Czech Republic
Supreme Audit Office

EU REPORT 2024

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

OPENING MESSAGE FROM THE SAO PRESIDENT

Dear readers,

The month of May marked 20 years since we joined the European Union. Over that period, the Czech Republic's net position, i.e. the balance between what the country receives from the European budget and what it pays in, exceeded CZK 1 trillion.

20 years and one trillion Czech crowns. This combination naturally held the promise of growth, prosperity and enhanced competitiveness. Yet in recent years – after an undeniably promising start – the statistics have not corroborated this promise. The subsidy system, which was supposed to significantly help us reach the desired standard of living in the West, started to stall somewhere along the way and stopped delivering the expected results.

The fault lies with us. We will not move forward unless and until a strategic decision on our desired destination is made, concrete goals are set and their implementation is thoroughly scrutinised. The absence of clear, rational rules and of uncompromising penalisation of non-compliance has naturally created fertile ground for actors who know the system and its weaknesses. They will either take complete control of it and bend it to their will, or they will at least exploit it for as much as they can. One consequence is that huge resources are spread over tens of thousands of small projects without multiplier effects.

What can be done about this? This is probably our final chance to put things right, as the 2028–2034 programming period is likely to be our last as net beneficiaries. The European Commission will present its first proposals in mid–2025. It is time to prepare a new subsidies infrastructure and decide the direction we will take. The analysis contained in the Draghi Report shows that the whole of Europe finds itself in a bind.

And the more than two hundred audits of EU spending that the Supreme Audit Office has completed in the 20 years of EU membership provide a sufficient source of data for informed decision-making.

I have drawn up a list of ten rules that we should follow:

- An economy not dependent on subsidies should be the norm.
- Subsidies must deliver value for money for taxpayers.
- Subsidies only where public benefit is proven.
- Subsidies should go to beneficiaries, not to intermediaries.
- Just because something has been approved by Brussels does not mean that it is good.
- Accountability when subsidies are provided for things that make little sense.
- All unnecessary paperwork must be abolished.
- Every crown provided in subsidies must be under public scrutiny.
- The effectiveness of support should be ensured by introducing repayable loans or demanding high co-financing from beneficiaries.
- Subsidy funds are not manna from heaven. They do not fall from the sky and are not intended for everyone.

There is strength in simplicity. If the religious belief and the functioning of Western Christian society can be summed up in ten commandments, that should also be possible for the subsidy system, which is definitely much less complicated.

Miloslav Kala,
SAO President

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Editors' notes:

In line with the principles governing the substantive and formal content of EU reports, this publication focuses on the period from April 2023 to March 2024. For this reason, the editorial deadline for the *EU Report 2024* was set at 31 March 2024. The publication presents (bar a few exceptions) aggregate data, numerical values and contextual information available as at that date. This principle is only breached in exceptional cases in the *EU Report 2024,* where the relevance and thematic context of the data shared justify this. These data, however, are not subject to analysis or comparison and are purely illustrative.

Slight differences in the totals shown in the tables may be due to rounding.

As in several previous editions of the EU Report, the documents for selected parts of this publication were prepared by the relevant organisational units of the Ministry of Regional Development (MoRD), the Ministry of Finance (MoF) and the *State Agricultural Intervention Fund* (SAIF), which play an indispensable role in the process of implementing EU budget support. The Audit Authority (AA – Department 52 of the Ministry of Finance) provided information about its outputs in the field of public audits and audits of EU funds; the National Coordination Authority (NCA – an organisational unit of the MoRD) provided information about the absorption of EU funds; and the SAIF provided materials for the subchapters on the Common Agricultural Policy (CAP) and the Common Fisheries Policy (CFP). The report's authors would like to thank everyone in the aforesaid institutions for their traditionally professional approach to drawing up the materials.

LIST OF ABBREVIATIONS

AMIF	*Asylum, Migration and Integration Fund*
3E	effectiveness, efficiency and economy
AA	Audit Authority (Department 52 of the Ministry of Finance)
AAR	annual audit report(s) of the Audit Authority
AE	audited entity
AIS	SAO Audit Information System
***Antivirus* programme**	*Antivirus* employment support programme
audits under review	SAO audits related to the EU budget and completed in the period under review
BISS	Basic Income Support for Sustainability
BMVI	Border Management and Visa Instrument
CAP	EU Common Agricultural Policy
CF	*Cohesion Fund*
CFP	EU Common Fisheries Policy
Chamber of Deputies	Chamber of Deputies of the Parliament of the Czech Republic
CID	binding conditions for the implementation of the *National Recovery Plan* (the Council Implementing Decision)
CJEU	Court of Justice of the European Union
CMO	EU Common Market Organisation
Cohesion Policy	economic, social and territorial cohesion policy
Commission	European Commission
Council	Council of the European Union
CP 2023	*Convergence Programme of the Czech Republic (April 2023)*
CR	Czech Republic
DAC	EU Directive on Administrative Cooperation in the Field of Taxation
DAS	Statement of Assurance (Déclaration d´assurance)
Department of EU Funds	Department of European Union Home Affairs Funds of the Ministry of the Interior
EAFRD	*European Agricultural Fund for Rural Development*
EAGF	*European Agricultural Guarantee Fund*
EC	European Commission
ECA	European Court of Auditors
EP	European Parliament
EPPO	European Public Prosecutor’s Office
ERDF	*European Regional Development Fund*
ESIF	*European Structural and Investment Funds*
ETS	EU Emissions Trading System

EU	European Union
EU funds	European funds in PP21+ under shared management
EU Pilot	structured dialogue system for dealing with non-compliance with EU law
EU-27	27 EU Member States
EU-28	27 EU Member States and the United Kingdom
EUSF	*European Union Solidarity Fund*
FA	financial audit
Financial Regulation	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
FI	financial instrument
FTE	full-time equivalent
GDDKIA	General Directorate for National Roads and Motorways of the Republic of Poland (Generalna Dyrekcja Dróg Krajowych i Autostrad)
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.
GFD	General Financial Directorate
GNI	gross national income
IHIS	Institute of Health Information and Statistics of the Czech Republic
IMS	Irregularities Management System
INTERREG CR–PL	Cross-border Cooperation Programme PP14+ *Interreg V-A Czech Republic – Poland*
INTERREG CR–PL21+	*Czech Republic – Poland Interreg 2021–2027 programme*
IROP14+	*Integrated Regional Operational Programme 2014–2020*
IRP	*Integrated Regional Programme 2021–2027*
IRS	Integrated Rescue System
IS	implementation structure of EU funds in the Czech Republic
ISF	*Internal Security Fund*

LO	Labour Office of the Czech Republic
LPIS	Land Parcel Identification System
MA	managing authority
MCS	management and control system
MF	*Modernisation Fund*
MFF	Multiannual Financial Framework
MoA	Ministry of Agriculture
MoE	Ministry of the Environment
MoF	Ministry of Finance
MoH	Ministry of Health
MoI	Ministry of the Interior
MoJ	Ministry of Justice
MoLSA	Ministry of Labour and Social Affairs
MoRD	Ministry of Regional Development
MoRD-NCA	National Coordination Authority (organisational unit of the Ministry of Regional Development)
MoT	Ministry of Transport
MS	Member State
NAFS	National Strategy for the Protection of the European Union's Financial Interests (National Anti-Fraud Strategy)
Needs	needs related to risk and disaster management
NeHS	National eHealth Strategy
NEP	*National Environment Programme*
NGEU	NextGenerationEU (the EU's Recovery Facility)
NGS	*New Green Savings Programme*
NRecP	*National Recovery Plan*
NRefP 2023	*National Reform Programme of the Czech Republic 2023*
NRefP 2023 Report	Report on the Implementation of the *National Reform Programme of the Czech Republic 2023*
NUTS2	composite regions, known as cohesion regions (non-administrative units with a population of between 800,000 and 3,000,000)
OLAF	European Anti-Fraud Office
OP	operational programme
OP EIC	OP *Enterprise and Innovation for Competitiveness*
OP JAK	OP *Jan Amos Komenský*
OPJT	OP *Just Transition*
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 Plus*
OPEn	OP *Environment 2021–2027*
OPEn14+	OP *Environment 2014–2020*
OPF	OP *Fisheries 2021–2027*
OPF14+	OP *Fisheries 2014–2020*
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*
p.p.	percentage point
PA	Partnership Agreement
period under review	1 April 2023 to 31 March 2024
PMA 3	use of process management elements and introduction of standards for the performance of priority public administration agendas project
PP4+	Programming Period 2004–2006
PP14+	Programming Period 2014–2020
PP21+	Programming Period 2021–2027
PP28+	Programming Period 2028–2034
PP7+	Programming Period 2007–2013
RDI	research, development and innovation
RDP14+	*Rural Development Programme 2014–2020*
RDP7+	*Rural Development Programme 2007–2013*
Report	*34th Annual Report on the Protection of the European Union's Financial interests – Fight against fraud – 2022*
RES	renewable energy sources
RMD	Road and Motorway Directorate of the Czech Republic
RMR	*Report on Risks and Measures for the Implementation of EU funds as of 31 December 2023* (Risks and Measures Report)
RRF	Recovery and Resilience Facility
SAIF	*State Agricultural Intervention Fund*
SAO	Supreme Audit Office
SDGs	UN Sustainable Development Goals
SEF	*State Environmental Fund*
Semester	European Semester
Senate	Senate of the Parliament of the Czech Republic
SFD	*Strategic Framework for the Development of Public Administration of the Czech Republic for the 2014–2020 Period*

SFTI	*State Fund for Transport Infrastructure*
SME	small and medium-sized enterprises
SO	specific objective
SP CAP 23+	*Strategic Plan of the Common Agricultural Policy of the Czech Republic for the 2023–2027 period*
Taxation Report	*Annual Report on Taxation for 2023*
TFEU	Treaty on the Functioning of the European Union
TOR	traditional own resources
Transposition Report	*Government Report on the Transposition of Legislative Obligations arising from the Czech Republic's Membership in the European Union*
V4	Visegrad Four
VAT	value added tax
ViDA	European Commission initiative on VAT in the digital age

Abbreviations of countries used in chart legends

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

A. TWENTY YEARS OF IMPLEMENTING EU SUPPORT

In 2024 the Czech Republic (CR) celebrated the twentieth anniversary of its accession to the European Union (EU). It drew down support for various EU policies during this period, and the **resulting balance between revenues and contributions (the net position) reached almost EUR 46 billion, i.e. a positive net position of approximately CZK 1.06 trillion.**

Charts on the Czech Republic's revenues, payments into the EU budget, net position and drawdowns from EU funds according to MoF data can be found here.

During this twenty-year period the SAO completed **208 thematic audits** focused on the distribution of EU funds. Analysis of the results of its audits and other publicly available information leads the SAO to conclude that the Czech Republic has moved from problems with slow absorption of allocated funds and from simple subsidy fraud to drawdown which is technically correct and compliant but whose benefits are often insufficient and fail to deliver the expected added value that would enable the CR at least to keep pace with the majority of EU Member States. The nature of the audit findings changed over the years and the SAO formulated specific recommendations (see Annex 1), many of which were put into practice by the ministries and other audited institutions. Despite this, the system for distributing EU budget funds has become largely resistant to efforts to reform it.

The most problematic areas of the Czech subsidy system include the following:

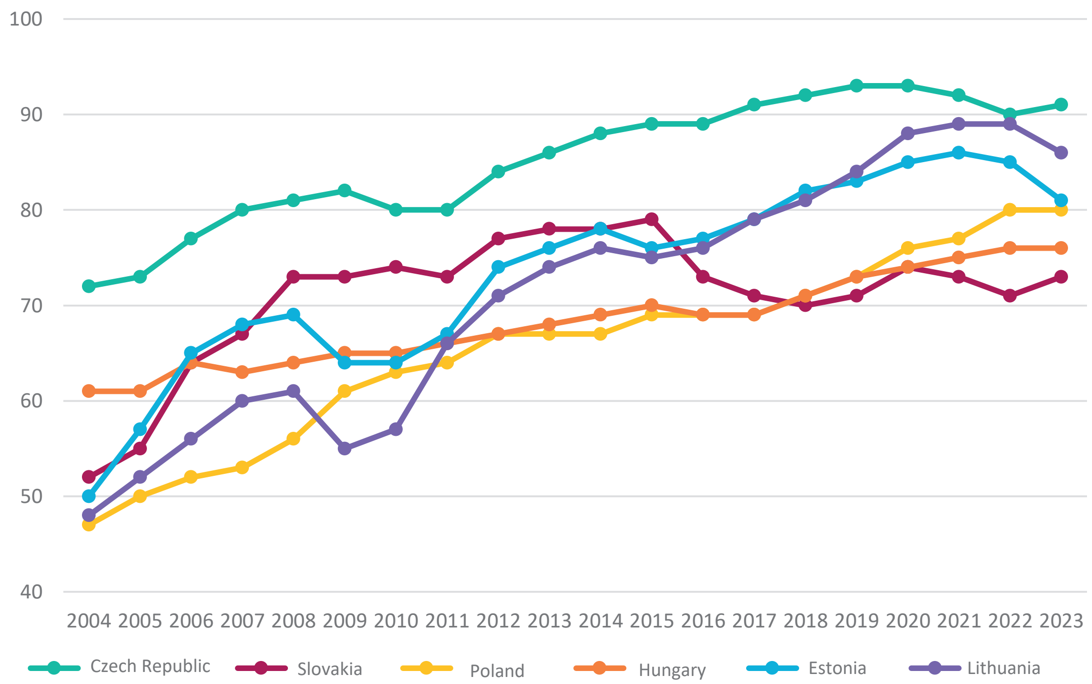
- Subsidies are not concentrated in areas of strategic national interest, but are spread over a large number of projects in a wide range of areas with low added value. The dynamics of the Czech Republic's convergence towards the EU average has slowed down compared to some countries that joined the EU in the same year.

Thirteen countries have joined the EU since the beginning of 2004. From 2003 to 2022, all those countries registered a statistical rise in living standards (in terms of GDP in purchasing power parity compared to the EU-27 average). The Czech Republic's percentage improvement in this parameter was 19 percentage points (p.p.), but Poland and Lithuania, for example, achieved rises of 33 p.p. and 38 p.p. respectively compared to the EU average.

These new MS comprise a total of 67 European NUTS2 regions. A total of 65 of these European regions have seen their GDP at purchasing power parity increase compared to the EU average over the past 20 years, with only Cyprus and the Czech Republic's Northwest region, comprising the Ústí nad Labem and Karlovy Vary administrative regions, showing a decline.[1]

1 https://ec.europa.eu/eurostat/databrowser/view/nama_10r_2gdp__custom_12610459/default/table?lang=en.

Chart 1: GDP growth in selected EU countries in purchasing power parity compared to the EU average (100%)



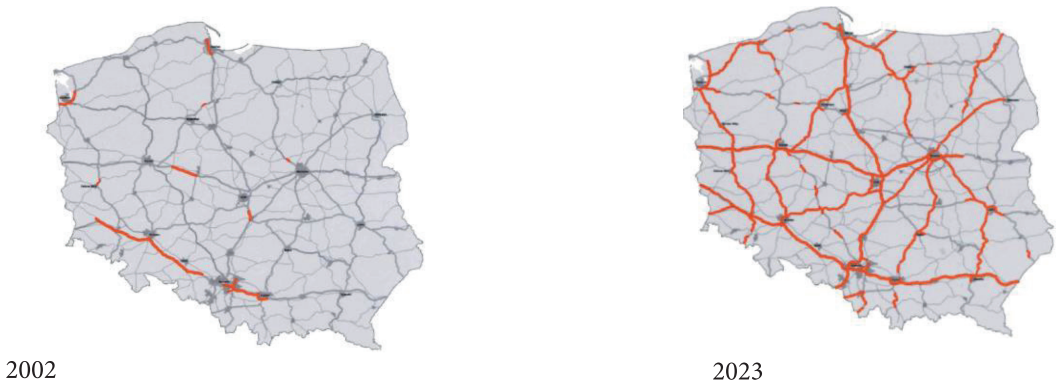
Source:
2004 https://ec.europa.eu/eurostat/documents/2995521/5188566/2-03062005-BP-EN.PDF/2f9cbcd6-8fe7-46f0-bc71-04fdb0d9b27f;
2005 https://ec.europa.eu/eurostat/documents/2995521/5240918/2-15062006-BP-EN.PDF/c83f0640-40b4-4400-b5b2-dd55f5126ed5;
2006+2007 https://ec.europa.eu/eurostat/documents/3433488/5584112/KS-SF-08-112-EN.PDF/1525ad79-fd56-4e13-99fd-07d75cf2f832;
2008–2010 https://ec.europa.eu/commission/presscorner/detail/en/STAT_11_186;
2011 https://ec.europa.eu/eurostat/documents/2995521/5155842/2-13122012-AP-EN.PDF;
2012+ https://ec.europa.eu/eurostat/databrowser/view/tec00114/default/table?lang=en&category=t_na10.t_nama10.t_nama_10_ma.

The development and building of infrastructure is an example of the strategic channelling of EU funds into key segments of the economy. In its assessment of the achievements of the Member States that joined the EU in 2004, the Commission states that in the other three countries making up the Visegrad Four (V4), i.e. Poland, Hungary and Slovakia, the length of the motorway network has increased threefold.[2]

On the occasion of the World Road Congress in Prague in October 2023, the Polish motorway and expressway authority (GDDKIA) announced that it has enlarged its network of motorways and expressways by 4,534 km since 2002. Data from the Czech Road and Motorway Directorate (RMD) show that the pace of construction of new motorway sections in the Czech Republic is more than 10 times slower.[3]

2 https://commission.europa.eu/topics/eu-enlargement/20-years-together/20-years-together-facts-and-figures-about-benefits-enlargement-eu_en.
3 https://www.gov.pl/web/gddkia;
https://www.sydos.cz/cs/rocenky.htm;
https://www.rsd.cz/wps/portal/;
https://www.gov.pl/web/gddkia/podsumowanie-2023-roku;
https://ec.europa.eu/eurostat/data/database.

Figure 1: Comparison of the motorway and expressway network in Poland in 2002 and 2023



Source: https://www.gov.pl/web/gddkia.

Figure 2: Comparison of the motorway network in the Czech Republic in 2002 and 2023

Motorway sections opened by 31 December 2002 Motorway sections newly opened by 31 December 2023

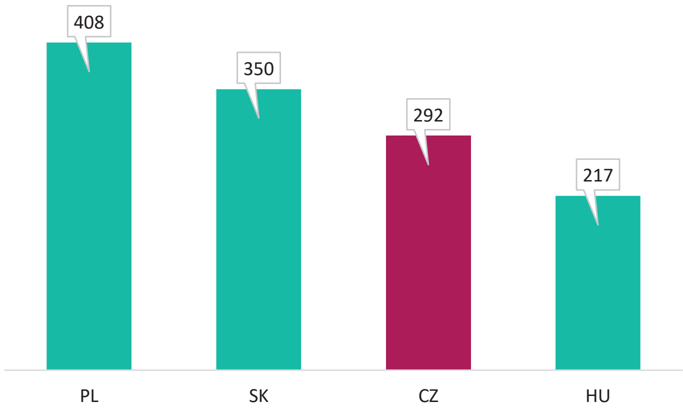
Source: maps by the RMD, modifications by the SAO.

Note: The expressways in Poland are rated in the same way as Class II motorways in the Czech Republic and R motorways in Slovakia and Hungary. In 2023, 266.5 km of motorways and expressways were put into operation in Poland, whereas in the Czech Republic, according to the Transport Yearbook, only 25 km of Class I and II motorways were put into operation. In terms of the length of motorways per population, Poland has already overtaken the Czech Republic, but in terms of the density of motorways per km2 of territory, Poland remains in the fourth place.
Length of motorways in Poland and the Czech Republic as of 31 December 2023, in Hungary and Slovakia as of 31 December 2022.
Population and area according to Eurostat data[4].

In Poland, the development of the motorway and expressway network is supported by a high level of subsidies from European funds, the highest among the V4 countries. In per capita terms, the level of EU support in the Czech Republic is less than 72% compared to Poland.

4 Eurostat is the statistical office of the European Union.

Chart 2: Amount of EU funds disbursed in PP14+ for public roads in V4 countries (in EUR/capita)



Source: https://cohesiondata.ec.europa.eu/2014-2020-Categorisation/ESIF-2014-2020-ERDF-CF-ESF-raw-categorisation/xe4p-7b9q/about_data (PP14+, Commission);
https://ec.europa.eu/eurostat/data/database, population as of 1 January 2024.

