which it was reduced in the previous year) of CZK 471 million.
** This is the sum of funds paid from RDP14+ (CZK 14,002.38 million), *the Rural Development Programme of the Czech Republic for the period 2007–2013* (CZK 46.82 million) and *the Horizontal Rural Development Plan* (CZK 9.35 million).

Source: documents provided by the SAIF – CAP and marketing budget for 2022 and its drawdown as at 31 December 2022, table *Total use of CAP resources in 2022.*

### E.4.2.1 DIRECT PAYMENTS

Direct payments are entitlement payments paid by the SAIF to farmers depending on compliance with the conditions set for farming. They are a secure source of money for farmers, almost regardless of their agricultural production. Direct payments account for the largest share of subsidies paid out in agriculture and are provided under CAP rules. They are almost exclusively provided from EU sources, namely the *European Agricultural Guarantee Fund* (EAGF). The Czech Republic provides additional payments from the national budget called transitional national support (TNS). Direct payments are paid on the basis of a single application completed by the applicant. This application is also used to provide entitlement grants from the RDP.

In 2022, the SAIF paid out a total of CZK 22,958 million in direct payments, a similar amount as in 2021. This amount includes a financial discipline adjustment paid on the basis of Commission Regulation 2018/1848[165], the total amount to be reimbursed was CZK 471 million.

The Single Area Payment Scheme (SAPS) is the basic direct payment that ensures farmers a stable income. This payment is paid to farmers per hectare of cultivated agricultural land as recorded in the *records of agricultural land use according to user relations* (Land Parcel Identification System, LPIS). The SAPS payment makes up at least 50% of what is known as the annual envelope[166] and is fully funded by the EU. In 2022, on the basis of 40,096 SAPS payment applications submitted, the SAIF paid out a total of CZK 11,860 million.[167]

The second most important component of direct payments in 2022 was the payment for farmers who follow climate-friendly and environment-friendly agricultural practices, known as greening. Only farmers who have been granted a SAPS payment and who have met all the conditions set out on the land they use,

165 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.
166 Annual indicative allocation for direct payments.
167 The subsidy rate for 2022 was set at CZK 3,214/ha of agricultural land.

i.e. crop rotation, maintaining permanent grassland and using part of the area in an ecological interest, have received this payment. Farmers who farmed less than 10 ha of agricultural land or 15 ha of arable land and/or were registered as organic farmers are not subject to the greening conditions. This payment accounted for around 30% of the envelope for direct payments and a total of CZK 6,325 million was paid out in 2022 for 30,060 applications for this payment[168].

Another component of direct payments is the young farmers payment, designated for farmers up to the age of 40 and for a maximum area of 90 ha of agricultural land. The payment was made in the form of a contribution alongside the SAPS payment. In 2022, 2,735 applications for more than CZK 97 million were paid in the Czech Republic[169]. The number of applicants for this support and the number of hectares supported peaked in 2019 (5,604 applicants, 126,123 ha), with the number of applicants more than halving from 2020 (2,583 applicants, 59,290 ha).

In addition to the above payments, individual voluntary coupled aid payments have also continued to be granted in 2022. This was a voluntary component of direct payments, fully funded by the EU, whereby commodities facing certain difficulties (“sensitive commodities”) were supported. It is up to each Member State to decide which commodities will be supported. In the Czech Republic, the sectors supported were fruit, vegetables, potatoes, hops, sugar beet and protein crops farming, and cattle, sheep and goat herding. In 2022, the payment for fruit with high labour intensity saw an increase. By contrast, there was a slight decline in other forms of support. Under livestock production, the number of animals declared decreased for all of the payments granted. In 2022, a total of CZK 3,654 million was made available from the EU budget for these payments. The largest support was the dairy cow scheme, which accounted for up to 40% of the total amount paid out for voluntary coupled support payments. Other support was the beef calf support scheme, which accounted for up to 19%, followed by the protein crops scheme and the sugar beet scheme, both of which accounted for 13%. The smallest aid granted was the payment for ware potatoes, with a share of around 1%.

The Commission has allowed the provision of TNS since 2015. In principle, this is similar to the national additional payments to direct payments (ToP-Up) paid in the period 2007–2012. These aids continued to support the same agricultural production sectors (hops, starch potatoes, ruminants, suckler cows, sheep and goats) as in previous years. An agricultural land payment was also paid as a kind of “top-up” to the SAPS. Payments for hops, starch potatoes and ruminants were made on the basis of historical data. Payments for suckler cows, sheep/goats and agricultural land were paid per number of livestock units or by area (in ha) in the current year. The amount of funds that could be paid out under TNS has gradually decreased since 2015 until 2022 when the payout ended[170]. CZK 550 million was provided under TNS in 2022.

### E.4.2.2 COMMON MARKET ORGANISATION

The EU applies Common Market Organisation (CMO) to selected agricultural commodities, for which it sets certain production and trade conditions in a binding manner and supports them through certain intervention purchases/sales, subsidies, licensing policy for imports and exports of agricultural commodities from/to third countries, adjustment of terms of trade, etc. It is a form of aid financed by the EAGF.

In 2022, school programmes, market measures, exceptional measures, support for the promotion of agricultural products and other CMO activities were included in the CMO in the Czech Republic, with a total of CZK 1,861 million paid out, of which CZK 1,127 million came from the state budget and CZK 734 million from the EU budget. CMO disbursements doubled compared to 2021 (CZK 903 million was paid out in 2021). This was due to the exceptional measures taken by the Commission to prevent or mitigate the sudden fall in prices. In the direct context of the Russian invasion of Ukraine, in an effort to avoid deepening the disruption of the agricultural market, the EU announced emergency support for adaptation for agricultural producers in 2022. In the Czech Republic, exceptional support was targeted

168 The 2022 subsidy rate was CZK 1,768/ha of agricultural land.
169 The 2022 subsidy rate was CZK 1,607/ha of agricultural land.
170 TNS is no longer part of the new CAP for the period 2023–2027.

at the sectors of producers of sows, meat chickens, dairy cows, and at apple growers and ware potato growers. Exceptional support was paid to 2,224 producers of agricultural products for a total amount of more than CZK 831 million, of which 554 million from the state budget and CZK 277 million from the EU budget.