Note: For the calculation of reimbursed expenditure, actual Commission data was used (intervention area 28-36).

- Subsides are given to areas with low absorption capacity where there is no real demand for subsidies.

Audit No 20/14[5] – The support absorption rate is constrained by low absorption capacity. Of the CZK 11,700 million earmarked for increasing the use of urban electric-traction public transport, at least 34%, i.e. CZK 3,944.19 million will not be utilised.

Audit No 20/19[6] – The energy savings targets for residential buildings that we committed to in IROP14+ and New Green Savings were set significantly too high. They were consequently not achieved, despite the fact that they were supposed to help achieve the *Europe 2020* national target. The IROP14+ and New Green Savings programmes used only a part of the allocation of funds earmarked for the respective calls: specifically, just under 32% of the total IROP14+ allocation (CZK 11,350 million) and 33% of the NGS allocation (CZK 1,500 million).

- Part of the subsidies is channelled into areas where there is no evidence that the CR lags behind the European average, so the subsidy support does not deliver the maximum possible effect. One example is the employment sector, where the Czech Republic, with its low unemployment rate, is a leader among EU Member States.

Audit No 22/28[7] – In the *FLEXI* project, only 8.4% of the envisaged number of participants were supported by job sharing. The project was intended to help mainly long-term registered jobseekers. However, only 12.1% of the persons supported by the project were long-term registered jobseekers. The *Outplacement* project helped 86.8% of the supported persons to find employment. The training courses offered did not match their field of interest and educational structure, however.

In the *Antivirus* programme, which was partly financed from OPEm, the Ministry of Labour and Social Affairs (MoLSA) put in place conditions for selecting eligible applicants that led to the widespread provision of support to employers who did not need support to maintain the number of employees, because they were experiencing an increase in net turnover, profits and the number of employees at the time when COVID-19 was spreading. For example, one employer in the retail sector included in the SAO audit sample was found not to have been adversely affected by the COVID-19 pandemic, experiencing a CZK 10.5 billion increase in net turnover and an 11.1% increase in the number of employees. Nevertheless, the employer received support of CZK 48.1 million under the *Antivirus* programme.

5 Audit No 20/14 – *Support for the use of city public transport using electric traction from the Operational Programme Transport 2014–2020.*
6 Audit No 20/19 – *Measures aimed at reducing energy consumption of residential buildings supported from the Integrated Regional Operational Programme and the New Green Savings programme.*
7 Audit No 22/28 – *State budget and EU funds earmarked for employment support.*

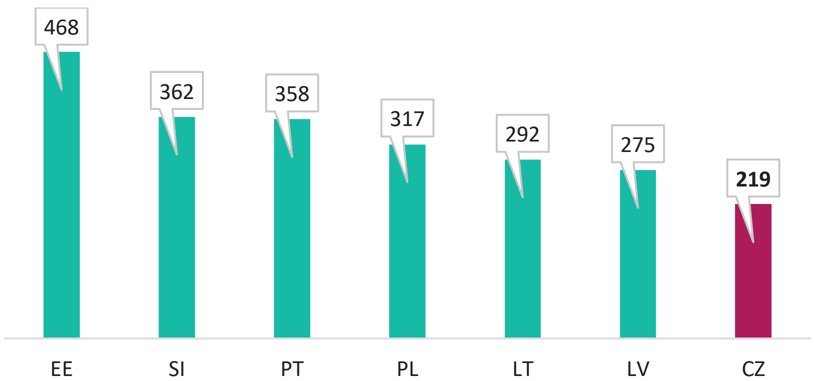
- The state is too generous in the level of support it provides, which is often as much as 70% of the estimated eligible costs, or even more. This does not motivate the beneficiary to behave rationally, i.e. to execute the project in the most economical and efficient way.

Audit No 17/06[8] – The MoA did not set limits for most of the eligible expenditure for the audited project measures under RDP7+ and also under RDP14+ throughout the programming periods[9]. There was not even any limit placed on the scope of the subject matter of the grant for the applicant. This shortcoming posed a risk to the economic, efficient and effective use of public funds. For example, the subsidy rate for the construction of game observation facilities was 100%, so the beneficiary did not have to contribute financially to the project. One example is a situation where the beneficiary received a subsidy for building five game observation posts: the beneficiary received CZK 348,000 for one of them and CZK 295,000 for each of the others. Similarly, the MoA did not set limits in the case of expenditure on the reconstruction of forest roads after calamities, as a result of which the price of repairing one metre of road was significantly higher (costing up to CZK 13,000) than the price of one metre of rebuilt road where a limit was set (CZK 3,000).

- The state does not sufficiently assess the impact of support and continues to subsidise areas that have demonstrably failed to use EU funds to increase their competitiveness and efficiency.

The Czech Republic received subsidies from the ESI Funds (in PP14+) for science and research amounting to EUR 219/capita. In terms of priorities in this area, this ranks it seventh among the EU-27 Member States. Nevertheless, other indicators relating to the amount of total expenditure in relation to GDP, the number of patents applied for and the number of the most cited scientific publications are evidence of insufficient prioritisation of "science and research" and at the same time a lower efficiency of spending in the CR.[10]

Chart 3: Funds spent from EU subsidies on science and research in selected EU Member States (in EUR/capita)



Source: https://cohesiondata.ec.europa.eu/2014-2020-Categorisation/ESIF-2014-2020-ERDF-CF-ESF-raw-categorisation/xe4p-7b9q/about_data (PP14+, Commission).

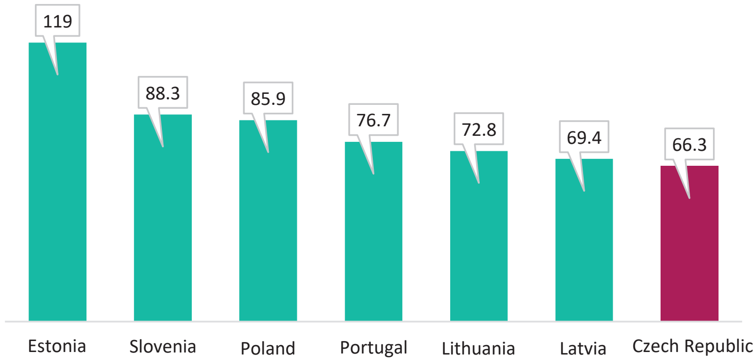
Note: Current Commission data was used to calculate the reimbursed expenditure.
Population according to Eurostat data as of 1 January 2024.

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

9 Limits were only set for the expenditure groups *"project documentation"* and *"technical documentation"*. For some measures, the MoA did set limits on "purchase of real estate" and "purchase of land".

10 https://cohesiondata.ec.europa.eu/2014-2020-Categorisation/ESIF-2014-2020-ERDF-CF-ESF-raw-categorisation/xe4p-7b9q/about_data; https://csu.gov.cz/produkty/pocet-uznanych-patentu-byl-loni-rekordne-nizky; https://research-and-innovation.ec.europa.eu/statistics/performance-indicators/european-innovation-scoreboard_en#european-innovation-scoreboard-2024; https://op.europa.eu/en/publication-detail/-/publication/c683268c-3cdc-11ef-ab8f-01aa75ed71a1/language-en/format-PDF/source-search; https://tind.wipo.int/record/48220?v=pdf.

Chart 4: Evaluation of the level of intellectual property of selected EU Member States (%)



Source: European Innovation Scoreboard 2024.
Note: Expressed as a % of the EU average in the assessment of the number of patent, trademark and design applications for the seven selected EU countries.

According to the Global Innovation Index 2023[11], the Czech Republic's innovation performance is ranked 31st out of 132 countries. According to the European Innovation Scoreboard 2024[12], the CR belongs in the group of moderate innovators and is currently ranked 19th in the EU-27. The CR has most room for improvement in indicators related to intellectual property, number of patents filed, lifelong learning, share of most cited publications and workforce flexibility.

The CR ranked 15th in the EU in terms of production of articles and scientific publications per 1,000 researchers in 2022[13], but their global usability in terms of publication in the top 10% most reputable and cited publications has long been low[14].

- Over the years, the subsidy system has been significantly influenced by powerful market players who have contributed to putting in place conditions that allow them to draw down subsidies to the maximum extent of the systemic support provided through the project measures set out in the programming documents.

Audit No 21/33[15] – Although micro, small and medium-sized enterprises could utilise funds from operation 16.2.2 *Support for the development of new products, processes and technologies in the processing of agricultural products and their marketing,* the Ministry of Agriculture (MoA) put in place conditions favouring large enterprises. The conditions for drawing subsidies from RDP14+ were designed in such a way that expenditure on cooperation with research entities (a key element of the operation) accounted for only a minimal percentage of expenditure in large and financially significant projects (roughly 0.7% to 1% of total expenditure) and was around CZK 1 million. This was the mandatory minimum threshold for projects above CZK 10 million. Applicants from large enterprises which mainly implemented large and costly projects with expenditures of over CZK 50 million could thus spend most of the funds on acquiring machinery and technology and on building alterations, and they used this subsidy opportunity mainly to finance investments. The conditions for micro, small and medium-sized enterprises (MSMEs) were not sufficiently motivating and their interest was therefore low.

11 https://www.wipo.int/global_innovation_index/en/2023/.
12 https://research-and-innovation.ec.europa.eu/statistics/performance-indicators/european-innovation-scoreboard_en#european-innovation-scoreboard-2024.
13 https://op.europa.eu/en/publication-detail/-/publication/c683268c-3cdc-11ef-ab8f-01aa75ed71a1/language-en/format-PDF/source-search; page 169, Figure 3.1-10.
14 https://op.europa.eu/en/publication-detail/-/publication/c683268c-3cdc-11ef-ab8f-01aa75ed71a1/language-en/format-PDF/source-search; page 179, Figure 3.1.-20.
15 Audit No 21/33 – *State and EU funds spent by the Ministry of Agriculture to support the processing of agricultural products.*

What does the SAO think needs to be changed?

Given that programme support from the EU budget runs in seven-year cycles, fundamental systemic changes, even at national level, cannot be made in a matter of months. It is therefore necessary at this stage to clearly identify the areas where EU support will have the greatest and, in terms of national priorities, the most desirable impact. This is where the Czech Republic must focus all its negotiating efforts when preparing the Partnership Agreement for the 2028–2034 programming period.

To ensure the next programming period is designed appropriately, but also to ensure the proper and efficient functioning of individual sectoral policies more generally, the SAO calls for the following recommendations to be respected:

- **Analyse the areas of the economy most in need of public support** and put in place a multi-source financing system with appropriate financial instruments to increase the involvement of private capital.

- **Limit the number of subsidy titles** so that funds are targeted where they will deliver the greatest added value to the State and its citizens, while also ensuring the necessary synergies.

- **Harmonise and simplify the rules for granting support** and thus for carrying up the subsequent audit work. Ensure the conditions apply across all departments.

- **Limit the subsidy's maximum share** of eligible costs so that it does not lose its motivating function.

- **Conduct** rigorous interim and ex-post evaluation of the performance of spending policies and their implementing programmes and adopt flexible measures to improve the effectiveness of the support provided.

- **Strengthen the emphasis on performance** when drawing up the state budget and introduce a new format for reporting the performance of individual government policies at the aggregate level in the state final accounts.

- **Optimise the multiple administrative capacities** in the case of some existing programmes by reducing the number of "intermediate bodies" with the same territorial scope, which would streamline support provision and bring savings.

- **Make** procedures for submitting applications and their subsequent administration **transparent and simple** so that applicants/beneficiaries are able to handle these tasks themselves and do not have to turn to specialised agencies that provide these services for a fee. This "subsidies business" makes the implementation of the provided support much more expensive and thus reduces its efficiency.

- **Expand** the use of simplified forms of cost reporting.

SECTION I

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

B. SAO AUDIT WORK IN THE PERIOD UNDER REVIEW (04/2023–03/2024)

B.1 OVERVIEW OF APPROVED SAO AUDIT CONCLUSIONS

The *EU Report 2024* summarises the results of the SAO's audit activities for the 12-month period from 1 April 2023 to 31 March 2024 (the period under review). During the period under review, the SAO Board approved a total of fourteen audit conclusions from audits that entirely or at least in part concerned EU budget funds. The high proportion of the SAO's audit work accounted for by audits dealing with EU budget funds shows that auditing EU budget funds is a long-term priority for the SAO.

Table 1: Overview of Audits under review

Audit No	Audit subject	Published in SAO Bulletin (volume/year)
21/37	*State and EU funds earmarked for D1 motorway modernisation*	3/2023
22/06	*Funds spent on projects and activities to ensure the modernisation of public administration*	1/2024
22/08	*State and EU funds earmarked for the construction of the D35 motorway*	4/2023
22/09	*State and EU funds earmarked for measures for the protection and care of nature and landscape*	3/2023
22/14	*State funds spent to increase preparedness for managing risks and disasters*	3/2023
22/15	*State and EU funds earmarked for the support of fisheries in the Czech Republic from the Fisheries Operational Programme 2014–2020*	3/2023
22/17	*Closing account of state budget chapter „Ministry of Agriculture" for 2022, accounting of the Ministry of Agriculture for 2022, and data submitted by the Ministry of Agriculture for evaluation of state budget implementation for the year 2022*	4/2023
22/18	*Closing account of state budget chapter „Ministry of the Environment" for 2022, accounting of the Ministry of the Environment for 2022, and data submitted by the Ministry of the Environment for evaluation of state budget implementation for the year 2022*	6/2023
22/20	*Funds spent on the implementation of selected objectives of the National eHealth Strategy*	4/2023
22/23	*VAT administration with a focus on the area of excessive deductions*	6/2023
22/24	*State and EU funds for the construction of sewers*	4/2023
22/28	*State and EU budget funds earmarked for employment support*	6/2023
22/30	*Funds spent in connection with palliative care*	4/2023
23/06	*State and EU funds spent on measures of the Rural Development Programme for the period 2014-2020*	1/2024

Source: AIS, March 2024.
Note.: The colour designation of the monitored audits corresponds to their purpose according to the legend:

	Financial audit
	Natural resources
	Revenues
	Cohesion and competitiveness

In this reporting period, the most frequently targeted area relating to EU budget funds was again *"cohesion and competitiveness"*, although this time it "only" accounted for 50% of the audits in question.

This time the audit work included two financial audits (FAs). This type of audit has its own specific features differentiating it from legality or performance audits, and the nature of its 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. The following statistical summaries (in subchapter B.1) therefore do not include Audits Nos 22/17 and 22/18 (see subchapter B.4 for more details).

In the twelve audits that are not categorised as financial audits, 83 entities ("audited entity") were audited by the SAO. Some audited entities featured in more than one audit.

Chart 5: Distribution of audited entities according to the SAO's audit findings

Source: AIS, March 2024.

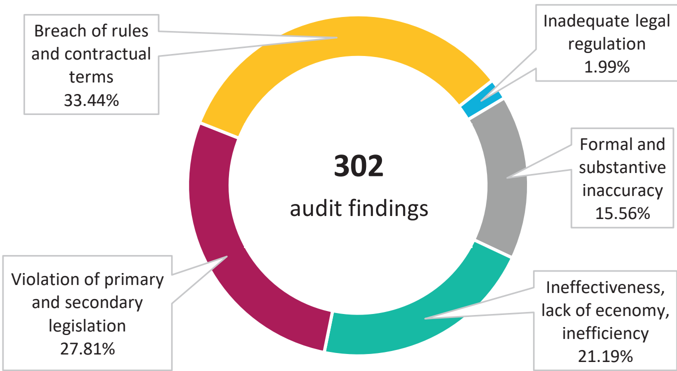
The SAO found a total of 302 shortcomings in the audits under review (excluding financial audits). Most of the identified shortcomings are by their very nature not quantifiable, but the SAO identified 24 findings at project level (the selected sample) as quantifiable – these totalled CZK 153.56 million. At the systemic level (management and control system errors), the SAO quantified seven other deficiencies affecting an amount of CZK 82.80 million.

The volume of recoverable deficiencies identified in the audits under review (all at project level) was CZK 12.96 million, with EU budget funds accounting for CZK 10.70 million of that sum.

In six of the audits under review (including one FA), deficiencies were identified which induced the SAO to submit a total of 15 notifications to the relevant tax administrator for further action.[16]

16 The SAO submits notifications to tax administrators pursuant to Section 59 of Act No 280/2009 Coll., the Tax Code. During the period under review, the notifications concerned Audit No 22/30 (eight notifications), Audit No 22/09 (three notifications) and Audits Nos 22/06, 22/14, 22/18 and 22/28 (one notification each).

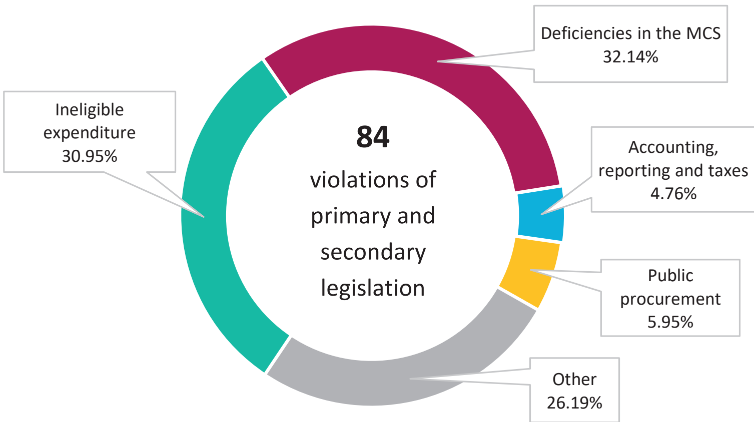
Chart 6: Shares of the individual categories of audit findings



Source: AIS, March 2024.

Of the 302 audit findings mentioned above, 84 were classified as *"violations of primary and secondary legislation"*.[17] The breakdown of audit findings (excluding FA findings) in this category is shown in the following chart.

Chart 7: Nature and degree of violation of legal regulations



Source: AIS, March 2024.
Note: Each finding is classified according to the main legislation violated. If, for example, there was a violation of the Public Procurement Act that resulted in ineligible expenditure qualified as a violation of the Budget Rules Act, this finding was only categorised as *"public procurement"*.
The violations covered by the "*other*" category in the period under review mainly concern public administration, construction, nature protection and the digitalisation of health care.

Compared to the previous reporting period (see subchapter B.1 of the EU Report 2023), the most frequent breaches of legal regulations were in the *"MCS shortcomings"* category, which overtook *"ineligible expenditure"*.[18] Together, these two categories account for more than 63% of the *"violations of primary and secondary legislation"* found in the audits. The number of findings in the area of *"public procurement"* continues to decline in both relative and absolute terms.

17 This category includes breaches of binding EU law, national legislation and government resolutions.
18 This category includes ineligible expenditure in individual projects, ineligible projects and ineligible beneficiaries.

B.2 LEGALITY AUDITS AND PERFORMANCE AUDITS RELATING TO EU BUDGET EXPENDITURE

This subchapter summarises the basic information and principal findings published by the SAO in the audit reports of the 11 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 the largest group of audits related to the EU budget every year. Seven audits were in this group in the period under review.

Audit No 21/37 – ***State and EU funds earmarked for D1 motorway modernisation***

The aim of the audit was to verify whether the funds earmarked for the modernisation of the D1 motorway were spent efficiently, economically, effectively and in accordance with the legal regulations, taking into account the quality of motorway modernisation.

During the audit, the SAO scrutinised the Ministry of Transport's (MoT) decision-making on the D1 motorway modernisation, and the procedure followed by the *State Fund for Transport Infrastructure* (SFTI) in securing the financing of this modernisation and by the Road and Motorway Directorate when preparing and carrying out the work.

The SAO audited the provision, drawdown and use of state and EU funds earmarked for the modernisation of the D1 motorway. The SAO examined the preparation and implementation of the construction project for the modernisation of five sections with a total investment cost of CZK 6,791.88 million. The SAO audited the RMD's procedure for identifying and resolving defects using a sample of 12 defects on eight modernised sections of the motorway. The defects selected for the audit consist in damage to the road surface of the modernised motorway that could worsen the driving experience for motorway users.

The audit was hampered by the unavailability of some documents and information due to a cyber-attack on the RMD's information systems in May 2022.