In 2022, as in the previous year, a significant share of the CMO consisted of financial support for school programmes, namely the *School Fruit and Vegetables* programme (CZK 288 million paid out) and the *School Milk* programme (CZK 296 million paid out). In addition, the programmes entitled *Improved production and marketing of apiarian products* (CZK 75 million paid out) and *Support for fruit and vegetable producer organisations* (approx. CZK 133 million paid out) were financed under market measures. Other funds disbursed under the CMO were used to support restructuring and conversion of vineyards and to support investments in the wine market, totalling CZK 119 million.

Compared to the previous year, no funds were paid out in 2022 for promotional programmes aimed at promoting agricultural and food products, which are usually implemented by the Federation of the Food and Drink Industries of the Czech Republic or the Agricultural Chamber of the Czech Republic.

### E.4.2.3 RURAL DEVELOPMENT PROGRAMME

The RDP is financed in seven-year cycles from the EAFRD.

***Rural Development Programme of the Czech Republic for 2007–2013***

A total of CZK 46.82 million was paid for the *Rural Development Programme 2007–2013* (RDP7+) in 2022, of which more than CZK 17.42 million came from the state budget and CZK 29.40 million from the EU budget. These are continuing payments to beneficiaries or commitments from previous years under non-project measures of axes I and II of RDP7+. Under axis I, entitlement payments for early termination of agricultural activity totalling CZK 22.40 million were paid to farmers. Under axis II, a total of CZK 24.42 million was paid to farmers in entitlement payments for afforestation of agricultural land, payments for forestry-environmental measures, *NATURA 2000* payments in forests, and payments for less favoured areas.

***Rural Development Programme 2014–2020***

The Rural Development Programme 2014–2020 was intended to contribute to the competitiveness of agriculture, sustainable management of natural resources, climate action and balanced territorial development of rural areas. The Commission approved the final version of the basic programming document of the *Rural Development Programme 2014–2020* on 26 May 2015. By April 2022, the Commission has already approved ten updates of the programming document. The last amendment was approved on 25 July 2022.

On 29 December 2020, Regulation 2020/2220[171] came into force, setting out, among other things, the rules for rural development expenditure in the period 2021–2022. These rules remained largely the same as those for the 2014–2020 period. Some additional elements were intended to ensure a smooth transition to the new CAP for the period 2023–2027.

The main reason for the transitional period was that the legislative process for the Commission's post-2020 CAP legislative proposals still needed to be finalised. Given that the MS had to develop their CAP SPs, it was necessary to establish an optimal timeframe for the existing CAP framework to continue to apply for a further two years.

This ensured that farmers and other beneficiaries would continue to receive support in 2021 and 2022

171 Regulation (EU) 2020/2220 of the European Parliament and of the Council of 23 December 2020 laying down certain transitional provisions for support from the European Agricultural Fund for Rural Development (EAFRD) and from the European Agricultural Guarantee Fund (EAGF) in the years 2021 and 2022 and amending Regulations (EU) No 1305/2013, (EU) No 1306/2013 and (EU) No 1307/2013 as regards resources and application in the years 2021 and 2022 and Regulation (EU) No 1308/2013 as regards resources and the distribution of such support in respect of the years 2021 and 2022.

from the EAGF and EAFRD under the current CAP framework. Member States were therefore able to finance their RDPs from the corresponding budget allocations for 2021 and 2022. RDP14+, extended until 2022, will finally end at the end of 2025. Applicants can submit payment requests until 30 June 2025.

During the two-year transition period, funds were drawn from the CAP budget for 2021–2027, supplemented by additional funds from the *NextGenerationEU* renewal facility. These are the so-called "EURI" funds allocated by the EAFRD under Regulation 2020/2094[172] to address the impact of the COVID-19 crisis and its consequences for the EU's agricultural sector and rural areas.

The total allocation for RDP14+, including transitional and EURI funds, is EUR 4,804,711,407, of which EU funds amount to EUR 3,075,728,199 and state budget funds amount to EUR 1,728,983,208.

The following table gives an overview of the EU funds allocated and disbursed as of 31 December 2022.

**Table 23: EU contribution to RDP14+**

| Source | Allocation after the 10th modification of the programme (in EUR) | EU funds disbursed (in EUR) | Utilisation of EU funds (in %) |
|---|---|---|---|
| EAFRD funds | 2,890,233,934 | 2,526,555,841 | 87.42 |
| EURI funds | 185,494,265 | 42,727,163 | 23.03 |
| **Total** | **3,075,728,199** | **2,569,283,004** | **83.53** |

Source: SAIF documents – CAPPING CONTROL REPORT until Q4 2022.

Converted using an exchange rate of CZK 24.858/EUR[173], the total volume of RDP14+ funds up to 2022 is almost CZK 119.44 billion, of which EU funds (EAFRD and EURI) represent almost CZK 76.46 billion. As of 31 December 2022, the Czech Republic has drawn CZK 63.88 billion from European resources.

In 2022, a total of CZK 14,002.38 million was paid out for RDP14+, with the EU share being CZK 9,246.61 million and the national share CZK 4,755.77 million. This is a similar amount to that in 2021, when the SAIF paid out a total of CZK 14,827.01 million under RDP14+.

The largest portion of the subsidies is spent on area/non-project measures – CZK 10,022.60 million, which is almost 72% of the total subsidies paid out under RDP14+ in 2022. For project measures, RDP14+ paid out CZK 3,979.78 million, the largest amount of subsidies being paid for investments in tangible assets. This amount is CZK 1,968.86 million, almost half of the funds earmarked for project measures.

172 Council Regulation (EU) 2020/2094 of 14 December 2020 establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 crisis.