In previous years, the issue of the D1 motorway modernisation was covered by Audits Nos 19/10, 16/06 and 13/27.[19]

At system level, funds in excess of CZK 28,113 million were audited (of which more than CZK 14,000 million was from the EU budget). At project level, only national funds worth approximately CZK 6,792 million were audited.

Shortcomings identified by the SAO

The shortcomings identified were indicative of reduced effectiveness, economy and efficiency of the funds spent, or a risk of reduced effectiveness, economy and efficiency. Furthermore, the SAO audit found that the MoT did not properly fulfil the obligations imposed on it by law.

The modernisation of the D1 motorway has not been completed and neither the RMD, the MoT nor the SFTI has an overall timetable and financial plan for all the projects needed for its completion. The MoT has not defined a specific target state or precise criteria, procedures and data sources for measuring achievement of the modernisation project's goals.

19 Audit No 19/10 – *Repair and maintenance of road bridges*; Audit No 16/06 – *Funds earmarked for modernisation of the D1 motorway;* and Audit No 13/27 – *Funds earmarked for road repair and maintenance projects.*

The modernised part of the motorway still has bridges and overpasses in a condition that threatens the safety and fluidity of traffic on the motorway. The MoT does not have an overview of the current condition of bridges and overpasses or the progress of repairs to bridges and overpasses, even though the SAO drew its attention to this back in 2020[20]. **In this area, the MoT has not properly fulfilled its obligation** (under Section 22 of Act No 2/1969 Coll.[21]) **to examine societal issues within its area of competence, to analyse the results achieved and to take measures to address current issues.**

At the time of the SAO's audit, the RMD had claimed 605 defects on 13 modernised motorway sections and was drawing up further complaints. **The documentation of defects was incomplete and inconsistent, posing a risk of complications in complaints procedures.** The RMD's records of routine inspections of the motorway were unreliable; the RMD did not carry out "main inspections" of the upgraded sections of the motorway.

The RMD did not ensure that contractors repaired defects to a high standard and within the set time limits. Repeated occurrences of defects are evidence of the poor quality of repairs, in some cases resulting from non-compliance with the repairs procedures and conditions set by the RMD. **Shoddy defect repairs result in uneven road surfaces and have a negative impact on motorway users' driving experience, but improving the driving experience was one of the objectives of the motorway modernisation.**

The modernised motorway's road surface is damaged by the high incidence of overloaded vehicles, which reduces the road surface's service life. The MoT did not address this issue in connection with the modernisation of the D1 motorway. The high-speed weighing system, which was supposed to help reduce the incidence of vehicle overloading, is non-functional. The shortcomings which the SAO pointed out in 2019[22] have not been remedied by the MoT.

There continues to be a shortage of parking spaces for heavy goods vehicles on the modernised part of the D1 motorway. During the motorway modernisation work, the RMD increased the number of parking spaces for heavy goods vehicles by 169, which is only about 55% of the missing capacity of rest areas between Mirošovice and Kývalka.

Proposals and implementation of measures to remedy identified deficiencies

As part of the OP Transport 2021–2027 evaluation plan, the MoT envisages an evaluation project entitled *Evaluation of the benefits of the D1 motorway modernisation in the Kývalka–Mirošovice section.* The evaluation will focus on comparing the accuracy of the assumptions and the actual results achieved. The evaluation of the achieved results (benefits) and the progress of the D1 motorway modernisation will be carried out by the RMD by 31 December 2028.

The RMD will prepare an up-to-date overview of the condition of bridges and overpasses on the D1 motorway and a schedule for the completion of bridge and overpass repairs and renovation. The MoT will continuously monitor and evaluate this schedule. The RMD also anticipates the introduction of a systemic measure for all completed building works. This measure will consist in a comprehensive "main inspection", including the necessary diagnostics just before the end of the warranty period, in order to claim all defects covered by the contractor's warranty.

20 See Audit No 19/10.
21 Act of the Czech National Council No 2/1969 Coll., on the establishment of ministries and other central authorities of state administration of the Czech Republic.
22 Audit No 18/34 – *Implementation of Intelligent Transport Systems (ITS) in the road infrastructure of the Czech Republic*.

Audit No 22/06 – ***Funds spent on projects and activities to ensure the modernisation of public administration***

The aim of the audit was to examine whether the Ministry of the Interior (MoI) spent funds for the modernisation and streamlining of public administration efficiently and effectively and whether it achieved the objectives set by *Strategic Framework for the Development of Public Administration of the Czech Republic for the 2014–2020 Period* (SFD). At the same time, the SAO focused on the optimisation of the system for financing the exercise of state administration in delegated competence and reducing the regulatory burden.

The audit scrutinised the funds spent on modernising public administration, which were supposed to deliver the objectives defined in the SFD. The audit focused on *Use of process management elements and introduction of standards for the performance of priority agendas of public administration* (PMA 3), a project that was central to achieving the objectives defined in the SFD and resolving problems and shortcomings that have long dogged public administration. The PMA 3 project was funded through OP *Employment 2014–2020* (OPEm). In previous years this issue was addressed in Audit No 14/15.[23]

The audited funds amounted to CZK 82,214.63 million at system level[24] and CZK 121.67 million at project level (with CZK 98.39 million of that amount coming from the EU budget). The SAO quantified the identified project-level shortcomings at CZK 121.67 million (of which CZK 98.39 million was from the EU budget).

The SAO notified the tax administrator of a suspected breach of budgetary discipline with a possible maximum financial impact of CZK 7.07 million (of which CZK 5.71 million was from the EU budget).

Shortcomings identified by the SAO

The SAO found deficiencies in the various phases of the PMA 3 project. These errors were mainly in the submission of project changes, the transmission of information, the execution of the project per se and, most notably, the quality of the project outputs.

The SAO found that, during the implementation of the PMA 3 project, the MoI abandoned the process modelling and standardisation of public administration agendas and focused the project on tackling the needs of citizens and situations and events in citizens' lives rather than on optimising internal public administration processes. **The PMA 3 project's activities and outputs did not fulfil the project's main objective or specific objective 1.1 of the SFD,** which consisted in introducing agenda standards and improving the quality of public administration. The MoI thus failed to achieve specific objective 1 of the SFD, which comprised the modernisation of public administration through the development of process management and standardisation of agendas. **The problems that were supposed to be eliminated by implementing the SFD (above all ignorance of the processes through which specific agendas are carried out and inconsistencies in the way individual agendas and activities are handled at different levels of public administration bodies) thus remained unresolved.**

By shifting the project away from the originally approved activities, the MoI also failed to achieve the important specific objective 4.1.1 of the OPEm, which is focused on the efficiency and optimisation of processes and procedures in public administration and whose achievement was directly dependent on achieving the objectives of the PMA 3 project. According to the OPEm programming document, improving the functioning of public administration institutions was directly linked to creating process models for public administration agendas, standardising the most commonly used ones and defining the financing of delegated state administration in line with the performance model. **This desired improvement has not been achieved by the MoI through the PMA 3 project.**

Given the failure to meet the defined objectives and the needs of public administration, the SAO concluded that the audited funds used for the implementation of the PMA 3 project were spent ineffectively, with the sum involved amounting to up to CZK 121.67 million. This was in no way altered

23 Audit No 14/15 – *Funds spent on projects and measures to support and achieve efficient public administration, including the realisation of cost savings.*

24 This is an amount disbursed from the state budget in the form of a contribution to the delegated exercise of tate administration and does not include any EU funds.

by the fact that the changes to the project submitted by the MoI were approved by the OPEm managing authority, which was not an audited entity in this audit. According to the audit findings, the MA approved the fundamental changes to the PMA 3 project even though redefining the project's key activities precluded the achievement of the project's principal objective and thus also the related relevant objective of OPEm and the SFD.

The SAO also found that the MoI unnecessarily spent money developing at least 13 out of 15 government official competency models (one of the PMA 3 project outputs). The MoI wanted these models to redefine the roles/activities of officials in carrying out agendas and the requirements for their expertise, knowledge and skills. The information used by the MoI to define the individual models was publicly available in more comprehensive form on the *National System of Occupations* website curated by the MoLSA even before the project started. **The SAO concluded that the mere adoption of information from models already developed elsewhere was indicative of a breach of budgetary discipline with a value up to CZK 7.07 million, which was the sum allocated for the development of the competence models in the project budget.**

Proposals and implementation of measures to remedy identified deficiencies

At the time of the editorial deadline of the EU Report 2024, the MoI had not submitted its opinion to the Government of the Czech Republic proposing corrective measures.

Audit No 22/08 **– *State and EU funds earmarked for the construction of the D35 motorway***

The aim of the audit was to check whether the state and EU funds earmarked for the preparation and construction of the D35 motorway were spent efficiently, economically and in compliance with the legal regulations.

The SAO conducted a detailed audit of the preparation and construction of two sections of the D35 motorway and the preparation of 12 other sections. In the audit, the SAO focused on the fulfilment of the assumptions set out in the conceptual and strategic materials and on the activities of the MoT in preparing the construction of the D35 motorway. The SAO audited the use of state and EU funds earmarked for the preparation and implementation of selected D35 motorway building works.

The SAO assessed how the funds spent on the preparatory work and construction work helped to achieve the objectives set out in the MoT's conceptual and strategic materials. When evaluating the economy of spending, the SAO focused partly on the selection of suppliers, i.e. whether suppliers were selected in a sufficiently competitive environment.

In previous years, the area of motorway construction was mainly covered by Audits Nos 17/05 and 12/18.[25]

The audited funds amounted to CZK 96,559 million at system level and CZK 13,382 million at project level (of which CZK 6,835 million came from the EU budget).

Shortcomings identified by the SAO

The SAO identified circumstances that significantly reduce the effectiveness and economy of spending.

The conceptual plans for the construction of the D35 motorway approved by the government were not implemented. Construction began back in the 1970s. According to the conceptual material from 2001, construction of all sections was to start by 2010 at the latest. The MoT has also failed to comply with the updated timetables set out in the conceptual and strategic materials. Construction had not started on 11 sections at the time of the audit's completion. The RMD envisages that the entire length of the D35 motorway will be operational in 2030 – construction will then have lasted more than 50 years.

25 Audit No 17/05 – *Construction, modernisation and reconstruction of motorways; Audit No 12/18 – Funds earmarked for the construction of motorways and high-speed roads.*

Delays in the implementation of works have led to an increase in their costs. In addition to the effects of inflation, the increase in costs was due to modifications in the technical design of the building work, taking into account the results of additional surveys and studies or incorporating additional requirements for the building work.

The preparation of building works took 12 years on average. At the time of the audit, the RMD had completed the preparation of eight of the 14 audited building works. **The main reasons for the building works' long preparation time were problems which the RMD faced when obtaining planning permission and resolving issues of land ownership.** The main reasons for the long duration of zoning procedures were the RMD's submission of incomplete documents to the construction authority and the submission of objections and appeals by parties to the proceedings. No major delays were identified in the building permit procedures.

In two tender procedures for building work contractors, it was found that the procedure followed by the RMD caused delays that had an impact on the deadlines for the performance of the works; this primarily involved changes made to the tender documentation and lengthy assessment of the tenderers' qualifications.

In the case of two of the building works, an increase in construction costs was found to have been caused by errors in the project documentation; the cost increase will amount to at least CZK 220 million not including VAT. The building works had not been completed at the time of the audit.

Proposals and implementation of measures to remedy identified deficiencies

In its opinion for the Government of the Czech Republic, the MoT stated that medium-term action plans will be drawn up and these will take into account the situation in the economy and in public budgets and developments in the building work preparation process, including legislative changes. The MoT will strive to make wider use of BIM and automation in the transport department in order to streamline processes during implementation and to cut construction time. It will also incorporate risk analysis assessments into strategic planning, with risks analysed at project level and reflected in medium-term action plans.

Audit No 22/14 ***– State funds earmarked for increasing preparedness for risk and disaster management***

The aim of the audit was to examine whether state funds earmarked for improving preparedness for risk and disaster management were spent efficiently, economically and effectively and in compliance with the legal regulations.

The audit examined spending of EU and state budget funds under IROP14+ on increasing preparedness for risk and disaster management. The MoRD spent a total of CZK 5,060 million on this support in 2015–2022; 293 projects were implemented in total.

The audit at the MoRD focused on the conceptual framework of support from IROP14+, i.e. the setting of specific objectives and measurable indicators, the conditions for drawing down funds and the evaluation of how the implemented projects contributed to the programme's objectives. For the follow-up *Integrated Regional Programme* 2021–2027 (IRP), the method for setting the target value of output indicators, whose fulfilment was also evaluated under IROP14+ SO 1.3, and the interdependence of these indicators, was examined.

The audit focused on the MoI's activities as the substantive guarantor in the preparation and design of IROP14+ specific objective 1.3, in particular when defining the programme's objectives, requirements and indicators. The MoI was also audited as a support beneficiary in two projects implemented by the General Directorate of the Fire Rescue Service of the Czech Republic, which is part of the MoI.

The audit of selected beneficiaries, i.e. the audit of specific projects, examined the effectiveness, efficiency and economy of the funds spent, as well as the audited activities' compliance with legal regulations.

Funds in excess of CZK 5,417 million were audited at system level (with almost CZK 4,605 million coming from the EU budget). At project level, the volume of audited funds amounted to just under CZK 1,377 million (more than CZK 1,218 million of which came from the EU budget). The SAO filed one notification with the tax administrator.

Shortcomings identified by the SAO

In the audit, the SAO identified deficiencies that are indicative of a failure to achieve the stated objective, which was *"achieving full preparedness in exposed areas"* and which the MoRD defined in the IROP14+ programming document. The MoRD distributed the allocated funds between the supported activities without taking into account the needs of the basic components of the Integrated Rescue System (IRS) related to responding to and managing risks and disasters (the "Needs").

The MoRD set targets and put in place monitoring methods in a way that does not make it possible to evaluate the actual benefit of the money spent. The SAO has repeatedly pointed out similar shortcomings relating to non-measurable objectives that are difficult to evaluate and fulfil in previous audits of the provision of EU funds.

The SAO also found that the MoI had failed to define the Needs of the Police of the Czech Republic completely. The MoI presented the incomplete Needs in a document that underpinned the MoRD's setting of target values for the support provided and its call for the acquisition of equipment and material resources. After the Needs were defined, the allocated funds were drawn down by other components of the IRS. Consequently, the Police of the Czech Republic did not receive equipment and material resources for risk and disaster response and management. **This is one of the reasons why the MoRD will not achieve the objective of *"achieving full preparedness in exposed areas"*.**

During the audit of spending, the SAO found that the beneficiaries used the funds for the purpose for which they were intended. **The beneficiaries spent the funds economically and efficiently and in compliance with the legal regulations.** In the case of two of the projects audited, the efficiency rating was downgraded to "efficient with slight deficiencies".

Proposals and implementation of measures to remedy identified deficiencies

The MoRD will evaluate the subsidy funds' benefits for improving preparedness for risk and disaster response and management under IROP14+ SO 1.3 in a way that does not make use of the set indicators and in the form of a separate evaluation of the OP and selected specific objectives. According to the MoRD, this evaluation will make it possible to assess the benefits of the support provided. In this case, it will primarily be possible to quantify the spending's benefit in terms of reducing the number of exposed territories where the full readiness of all IRS components has not yet been ensured.

In PP21+, the *"number of exposed territories with insufficient preparedness of IRS components"* indicator, whose design and informational value were questioned by the SAO, is no longer used in IRP for monitoring progress towards achieving the SO.

The MoI took action in response to the SAO's finding that the Police of the Czech Republic did not implement any project in the context of the call for the acquisition of equipment (specific objective 1.3). For calls under the follow-up IRP specific objective 2.1, the MoI has put in place a new rule for the distribution of subsidy funds, where the ratio is 60% for the Police of the Czech Republic and 40% for the Fire Rescue Service of the Czech Republic.

Audit No 22/20 – ***Funds spent on the implementation of selected objectives of the National eHealth Strategy***

The aim of the audit was to examine whether the Ministry of Health (MoH) spent funds to achieve selected objectives[26] of the National eHealth Strategy (NeHS) in an economical and efficient manner that ensured the functioning of the eHealth system. The SAO also audited a project of the Na Homolce Hospital designed to modernise the hospital information system[27] and a project of the Institute of Health Information and Statistics of the Czech Republic (IHIS) designed to develop a unified and secure communication environment for data sharing[28].

Given the focus of this audit, scrutiny was directed solely at the project level, where funds amounting to just under CZK 370.54 million were audited (CZK 172.99 million from the EU).

Shortcomings identified by the SAO

The SAO found that the IHIS modified its project on the basis of a request for a project change. Its original purpose (i.e. building a unified environment for secure sharing of medical documentation) as defined both in the feasibility study and in the application for support was replaced by a solution that formally satisfied the conditions of the IROP14+ call but functioned on a qualitatively different level. **The new solution implemented only a narrow segment of health care digitalisation. The IROP14+ managing authority approved this change.**

Although the IHIS implemented the project in accordance with the rules of the call, the changes made to the project meant that the conditions put in place for sharing medical documentation between health service providers only made it possible to share a narrow segment of documentation relating to the performance and management of public-health and anti-epidemic activities. As a result, the project did not put in place a unified and secure communication interface that would allow health service providers to proceed according to Act No 325/2021 Coll., on the digitalisation of health care.

Because the originally intended objective of the IHIS project was not achieved, the Na Homolce Hospital could not connect its new hospital information system to the departmental eHealth infrastructure.

At the same time, the SAO found that the IHIS and the MoH did not achieve two selected specific objectives of the NeHS, namely 2.1 and 4.1. The intention of these objectives of the NeHS was to enable health care providers to share health records through a single secure environment (information system) and in standardised formats. The MoH incorporated this intention into Act No 325/2021 Coll., but an information system that would provide a unified and secure environment for sharing health data has not been created. The Health 2030 follow-up strategy envisages the sharing primarily of health care documentation index information, emergency health records and personal health records.

Proposals and implementation of measures to remedy identified deficiencies

The MoH accepted the SAO's audit findings and took corrective action consisting mainly in an amendment of Act No 325/2021 Coll., on the digitalisation of health care, and in the implementation of eHealth projects[29] financed in large part from *National Recovery Plan* and IRP funds. It will only be possible to assess the effectiveness of these measures after a follow-up audit.

Audit No 22/28 – ***State budget and EU funds earmarked for employment support***

The aim of the audit was to verify whether state budget and EU funds earmarked for employment support were spent efficiently and in compliance with the legal regulations.

The audit of the MoLSA and the Labour Office of the Czech Republic (LO) primarily focused on the

26 SO 2.1 Data sharing and communication between providers and SO 4.3 eHealth management.

27 Modernisation of the Hospital Information System of the Na Homolce Hospital was a project carried out by the hospital between 2020 and 2023. Total spending on the project was CZK 91,298,372.

28 Building key departmental eHealth infrastructure was a project carried out by the IHIS between 2017 and 2021. Total spending on the project was CZK 122,200,518.

29 The purpose of implementing these projects is to help remedy the aforesaid state of affairs and to develop eHealth on the intended scale.

provision of support to employers for employee wage compensation in connection with the protective measures taken by the state during the COVID-19 pandemic. This support was implemented within the framework of the *Antivirus* targeted employment support programme as an active employment policy instrument, which was partly financed out of OPEm. The audit checked the design and functioning of the OPEm management and control system.

The provision and use of funds in three selected projects implemented by the LO under OPEm was also examined. These projects were intended to help promote flexi-work and the creation of shared jobs (*FLEXI* project), to ensure long-term registered jobseekers' reintegration into the labour market (*PDU* project) and to improve the qualifications and adaptability of the workforce for occupational fields with better prospects in the context of the economic crisis (*Outplacement* project).

In previous years, this issue was mainly covered by Audits Nos 19/23, 18/28 and 15/20[30].

The audited funds at system level amounted to almost CZK 53,341 million[31] (with CZK 6,939 million coming from the EU budget) and at project level CZK 165 million (CZK 133 million from the EU). These figures include the audited funds for audited OPEm-supported projects. **At system level, recoverable shortcomings of CZK 0.33 million were identified (all from the state budget).**

Shortcomings identified by the SAO

The SAO found numerous breaches of the obligations laid down by EU and Czech legislation by the provider (the MoLSA) and the recipient (the Labour Office – LO). Some of the state and EU funds earmarked for employment support were spent inefficiently.