173 The exchange rate published in the *Official Journal of the European Union* as at 31 December 2021.

**Table 24: Overview of RDP14+ disbursements for 2022** **(in CZK thous.)**

| RDP14+ Non-project measures | | Funds paid out | | |
|---|---|---|---|---|
| | | EU contribution | CR contribution | Total |
| M8.1 | *Support for afforestation and creation of woodland* | 1,711 | 571 | 2,282 |
| M10 | *Agri-environment-climate measure* | 2,380,811 | 793,605 | 3,174,416 |
| M11 | *Organic farming* | 1,129,516 | 376,506 | 1,506,022 |
| M12 | *Natura 2000 payments* | 24,205 | 8,068 | 32,273 |
| M13 | *Payments to areas facing natural or other specific constraints* | 3,370,500 | 1,123,500 | 4,494,000 |
| M14 | *Animal Welfare* | 379,920 | 393,927 | 773,847 |
| M15 | *Forest-environmental and climate services and forest conservation* | 29,820 | 9,940 | 39,760 |
| Total non-project measures | | **7,316,483** | **2,706,117** | **10,022,600** |
| | | | | |
| RDP14+ Project measures | | Funds paid out | | |
| | | EU contribution | CR contribution | Total |
| M1 | *Knowledge transfer and information actions* | 3,136 | 3,199 | 6,335 |
| M4 | *Investments in physical assets* | 793,518 | 1,175,340 | 1,968,858 |
| M6 | *Farm and business development* | 207,692 | 189,120 | 396,812 |
| M8 | *Investments in forest area development and improvement of the viability of forests (excl. M8.1)* | 104,935 | 119,014 | 223,949 |
| M16 | *Cooperation* | 197,979 | 201,979 | 399,958 |
| M19 | *Local development aid LEADER* | 599,633 | 337,294 | 936,927 |
| M20 | *Technical assistance* | 23,235 | 23,705 | 46,940 |
| Total project measures | | **1,930,128** | **2,049,651** | **3,979,779** |
| | | | | |
| RDP14+ TOTAL | | **9,246,611** | **4,755,768** | **14,002,379** |

Source: SAIF data on the volume of RDP14+ subsidies paid out in 2022.

**From the beginning of the programming period until 31 December 2022, almost CZK 92.27 billion was paid out to beneficiaries under RDP14+, of which CZK 29.18 billion was for project measures and CZK 63.09 billion for area/non-project measures.**

# E.5 EXPENDITURE ON THE COMMON FISHERIES POLICY

The main objectives of the CFP are to ensure sustainable fisheries, competitive aquaculture based mainly on innovation, to ensure a steady supply of freshwater fish to the domestic market throughout the year and to guarantee income and stable employment for fishermen.

In 2022, two fisheries OPs were implemented simultaneously in the Czech Republic, the ongoing OPF14+ and the new OPF.

## E.5.1 PROGRAMMING PERIOD 2014–2020

OP *Fisheries 2014–2020*, which is funded by the EMFF, was approved by the Commission in June 2015. The Czech Republic's priority is to support freshwater aquaculture and boost its competitiveness. The allocation for the entire PP14+ amounted to EUR 41.14 million (approx. CZK 992.06 million[174]), of which EUR 31.11 million is the EU contribution (approx. CZK 750.20 million) and EUR 10.03 million the national contribution (approx. CZK 241.86 million).

According to data provided by the State Agricultural Intervention Fund, 135 payment requests were paid out in 2022 under OPF14+. A total of CZK 127.82 million was paid out, of which EU funding amounted to CZK 97.67 million and national funding CZK 30.16 million. **Furthermore, the SAIF data shows that a total of 888 payment requests worth a total of CZK 843.29 million had been reimbursed from OPF14+ as of 31 December 2022. The share of EU funding was CZK 635.30 million, i.e. approximately 84% of the EU contribution allocation for the entire period.** The national funds amounted to approx. CZK 207.99 million.

## E.5.2 PROGRAMMING PERIOD 2021–2027[175]

The OP *Fisheries 2021–2027* programming document was approved by the Government of the Czech Republic on 2 February 2022. It was then sent to the Commission, which approved it on 20 June 2022 as the first programme in the EU. The programme focuses on the freshwater aquaculture sector and has competitive, resilient and sustainable aquaculture as its main objective, which is also the main objective for aquaculture as defined in the European Green Deal and the Commission's follow-up *Farm to Fork* strategy.

OPF builds on OPF14+, but with a greater emphasis on ecology, biodiversity and healthy food systems in the new period. Priority will be given to projects for climate change adaptation, including mitigation measures, and projects aimed at the efficient use of renewable sources, projects increasing energy efficiency in aquaculture and its digitalisation will also be prioritised. **A new feature of the OPF is the possibility to obtain subsidies for non-productive functions of ponds. In the coming years, fishermen will thus receive a contribution, for example, for water storage in the landscape, for sports and recreational purposes in ponds or for maintenance of the banks.**

OPF is the instrument for drawing down funds from the *European Maritime, Fisheries and Aquaculture Fund* (EMFAF). The EMFAF budget as proposed by the Commission amounts to EUR 6.14 billion. The allocation from EMFAF for the Czech Republic is EUR 30,005,249. In total, the Czech Republic has about one billion crowns available for the OPF, about 70% of this allocation from the EU budget and the remaining 30% from national sources. This is a similar amount to the previous programming period.

174 The European Central Bank exchange rate of 24.116 CZK/EUR as at 30 December 2022 was used for the conversion.

175 Information source: http://eagri.cz/public/web/mze/dotace/operacni-program-rybarstvi-na-obdobi-2021-2027; https://dotaceeu.cz/cs/evropske-fondy-v--cr/kohezni-politika-po-roce-2020/programy.

The managing authority for this programming period is also the MoA and the SAIF is the intermediate body. According to the information provided by the SAIF, in 2022 the implementation of the requirements for the systemic and methodological setup of administrative processes was underway, as well as the collection of information on activities and applicants in the OPF. The first three calls for applications were launched in autumn 2022. Activity 5.1.1 *Technical assistance* and activities 2.1.2 *Investments in aquaculture* and 2.2.2 *Processing of products* were launched. Within these three calls, 101 applications were received and registered for a total value of CZK 91,815 thousand. As at 31 March 2023, no subsidy has been paid from OPF.

# F. LEGAL MATTERS

## F.1 SAO RECOMMENDATIONS ON CHANGES TO THE LEGAL ENVIRONMENT IN 2022

The SAO's findings in relation to the necessary legislative amendments were presented in the context of the discussion of ARs at the meetings of the Control Committee of the Chamber of Deputies.

The SAO also commented on draft legal regulations[176] related to its competence or concerning it as an organisational unit of the state. In the period under review, the SAO received for assessment a total of 174 legislative proposals and non-legislative materials. The SAO issued specific comments on a total of 29 of these proposals, mainly based on findings from its audit work.

In terms of major legislative proposals, the SAO made extensive comments on the draft Whistleblower Protection Act. The draft is a transposition of Directive 2019/1937[177] and was approved by the Chamber of Deputies on 8 March 2023.[178]

The SAO also commented on legislative proposals submitted by the Ministry of Labour and Social Affairs, in particular on the extensive amendment to the Labour Code. The main objective of the draft amendment to the Labour Code is to make substantive changes in connection with the transposition of Directive 2019/1158[179] and Directive 2019/1152[180]. Both directives are intended to strengthen equal access to the labour market, establish fair working conditions and strengthen the rights and position of workers in relation to their work-life balance. The draft amendment was discussed by selected working committees of the OoG and was included in the meeting of the Legislative Council of the Government.

The SAO also commented on the draft Government Regulation amending Government Regulation No 74/2017 Coll., stipulating certain conditions for subsidising the supply of fruit, vegetables, milk and their products to schools and on amendment to certain related Government Regulations, as amended, submitted by the MoA. This Government Regulation responds to Delegated Regulation 2022/245[181], which newly defines the activities that can be carried out as part of the accompanying educational measures under the *School Fruit and Vegetables* and *School Milk* projects.

The issue of financial management of EU funds was also covered by a number of draft government regulations sent to the SAO, submitted by the MoA in accordance with the directly applicable EU regulations and in line with the *2023–2027 CAP Strategic Plan of the Czech Republic.* The main objective of these government regulations is to lay down specific conditions for the provision of subsidies in the context of the implementation of measures in various agricultural sectors.

176 In the interdepartmental commentary procedure, the process of which is regulated by the Government's legislative rules.
177 Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons who report breaches of Union law.
178 Act No 71/2023 Coll., amending Act No 155/1995 Coll., on pension insurance, as amended, and certain other laws.
179 Directive (EU) 2019/1158 of the European Parliament and of the Council of 20 June 2019 on work-life balance for parents and carers and repealing Council Directive 2010/18/EU.
180 Directive (EU) 2019/1152 of the European Parliament and of the Council of 20 June 2019 on transparent and predictable working conditions in the European Union.
181 Commission Delegated Regulation (EU) 2022/245 of 13 December 2021 amending Delegated Regulation (EU) 2017/40 as regards the accompanying educational measures and the selection and approval of aid applicants.

# F.2 COMPLIANCE WITH OBLIGATIONS ARISING FROM TREATIES OR LEGAL ACTS OF THE EUROPEAN UNION INSTITUTIONS

The data presented in this subsection taken in particular from the *Government Report on the Transposition of Legislative Obligations arising from the Czech Republic's Membership in the European Union for 2022,* which was submitted to the Senate on 27 January 2023. The 31 March 2023 data update is based on the *Report on the status of allocation of responsibilities and fulfilment of legislative obligations arising from the Czech Republic's membership in the European Union for the first quarter of 2023.*

## F.2.1 TRANSPOSITION DEFICIT

Upon joining the European Union, the Czech Republic assumed the obligation to fulfil all the commitments of a Member State. These include obligations based on Article 4(3) of the *Treaty on European Union*[182], which requires Member States to take all appropriate measures to fulfil their obligations arising out of the Treaties or legal acts of the EU institutions. Where its nature so requires, EU law must be transposed into national law in a proper and timely manner. In the case of directives, both the transposition thereof by Member States and the subsequent communication of national transposing measures to the Commission are assessed. Member States' transposition activities are monitored by the Commission. The results are compiled into interim evaluations called *Single Market Scoreboard* (Scoreboard), which are published on the Commission's website[183]. As of 2020, the European Commission has abandoned the twice-yearly assessment of the transposition of internal market directives, switching to a single assessment of the results for the given 12-month period (from 1 December to 30 November of the following year).

The last official edition of the Scoreboard was published on 31 January 2023 and was based on data as at 30 November, or in some cases 10 December 2021 respectively. It covered internal market directives whose transposition deadline expired on 30 November 2021, while the transposition deficit did not include fully transposed directives for which transposing measures had been communicated by 10 December 2021. As of the evaluation deadline, transposition of 24 directives had not been completed in the CR. This represents a transposition deficit of 2.4% and an increase in the transposition deficit of 0.9 percentage points compared to the previous evaluation period. The Czech Republic is one of six Member States whose deficit is more than twice the 1% target set by the Council (the EU average is 1.6%). The Czech Republic is ranked 25th in the MS ranking of success in transposing the directives.

The subsequent interim evaluation of the Scoreboard can be expected in relation to the directives with a transposition deadline of 30 November 2022, taking into account notifications done **by 10 December 2022. As of that date, the Czech Republic had 14 non-transposed directives, corresponding to a transposition deficit of 1.4%. In 2022, the transposition deficit gradually decreased, especially at the end of the period under review, and the transposition deficit was reduced by one percentage point compared to 2021. The transposition deficit is, however, still above the 1% threshold agreed between Member States and the Commission as the maximum acceptable level of transposition deficit.**

## F.2.2 PROCEDURES FOR FAILURE TO COMMUNICATE TRANSPOSING MEASURES OR FOR IMPROPER TRANSPOSITION

The *Single Market Scoreboard* also tracks the number of procedures for failure to communicate transposing measures or for improper transposition of internal market directives. According to the latest officially published Scoreboard, the Czech Republic has a total of 33 open procedures (the EU average is 27 open procedures).

182 *Treaty on European Union* (consolidated version), *Official Journal of the European Union,* C 191, 29 July 1992.

183 Data for the Czech Republic are also published in the annual government report on the transposition of legislative obligations arising from the Czech Republic's EU membership.

The reduction in the transposition deficit at the end of the period under review has not yet been reflected in a corresponding decrease in the number of infringement procedures against the Czech Republic for failure to notify transposing measures, as the Commission is taking a considerable time to react in this respect. As of the 2022 cut-off date, there were 56 such procedures against the Czech Republic, 15 more than in 2021. Although the results of the transposition of the internal market directives in the Czech Republic are known as of the relevant date, the actual ranking of the Czech Republic in the ranking of the success of individual MS will be known only after the publication of the official evaluation by the Commission. However, given the significant reduction in the transposition deficit, we can expect some improvement in the Czech Republic's ranking in the MS success rate in transposition of directives, whereas we can expect a decline in the success rate in the number of infringement procedures against the Czech Republic.