The MoLSA, as the OPEm managing authority, put in place a system for evaluating applications for support and selecting projects for support in a way that did not ensure that weaknesses linked to the setting of project objectives were eliminated. The MoLSA also designed the indicators system in such a way that in some cases it did not enable monitoring and evaluation of the projects' benefits. At the same time, the MoLSA did not put in place the right conditions for effective use of funds because it did not commit the beneficiary, i.e. the Labour Office, to deliver specific and measurable objectives and to implement key activities to a defined minimum extent in the *FLEXI* and *PDU* projects.

The SAO's audit of the LO found that only 8.4% of the expected number of participants in the *FLEXI* project were supported by shared jobs. The project was intended to help mainly long-term registered jobseekers. However, only 12.1% of the persons supported by the project were long-term registered jobseekers. The *Outplacement* project helped to mediate employment for 86.8% of the supported persons. The training courses offered did not match their interests and educational structure, however.

The SAO's audit of the design and implementation of support from the *Antivirus* programme, which was partly financed from OPEm, found that the MoLSA defined the conditions for selecting eligible applicants in a way that led to the blanket provision of support even to employers whose net turnover and profits were rising and whose workforce was growing at the time when COVID-19 was spreading. A total of CZK 9.8 billion was spent on supporting employers operating in sectors where there was no decline in production.

Antivirus support was repeatedly granted without prior approval from the Commission. In this regard the MoLSA did not comply with the state aid conditions. The MoLSA and the LO also failed to monitor and evaluate the impact of the support provided under the *Antivirus* programme. In its own control work, the LO did not check some of the fundamental conditions of the *Antivirus* programme that stemmed directly from the state aid rules laid down by the Commission. These included, for example, the condition that support should not go to struggling firms that posed a high risk that the money spent would not contribute to preserving jobs, or the condition setting a maximum amount of support in one of the *Antivirus* modes.

30 Audit No 19/23 – *Support for employment of people over 50 and for the policy of positive ageing from Operational Programme Employment*; Audit No 18/28 – *Funds earmarked for the implementation of measures of Operational Programme Employment 2014–2020 to increase employment and adaptability of the workforce;* Audit No 15/20 – *Investment incentives as a tool of active employment policy.*

31 This figure includes the total audited volume of funds at system level, i.e. including the funding of the entire Antivirus targeted employment support programme. The volume of funds audited at system level with a direct link to the OPEm amounted to CZK 8,575 million.

Measures to remedy identified shortcomings

The MoLSA accepted most of the SAO's audit findings and undertook to:

- introduce an obligation for beneficiaries to define at least one binding result indicator for direct allocation projects in OP *Employment Plus* (OPEm+); this indicator will have a material link to the project's objective and its expected benefits;
- issue recommendations to OPEm+ beneficiaries to formulate project objectives in a way that makes clear the expected benefits or results of the project;
- introduce an obligation to verify the intervention logic of each call in OPEm+ before it is discussed in the context of the programme partnership;
- draw up a single monthly employers' report that would facilitate data sharing for the purposes of monitoring and evaluating the impact of the support provided;
- amend Act No 435/2004 Coll., on employment, in a way allowing for further conditions concerning the part-time work allowance to be added to the government regulation; these conditions would correspond to the Commission's state aid rules;
- ensure additional reporting on beneficiaries of individual instances of Antivirus state aid exceeding EUR 100,000 in the relevant Commission monitoring systems;
- take into account the need to evaluate the impact of the Antivirus programme when defining the research objectives of the MoLSA;
- take into account the SAO's findings when preparing any possible future support for preserving jobs in crisis situations.

It will only be possible to assess the implementation and effectiveness of these measures after a follow-up audit.

Audit No 22/30 ***– Funds spent in connection with palliative care***

The aim of this audit was to examine how the MoH implemented two projects focused on palliative care supported by OPEm (support for mobile specialised palliative care and the work of palliative care teams in acute and follow-up care hospitals) and whether the state budget and EU funds spent in connection with palliative care were used efficiently and in compliance with legal regulations. The audit also examined the provision and use of non-investment and investment subsidies from the state budget intended to support palliative care in the Czech Republic. **The SAO assessed whether the audited funds were spent efficiently and in compliance with the legal regulations.**

During the audit of two projects co-financed by OPEm the SAO examined the compliance of the MoH's procedures with legal regulations, the fulfilment of the conditions for the use of the funds and the achievement of the set objectives. Under these umbrella projects the MoH provided subsidies to hospices and hospitals, that were the final beneficiaries of part of the funding. The SAO audited the subsidies award process, both the decision-making side and administrative work by the final beneficiaries in six selected projects.

The SAO also audited the MoH's subsidy programmes (investment and non-investment) that were focused on palliative care and fully financed from the state budget. The process of allocating subsidies, its transparency and compliance with legal regulations and other conditions, and the achievement of the defined objectives were examined.

The use of funds was examined with regard to the defined objectives and binding conditions in the implementation of 35 projects for selected beneficiaries (mainly palliative care providers). These included projects in programmes financed entirely from the state budget and those that came under the MoH's overarching projects co-financed from the EU budget.

The audited funds amounted to CZK 82.61 million at system level (no EU funds), and CZK 104.41 million at project level (of which CZK 76.55 million was EU funding). At project level, the identified shortcomings were quantified at CZK 2.04 million (CZK 0.03 million of which was from the EU budget). The SAO calculated the recoverable deficiencies to be CZK 1.73 million (all state budget). In response to the findings of its audit, the SAO submitted eight notifications of breaches of budgetary discipline to the tax administrators.

Shortcomings identified by the SAO

The SAO verified that the availability of palliative care in hospitals and hospices has increased thanks to the objectives of projects financed by both the EU and the state budget being achieved. Standards for the provision of these services have been developed and verified, the awareness of the professional and lay public has been raised and the facilities providing this type of care have been improved. **However, the MoH has not created tools to monitor the achievement of one of the objectives of a project supported under OPEm. There were also errors in the administration of the two umbrella projects and in the provision of subsidies under them. The MoH's errors resulted in part of the expenditure not being reimbursed from the EU budget due to ineligibility but remaining fully covered by the state budget of the CR.** The MoH also tolerated violations of the conditions by subsidy beneficiaries.

Proposals and implementation of measures to remedy identified deficiencies

The MoH has undertaken to carry out to the following remedial measures:

1. It will rigorously check the compliance of supplier selection with the legal regulations before using the existing framework agreement.
2. It declared its willingness to make the process of distributing subsidies from the state budget more transparent and, in particular, to improve control mechanisms and increase the frequency of checks on subsidy beneficiaries.

Given that the audited programmes are currently being closed, some remedial measures would no longer affect the spending process or could not even be adopted. However, the SAO expects that the MoH will take into account the findings of Audit No 22/30 when preparing and implementing its other subsidy programmes, which will lead to an overall improvement in the MoH's spending of state budget funds through these instruments.

B.2.2 MANAGEMENT OF NATURAL RESOURCES

The SAO focused on the EU budget heading *"natural resources and environment"* in four audits in the period under review.

Audit No 22/09 – ***State and European Union funds earmarked for measures for the protection and care of nature and landscape***

The aim of the audit was to verify whether the funds earmarked for the implementation of nature and landscape protection and care measures were spent effectively and in compliance with the legal regulations. The audit examined funds provided from OP *Environment 2014–2020* (OPEn14+) (specifically from priority axis 4 – *Protection and care of nature and landscape*) and several national programmes. The audit also examined the achievement of the set objectives and measures in the area of nature and landscape protection and care based on strategic and conceptual documents. In previous years, this issue was mainly covered by Audits Nos 16/10, 18/23 and 21/09.[32].

The audited funds amounted to CZK 10,621.37 million at system level, with CZK 9,551.51 million coming from the European Union budget. At project level, the volume of audited funds amounted to CZK 174.70 million (CZK 146.91 million from the EU budget). The SAO quantified the identified shortcomings of the audited projects at CZK 73.00 million (of which CZK 69.23 million came from the EU budget). The SAO identified deficiencies amounting to CZK 5.93 million as recoverable deficiencies (CZK 4.55 million from the EU budget).

The SAO notified the tax authorities of breaches of budgetary discipline in the case of three beneficiaries (two notifications concerned EU budget funds).

Shortcomings identified by the SAO

The SAO found deficiencies concerning the implementation and evaluation of the objectives of priority axis 4 of OPEn14+. The target values of some indicators set by the Ministry of the Environment (MoE) and used to assess the level of achievement of the objectives of OPEn14+ will not be met.[33] Specifically, four of the seven output indicators of OPEn14+ and one of the four result indicators for priority axis 4, whose values are based on implemented projects, will not be achieved by the end of the programming period. **On 31 December 2021, the indicators showed that the degree of achievement would range from just 0.67% to 15.12%.**

National subsidy titles were also audited and, in the case of programme funding, it was found that these too would not achieve their objectives to the extent planned. In the case of the *Landscape Care Programme* national subsidy title the MoE did not have indicators, parameters or other criteria that would allow it to objectively assess the benefits of the funding provided. In this regard the MoE therefore failed to proceed in compliance with Section 39(3) of Act No 218/2000 Coll.[34] in the years 2019–2021, because it failed, as the administrator of "Chapter 315 – Ministry of the Environment" of the state budget, to monitor and evaluate the economy, efficiency and effectiveness of the expenditure in question.

The audit also found deficiencies in the support beneficiaries. These included public procurement errors, incorrect accounting and internal control system failures. Specifically, the following deficiencies were found:

- violation of the principle of transparency and non-discrimination under Act No 134/2016 Coll.[35]; specifically, violation of the terms of public procurement in OPEn14+ by setting a shorter deadline for submission of tenders;
- breach of the terms of the subsidy by failure to report changes to the project;
- incorrect accounting in relation to the acquisition or technical improvement of tangible fixed assets;
- internal control system failings – when evaluating applications for support the Nature Conservation Agency of the Czech Republic did not exclude two projects even though the applicant did not provide documents within the set deadline.

The audit found deficiencies that were indicative of breaches of budgetary discipline. The funds in question were qualified as recoverable and the SAO filed a notification with the tax authorities for CZK 3.67 million.

The audit of the MoE found systemic deficiencies in the area of nature and landscape protection.

32 Audit No 16/10 – *Funds provided for the improvement of nature and landscape;* Audit No 18/23 – *Funds and state property managed by national park administrations;* Audit No 21/09 – *Funds spent on visitor infrastructure projects related to nature conservation.*

33 The planned indicator targets will not be met for the following objectives: ensuring the necessary care for the protected features in nationally important protected areas, halting the loss of biodiversity, preserving natural and landscape values, increasing the ecological stability of the landscape, and restoring the water regime of the landscape.

34 Act No 218/2000 Coll., on budgetary rules and amending some related laws (Budgetary Rules).

35 Act No 134/2016 Coll., on public procurement.

The MoE failed to perform the measures defined by the fundamental strategic nature and landscape documents by the set deadlines. The MoE did not proceed in compliance with Act No 114/1992 Coll.[36] when it failed to submit proposals for registration of the state's pre-emptive right to undeveloped land located outside the built-up area of municipalities in the territory of national parks, national nature reserves, national natural monuments and land related to caves in the land register and in some cases did not meet the legal deadline for exercising of the state's pre-emptive right to buy land located in naturally valuable specially protected areas.

Proposals and implementation of measures to remedy identified deficiencies

As the managing authority of OPEn14+, the MoE stated that for OP21+ greater emphasis was placed on more realistic predictions when setting indicator values, and these predictions were in most cases based on the unit costs of PP14+ projects.

According to the MoE, the upgrading of the ISOP (*Information System for Nature Protection*) registration system to ISOP 2 will help make the system for evaluating, planning and implementing nature and landscape care more effective and improve the targeting of interventions, as all activities supported by landscape programmes will be registered – in terms of area, volume and financial resources – in ISOP 2.

The MoE is to prepare an update of the *National Biodiversity Strategy of the Czech Republic* so that the shortcomings identified by the audit (insufficient staffing for monitoring the achievement of objectives and implementation of measures or inadequately defined responsibilities) are completely eliminated.

The MoE has reconsidered its intention concerning the obligation to record pre-emptive rights in the Land Registry. According to the legislative material under discussion, which the MoE referenced in its information on the status of implementation of the measures, the obligation is not actually erased, rather the MoE's obligation to submit a proposal for registration of the pre-emptive right to selected land in the Land Registry is modified.

Audit No 22/15 – ***State and EU funds earmarked for the support of fisheries in the Czech Republic from Operational Programme Fisheries 2014–2020***

The aim of this audit was to examine whether EU and state budget funds earmarked for the support of fisheries under OP *Fisheries 2014–2020* (OPF14+) are provided and spent effectively, economically and in compliance with the legal regulations. Additionally, the SAO assessed whether the subsidies were provided to end beneficiaries in accordance with the law, effectively and economically.

The audited activities were assessed with particular regard to their effectiveness, economy and compliance with legal provisions. The audit examined whether the MoA had properly set objectives and priorities for fisheries support in the programming and project documents. Subsequently, it was examined whether the funds spent under OPF14+ were provided by the MoA and *State Agricultural Intervention* Fund and used by the selected beneficiaries in an effective and economical manner and whether their spending contributed to the achievement of the set objectives. The SAO also scrutinised the adoption of measures to remedy the deficiencies identified in previous years by Audit No 13/28[37].

At system level, funds amounting to CZK 843.30 million were audited (of which CZK 635.30 million came from the EU budget). At project level, funds amounting to CZK 59.2 million were audited (of which CZK 46.3 million from the EU budget).

Shortcomings identified by the SAO

The SAO found the following shortcomings in the management and implementation of OPF14+:

- In OPF14+, the MoA set up support for the creation of producer organisations (measure 5.2.a) and

36 Act No 114/1992 Coll., on nature conservation and landscape protection
37 Audit No 13/28 – *Support for fisheries in the Czech Republic under Operational Programme Fisheries 2007–2013.*

the related area of production planning (measure 5.1). **Due to a lack of interest from potential beneficiaries, not a single subsidy application was submitted under these measures. Not one producer organisation, i.e. an association of fish breeders and processors mainly handling centralised purchasing and sales of fish, has been founded in the Czech Republic.** The allocation was not used, so the MoA cancelled both measures and transferred the funds to other measures.

- **The MoA did not set appropriate indicators to monitor the qualitative results of innovative projects and their contribution to the objectives of the programme or measure.**
- **The MoA did not set financial limits on eligible expenditure related to promotional campaigns, thus failing to put in place adequate conditions for the economical use of public funds.**
- Zařízení služeb MZe, s. p. o.,[38] an organisation set up to promote freshwater fish, planned to implement a total of 27 promotion projects under OPF14+. Due to administrative errors or deficiencies in the submitted grant applications, OPF14+ only funded five projects related to the *Fish on a Plate* project.
- One of the goals of the *Multiannual National Strategic Plan for Aquaculture 2014–2024* is to increase the consumption of freshwater fish. **Annual consumption of freshwater fish of domestic origin is stagnating, however.** Consumption was 1.29 kg per capita in 2017 and just 1.23 kg in 2021.
- The requirement to monitor income in the separate accounts of an aquaculture business is worded ambiguously and does not allow for a clear interpretation.

Proposals and implementation of measures to remedy identified deficiencies

The audit did not detect any deficiencies indicating a breach of budgetary discipline. However, the SAO, like the European Court of Auditors (ECA) in its Special Report No 25/2023 on the audit carried out on aquaculture support, draws attention to the importance of assessing how funding provided under OPF14+ contributes to the aquaculture sector's environmental sustainability and competitiveness. **That makes it necessary to improve performance monitoring, set appropriate indicators and monitor them continuously, and collect data and verify their accuracy and reliability.**

The SAO regards promotional campaigns as high-risk in terms of cost-effectiveness and therefore recommends that the MoA set limits on eligible expenditure for certain expenditure items similar to those applied to support for information and training events under the Rural Development Programme 2014–2020. These include the following expenditure items: travel expenses, instructors' remuneration, building/room rental expenses, expenses for renting technical equipment for events etc. If the MoA continues to carry out promotional campaigns aimed at increasing the consumption of freshwater fish, it is essential that the principles of economy, efficiency and effectiveness are respected.

Audit No 22/24 ***– State budget and EU funds earmarked for the construction of sewers***

The aim of the audit was to verify whether state budget and EU funds earmarked for the construction of sewers were spent economically, efficiently and effectively. The SAO audited the formal and substantive correctness of selected activities and assessed their economy, efficiency and effectiveness at the MoA, the MoE, the *State Environmental Fund* and beneficiaries, where it examined ten projects.

The SAO audited state budget and EU funds spent from MoE programmes designed to support the construction and technical improvement of water supply and sewerage infrastructure, as well as spending on sewer construction under OPEn14+ and the *National Environment Programme* (NEP) (both programmes come under the responsibility of the MoE). The audit verified the design and functioning of the MCS and examined selected projects.

38 State contributory organisation established by the MoA.

In previous years, this issue was mainly covered by Audits Nos 13/21 and 15/01.[39]

The audited funds amounted to CZK 24,112 million at system level (CZK 11,248 million from the EU budget) and CZK 209 million at project level (CZK 53 million from the EU budget). The SAO quantified the systemic shortcomings at CZK 437 million.

Shortcomings identified by the SAO

The audit covered national subsidy titles defined by the MoA in three programmes. In the first of these, the MoA did not demonstrate in the final evaluation of the programme that it had sufficiently monitored and evaluated the effectiveness of the state funds spent, as it did not set a minimum target for connecting the population concerned to the sewerage network. This shortcoming has already been remedied in the follow-up programmes.

Other funds from OPEn14+ and NPE were audited but the SAO found no shortcomings.

Proposals and implementation of measures to remedy identified deficiencies

As the MoA had already approved the revised programme documentation and set binding indicators before the SAO audit started, the SAO will not monitor any remedial measures.

Audit No 23/06 – ***State and European Union funds spent on measures under the Rural Development Programme 2014–2020***

The aim of this audit was to assess whether state and EU funds earmarked for selected measures of the *Rural Development Programme 2014–2020* (RDP14+) were spent efficiently, economically and in compliance with legal regulations and whether the objectives of the RDP14+ measures were achieved.

The audit checked the design and functioning of the MCS and examined supported projects relating to knowledge and information transfer, increasing the competitiveness and modernisation of agricultural holdings, diversification of non-farm income and young farmers start-up. With regard to the selected beneficiaries, the audit assessed whether funding for the implementation of the projects was used in an efficient and economical manner and in compliance with the set conditions.

At system level, the audited funds amounted to CZK 18,478.48 million[40] (from national and EU budget combined). At project level, the audited funds amounted to CZK 146.71 million (of which CZK 73.57 million came from the EU budget).[41]

In previous years, similar issues were covered by Audits Nos. 14/26, 15/09, 17/26, 18/08 and 21/33.[42]

Shortcomings identified by the SAO

The SAO found deficiencies in the design, management and implementation of RDP14+ that reduce the efficiency of the funding provided and drawn down and make it hard to verify whether the support's objectives and benefits were delivered. These errors mainly concerned the setting of objectives and also the monitoring and evaluation of the objectives, benefits and impacts of the support.

When designing RDP14+, the MoA (the RDP14+ managing authority) did not carry out a survey to gauge potential applicants' interest in subsidies. The MoA included operations applicants were not interested in among the areas of support. These were operations in support of the construction of biogas plants and in support of consultancy. The MoA only cancelled these operations and transferred

39 Audit No 13/21 – *Funds from Operational Programme Environment earmarked for wastewater treatment.*
Audit No 15/01 – *Funds earmarked for water mains and sewerage infrastructure.*

40 This amount represents the total allocation for the audited RDP14+ measures after conversion into CZK at the Czech National Bank exchange rate from 31 August 2023 (24.075 CZK/EUR).

41 This is the funding volume of the audit sample of 50 SAIF projects. Twenty of these projects were audited on the spot at the various beneficiaries. The amount paid out for these 20 projects was CZK 107.05 million.

42 Audit No 14/26 – *Funds spent on projects of the Rural Development Programme*; Audit No 15/09 – *Funds spent on education support, and consultancy and promotion within the Ministry of Agriculture;* Audit No 17/26 – *Funds earmarked for cooperation measures under the Rural Development Programme of the Czech Republic 2014–2020;* Audit No 18/08 – *Funds spent on support in the livestock production sector;* Audit No 21/33 – *State and EU funds spent in the Ministry of Agriculture to support the processing of agricultural products.*

the unused funds to other areas of support in 2018, three years after the programming document was approved.