### F.2.3 INFRINGEMENT PROCEDURES

As stated in Section V of the *Government Report on the Transposition of Legislative Obligations arising from the Czech Republic's Membership in the European Union for 2022,* infringement procedure is the mechanism through which the Commission exercises its duty to monitor the application of EU law. If the Commission considers that there is an infringement of EU law by a Member State, the Commission has the possibility under Article 258 of the *Treaty on the Functioning of the European Union*[184] to initiate a procedure divided into several stages, which may lead to an action being filed with the Court of Justice of the European Union (CJEU).

Infringement procedures may be initiated for failure to transpose an EU directive or to communicate national transposition measures for the directive in question (non-communication procedure) or for improper transposition of an EU regulation or application of regulations contrary to EU law (substantive procedure).

If the Commission finds an infringement or if an infringement is reported to the Commission in a complaint, it tries to reach agreement with the MS on a remedy through a structured dialogue (EU Pilot). The goal is to find a quick solution in line with EU law and avoid infringement procedure. If the Member State disagrees with the Commission's opinion or fails to take corrective action, the Commission may open formal infringement procedure.[185]

**As of 30 November 2022 there were a total of 94 infringement procedures against the Czech Republic, six more than in the previous year. As of the same date, 19 procedures were being conducted against the Czech Republic under the EU Pilot system, one less than in the previous year.**

**During the period under review, i.e. from 1 December 2021 to 30 November 2022, the Czech Republic was served with two actions.**

In case 2012/2115 (action in case C-808/21, responsibility of the MoI, served to the CR on 27 December 2021) concerning the Czech Republic's failure to comply with its obligations under Article 22 of the *Treaty on the Functioning of the European Union,* the Czech Republic is criticised for denying EU citizens who do not hold Czech citizenship but reside in the Czech Republic the right to join a political party or political movement.

Further to case 2018/2287 (responsibility of the MoEYS), the Czech Republic was served with an action in case C-75/22 on 14 February 2022. The Commission considers that the Czech Republic has failed to fulfil

184 *Treaty on the Functioning of the European Union* (consolidated version), *Official Journal of the European Union,* C 326/47, 26 October 2012.

185 Course of a formal infringement procedure:
- The Commission invites the government of the MS concerned to comment on the case within two months.
- If the Commission does not receive a reply or if the reply is unsatisfactory, the Commission states in its opinion the reasons why it considers the MS to be in breach of EU law. As a rule, the governments of the MS have two months to remedy the situation.
- If the Commission does not receive a reply, or if the reply is unsatisfactory, the Commission asks the CJEU to initiate court proceedings. The matter is usually resolved sooner. If the MS fails to notify the measures to implement the Directive, the Commission may at this stage ask the CJEU to impose a lump sum fine and/or a penalty payment.
- The CJEU usually decides whether or not the MS was in breach of EU law within two years. The MS government has an obligation to adapt national regulations or practices and resolve the issue as soon as possible.
- If the MS has still not remedied the situation, the Commission sends a further notice. If the Commission does not receive a reply or the reply is unsatisfactory, the Commission may refer the case back to the CJEU and propose a lump sum fine and/or penalty payment.

its obligations under Directive 2005/36/EC[186], as amended by Directive 2013/55/EU.

**According to updated data as at 31 March 2023, a total of 79 infringement procedures were ongoing against the CR, of which 55 procedures were at the formal notice stage and 21 at the reasoned opinion stage; three procedures are held before the CJEU.**

**In terms of the type of breach of EU law, failure to notify transposition rules was reflected in 45 procedures, incorrect transposition was found by the Commission in 16 procedures, application errors were the subject of eight procedures and failure to comply with the requirements of regulations, treaties and decisions was the subject of ten procedures.**

The SAO has repeatedly flagged up the risks that the Czech Republic faces due to the transposition deficit and the number of infringements. The consequences of the lack of or inadequate transposition of EU directives include the immediate effect of the directives, the risk of liability for damages caused to natural and legal persons due to the lack of or inadequate transposition and procedures for breach of the *Treaty on the Functioning of the European Union* with possible financial consequences.

186 Directive 2005/36/EC of the European Parliament and of the Council of 6 July 2005 on the recognition of professional qualifications.

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# ANNEXES

1. Implementation structure for support from European funds
2. Overview of activities in the process of administration of ESIF support
3. Overview of ECA audit and verification missions to the Czech Republic in 2021 and 2022
4. Overview of Commission audit and verification missions to the Czech Republic in 2021 and 2022

Annex 1: Implementation structure for support from European funds

## A) Capacity of PP14+ implementation structure

*Coordination level:*

**MoRD** (National Coordination Authority), **MoF** (Audit Authority, Paying and Certifying Authority), audit company: **BDO** (audit and certifying authority for CAP)

**3 entities**

*Implementation level:*

**IROP 14+** – managing authority: MoRD (already included at the coordination level), intermediate body: **Centre for Regional Development** (CRD), **13 implementers of integrated territorial investments** (7 urbanised areas involved in integrated territorial investments and 6 areas in integrated land development plans)

**14 entities**

**INTERREG CR–PL 14+** – managing authority: MoRD, intermediate body: CRD (included at the coordination level (within IROP))

**OP TA 14+** – managing authority: MoRD (already included at the coordination level)

**OPEm** – managing authority: **MoLSA,** participants in grant schemes: **the Labour Office of the CR, MoH, MoI**

**4 entities**

**OP RDE** – managing authority: **MoEYS,** implementers of integrated territorial investments (already included within IROP)

**1 entity**

**OP EIC** – managing authority: **MoIT,** intermediate body: **Business and Innovation Agency,** implementers of integrated territorial investments (already included within IROP)

**2 entities**

**OPT14+** – managing authority: **MoT,** intermediate body: **State Fund of Transport Infrastructure,** implementers of integrated territorial investments (already included within IROP)

**2 entities**

**OPEn 14+** – managing authority: **MoE**, intermediate bodies: **State Environmental Fund, Agency for Nature Conservation and Landscape Protection of the CR**

**3 entities**

**OP PGP** – managing authority: **Prague City Hall,** implementers of integrated territorial investments (already included within IROP)