The SAO also considers it a significant shortcoming that the MoA did not set objectives for individual RDP14+ measures and operations in a wholly concrete and measurable way. The main problem was the failure to link the objectives to appropriate indicators for evaluating the achievement of the objectives, benefits and impacts of support for rural development. The MoA used the set indicators to monitor the number of supported projects or entities, the number of participants in training events, the total expenditure on supported projects etc. Neither the MoA nor the *State Agricultural Intervention Fund,* as the subsidy provider, required beneficiaries to set specific and measurable objectives which their projects were to achieve with the help of support from RDP14+. So-called “monitoring reports” were to be used to evaluate the projects. The audit found, however, that the MoA did not specify any mandatory content of these reports so that the data and information could be used by the MoA and the SAIF to monitor achievement of the projects’ objectives. This data and information were often generic, not linked to the data presented in subsidy applications and payment requests and, moreover, often incorrect. The SAIF did not process these reports or verify the accuracy and relevance of the data and information provided. It only checked whether the beneficiaries had submitted their “monitoring reports” by the deadline. If not, the beneficiary was sanctioned by the SAIF. *This kind of monitoring does not serve its purpose and is consequently an unnecessary administrative burden.*

The audit also found that neither the MoA nor the SAIF notified the law enforcement authorities of facts indicative of a criminal offence. This obligation is laid down by Section 8(1) of Act No 141/1961 Coll., on criminal court proceedings (Code of Criminal Procedure). The audit examined a sample of 15 projects where the beneficiaries appealed against the decision of SAIF and the MoA carried out a review of the SAIF decision. **The SAO audit found that in four cases the review materials and files of individual projects at the SAIF contained facts indicative of a criminal offence. Despite the fact that the MoA and the SAIF were demonstrably in possession of the relevant information, the SAIF filed just one criminal complaint.**

Using a sample of 20 projects, the SAO examined spending in terms of effectiveness and economy. The SAO’s evaluation was based on uniform criteria and a four-stage evaluation scale. **Projects aimed at expanding the beneficiaries’ non-farming activities and agro-tourism received the worst scores in terms of efficiency. None of these projects was assessed as fully effective.** Out of a total of thirteen projects aimed at expanding non-farming activities, ten were assessed as effective with reservations because the beneficiaries did not define their projects’ objectives in a specific and measurable way that made it possible to verify their achievement. The remaining three projects were only rated as having limited effectiveness because the beneficiaries fell far short of achieving the expected economic results from the non-farming activities they received RDP14+ support for. In all the audited projects, the SAO found that the beneficiaries spent the funds economically and in accordance with the set conditions.

Proposals and implementation of measures to remedy identified deficiencies

The audit conclusion from this audit was approved on 15 January 2024 and published on 18 March 2024. The MoA’s opinion on the audit conclusion, including the proposed corrective measures, had not been prepared and issued by the editorial deadline of the EU Report 2024.

B.3 AUDIT OF REVENUES LINKED TO EU BUDGET FUNDS

The SAO completed one audit of revenue related to EU budget funds in the period under review.

Audit No 22/23 – ***VAT administration with a focus on the area of excessive deductions***

The aim of this audit was to examine whether the MoF, the General Financial Directorate (GFD) and individual tax offices followed the procedure for the administration of value added tax (VAT) with a focus on the area of excessive deductions[43] in compliance with the legislation, while respecting case law in similar cases.

Excessive VAT deductions totalling CZK 1,415 billion accounted for more than 43% of VAT collection in 2019–2022. Withheld excessive VAT deductions at the end of each year in the 2019–2022 period amounted to CZK 1 billion on average.

The audited volume of over CZK 2,663 million was determined from the amount of withheld excessive deductions as at 31 December 2022, from the amount of advances for excessive VAT deductions prescribed in the years 2021–2022, the amount of interest paid by the tax administrator related to VAT prescribed in 2022 for the Financial Administration of the Czech Republic and the amount of withheld excessive VAT deductions identified from the file documentation examined in the context of the audit samples at the tax office of the South Moravian Region and the tax office of the Vysočina Region.

Shortcomings identified by the SAO

The audit showed that the MoF, the GFD and the tax offices did not respect the Constitutional Court's judgment for almost two years[44] and, even after the judgment had been issued, withheld the entire amounts of claimed excessive VAT deductions from some taxable entities, even though they only examined part of the amounts. For a period of 22 months the MoF and the GFD did not find and the GFD did not adopt a methodological solution for implementing the requirement of the Constitutional Court's judgment. **In the audit sample[45], the SAO found that in 15 cases the tax administrators unjustifiably withheld taxable entities' funds of CZK 15 million from unexamined parts of excessive VAT deductions.** The tax offices thus failed to proceed in accordance with the judgment of the Constitutional Court and the relevant provisions of Act No 280/2009 Coll. when withholding excessive VAT deductions. **As a result, the GFD spent CZK 909,000 on interest on unexamined parts of excessive VAT deductions and thus failed to proceed in the most economical way. In the years 2019–2021, the GDF did not know why CZK 1.3 billion paid in interest by the tax administrator came about, i.e. whether the interest arose as a result of (in)culpable conduct by the tax administrator's employee, and also lacked information on the claimed compensation for damage incurred by the office (employer) on the grounds of the payment of interest.**

Proposals and implementation of measures to remedy identified deficiencies

The MoF only adopted one measure to remedy the SAO's findings broken down into six categories, and in two cases it did even not adopt an opinion. The adopted measure focused on the scrutiny of 46 entities assessed by the SAO as posing a significant risk.

B.4 FINANCIAL AUDITS LINKED TO EU BUDGET FUNDS

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. In some cases, EU funds are examined as part of the operations tested. Compared to legality control or performance audit, financial audit has its own specific features, above all the fact that the sums covered by the audit may be many times higher than in other types of audit work. The nature of the audit findings is also different.

43 An excessive VAT deduction, i.e. a claim for a refund from the state, arises when a taxable entity's tax deductions on purchases exceed the tax on sales.

44 The GFD failed to ensure that the tax administrators proceeded in accordance with Act No 280/2009 Coll., the Tax Rules, and the Constitutional Court's judgment File No II ÚS 819/18 of 22 February 2019 in the area of withholding the unexamined part of excessive VAT deductions.

45 80 audited cases in total.

In the period under review, the SAO completed two FAs examining the correctness of the reporting of EU funds, among other funds.

Audit No 22/17 – ***Closing account of the "Ministry of Agriculture state budget chapter" for the year 2022, financial statements of the Ministry of Agriculture for the year 2022 and data submitted by the Ministry of Agriculture for the evaluation of the state budget implementation for the year 2022***

The aim of this preliminary audit was to examine whether the MoA complied with the relevant legal regulations[46] when preparing its closing account, in its accounting and financial statements, and when submitting data for the assessment of the implementation of the state budget for 2022. This audit was conducted as an interim financial audit, so the audited entity had the opportunity during the audit to respond to the detected risks.

The SAO also evaluated the measures taken to remedy the deficiencies identified in Audit No 17/31[47].

As part of Audit No 22/17, the SAO also verified the correctness of the reporting of data linked to EU funds. These were mainly funds received and provided under the CAP (*Rural Development Programme 2014–2020,* direct payments and common market organisation) in PP14+. The SAO also examined funds from OPF14+ and the *National Recovery Plan* (NRecP).

Shortcomings identified by the SAO

In relation to EU funds, the SAO found minor accounting shortcomings in the sample. **These mainly concerned incorrect accounting for the refunding of non-transfer costs to the final beneficiary (MoA) as part of technical assistance (priority axis 10.7 – *Technical assistance*). The total irregularity was quantified at CZK 2.7 million. This finding was of a systemic nature.**

In the sample selected, the SAO also found minor deficiencies in the MoA's budget system in relation to EU funds (total amount of CZK 13.3 million). This entailed a misclassification of part of the received non-investment funds from the National Fund as investment funds.

Proposals and implementation of measures to remedy identified deficiencies

As this was an interim audit, the MoA duly remedied the identified shortcomings in relation to EU funds during the audit. The resulting financial statements and budget system were therefore no longer affected by these deficiencies as at 31 December 2022. The MoA also adopted systemic remedial measures.

46 Most notably, Act No 563/1991 Coll.; Decree No 410/2009 Coll.; Czech accounting standards for certain selected accounting units; Decree No 412/2021 Coll. and Decree No 419/2001 Coll. Using a selected sample, compliance with other legal regulations was examined, most notably Act No 218/2000 Coll., on budgetary rules and amending certain related laws (Budgetary Rules); Act No 219/2000 Coll., on the property of the Czech Republic and its acts in legal relations; Act No 340/2015 Coll., on special conditions of the effect of certain contracts, publication of such contracts and the Contracts Register (Contracts Register Act); Act No 320/2001 Coll., on financial audits in public administration and on amendment to certain laws (Financial Audit Act); and the related implementing decrees.

47 Audit No 17/31 – Closing account of the "Ministry of Agriculture state budget chapter" for 2017, financial statements of the Ministry of Agriculture for 2017 and data submitted by the Ministry of Agriculture for the evaluation of the state budget implementation for 2017.

Audit No 22/18 – *Closing account of the "Ministry of the Environment State budget chapter" for the year 2022, financial statements of the Ministry of the Environment for the year 2022 and data submitted by the Ministry of the Environment for evaluation of the state budget implementation for 2022*

The aim of this audit was to examine whether the MoE complied with the relevant legal regulations[48] when drawing up its closing accounts, in its accounting and financial statements, and when submitting data for the assessment of the implementation of the state budget for 2022. This audit was also carried out as an interim financial audit.

During the audit, the SAO also evaluated the measures taken to remedy the deficiencies identified by Audit No 17/18[49].

From the perspective of EU funds, the SAO verified the correctness of the reporting of data related to instruments for reducing GHG emissions and the reporting of OPEn14+ funds.

Shortcomings identified by the SAO

Significant shortcomings were identified in relation to the instruments for reducing GHG emissions, but these were remedied by the MoE during the audit. The main corrections were as follows:

- correcting the accounting of the Czech Republic's share of the *Modernisation Fund* (CZK 24,518 million)[50];
- removal of "consumed" annual emission allowances from assets (CZK 8,239 million);
- transfer of emission allowances to the market stability reserve[51] (CZK 4,029 million).

In the data submitted by the MoE for the evaluation of the implementation of the state budget, minor irregularities in the classification of OPEn14+ revenues valued at CZK 24.4 million were found in relation to EU funds. The MoE classified investment transfers as non-investment transfers.

The SAO also filed a notification with the tax administrator concerning CZK 2.3 million in response to findings indicating a breach of budgetary discipline. This entailed an unauthorised use of EU funds (*Cohesion Fund*) to finance the personnel costs of staff who were working on the *Modernisation Fund*.

Over and above the audit findings, the SAO drew attention to the issue of financial instruments reporting[52]. The MoE, as the OPEn14+ managing authority, provided the *State Environmental Fund* with financial resources in the form of a financial instrument (loan from EU sources). The MoE reported the funds provided as a transfer intended for financial settlement through account 471 – Provided long-term advances on transfers. In this case the SAO regards this reporting method as one of the possible methods.

Proposals and implementation of measures to remedy identified deficiencies

As this was an interim audit, the MoE remedied all the significant deficiencies in the area of EU funds during the audit. The MoE has also adopted remedial measures in the internal control system relating to instruments for reducing GHG emissions.

48 Most notably, Act No 563/1991 Coll.; Decree No 410/2009 Coll.; Czech accounting standards for certain selected accounting units; Decree No 412/2021 Coll. and Decree No 419/2001 Coll. Using a selected sample, compliance with other legal regulations was examined, most notably Act No 383/2012 Coll., on the conditions for trading in greenhouse gas emissions allowances; Act No 218/2000 Coll., on budgetary rules and amending certain related laws (the Budgetary Rules); Act No 219/2000 Coll., on the property of the Czech Republic and its acts in legal relations; Act No 340/2015 Coll., on special conditions of the effect of certain contracts, publication of such contracts and the Contracts Register (Contracts Register Act); Act No 320/2001 Coll., on financial audits in public administration and on amendment to certain laws (Financial Audit Act); and the related implementing decrees.

49 Audit No 17/18 – Closing account of the "Ministry of the Environment state budget chapter" for 2016, financial statements of the Ministry of the Environment for 2016 and data submitted by the Ministry of the Environment for the evaluation of the state budget implementation for 2016.

50 The *Modernisation Fund* is a financial instrument for investments to develop low-carbon technologies, modernise energy systems and improve energy efficiency. It draws on the proceeds from the sale of emission allowances auctioned by the European Investment Bank, which also manages these funds for the benefit of Member States.

51 The Market Stability Reserve is a mechanism established under the Emissions Trading Scheme to compensate for the structural imbalance between the supply of emission allowances and the demand for them.

52 Financial instruments are repayable financial assistance co-financed by the EU budget. They are accounting cases on the borderline between transfers, receivables and financial assets, the accounting and reporting of which is not regulated by the current accounting legislation.

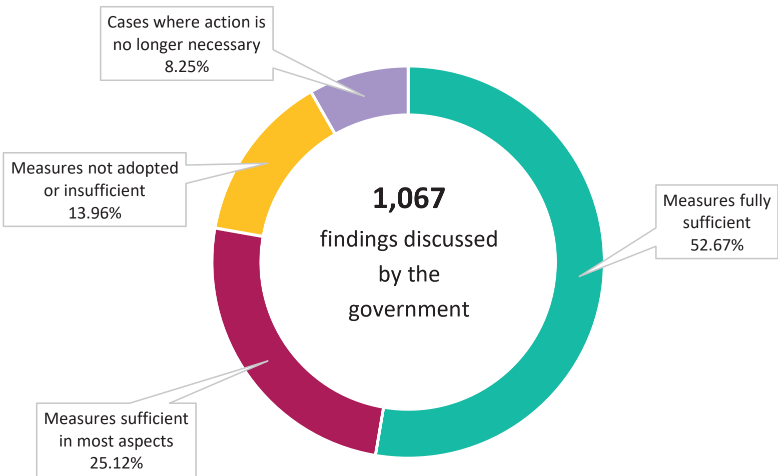
B.5 MEASURES ADOPTED BY THE CZECH GOVERNMENT TO REMEDY SHORTCOMINGS IDENTIFIED BY SAO AUDITS

In accordance with the Act on SAO[53], the SAO President sends all audit conclusions approved by the SAO Board to the Government of the Czech Republic (Government), 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). According to the Government's Rules of Procedure[54], the relevant members of the Government send the individual audit conclusions, together with the opinions of their ministries, to the commentary procedure prior to Government meeting. The submitted opinions contain both comments on the SAO's audit findings and proposals for specific measures to remedy the identified shortcomings.

The President of the SAO is also informed of the draft opinions before the actual discussion in the Government and can comment on the proposed measures. If the SAO considers any corrective measures insufficient, it resolves the issue with the relevant minister. The Supreme Audit Office can thus exert significant influence on the quality and scope of the proposed measures.

The SAO systematically monitors and continuously evaluates the implementation of the corrective measures discussed by the Government. Since the end of 2014, the *SAO's Audit Information System* (AIS) recorded a total of 127 completed audits either related to EU budget revenues or expenditures or focused on programmes and projects co-financed by EU funds. Specific data on the monitored measures are recorded in the case of 121 audits[55]. On the basis of these audits, a total of 1,067 audit findings discussed by the Government were entered in the AIS. For each audit, the SAO monitors the implementation of the declared corrective measures and assesses the extent of their implementation. In terms of the adequacy of the scope of their implementation, the measures are divided into four categories, as can be seen in the following chart.

Chart 8: Assessment of the measures taken by the Government to remedy the identified deficiencies for the period from October 2014 until the end of March 2024



Source: AIS.

53 Section 30 (1) of Act No 166/1993 Coll., on the Supreme Audit Office.

54 Rules of Procedure of the Government approved by Government Resolution No 610 of 16 September 1998 and amended by a number of Government resolutions, most recently by Government Resolution No 481 of 28 June 2023, effective from 29 June 2023.

55 Six audit conclusions had not been discussed by the Government by the *EU Report 2024* editorial deadline.

Of the total of 1,067 identified deficiencies contained in the approved audit conclusions discussed by the Government by the end of the period under review, fully sufficient measures were adopted in 562 cases and measures sufficient in most aspects in 268 cases. No measures were adopted on 149 identified deficiencies, or the measures adopted were rated insufficient by the SAO. For the remaining 88 deficiencies, action was no longer needed for various reasons.[56]

The SAO updates the data entered in the AIS annually and analyses the individual categories of measures in terms of successfully remedying the identified shortcomings. Using the information available, the SAO evaluates the status of measures, how they are implemented, sources of relevant information and, most importantly, determines whether further monitoring of the implementation of measures is required. The SAO calculates the overall level of satisfaction from the number of measures rated as fully sufficient and measures rated as sufficient in most aspects and their proportion of the total number of measures according to the following formula:

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

The SAO's overall (cumulative) level of satisfaction with the corrective measures adopted for the entire period under review (10/2014–05/2024) was 71.5%, down by about half a percentage point year-on-year.

If we compare the overall (cumulative) level of satisfaction with the measures adopted by the Government to address the shortcomings identified in audit conclusions over the last five reporting periods (as presented in the EU Reports 2020 to 2024), the following trends can be observed:

- the SAO's satisfaction with the corrective measures adopted ranged between 66.9% and 68.2% in the first three reporting periods and increased only slightly after the initial stagnation;
- in the next two reporting periods, the satisfaction rate increased quite significantly, to 72.1% and 71.5% respectively; however, the latter value maybe be indicative of further stagnation;
- the proportion of "measures fully sufficient" has increased over the last three reporting periods, from 48.3% to 52.7%;
- the proportion of "measures not adopted or insufficient" has decreased over the last three reporting periods, from 16.3% overall to 13.9%.

The figures presented above clearly demonstrate that the procedure for discussing and commenting on proposals for measures to remedy deficiencies mentioned in approved audit conclusions between the SAO and the relevant managing authorities (ministries) before their actual discussion in the Government is very useful.

56 This category includes measures adopted at the time of the completion of the SAO audit or cases where the audited entity itself reported the irregularity. Furthermore, it includes cases of shortcomings that were identified in the management documents of programmes of a programming period that was being closed but were no longer reflected in the management documents of the programming period being opened.

C. AUDIT WORK BY OTHER AUDIT BODIES IN THE CZECH REPUBLIC IN 2023

In addition to the SAO[57], the Audit Authority, the European Court of Auditors and Directorates-General of the Commission carry out audits of funds provided to the Czech Republic from the EU budget, and do so in accordance with the powers defined by EU legislation. We publish these external audit bodies' findings from audits carried out in the Czech Republic to complete the overall picture of the use of support from European funds, and in some cases to compare the nature and significance of findings relating to various entities of the Czech implementation structure.

C.1 OUTPUTS OF THE AUDIT AUTHORITY

In accordance with the EU legislation[58] the MoF was entrusted by the Czech government to perform the role of Audit Authority for EU funds provided to the Czech Republic under the ESIF for the ending PP14+, including the *Asylum, Migration and Integration Fund* (AMIF) and the *Internal Security Fund* (ISF), as well as under the European funds for the new OP21+[59] and NRecP[60].

C.1.1 PUBLIC ADMINISTRATION CONTROL AND AUDIT OF EUROPEAN FUNDS

The Audit Authority's principal activities in 2023 were focused on issuing annual audit reports (AARs) for the OPs. This encompassed audits of operations (compliance with EU and Czech regulations, fulfilment of monitoring indicators, adequacy of the audit trail) and assessments of the functioning of the management and control systems of OPs on the basis of system audits, audits of financial statements and cross-cutting/horizontal audits of the system across OPs for the accounting period from 1 July 2022 to 30 June 2023.

In 2023, audit work was carried out concurrently for both programming periods. It can be concluded that the MCS functions effectively and provides reasonable assurance that the statements of expenditure submitted to the Commission were correct and the underlying transactions were legal and regular, except for OP *Enterprise and Innovation for Competitiveness* (OP CIP) (qualified opinion). For PP14+, complete audit work for all OPs was carried out in 2023. In 2024, audit work related to the closure of PP14+ was being carried out. For PP21+, the scope of the audit work was smaller, entailing system audits for all OPs, audit of financial statements and audits of operations for those OPs where eligible expenditure was reported in the accounting period under review (only three OPs).