**1 entity**

**OPF14+** – managing authority: **MoA**, intermediate body: **SAIF**

**2 entities**

**RDP14+** – managing authority: MoA, paying agency: SAIF (included within OPF14+), and also **other managing authorities in the area of the CAP** (Central Institute for

Supervising and Testing in Agriculture, Czech Environmental Inspectorate, Czech Breeding Inspectorate, Czech Agriculture and Food Inspection Authority, State Veterinary Administration, Institute for the State Control of Veterinary Biologicals and Medicines) **and professional institutions involved in the setting of the CAP and record-keeping** (Institute of Agricultural Economics and Information, Research Institute of Ameliorations and Soil Conservation, Agency for Nature Conservation and Landscape Protection of the CR – already included within IROP)

**8 entities**

***Central level*** **(coordination and implementation level)** **40 entities in total**

**Local action groups** (LAGs) – associations independent of political decision-making working in the form of community-led local development

***Local level*** **180 entities**

**Total number of entities involved in implementation (central and local level)**

**220 entities in total**

## B) Capacity of PP21+ implementation structure

***Coordination level:***

**MoRD** (National Coordination Authority), **MoF** (Audit Authority, Paying Authority), audit company: **Ernst & Young Audit** (certifying authority for CAP)

**3 entities**

***Implementation level:***

**IROP** – managing authority: MoRD (already included at the coordination level), intermediate body: **CRD, implementers of integrated territorial investments 13** (3 metropolitan areas and 10 agglomerations)

**14 entities**

**INTERREG CR–PL** – managing authority: MoRD, intermediate body: CRD (included at the coordination level (within IROP))

**OP TA** – managing authority: MoRD (already included at the coordination level)

**OPEm+** – managing authority: **MoLSA,** part of the grant schemes: **Labour Office**

**2 entities**

**OP JAK –** managing authority: **MoEYS,** implementers of integrated territorial investments (already included within IROP)

**1 entity**

**OP TAC** – managing authority: **MoIT,** intermediate body: **Business and Innovation Agency,** implementers of integrated territorial investments (already included within IROP)

**2 entities**

**OPT** – managing authority: **MoT**, intermediate body: **State Fund of Transport Infrastructure**

**2 entities**

**OPEn** – managing authority: **MoE**, intermediate bodies: **State Environmental Fund, Agency for Nature Conservation and Landscape Protection of the CR**, implementers of integrated territorial investments (already included within IROP)

**3 entities**

**OPFT** – managing authority: MoE, intermediate bodies: State Environmental Fund, Agency for Nature Conservation and Landscape Protection of the CR (already included within OPEn)

**OP AMIF** (OP *Asylum, Migration and Integration Fund 2021–2027)* – managing authority: **MoI**

**1 entity**

**OP ISF** (OP *Internal Security Fund 2021–2027*) – managing authority: MoI (already included in OP AMIF)

**OP IBMV** (OP *Instrument for Financial Support for Border Management and Visa Policy 2021–2027)* – managing authority: MoI (already included in OP AMIF)

**OPF** – managing authority: **MoA**, intermediate body: **SAIF**

**2 entities**

**CAP SP** ("Rural Development" intervention only) – managing authority: MoA, paying agency: SAIF (included within OPF), and also **other managing authorities in the area of the CAP** (Central Institute for Supervising and Testing in Agriculture, Czech Environmental Inspectorate, Czech Breeding Inspectorate, Czech Agriculture and Food Inspection Authority, State Veterinary Administration, Institute for the State Control of Veterinary Biologicals and Medicines) **and professional institutions involved in the setting of the CAP, partial administration and record-keeping** (Institute of Agricultural Economics and Information, Research Institute of Ameliorations and Soil Conservation, Wine Fund)