In 2023, the AA carried out a total of 400 audits, 379 of which related to PP14+ and 21 to PP21+.

57 The authority to perform audit is based on Section 3(1)(d) of Act No 166/1993 Coll., on the Supreme Audit Office, which provides that the SAO audits the management of funds provided to the Czech Republic from abroad and of funds for which the state has assumed guarantees.

58 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.

59 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.*

60 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility.

C.1.1.1 AUDIT WORK FOR PP14+

For PP14+, 362 operational audits, 13 system audits and three financial statements audits were carried out in 2023, covering ten OPs (ESIF), the *Internal Security Fund* and the *Asylum, Migration and Integration Fund*. One system audit concerning the *Interreg V-A Czech Republic – Poland* (INTERREGCR–PL) was performed.

Table 2: Overview of audits carried out by the AA in individual OPs in 2023

Name of the programme	System audit	Audit of operations	Financial statement audit*	DAS5.9011.10.2023.7. AAKV
Integrated Regional Operational Programme	1	39	1	–
OP *Enterprise and Innovation for Competitiveness*	1	54	1	–
OP *Employment 2014–2020*	1	31	1	–
OP *Prague – Growth Pole of the CR*	1	25	1	–
OP *Research, Development and Education*	1	27	1	–
OP *Environment 2014–2020*	1	37	1	–
OP *Transport 2014–2020*	1	28	1	–
OP *Technical Assistance 2014–2020*	1	25	1	–
OP *Fisheries 2014–2020*	1	15	1	–
Interreg V-A Czech Republic – Poland	1	32	1	1
Interreg V-A Free State of Bavaria – Czech Republic	–	14	–	–
Interreg V-A Free State of Saxony – Czech Republic	1	15	–	–
Interreg V-A Austria – Czech Republic	–	5	–	–
Interreg V-A Slovak Republic – Czech Republic	1	8	–	–
Internal Security Fund	1	2	1	–
Asylum, Migration and Integration Fund	1	5	1	–
Total	**14**	**362**	**3**	**1**

Source: *Information System of the Audit Authority*.
* For nine OPs and for INTERREG CR-PL, one audit of the financial statements was carried out in total and two audits of the financial statements for AMIF and ISF were also carried out.

In line with the relevant EU regulations and the Commission's methodological guidelines, annual audit reports and audit opinions for the *audited operational* programmes for 2023 were prepared and sent to the Commission by 15 February 2024; the only exception was OP EIC, for which the annual audit report and audit opinion were sent to the Commission by 1 March 2024.

The AA assessed the management and control systems applied by all managing authorities in terms of their compliance with the requirements set out in Regulation (EU) No 1303/2013[61] (General Regulation), i.e. whether the MCS functioned effectively and thus provided reasonable assurance that statements of expenditure submitted to the Commission were correct and the related transactions were legal and regular. These assessments of the OPs' MCS were reported by the AA in its audit opinions.

The following categories and corresponding reliability ratings of the system are used to evaluate the effectiveness of MCS.

61 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.

Table 3: 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 2024.

Table 4: Evaluation of MCS for individual OPs according to performed system audits in 2023

Name of the programme	MCS Category	Findings in total	Severity of findings		
			High	Medium	Low
Integrated Regional Operational Programme	2	1	0	1	0
OP *Enterprise and Innovation for Competitiveness*	3	8	4	3	1
OP *Employment 2014–2020*	1	0	0	0	0
OP *Prague – Growth Pole of the CR*	2	2	0	1	1
OP *Research, Development and Education*	1	1	0	0	1
OP *Environment 2014–2020*	2	4	0	1	3
OP *Transport 2014–2020*	1	1	0	0	1
OP *Technical Assistance 2014–2020*	1	0	0	0	0
OP *Fisheries 2014–2020*	2	3	0	0	3
Interreg V-A Czech Republic – Poland	2	2	0	0	2
Total	**–**	**22**	**4**	**6**	**12**

Source: *Information System of the Audit Authority.*

The results of system audits are linked to the findings of the operations audits, which form the basis for defining system findings.

With the exception of OP EIC, an unqualified opinion was issued for 2023 for all OPs. In the case of OP EIC, a qualified opinion with limited impact was given due to the MCS being given a category 3 rating.

The volume of certified expenditure for all OPs sampled for 2023 amounted to CZK 50,796,028,936. Expenditure amounting to CZK 20,606,192,098 was audited, representing 21.01% of the expenditure declared to the Commission. Identified ineligible expenditure amounted to CZK 60,571,620.57, which is 0.29% of the audited expenditure. The specific data for each OP are presented in the following table.

Table 5: Overview of the AA audits for 2023

Name of the programme	Number of audits	Audits with findings		Audits without findings
		with financial impact	without financial impact	
Integrated Regional Operational Programme	39	13	2	24
OP *Enterprise and Innovation for Competitiveness*	54	14	1	39
OP *Employment 2014–2020*	31	5	1	25
OP *Prague – Growth Pole of the CR*	30	1	1	28
OP *Research, Development and Education*	27	6	7	14
OP *Environment 2014–2020*	37	11	5	21
OP *Transport 2014–2020*	28	2	1	25
OP *Technical Assistance 2014–2020*	25	2	0	23
OP *Fisheries 2014–2020*	15	3	1	11
Interreg V-A Czech Republic – Poland	32	5	2	25
Interreg V-A Free State of Bavaria – Czech Republic	14	5	0	9
Interreg V-A Free State of Saxony – Czech Republic	15	2	0	13
Interreg V-A Austria – Czech Republic	5	1	0	4
Interreg V-A Slovak Republic – Czech Republic	8	2	0	6
Total	**360**	**72**	**21**	**267**

Source: *Information System of the Audit Authority.*

Audits of operations for the given accounting period are based on a representative sample and statistical sampling techniques.

The results of audits of operations show that, of the 360 audits of operations carried out, 72 identified ineligible expenditure, i.e. the audit had a financial impact on the audited entity. This represents 20.00% of the audited projects. A total of 5.83% of the conducted audits ended without financial impact on the audited entity and 74.17% (267 audits) were completed without findings.

A total of 162 findings were identified in 2023, 54 of which without financial impact and 108 with financial impact with a total value of CZK 67,289,966. The areas affected by the findings can be seen from the following overview.

Table 6: Areas of violation of financing conditions according to audits of operations in 2023

Area of violation	Number	Share (in %)	Financial impact (in CZK thous.)	Financial impact (in %)
01.I Public procurement – contract notice, tender documentation	33	20.37	19,255,920	28.62
01.II Public procurement – evaluation of tender bids	16	9.88	18,114,475	26.92
01.III Public procurement – execution of the contract	11	6.78	3,407,986	5.06
01.IV Public procurement – others	10	6.17	378,000	0.56
02. Public support	1	0.62	0	0.00
03. Revenue-generating projects	1	0.62	67,387	0.10
05. Missing background information or documentation	16	9.88	560,316	0.83
07. Errors in accounting and project calculation	8	4.94	60,930	0.09
08. Other ineligible expenditure	60	37.04	25,067,885	37.25
13. Sound financial management (3E, sound financial manager)	4	2.47	377,067	0.56
15. Performance indicators	2	1.23	0	0.00
Total	**162**	**100.00**	**67,289,966**	**100.00**

Source: *Information System of the Audit Authority.*

The highest number of errors found related to proving eligible expenditure, e.g. inconsistencies between invoiced and actually delivered items, incorrectly determined wage compensation, claiming expenditure for building work not carried out, expenditure incurred in contravention of the terms of the *subsidy provision decision* etc.

Other frequent errors occurred in procurement procedures. For example, the contracting authority/ beneficiary set discriminatory conditions for the subject of the public contract in the tender documentation, such as references to companies, trade names of products and materials. In other cases, the requirement to demonstrate professional qualifications was found to be disproportionate or the period for submitting a tender was not sufficiently extended when fundamental changes were made to the tender documentation. Several cases where the subject of the contract was wrongfully divided up into smaller parts were identified.

The most serious finding was identified in the area of expenditure on pay. The audited entity wrongfully exceeded the maximum annual gross salary specified in the binding project budget, which is a mandatory annex to applications for support. This binding annex was one of the documents used for evaluating the project and deciding to award the subsidy. The unauthorised gross salary overruns concerned 36 employees and the amount of ineligible expenditure was quantified at more than CZK 9.93 million. The irregularity was referred to the managing authority with a request that it extend the ineligible expenditure relating to the annual gross salary overrun to all payment claims submitted under the project in question.

Other significant findings affected public procurement. In one case, for example, it was found that the contracting authority had specified a requirement for a SIMATIC control system in the annex to the tender documentation (Specification of the Subject of Purchase) for the items *"crusher"* and *"decanting centrifuge",* explicitly ruling out the use of other equivalent solutions. In doing so, it violated point 21 of the *Rules for the Selection of Suppliers*, which provides that it is not permissible to include in either the notification or the tender documentation requirements or references to specific entities or items where this would result in certain participants or certain products being advantaged or excluded. The auditor noted that although the contracting authority allowed for the possibility of supplying an alternative equivalent solution in a clause in section 5 of the tender documentation, this clause was merely general and not directly related to the specific items listed in the annex to the *Specification of the Subject of Purchase,* which is binding on potential tenderers.

In determining the amount of the correction, the AA took into account the fact that the tender procedure preserved a sufficient degree of competition (three tenderers met the qualification criteria) and the contracting authority had in general terms permitted the possibility of other equivalent solutions and none of the potential suppliers raised any questions about this. Within the meaning of the Commission decision[62],the AA therefore specified a reduced financial correction of 5% of the contract value for the above mentioned error, amounting to CZK 1,496,750.

In 2023, the AA also carried out audit work relating to the European Territorial Cooperation programmes. Within the framework of the OP for cross-border cooperation and transnational cooperation, the following programmes were audited:

- ***Interreg V-A Czech Republic – Poland,*** where the Czech Republic (MoRD) is the managing authority. The AA carried out a total of 32 audits of operations for this programme in 2023, representing a total amount of CZK 296,584,775. The audits made 13 findings with a total financial impact of CZK 391,346.

  Within the framework of this programme, the AA also carried out system audit CZ-PL/2023/S/001 entitled *Audit of the proper functioning of the management and control system.* The audit aimed to examine the implementation of corrective measures from the previous system audit CZ-PL/2022/S/001 and to verify readiness for the closure of the *INTERREG CR-PL* programme, i.e. what rules and procedures had been put in place. The audit made two findings. The MCS was therefore given a level 2 assurance rating – *Functioning. Some improvements needed.*

62 Commission Decision C(2019) 3452 final of 14 May 2019, item 11 of *Types of irregularities and corresponding rates of financial corrections.*

In addition, management and control system audit DAS5.9011.10.2023.7.AAKV was carried out in accordance with the programme's audit strategy and the conclusions of the meeting of the group of auditors in January 2023. The audit featured analyses and assessments of documents for the purpose of evaluating the performance of the MCS. One finding was identified. As a result of the activities carried out with the national auditor (Silesian Voivodeship) and the identified findings, the MCS was given a category 2 rating.

- ***Interreg V-A Free State of Saxony – Czech Republic,*** for which the Saxon State Office for Environment and Agriculture is the managing authority and the Czech Republic is a member of the group of auditors. In 2023, the Audit Authority carried out 15 audits of operations involving beneficiaries on the Czech side and with a total value of CZK 46,635,093. Three findings with a total financial impact of CZK 463,457 were identified.

  System audit SN-CZ/2023/S/001 entitled *Audit of the proper functioning of the management and control system of Cooperation Programme Czech Republic – Free State of Saxony 2014–2020* was carried out within the framework of this programme. Two findings were identified by the audit that have an impact on the programme's readiness for closure; the findings were in the areas of management documentation and sustainability.

- ***Interreg V-A Free State of Bavaria – Czech Republic,*** where the Bavarian State Ministry of Economic Affairs and Media, Energy and Technology is the managing authority and the Czech Republic is a member of the group of auditors. In 2023, the Audit Authority carried out 14 audits of operations involving beneficiaries on the Czech side and with a total value of CZK 52,424,800. Seven findings with a total financial impact of CZK 1,374,979 were identified.

- ***Interreg V-A Austria – Czech Republic;*** the managing authority for this programme is the Office of the Government of Lower Austria and the Czech Republic is a member of the group of auditors. In 2023, the Audit Authority carried out five audits of operations in the territory of the Czech Republic involving beneficiaries on the Czech side and with a total value of CZK 12,076,100. The audits identified one finding with a financial impact of CZK 6,314.

- ***Interreg V-A Slovakia – Czech Republic,*** where the Ministry of Agriculture and Rural Development of the Slovak Republic is the managing authority and the Czech Republic is a member of the group of auditors. In 2023, the Audit Authority carried out 8 audits of operations involving beneficiaries on the Czech side and with a total value of CZK 92,983,168. Five findings with a total financial impact of CZK 4,863,604 were identified.

Information on audits of financial statements

An audit of financial statements is performed for each financial year. Its aim is 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 system audits carried out by the paying and certifying authority and the managing authority and the results of 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 2023, the Audit Authority carried out three audits of financial statements for ESIF, ISF and AMIF programmes. Details of the financial statements for the ISF and AMIF are presented in a separate chapter.

Financial statement audit ESIF/2023/U/001 – *Audit of the financial statements of ESIF programmes for the accounting period 1 July 2022 – 30 June 2023*

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 entities and all beneficiaries. On the basis of the financial statements provided by the certifying authority, the AA checked whether:

- 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;

- 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;

- 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;

- the amount of programme contributions to financial instruments and the amount of state aid advance payments to beneficiaries tallied with the information provided by the managing authority and certifying authority.

The following operational programmes were audited: OP *Prague – Growth Pole of the Czech Republic* (OP PGP); OP EIC; OP *Research, Development and Education* (OP RDE); OPEn14+; OP *Transport 2014–2020* (OPT14+); INTERREG CR–PL, OPEm14+; IROP14+; OP *Technical Assistance 2014–2020* (OPTA14+); and OPF14+. No findings were identified in the financial statements audit.

Table 7: Overview of opinions, projected error rate and values of certified, audited and ineligible expenses for individual OPs in 2023

OP Name	AAR		Audits of operations			
	Opinion	Projected error rate (in %)	Certified* (in CZK million)	Audited (in CZK million)	Sample (in %)	Irregularity* (in CZK)
IROP14+	Unqualified	1.36	14,270.40	2,073.53	14.53	19,340,655
OP EIC	Qualified	1.00	29,886.33	3,632.30	12.15	23,372,408
OPEm 14+	Unqualified	0.13	11,553.87	965.63	8.36	4,534,184
OP PGP	Unqualified	0.00	1,450.73	1,086.06	74.86	160
OP RDE	Unqualified	0.29	12,086.33	1,930.57	15.97	100,249
OPEn14+	Unqualified	1.08	8,700.55	1,878.20	21.59	10,939,555
OPT14+	Unqualified	0.02	18,399.16	8,036.20	43.68	200,006
OPTA14+	Unqualified	0.32	709.58	596.36	84.04	613,795
OPF14+	Unqualified	2.06	274.94	110.75	40.28	1,079,263
INTERREG CR–PL	Unqualified	0.86	746.98	296.58	39.57	391,346
Total* **			**98,078.87**	**20,606.19**	**21.01**	**60,571,621**

Source: Annual Audit Reports of the Audit Authority.
* This amount represents the certified expenditure which 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 OPs with a MA based outside the Czech Republic and a Czech auditor's opinion could thus not be issued.

C.1.1.2 AUDIT WORK FOR PP21+

Within the meaning of Article 77 of Regulation 2021/1060[63], the Audit Authority is responsible for carrying out system audits, audits of operations and audits of the accounts in order to provide the Commission with independent assurance as to the effective functioning of the management and control systems and the legality and regularity of the expenditure included in the accounts presented to the Commission. Following up the results of its audit work, the AA draws up and submits the following to the Commission: an annual audit opinion in accordance with Article 63(7) of the Financial Regulation and an annual audit report which meets the requirements of Article 63(5)(b) of the Financial Regulation and which supports the annual audit opinion. This report summarises all the findings, including an analysis of the nature and extent of errors and deficiencies in the systems, as well as the proposed and implemented corrective actions, and the resulting overall error rate and residual error rate for the expenditure entered in the accounts submitted to the Commission.

In accordance with the General Regulation and the Commission's methodological guidelines, system audits were carried out in 2023 for all OPs, i.e.:

- OP *Jan Amos Komenský* (OP JAK);
- OP *Technical Assistance 2021–2027* (OPTP);
- *Integrated Regional Programme;*
- OP *Transport 2021–2027;*
- OP *Fisheries 2021–2027 (OPF);*
- OP *Employment Plus;*
- OP *Environment 2021–2027 (OPE);*
- OP *Technologies and Applications for Competitiveness* (OP TAC);
- *Interreg Czechia – Poland 2021–2027* programme (INTERREG CR–PL21+).

Audit of financial statements and audits of operations were carried out in 2023 only for OPs for which eligible expenditure was declared in the period from 1 July 2022 to 30 June 2023, i.e. OPTA, OPEm+ and OPEn. For these three OPs, the annual audit reports and audit opinions for 2023 were prepared and sent to the Commission by 15 February 2024. All of the audit opinions were unqualified.

Within the framework of PP21+, the AA carried out a total of 20 audits in 2023, including three audits of operations, nine system audits, one audit of financial statements concerning the three OPs mentioned above, and one audit of the paying authority. There was also one audit of the AMIF system, one audit of the ISF system, one audit of the *EU Solidarity Fund* system and three system audits relating to the *National Recovery Plan.*

63 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.*

Table 8: Overview of audits carried out by the AA in individual OPs in 2023

Name of the programme	System audits	Audits of operations	Financial statements audits*	Paying authority audit*
OP *Jan Amos Komenský*	1	–	–	1
OP *Technical Assistance 2021–2027*	1	1	1	1
Integrated regional operational programme	1	–	–	1
OP *Transport 2021–2027*	1	–	–	1
OP *Fisheries 2021–2027*	1	–	–	1
OP *Employment plus*	1	1	1	1
OP *Environment 2021–2027*	1	1	1	1
OP *Technologies and Applications for Competitiveness*	1	–	–	1
Internal Security Fund	1	–	–	–
Asylum, Migration and Integration Fund	1	–	–	–
Instrument for financial support for border management and visa policy	1	–	–	–
INTERREG CR-PL 2021–2027	1	–	–	1
Total	**12**	**3**	**1**	**1**

Source: *Information System of the Audit Authority.*
* One audit of the financial statements was carried out for the three OPs listed in the table. An audit of the paying authority system was carried out for the nine OPs listed.

For all MAs, the Audit Authority assessed their MCS in terms of compliance with the requirements of Article 77 of the General Regulation. The classification levels used to evaluate the effectiveness of the MCS are explained in Table 3 above.

Table 9: Evaluation of MCS for individual OPs according to system audits performed in 2023

Name of the programme	MCS category	Findings in total	Severity of findings		
			High	Medium	Low
OP *Jan Amos Komenský*	2	1	0	0	1
OP *Technical Assistance 2021–2027*	2	1	0	0	1
Integrated Regional Programme 2021–2027	2	3	0	1	2
OP *Transport 2021–2027*	2	5	0	0	5
OP *Fisheries 2021–2027*	2	3	0	1	2
OP *Employment plus*	1	2	0	1	1
OP *Environment 2021–2027*	2	3	0	1	2
OP *Technologies and Applications for Competitiveness 2021-2027*	3	18	3	5	10
Interreg Czech Republic – Poland	2	4	0	2	2
Total	**–**	**40**	**3**	**11**	**26**

Source: Information System of the Audit Authority.
Note.: Table 3 provides more information on the categories of MCS.

The audits of operations carried out on expenditure declared to the Commission for a given accounting period are based on a representative sample. Due to the low number of items (payment claims) in the population, the sample for the audits of operations was selected by random non-statistical sampling.

The total amount of certified expenditure from which the AA selected the audit sample for 2023 (for OPs for which certification of expenditures took place, i.e. OPEm+, OPEn and OPTA) was CZK 159,740,689. CZK 6,760,069 was audited, which is 15.58% of the expenditure declared to the Commission. The identified ineligible expenditure amounted to CZK 187 and related to OPEm+. The audit of an operation revealed an incorrect calculation of compensation for working from home (Home Office). The remaining two audits were without findings.