**9 entities**

***Central level* (coordination and implementation level)** **39 entities in total**

***Local level*** (**LAGs,** April 2021)

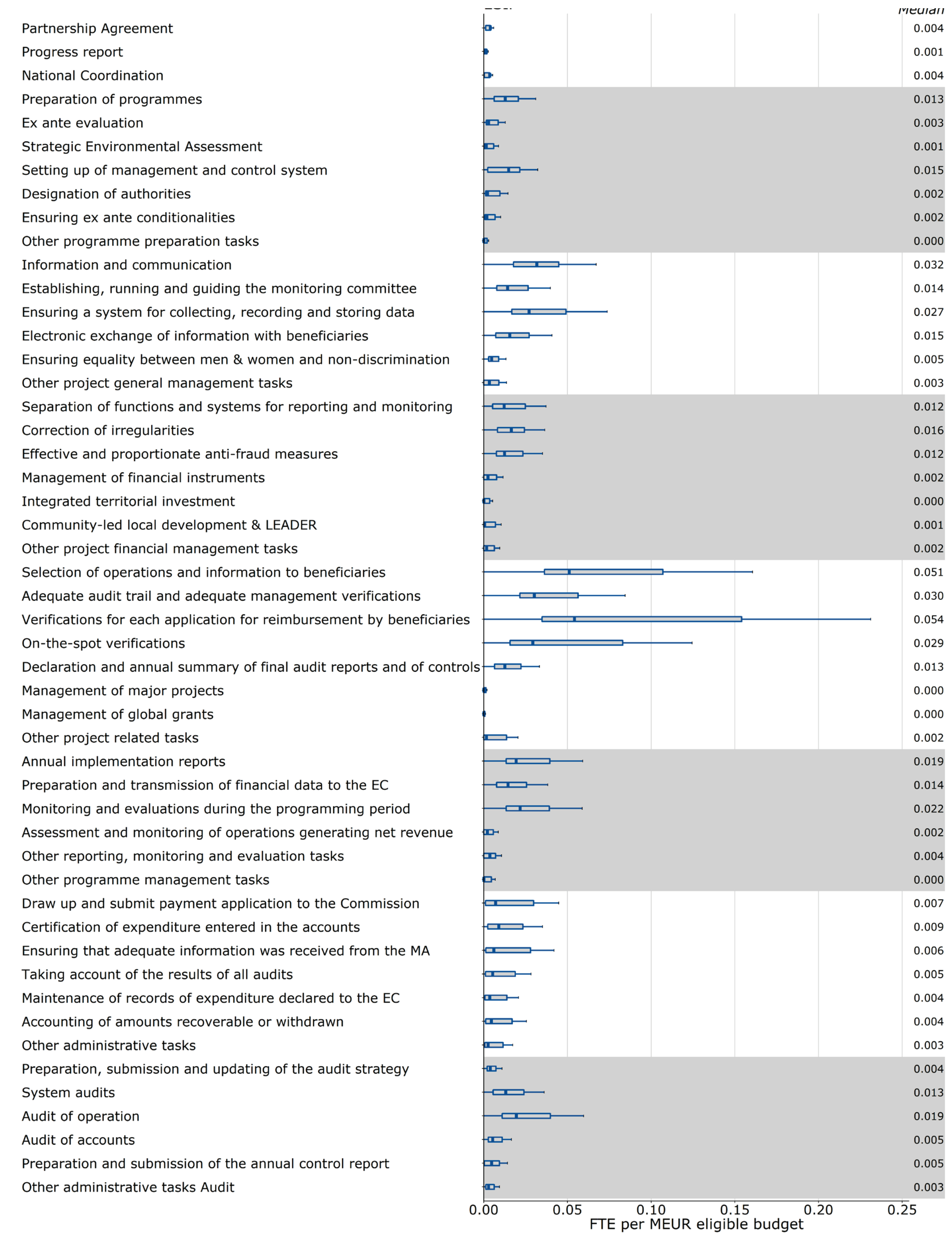
**180 entities**

**Total number of entities involved in implementation (central and local level)**

**219 entities in total**

**Note:** The entities are only included in the implementation structure once, even if they perform several functions – e.g. the MoRD plays the role of the National Coordination Authority and, at the same time, is the managing body of IROP, INTERREG CR-PL and OP TA.

## Annex 2: Overview of activities in the process of administration of ESIF support




Source: own elaboration based on 2018 database for ESIF administrative costs and burden

**Annex 3: Overview of ECA audit and verification missions to the Czech Republic in 2021 and 2022**

| Year | Audit number | Audit subject (programme) | Audit type (DAS / performance audit) | Audit form (on-the-spot / questionnaire) | Findings and recommendations | Measures adopted | Evaluation of implementation of measures |
|---|---|---|---|---|---|---|---|
| 2021 | CH1126859CS01-21PP-21CH-1008 | Performance audit related to coal regions undergoing transition | Performance audit | | | | |
| | CL-12841 | Audit to the statement of assurance for the financial year 2021 (AAR and FS 19/20) (OPEm) | DAS | Via questionnaire | Sent the requested sampling and subsampling records for OPEm; sent to dpt. 5209 on 5 August 2021, requested for the samples via ECA, sent responses to the AA regarding the findings on February 2022. | Audit concluded on 22 September 2022, no unjustified expenditure, recommendations were complied with. | 6 September – approval of the Commission follow-up |
| | CL-11439 | Verification of audit findings for the statement of assurance for financial year 2020: 2014–2020 | DAS | Via questionnaire | Draft report<br>1. Deficiencies in the sampling method.<br>2. Deficiencies in audit work and insufficient audit trail.<br>3. Insufficient national legal framework on VAT eligibility.<br>4. Impact of the findings on the calculation of TER and RTER.<br>Closure letter – findings 1 and 2 kept, finding 3 modified only for VAT adjustment at the level of the programme; finding 4 was modified according to the Commission's findings. | Reply from the AA to the findings identified in the Commission's draft audit report for Audit No REGC414CZ0157 | |
| | CL-12840 | Audit to the statement of assurance for the financial year 2021 (AAR and FS 19/20) (IROP) | DAS | Via questionnaire | The draft report contains six findings:<br>1) System – deficiencies in the AA's approach to selecting a sample of operations.<br>2) System – deficiencies in audit activities and insufficient audit trail.<br>3) System – insufficient national legal framework for the AA's financial corrections.<br>4) System – impact of findings on the Audit Authority's calculation of TER and RTER.<br>5) AA 3 – ineligible expenditure – insufficient calculation by the AA.<br>6) AA 6 – ineligible expenditure – insufficient calculation by the AA.<br>Submitted to the Commission for comments, sent following formal adjustment of the comments from the Commission on 22 February 2022 – response to the draft report from the AA to the ECA.<br>8 July 2022, closure letter – 1 and 2 reviewed to a minor systemic shortcoming, 3 and 4 – kept, 5 and 6 – change in the proposed financial corrections. | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2022 | CL-13517 | Audit work for the ECA's 2022 statement of assurance 2014–2020 programme period – OP RDE | DAS | | Notification letter of 19 September 2022. | | |
| | CL-13518 | Audit to the statement of assurance for the financial year 2022: programming period 2014–2020, Operational Programme 2014CZ16RFOP001 "Enterprise and Innovation for Competitiveness", 22CH2SOA | Performance audit | On-the-spot | On 8 February 2023 the preliminary conclusions of the ECA audit in English were delivered, the Czech version was delivered on 3 March 2023. The deadline for sending the opinion on the conclusions of the audit was 14 April 2023 after an extension. | | |
| | CL-14055 | Audit to the statement of assurance for 2022 (22CH3MF4) – Czech Republic – Internal Security Fund (ISF) 2021–2027 – audit of audit authorities' systems | | On-the-spot | Notification letter sent on 19 September 2022.<br>Letter of 24 November 2022 on verification of preliminary findings from the inspection visit. | | |

Source: AA data, April 2022.
Note: AAR = annual audit report.
FS = financial statements.