Financial statements audits

In 2023, audit ESIF2/2023/U/001 of the financial statements of ESIF-financed programmes entitled *Audit of the financial statements of EU funds programmes for the accounting period 1 July 2022 – 30 June 2023* was carried out for the three aforesaid operational programmes (i.e. OPEm+, OPTA and OPEn).

Audit of the financial statements is carried out for every accounting period and is intended to provide reasonable assurance as to the completeness, accuracy and reliability of the sums reported in the financial statements and the legality and regularity of the expenditure reported in the accounts. To ensure compliance with these requirements and the 3E principle, the assessment of the submitted financial statements took into account the results of system audits carried out at the paying authority and managing authority and the results of audits of operations. The results of audits carried out by the Commission and the ECA were also taken into account.

The Audit Authority verified the following:

- the total amount of eligible expenditure entered in the accounting systems of the body performing the accounting function and included in the application for final payment for the accounting year and the total amount of the corresponding contribution from public funds made or to be made in connection with the specific objectives;
- amounts withdrawn during the financial year;
- the amount of contributions from public sources to financial instruments;
- for each priority, an explanation of any discrepancies between the amounts reported under point (a) and the amounts reported in the payment applications for the same financial year.

No findings were returned by the financial statement audit.

Audit of the paying authority

In 2023, in accordance with the audit strategy, audit ESIF2/2023/S/001 of the accounting function under the responsibility of the paying authority was carried out under the title Audit of the proper functioning of the management and control system of the Paying Authority in the 21+ period. The aim of the audit was to check that the paying authority was functioning effectively and complying with the requirements of the procedures laid down for PP21+. The system audit focused on verifying the appropriate procedures for preparing and submitting payment applications and accounts and for confirming the completeness, accuracy and substantive correctness of the accounts.

No deficiencies were identified by the audit. Accordingly, the MCS was rated as category 1 – *Functioning well. Only some minor improvements needed or none.*

Table 10: Overview of the results of audits carried out for the operational programmes PO21+ in 2023

Name of the programme	AAR		Audits of operations			
	Opinion	Projected error rate (in %)	Certified (in CZK mil.)*	Audited (in CZK mil.)	Sample (in %)	Irregularity (in CZK)**
OP *Employment plus*	Unqualified	0.00	8.42	4.34	51.60	187.00
OP *Environment 2021—2027*	Unqualified	0.00	148.51	20.07	13.51	0.00
OP *Technical assistance 2021–2027*	Unqualified	0.00	2.81	0.47	16.58	0.00
Total* **			**159.74**	**24.88**	**15.58**	**187.00**

Source: Information System of the Audit Authority.
* This amount represents the certified expenditure which 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 OPs with a MA based outside the Czech Republic and a Czech auditor's opinion could thus not be issued

Table 10 shows only those OPs for which eligible expenditure was reported and for which annual audit reports with final audit opinions could therefore be drawn up. All the audit opinions were unqualified. The annual audit reports and audit opinions for the respective OPs for the year 2023 were drawn up and sent to the Commission by 15 February 2024.

C.1.1.3 OTHER AA ACTIVITIES: PUBLIC ADMINISTRATION CONTROL AND AUDIT OF OTHER EU FUNDS

***Asylum, Migration and Integration Fund and Internal Security Fund* for the 2014–2020 and 2021–2027 programming periods and the *Instrument for Financial Support for Border Management and Visa Policy* for the 2021–2027 programming period**

In addition to audits of ESIF or European funds, the MoF also carries out audit duties for the AMIF, the ISF, the *Instrument for Financial Support for Border Management and Visa Policy* (BMVI) and the EUSF. In 2023 the AA carried out audit work relating to both the ending PP14+ and the new PP21+.

System audits, operations audits and financial statement audits were performed for the AMIF and ISF in 2023. The work on audits of financial statements for PP14+ was completed so that the opinion could be issued by the deadline of 15 February 2024. For PP21+, audits of financial statements were not carried out due to uncertified expenditure.

For PP14+, two system audits (one targeting the AMIF and one the ISF) and seven audits of operations were carried out, five of them relating to the AMIF and two to the ISF. Four system audits were carried out for the new PP21+ (one each for the AMIF, FVB, NSHV and FSEU). Audits of operations were not done in 2023 for the new programming period as expenditure has not been certified yet.

2014–2020 programming period

For the AMIF, system audit AMIF/2023/S/001, entitled Audit of the management and control system of the NP AMIF responsible authority, was carried out in 2023 at the Department of Home Affairs EU Funds of the MoI (Department of EU Funds). Three findings of low severity were identified by the audit. Given the identified deficiencies that have a slight impact on the functioning of the assessed key requirements, the MCS was given a category 2 rating – Functioning. Some improvements needed.

The ISF was covered by system audit ISF/2023/S/001, entitled Audit of the management and control system of the NP ISF at the Department of EU Funds as the responsible authority. Two findings of low severity were identified by the audit. These shortcomings have a slight impact on the functioning of the key requirements assessed. The MCS was accordingly given a category 2 rating – *Functioning. Some improvements needed.*

Table 11: Evaluation of MCS according to performed system audits in 2023

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

Source: : Annual Audit Reports of the AA.

Seven audits of operations were carried out in 2023, with five covering the AMIF and two the ISF. The audits returned one finding of low severity, i.e. no financial impact for the beneficiaries. The finding concerned the AMIF. No findings were identified for the ISF.

Table 12: Overview of the results of audits carried out in 2023 for ISF and AMIF

Name of the programme	Opinion on the programme	Approved (in EUR)	Audited (in EUR)	Sample (in %)	Irregularities (in EUR)	Error rate (in %)
Internal Security Fund	Unqualified	6,024,977	2,652,314	44.02	0.00	0.00
Asylum, Migration and Integration Fund	Unqualified	10,068,919	1,298,838	12.90	0.00	0.00
Total		**16,093,896**	**3,951,152**	**–**	**0.00**	**0.00**

Source: Annual Audit Reports of the AA.

Information on audits of financial statements

Audit of AMIF 2023 financial statements

The aim of financial statements audit AMIF/2023/U/001, entitled *Audit of AMIF 2023 financial statements,* was to verify that all the elements required by Regulation No 514/2014[64] and in Article 63(5) of Regulation 2018/1046[65], were properly presented in the financial statements and were consistent with the underlying accounting records kept by the MA and the beneficiaries. The audit identified only one administrative error which did not affect the expenditure reported in the financial statements of the responsible authority or the sampling basis.

The audits of operations for the 2023 accounting year made no findings with a financial impact necessitating an entry in SFC2014+[66] during the audit of the financial statements.

Audit of ISF financial statements 2023

The aim of financial statements audit ISF/2023/U/001, entitled *Audit of the ISF financial statements for 2023,* was to verify that all the elements required by Regulation No 514/2014 and Article 63(5) of Regulation 2018/1046 were properly presented in the financial statements and were consistent with the underlying accounting records kept by the responsible authority and the beneficiaries. As part of the financial statement audits, the reported adjustments in SFC2014+ were verified with supporting documentation from the responsible authority and in accordance with PP12.A – *Financial Flows*. Incorrect calculations of the audited EU contribution were found. These were corrected by the responsible authority.

64 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.

65 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.

66 Commission information system.

The audits of operations returned no findings with a financial impact that would need to be entered in SFC2014+ during the audit of the financial statements.

2021–2027 programming period

For PP21+, system audit AMIF/2023/S/001, entitled *Audit of the Management and Control System of the AMIF MA 2021–2027,* was carried out in 2023 to verify the effective functioning of the AMIF management and control system and to verify compliance with the requirements of the applicable legal framework for PP21+.

Six findings were identified during the audit, two of which were of medium severity and four of low severity. Given the findings, the MCS was given a category 2 rating – *Functioning. Some improvements needed.* Due to the stage of OP implementation, the OP management documentation was not fully completed, so some areas could not be fully assessed. Given the facts verified and reasons stated above, the opinion on the MCS is "unqualified" but limited to the scope of the submitted management documentation.

In addition, the AA focused on the *Internal Security Fund* in 2023 with system audit FVB/2023/S/001, entitled *Audit of the management and control system of the ISF programme 2021–2027 managing authority* at the managing authority, which is the Department of EU Funds. The goal of this audit was to verify the effective functioning of the MCS of the ISF operational programme and to verify compliance with the requirements of the applicable legal framework for PP21+. The audit returned six findings, two of which were of medium severity and four of low severity. The identified shortcomings have an impact on the functioning of the MCS, so the MCS was given a category 2 rating – *Functioning. Some improvements needed.* Due to the stage of implementation of the OP, the management documentation was not complete, so it was not possible to fully assess some areas. Given the facts verified and reasons stated above, the opinion on the MCS is "unqualified" but limited to the scope of the submitted management documentation.

A system audit was carried out for the *Instrument for Financial Support of Border Management and Visa Policy* programme in 2023. Audit NSHV/2023/S/001, entitled *Audit of the management and control system of the BMVI programme 2021–2027 managing authority was carried out at the managing authority* (Department of EU Funds). The goal of the audit was to verify the effective functioning of the MCS of the operational programme and to verify compliance with the requirements of the applicable legal framework for PP21+.

Six findings were identified during the audit, two of which were of medium severity and four of low severity. The identified shortcomings have an impact on the functioning of the MCS, so the MCS was given a category 2 rating – *Functioning. Some improvements needed.* Due to the stage of implementation of the OP and the incomplete state of management documentation, some areas could not be fully assessed. Given the facts verified and reasons stated above, the opinion on the MCS is "unqualified" but limited to the scope of the submitted management documentation.

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

The European Court of Auditors is the EU's external auditor. Its audit work focuses primarily on assessing the reliability of the EU's financial statements and subsequently issuing the *Statement of Assurance* (DAS). On 6 and 20 July 2023 the ECA adopted the annual reports for fiscal year 2022[67]. In its Annual Report on the implementation of the EU budget for the 2022 financial year, the ECA made the following statements:

67 Annual Report on the implementation of the EU budget for the 2022 Financial Year, Annual Report on the activities funded by the 9th, 10th and 11th European Development Funds (EDF) for the 2022 financial year; Luxembourg, Publications Office of the European Union, 2023.

Opinion on the reliability of the accounts:

"In our opinion, the consolidated accounts of the European Union (EU) for the year ended 31 December 2022 present fairly, in all material respects, the EU's financial position as at 31 December 2022, 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 2022 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', the budget expenditure accepted in the accounts for the year ended 31 December 2022 is materially affected by error."

Qualified opinion on the legality and regularity of Recovery and Resilience Facility expenditure:

"In our opinion, except for the effects of the matters described under the 'Basis for Qualified Opinion on the legality and regularity of RRF expenditure', the RRF expenditure accepted for the accounts for the year ended 31 December 2022 is legal and regular in all material respects."

The ECA also carries out separate audits, the results of which are usually published as Special Reports.

Points C.2.1 and C.2.2 deal with the ECA's activities in relation to the Czech Republic.

Annex 2 provides an overview of audit missions carried out in the Czech Republic by ECA staff in 2022 and 2023.

C.2.1 DAS AUDITS

ESIF (PP14+) drawdown continued at a slower pace

Compared to 2021 and 2020, the absorption of ESIF funding for PP14+ has slowed somewhat, but has nevertheless continued successfully. This development corresponds to the cycle of the programming period. While the average drawdown for the EU as a whole, i.e. EU-27 and the UK (EU-28), was 67% in 2021 (excluding EU funding for *NextGenerationEU* (NGEU)), in 2022 it was 80%.

At the same time, the ECA noted that there are significant differences in the absorption of ESIF funds between MS. Ireland, Finland and Luxembourg have already utilised more than 90% of their allocations. By contrast, Croatia, Malta and Denmark had the lowest uptake. In these MS the absorption rate was below 70% of the allocated funds. **The Czech Republic's absorption level was 87% of the allocation, putting the CR in joint 7th place with Portugal in the EU-28.**[68]

Commitments to larger EU funds in shared management for PP21+

The European funds operating in shared management in PP21+ (EU Funds) are the CF, ERDF, *Just Transition Fund*, *European Social Fund Plus* and *European Maritime, Fisheries and Aquaculture Fund*. As

68 In 2021 the Czech Republic was ranked 9th in the EU-28 with a drawdown rate of 73%.

all PAs and most programmes have been approved by the Commission in 2022 in relation to these funds, the Commission adopted commitments affecting EUR 65.4 billion of EU funds, i.e. 90% of the funding available for commitments for PP21+. **Commitment appropriations totalling EUR 3.90 billion were approved for the Czech Republic (excluding agricultural funds), i.e. almost 6% of the EU-27 funding. This is the 6th highest level of commitment appropriations in the EU-27.**

However, delays in the approval of Member States' programmes have led to a low volume of payments, which amounted to just EUR 5.7 billion in 2022 and were mainly related to pre-financing.

NGEU implementation accelerated in 2022, but progress was still slower than expected

The Commission envisaged that MS would draw down EUR 63.0 billion in 2022 for pre-financing and grant payments from the Recovery and Resilience Facility (RRF)[69]. Actual uptake was just EUR 47.1 billion, however, only a slight increase over 2021 (EUR 46.4 billion). As only EUR 93.5 billion was disbursed from the NGEU in the first two years of implementation, grants of up to EUR 244.5 billion will need to be paid out under this instrument in the 2023–2026 period.

While the EU-27 average absorption rate in 2022 was almost 27.7%, **the Czech Republic absorbed just 13.2% of its NGEU allocation (EUR 0.9 billion out of a total of EUR 6.8 billion), i.e. not even half the EU-27 average absorption rate.**

Unresolved reservations in the area of revenues

The annual report provides an overview of the number of unresolved reservations relating to gross national income (GNI) and VAT and open points relating to traditional own resources (TOR) as at 31 December 2022. **In the case of the Czech Republic, the number of TOR open points cases increased from five in 2021 to six. As regards VAT and GNI reservations, these remained at the same level (two reservations and one reservation respectively).** That makes a total of nine shortcomings, which ranks the Czech Republic seventh in the EU-28. The ECA records the fewest cases in Latvia, Lithuania and Cyprus, and the most in Germany, the Netherlands and the United Kingdom. It is clear from the above that the number of revenue-related reservations correlates most strongly with the size of the Czech economy.

Heading 2 – *"Cohesion, resilience and values"*

The ECA audit sample comprised 21 MS, where 260 operations were audited[70]. The ECA found a total of 50 quantifiable errors[71].[72]

The ECA estimated the error rate for MFF heading 2 at 6.4% in 2022, compared to just 3.6% in 2021. Both the estimated error rate and the actual number of findings have increased, which may be due to a weakening of the control systems in place during the COVID-19 pandemic.

The majority of the audited operations fell under subheading 2a – "Economic, social and territorial cohesion", specifically 241 operations, with quantifiable errors found in 48 cases and non-quantifiable errors in another 30. Of these, the Czech Republic accounted for 14 audited operations with six quantifiable errors and two non-quantifiable errors.

Some of the ECA's findings also concerned the Czech Republic:

1. For example, the ECA auditors found errors concerning the use of simplified cost options in five operations in three MS, including the Czech Republic (ineligible costs due to inappropriate calculation of indirect costs).

2. Seven projects in five Member States were found to have infringed EU state aid rules, again including the CR.

69 Recovery and Resilience Facility established by Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021.
70 Including 15 financial instruments and 19 operations managed directly or indirectly by the Commission.
71 A further 58 quantifiable errors from the ECA audit sample had been previously identified by audit authorities in the MS.
72 In 2021 there were only 28 errors in a sample of 243 operations.

3. Another area where the ECA found deficiencies in the CR was in public procurement. Specifically, there were two serious infringements affecting the public procurement outcome for two ERDF projects. The Annual Report describes one of these cases in more detail in Box 6.6.[73]

4. The ECA also found shortcomings relating to financial instruments in the Czech Republic. The ECA auditors identified six quantifiable cases of disbursement of these funds where either the final recipients or the supported activities were ineligible. One of these cases was found in the Czech Republic (non-compliance with state aid rules).

The ECA assessed the work of Member States' audit authorities and found a number of shortcomings in this area as well. In the case of the Czech Republic, the Audit Authority's annual audit report claimed that the AA had audited a financial instrument. The ECA auditors found that in reality the AA had not audited it at all.

Heading 4 – "Migration and border management" and Heading 5 – "Security and defence"[74]

The ECA's audit sample comprised a total of 23 transactions, and the ECA states in its annual report that this is not a representative sample for the entire range of spending under these MFF headings. Two of the audited transactions concern the Czech Republic (both come under heading 5).

The ECA also examined elements of the internal control systems, in particular the work of the audit authorities in relation to the Home Affairs funds (including in the Czech Republic) for PP21+.

C.2.2 ECA SPECIAL REPORTS

The European Court of Auditors carries out performance and compliance audits focusing on various expenditure or policy areas. It publishes the results of these audits in special reports. The ECA published a total of 21 special reports during the period under review. The Czech Republic was included in the audit sample in one special report.

Special Report 23/2023: Restructuring and planting vineyards in the EU – Unclear impact on competitiveness and limited environmental ambition

Wine growers in the EU can receive financial support from the CAP to restructure their vineyards, with the main aim being to make them more competitive. Member States have also been able to use this support to improve sustainable production systems and the environmental footprint of wine growing. Since 2016, wine growers can request authorisations to plant new vineyards. These authorisations are free of charge and can be distributed among the growers pro rata and/or on the basis of eligibility and priority criteria. The purpose of this planting authorisation scheme is to allow for progressive growth, while avoiding excessive supply capacity with negative social and environmental impacts.

73 Annual Report – Box 6.6:
"Irregular procurement procedure due to undetected conflict of interest at contractor level
In Czechia, the contracting authority of the audited ERDF project was a public company which supplied heat to local residents. One of the purposes of the audited operation was to increase the use of renewable resources by installing a modern boiler for burning biomass. EU and national law stipulate that contracting authorities must avoid conflicts of interest when carrying out public procedures.
The audited procedure was below the threshold set out in the EU Public Procurement Directive, therefore national law was applicable (Article 44 of the national public procurement law).
We found that the contracting authority did not identify the conflict of interest and did not apply sufficient mitigating measures when it selected an offer submitted by a company which had participated in the preparation of the project application and in drawing up the tender documentation. The technical tender specification was tailor-made to the company's own product and de facto did not allow for equivalent products to be awarded the tender. Two bids were submitted for the same product included in this tender: one from the company itself and the other from one of its distributors. Moreover, unlike in a similar case, the Office for the Protection of Competition did not properly address the apparent conflict of interest and did not request any mitigating action such as an independent expert opinion on the contracting authority's procedure for granting the tender. We therefore consider the audited contract and related expenditure to be irregular.
The Audit Authority detected another irregularity in relation to this contract and the programme authorities applied a 25 % financial correction. However, neither the managing authority nor the Audit Authority detected the conflict of interest during their verifications for which a 100 % correction would be required."

74 In the previous MFF, these headings were for the most part budgeted and accounted for under heading 3 – "Security and Citizenship".

The ECA auditors examined the extent to which the restructuring measure and the planting authorisation scheme helped to make wine growers more competitive and wine production more environmentally sustainable. The audit was carried out by the ECA due to the materiality of the restructuring measure, which represents over EUR 5 billion for the 2014–2023 period. Moreover, this measure was last audited by the ECA in 2012 and the planting authorisations have never been audited.

The ECA found that this policy framework for making wine growers more competitive has shortcomings in terms of design and implementation and falls short of the CAP's environmental objectives.

The five MS visited by the auditors in the context of this special report funded all eligible applications and did not use criteria to select projects to foster competitiveness. These MS also funded projects for which a structural change could not be observed. Neither the Commission nor the MS assessed how the projects contribute to the competitiveness objective. Beneficiaries were not even obliged to report on how their restructuring activity made them more competitive.

The MS did not assess the expected environmental impact of their national support programmes.

The application of conditionality for the restructuring measure was discontinued. The ECA auditors concluded that environmental ambition remains limited in the period 2023-2027.

Based on the findings, the ECA recommended that the Commission should:

- target the restructuring measure and the planting permit scheme to foster competitiveness;
- increase the environmental ambition of the wine policy.

C.3 EUROPEAN COMMISSION AUDIT MISSIONS IN THE CZECH REPUBLIC

The European Commission carried out four audit missions in the Czech Republic in 2023. An overview of these, along with an overview of the Commission's audit missions carried out in 2022, is provided in Annex 3.