**Annex 4: Overview of Commission audit and verification missions to the Czech Republic in 2021 and 2022**

| Year | Date of the mission | Audited OP | Audit number | Audit subject | State of the contradictory proceedings | Findings and recommendations | Measures adopted | Evaluation of implementation of measures |
|---|---|---|---|---|---|---|---|---|
| 2021 | 13 February 2023 FollowUp | OP RDE | EMPG 314CZ0706 | Review of the work of audit authorities / compliance audits in the 2014–2020 period. OP RDE, CCI: 2014CZ05M2OP001. | Concluded | Since the Member State accepted the unjustified expenditure ascertained and the Member State authorities have implemented all audit recommendations, including the financial corrections required in Annex II to audit conclusions No EMPG314CZ0706, the Commission does not adopt any further measures and the audit is therefore concluded. | | |
| | 13 March 2023 TIC | OP RDE, OPEm, OP PGP | REGC 414CZ0153 | OP RDE, OPEm, OP PGP – thematic audit 2014–2020 to the annual report | Concluded | European Commission bodies do not consider any further follow-up to be necessary and this audit is therefore concluded. | | |
| | 25 May – 3 August | OP TA | REGC 414CZ0233 | Review of the work of the AA – obtain reasonable assurance that there will be no serious deficiencies in the MCS that will remain undetected, unreported and thus uncorrected. | Concluded | Finding 01<br>Key requirement: KR02 – suitable selection of operations; evaluation criteria: AC 2.5 Insufficient procedure for verifying evaluators' conflicts of interest (recommendations: ensure that each evaluator signs a declaration of no conflict of interest from the position of the national authorities, integrate the definition of conflict of interest directly into the IT monitoring system, update the procedure manuals, etc.).<br>Finding 02<br>Category: public procurement – national rules; subcategory: contract notice and tender selection; project: *Overheads of the centre financed through OP TA 2017–2019* (recommendation: during an audit of the tender procedure, verify the completeness of the information pursuant to Art. 123 (b) of the Public Procurement Act; the AA should supplement the checklist with questions on compliance with Art. 123 (b)) | Recommendation 01.01: adopted; the MA has incorporated the text into the management documentation;<br>recommendation 02.01: adopted; after updating the methodological guideline, the above question was further specified in accordance with recommendation 02.01 for the relevant tender procedures. | Recommendation 01.01 is concluded;<br>recommendation 02.01 is concluded. |

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|---|---|---|---|---|---|---|---|---|
| | 21 September – 27 November | IROP | REGC 414CZ0157 | Memorandum of the planned investigations *Review of the work of audit authorities / compliance audits in the 2014–2020 period;* CCI: 2014CZ16RFOP002 | In progress | Final Audit Report of 29 September 2021<br>Finding 1 – Re-calculation of the total error rate (TER) / residual total error rate (RTER)<br>Finding 2 – Unreasonable and discriminatory requirements concerning the number of required reference contracts<br>Finding 3 – Discriminatory setting of technical specifications<br>Finding 4 – Increase in the financial correction to 25% for breach of the Public Procurement Act<br>Finding 5 – Material change in the contractual commitment | Response to the final audit report No REGC414CZ0157 sent on 24 November 2021.<br>Recommendation for finding 4 adopted – increasing the correction from 5 to 25% of the public contract amount.<br>In April 2023, a response to a follow-up audit will be sent – recommendation for finding 3 adopted – 10% correction for public procurement. | Recommendation 01.01 is concluded;<br>recommendation 02.01 is concluded;<br>recommendation 04.01 is concluded;<br>recommendation 05.01 is concluded. |
| | 26 November | OPF | 2021/CZ/ KR7/MARE | Thematic Audits 2014 – 2020: *System audit on the effective and proportionate anti-fraud measures implemented, taking into account the risks identified*; CCI: 2014CZ14MFOP001 | Concluded | Final Report of 26 November 2021 | | |
| | 4 January – 5 October | OPPIK / OPPI | DAC214 CZ1022 | Obtain reasonable assurance that management and control systems are operating efficiently in relation to the durability of infrastructure investments. The key requirements that are audited are: key requirement 2: appropriate selection of operations; key requirement 4: adequate verification of management focusing on the status of the beneficiaries (SMEs or large enterprises) and on the durability of infrastructure investments. +Follow-up Programme 2007CZ161PO004 Enterprise and Innovation (ref. Ares(2021)2130698) | In progress | *Thematic audits 2014–2020* – OP EIC 2014–2020 notification letter – English version Ares(2021)5207095 of 20 August 2021; notification letter – Czech version Ares(2021)5692580 of 17 September 2021; draft report – English version Ares(2021)7906801 of 21 December 2021; draft report – Czech version Ares(2022)693567 of 31 January 2022; final report – English version Ares(2022)3938010 of 25 May 2022; final report – Czech version Ares(2022)4789232 of 30 June 2022; response of the Czech authorities to final report Ares(2022)5987357 of 29 August 2022 | | |

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|---|---|---|---|---|---|---|---|---|
| 2022 | 13 – 17 June | AA<br>(OP PGP) | DAC214<br>CZ1353 | Audit of the work of the AA – key requirement 16 adequate operations audits, sample of eight projects extended to nine, all supplementary documents from 5209 to be submitted by 11 July | In progress | English draft report dated 14 October 2022, two main findings with financial impact, Czech draft dated 2 December 2022, comments of the MA and the AA dated 2 December 2022.<br>Commission's final report dated 20 March 2023, one finding with a potential financial impact if the relevant documents are not provided. Documents already submitted in MS2014+ in December 2022, links to these documents emailed again on 28 March 2023, no response by 13 April 2023.<br>No Czech version of the report available as at 13 April 2023. | Joint response MR opinion 2 December 2022.<br>Opinion sent to the SFC on 20 December 2022;<br>documents submitted in MS2014+ on 28 March 2023. | |
| | 3 – 14 October | IROP | DAC214<br>CZ1354 | The main objective of the audit is to obtain reasonable assurance that the MCS operates effectively, in particular:<br>- key requirement 4: appropriate management control;<br>- key requirement 5: adequate audit trail.<br>The audit was performed in two phases. The first phase will take place remotely from 3 to 7 October 2022 and completed by an on-the-spot visit in the premises of the beneficiaries of selected operations. The visit is planned for the week from 10 to 14 October 2022. | In progress | On 11 August 2022, receipt of a letter of initiation (Ares(2021)5700629) – Memorandum of the planned investigations *Thematic audits 2014–2020*.<br>Draft report of 20 February 2023.<br>Finding 1 – missing procedures for checking the sustainability of operations.<br>Finding 2 – insufficient verification of the applicants' financial capacity.<br>Finding 3 – ineligible expenditure.<br>Finding 4 – insufficient transparency and/or unequal treatment during evaluation of public contracts. | | |
| | | OPF | Thematic audit/ MARE/E1 | EPM ‚Thematic audits 2014–2020' European Maritime and Fisheries Fund – Operational Programme for the Czech Republic, CCI 2014CZ14MFOP001 | In progress | Notice of 10 June 2022. | | |

Source: AA data, April 2022.