SECTION II

FINANCIAL MANAGEMENT OF EU FUNDS
IN THE CZECH REPUBLIC IN THE EUROPEAN CONTEXT

D. EU BUDGET AND ITS RELATIONSHIP TO THE CR

The last EU budget to be audited by the ECA by the EU Report 2024 editorial deadline of 31 May 2024 was the 2022 budget. More information on EU budget revenues and expenditure can be found here:

D.1 DEVELOPMENT OF THE CR'S NET POSITION IN RELATION TO THE EU BUDGET UP TO 2023

The value of the net position is the difference between the amount the Czech Republic draws from the EU budget and the amount it contributes to it.[75] **The Czech Republic is one of the Member States that receive more money from the EU budget than it pays in, meaning it is a net beneficiary.**

During the 2004–2022 period, the Czech Republic's net position attained a value of almost EUR 42.01 billion. In 2022 alone, however, the CR's net position fell by almost 21% year-on-year to EUR 3,031.35 million.

The evolution of the CR's net position for the 2010–2023 period is shown in Chart 9. The data for the years 2010–2022 are from Commission sources and the value for 2023 was obtained from the MoF[76], as the relevant Commission data audited by the ECA was not available at the time of the *EU Report 2024* editorial deadline.

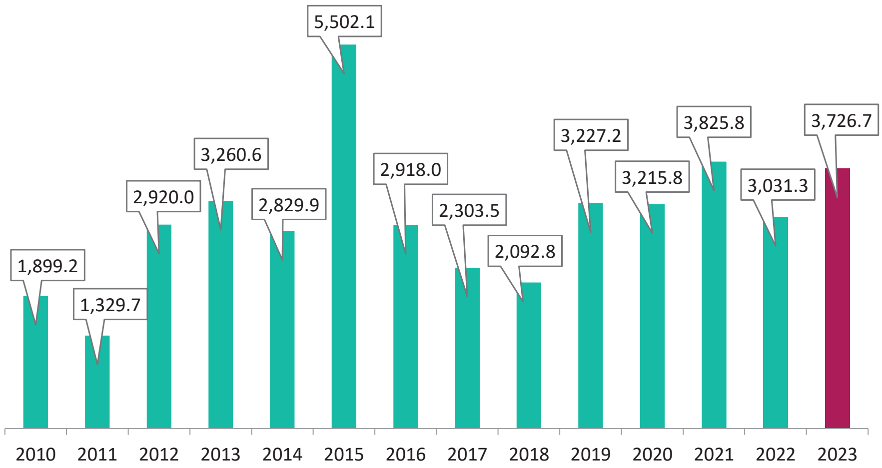
If we accept the value of the net position stated by the MoF for the year 2023 (EUR 3,726.67 million), **the CR's cumulative net position over its 20-year membership of the European Union is EUR 45,795.31 million.**[77]

75 In the following section, the value of the net position below is determined by deducting a Member State's total contributions to the EU budget, including TOR (customs duties and sugar levies), net of the costs of collecting customs duties, from a Member State's total revenue from the EU budget, net of the appropriations under the *European Public Administration* budget heading (i.e. EU administrative costs) and net of appropriations earmarked for covering the costs of the Commission's decentralised agencies.

76 MoF press release: *The Czech Republic will receive almost CZK 50 billion more from the EU budget in 2023 than it paid in,* MoF, 8 February 2024. The press release gives the values in Czech crowns. The cumulative value of the Czech National Bank exchange rate for 2023 was used for the conversion to euros, i.e. CZK 24.007/EUR 1.

77 The MoF uses a different method to calculate the net position. Its calculated net position is usually lower than as calculated by the SAO, so the CR's cumulative net position over the twenty years of its EU membership can be expected to exceed EUR 46 billion.

Chart 9: The CR's net position in 2010–2022 (with added MoF data for 2023) (EUR mil.)



Source: https://commission.europa.eu/strategy-and-policy/eu-budget/long-term-eu-budget/2021-2027/spending-and-revenue_en, Commission, 2023;
Press release: *The Czech Republic received almost CZK 50 billion more from the EU budget in 2023 than it paid,* MoF, 8 February 2024.
Note: The 2023 net position published by the MoF is shown here including the *NextGenerationEU* revenue.

In 2022, the Czech Republic continued to drop down the ranking of net beneficiaries (after NGEU revenues are factored in). While the Czech Republic was still the fifth largest net beneficiary in 2020, it dropped to eighth place in 2021 and ninth in 2022. The biggest net beneficiary (including NGEU revenues) in 2022 was Italy (EUR 17,050 million), ahead of Spain (EUR 15,492 million) and Poland (EUR 12,116 million). At the other end of the scale, the biggest net contributors are Germany (EUR 21,324 million) and the Netherlands (EUR 6,437 million).

After calculating the net position per capita, the Czech Republic's position moves even further down the rankings. In 2022, it occupied 16th place in the per capita ranking of Member States, with the net value per capita decreasing year-on-year from EUR 364.14 to EUR 284.02, i.e. by 22%. A detailed overview is given in Chart 10.

Chart 10: Net position per capita in 2022 (in EUR)

Source: https://commission.europa.eu/strategy-and-policy/eu-budget/long-term-eu-budget/2021-2027/spending-and-revenue_en, Commission, 2023; Eurostat, 14 March 2024.
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 funds granted to Member States from the NGEU.

D.2 ANNUAL REPORT ON THE PROTECTION OF THE EUROPEAN UNION'S FINANCIAL INTERESTS IN 2023

In July 2023, the Commission published its regular annual report on measures to combat fraud and other illegal activities affecting the EU's financial interests, covering the year 2022[78] (the "Report"). The Report is drawn up by the Commission in cooperation with Member States under Article 325(5) of *the Treaty on the Functioning of the European Union* (TFEU) and forms the basis for the European Parliament (EP) to adopt a draft resolution on the protection of the EU's financial interests and the fight against fraud. Member States participate in drawing up the Report because they manage the largest share of EU expenditure under shared management and collect TOR, above all customs duties. The published Report was accompanied by five Commission staff working documents[79].

In the introduction to the Report, the Commission quantified the financial resources used to finance the achievement of its objectives set out in the various EU policies under MFF 2021–2027 (EUR 750 billion). The Commission also provided information on the recast of the Financial Regulation, which aims to increase transparency in the use of EU funds and to make more use of digitalisation in the fight against fraud.

The Commission also noted that the Member States had taken corrective action linked to the incorrect implementation of the PIF Directive and largely followed the recommendations to strengthen risk analysis

78 Report from the Commission to the Council and the European Parliament: *34th Annual Report on the protection of the European Union's financial interests and the fight against fraud – 2022,* COM(2023) 484 final of 27 July 2023.

79 Annexes to the Report:
- Statistical analysis of irregularities reported in the areas of own resources, natural resources, Cohesion Policy and pre-accession aid and direct expenditure 2022.
- Measures adopted by the Member States to protect the EU's financial interests in 2022.
- Follow-up on the recommendations in the Commission's report on the protection of the EU's financial interests and the fight against fraud for 2021.
- Implementation of the Union Anti-Fraud Programme in 2022.
- Early Detection and Exclusion System (EDES) – committee referred to in Article 143 of the Financial Regulation.

and make more use of digitalisation in the fight against fraud. Despite these steps, the Commission believes that there is still significant room for improving the detection and reporting of suspected fraud and for improving follow-up work. There are still significant differences between Member States. Member States with a low incidence of fraud should invest in fraud risk analysis to assess to what extent the low detection rate is due to a low level of fraud and to what extent to systemic weaknesses in fraud detection or reporting systems. They should also ensure that digitalisation is part of their *National Anti-Fraud Strategy* (NAFS).

The Report also states that the implementation of the national recovery and resilience plans was in full swing at the time of writing, and the Commission has taken several steps to ensure that they are implemented correctly. In particular, system audits focusing on the protection of the EU's financial interests were ongoing, highlighting good practices and identifying weaknesses that need to be corrected.

In 2022, the Commission carried out 16 system audits targeted on the protection of the EU's financial interests, including audits covering the Czech Republic. Based on its audit work, the Commission found variations in the way different implementing and coordinating bodies audited implement internal control systems. The main issues concerned:

- a lack of coordination/supervision by coordinating bodies;
- incomplete anti-fraud strategies;
- missing elements in fraud risk assessments;
- the need to improve ex-ante controls aimed at preventing conflicts of interest;
- low participation in training activities.

On 5 July 2017, Directive 2017/1371[80] was adopted; the deadline for transposing the Directive expired on 6 July 2019. Infringement procedures for incorrect transposition of the Directive were launched against 18 Member States, including the Czech Republic, whose infringement procedure was closed in 2022.

Under shared management of EU budget expenditure, Member States are obliged to report to OLAF[81] all irregularities, both suspected fraudulent irregularities and non-fraudulent "other" irregularities.[82] They report these through the IMS[83]. Irregularities relating to expenditure under direct management of the EU budget are reported by the Commission through the ABAC accounting system[84].

In its Annex 2, the report states that a **total of 11,471 irregularities of both fraudulent and non-fraudulent nature** were notified to the Commission by Member States for both the revenue (TOR) and expenditure areas for **2022.** This figure represented a slight year-on-year increase (by about 2%). The total value of irregularities was **approximately EUR 1.67 billion,** which was almost 48% less than in 2021.

In the area of revenue, the year-on-year increase in the number of fraudulent and other irregularities reported by Member States was less than 17%. The increase in financial volumes was more significant, up by more than 49%. The increase in this total was mainly driven by an increase in the volume of reported non-fraudulent irregularities. Conversely, the number and volume of reported fraud cases decreased year-on-year. The majority of fraud cases reported in 2022 involved undervaluing and misclassification/false description of goods (mainly footwear and textiles); cigarette smuggling was another significant area.

In the area of shared management of expenditure relating to agricultural support, 2022 saw an increase of just under 10% in the total number of cases of irregularities compared to 2021 and, conversely, a decrease of around 11% in the related financial amounts. This result was mainly due to by irregularities of a fraudulent nature, with an increase of 73% in the number of notifications but a decrease of more than

80 Directive (EU) 2017/1371 of the European Parliament and of the Council of 5 July 2017 on the fight against fraud to the Union's financial interests by means of criminal law (PIF Directive).
81 European Anti-Fraud Office.
82 Member States are obliged to notify the Commission of any suspected fraud and any irregularities exceeding EUR 10,000 of EU funds.
83 Irregularities Management System.
84 Accrual Based Accounting.

30% in financial volumes. This development of fraudulent irregularities has been influenced by increased reporting in the context of direct payments. The highest rate of irregularities detection concerned market support for agriculture. Fraudulent irregularities often involved the falsification of aid applications or documents. In the case of market measures and rural development, there were also significant infringements relating to incorrect implementation of measures.

In the areas of **cohesion policy and fisheries,** the total number of all reported irregularities in 2022 was 9% higher than in 2021, while the related financial volume was down by more than 82%. This year-on-year change was due to a slight increase in the number of non-fraudulent irregularities reported (up 10%) and a sharp fall in the financial volume of reported fraudulent irregularities (down 90%). Higher risks of fraud were detected in connection with transport and environment (larger amounts affected by irregularities) and research, technological innovation and employment (higher incidence of fraudulent irregularities). The most frequent types of violations were fraudulent supporting documents and breaches of contractual rules.

The trend for irregularities in expenditure under **direct management** remained relatively stable in 2022. More than 80% of the irregularities identified as potentially fraudulent were identified by OLAF investigations.

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

Table 13: Number and monetary value of suspected fraud and other irregularities reported by EU Member States in 2022 and their year-on-year change /YoY change/

Budget sector (expenditures/revenues)		Number of fraud suspicions		Volume of fraud suspicions		Number of other irregularities		Volume of other irregularities	
		2022	YoY change	2022 (in EUR million)	YoY change	2022	YoY change	2022 (in EUR million)	YoY change
Agriculture	EU	433	73 %	20.85	–31 %	3,627	5 %	187.07	–8 %
of which CR		7	600 %	0.82	8,100 %	51	–15 %	1.07	2 %
Cohesion Policy and Fisheries	EU	206	–4 %	169.17	–90 %	2,504	10 %	507.40	–38 %
	of which CR	38	90 %	31.07	377 %	341	18 %	33.10	15 %
Internal policies total	EU	3	N/A	0.25	N/A	32	–29 %	3.58	–17 %
	of which CR	-	N/A	0.00	N/A	2	100 %	0.04	–79 %
Pre-accession policy	EU	-	-	-	-	5	–29 %	0.13	–80 %
	of which CR	-	-	-	-	-	-	-	-
Total expenditures	**EU**	**642**	**38 %**	**190.28**	**–88 %**	**6,168**	**7 %**	**698.18**	**–32 %**
	of which CR	**45**	**214 %**	**3.90**	**488 %**	**394**	**11 %**	**34.21**	**14 %**
Total revenues	**EU**	**454**	**–6 %**	**103.09**	**–34 %**	**4,207**	**20 %**	**679.83**	**85 %**
	of which CR	**0**	**N/A**	**0.00**	**N/A**	**84**	**31 %**	**7.72**	**270 %**
Total	**EU**	**1,096**	**16 %**	**293.37**	**–84 %**	**10,375**	**12 %**	**1,378.01**	**–1 %**
	of which CR	**45**	**205 %**	**31.90**	**487 %**	**478**	**15 %**	**41.93**	**28 %**

Source: *Report from the Commission to the Council and the European Parliament: 34th Annual Report on the protection of the European Union's financial interests and the fight against fraud – 2022.*
Note: YoY change - year-on-year change, i.e. deviation from 2021, expressed in %.

The figures show **that the Czech Republic reported a total of 45 suspected fraud irregularities in the area of revenue and expenditure in 2022 (4.1% of the EU total), representing a year-on-year increase of 205%.** The total number of cases was accounted for solely by the area of expenditure, in particular Cohesion Policy and fisheries expenditure. **The related volume of suspected fraud was estimated at EUR 31.90 million (10.9% of the EU total), a substantial, almost fivefold year-on-year increase.**

The number of other irregularities reported in 2022 by entities from the Czech Republic was 478 (4.6% of the EU total), which represents an increase of about 15% compared to 2021. This year-on-year increase was mainly due to an increase in reported cases affecting revenue. **The related volume was EUR 41.93 million (3% of the EU total), representing an increase of 28% year-on-year.** This increase in the volume of other irregularities reported by the Czech Republic was again driven by the revenue side.

Measures taken by Member States to protect the EU's financial interests

Fifteen Member States have already launched their NAFS, including the Czech Republic. Five MS stated that they are in the process of designing theirs, while four others stated that they have an alternative strategy in place.

In 2022, Member States reported a total of 72 measures intended to protect the EU's financial interests, 52 of which were "single" measures and 25 were comprehensive packages. The measures were mainly of a sectoral nature, addressing in particular shared management expenditure and RRF. They were mostly targeted at the prevention and detection of fraud.

The Czech Republic adopted three sectoral operational measures targeting all phases except fraud detection. The first measure operationalised the enforcement of EU sanctions against the Russian Federation, enhancing coordination, cooperation and information flows among the Czech authorities. The second interconnected the register of beneficial owners with the information systems used in the management of fisheries and Cohesion funds, and the third completed all the methodological documents for MFF 2021–2027.

National strategy of the Czech Republic for the protection of the European Union's financial interests

In accordance with the requirement to ensure the most effective protection of funds provided from the EU budget in the individual programming periods, or within the individual support instruments[85], in 2008 the Czech Republic adopted the *National Strategy for the Protection of the European Union's Financial Interests*[86]. The fourth version of the NAFS was approved in 2023. Effective from 1 January 2024, it takes into account new legislation mainly related to PP21+. The NAFS also responds to the crisis caused by the COVID-19 pandemic and its economic impact at the Czech and EU level. For this reason, the support instruments include the RRF, supporting the reforms and investments contained in the *National Recovery Plan.*

Investigations by the European Public Prosecutor's Office in the Czech Republic

The European Public Prosecutor's Office (EPPO) opened 43 new investigations concerning the Czech Republic in 2023[87]. This was seven more than in 2022. The estimated damage caused by the perpetrators of these cases was EUR 92.6 million, or more than CZK 2.3 billion. The EPPO investigates fraud and corruption involving European funds and major cross-border VAT fraud. Cases of fraud in the Czech Republic mainly concern using falsified documents to artificially inflate costs, reimbursement for unperformed services or cases of double funding. This applies to approximately 54% of open cases. By the end of 2023, these cases accounted for approximately 34% of the total number of EPPO cases, so the Czech Republic's estimated share is above the EU average.

85 This obligation for Member States derives primarily from Articles 310 and 325 of the TFEU.
86 This material was approved by Government Resolution No 535 of 14 May 2008.
87 Annual Report 2023 of the National Unit for Combating Organised Crime at the Criminal Police and Investigation Service of the Police of the Czech Republic.

Fraud linked to public procurement was the second largest category of fraud cases (more than 16%). Cases are often linked to regional and urban development programmes (32 cases) and employment, social cohesion and inclusion and values programmes (17 cases).

Cross-border VAT fraud accounts for a significant proportion of the total damage, even though the number of cases is smaller. This is borne out by the example of the Czech Republic, where there were only seven cases related to VAT fraud out of the total of 77 open investigations, but the estimated damage involved in those seven cases was EUR 241.9 million out of a total estimated damage of EUR 318.7 million.

D.3 MEASURES FOR IMPLEMENTING THE EU BUDGET IN 2023

D.3.1 COORDINATED MEASURES OF EU ECONOMIC POLICY

The European Semester, the EU's economic governance framework, consists primarily of coordinated economic policies and employment policies, through which the EU and Member States address the challenges of economic recovery and resilience.

The Commission launched the 2023 Semester with the publication of the *Annual Sustainable Growth Survey 2023*[88] (Annual Survey). The Annual Survey is the core document of the **"Autumn Package"[89]** setting out the EU's economic priorities. The Annual Survey starts by reporting that the coordinated and united economic policy response to the pandemic has paid off. Economic growth has been strong despite the economic shock caused by the war in Ukraine, and labour markets have proved resilient. However, high energy prices, erosion of households' purchasing power, a weaker external environment and tighter financing conditions mean the EU economy was at a pivotal moment at the turn of 2022 and 2023. Responding to the energy crisis, which requires the joint efforts of Member States and the EU, will depend on a combination of effective policies at national and regional level. ***The Recovery and Resilience Facility,*** which is at the heart of *NextGenerationEU*, will provide a continuous stream of investment in infrastructure, business and skills development until 2026, while supporting an ambitious reform agenda.

The Annual Survey articulates the following four dimensions of competitive sustainability within the EU's economic and employment policy coordination framework for making fundamental changes:

Environmental sustainability

The energy crisis has underlined the need for reliable and clean energy sources and well-functioning EU energy markets, as well as putting further emphasis on climate objectives. **A crucial part of this policy response is the *REPowerEU* plan[90] which aims to end the EU's dependence on Russian fossil fuels and to speed up the transition to clean energy. The REPowerEU plan is consistent with *the European Green Deal*[91]** and focuses on:

- diversification of energy supplies;
- energy savings and efficiency;
- accelerated roll-out of renewable energy.

Accelerating the shift away from fossil fuels is estimated to require a total investment of EUR 210 billion by the end of 2027. *REPowerEU* builds on the goals of the *Fit for 55* programme, which envisages a fundamental transformation of the EU economy, including energy, transport and industry, with the aim of reducing emissions by at least 55% by 2030.

The Commission, in cooperation with Member States, has set up an EU Energy Platform to strengthen security of supply at affordable prices. The Commission has taken a number of measures to reduce the price of energy in a targeted effort to balance energy supply and demand in the short term and to tackle rising energy costs, while preserving incentives for green transition. According to the Commission, progress in the green transition can be achieved, inter alia, by accelerating and strengthening the roll-out of renewable energy sources. The climate targets are still based on the *European Green Deal*, particularly in the face of continued environmental degradation, highlighted in 2022 by droughts and heatwaves

88 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 2023, COM(2022) 780 final of 22 November 2022.

89 The 2023 package of documents published on 22 November 2022 and following up the Annual Survey included the *Recommendation on the economic policy of the euro area, the proposal for a Joint Employment Report, the Alert Mechanism Report and the Opinions on the 2023 draft budgetary plans of euro area Member States.*

90 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: *REPowerEU: joint European action for more affordable, secure and sustainable energy,* COM(2022)108 final of 8 March 2022.

91 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.

resulting in a series of large-scale forest fires.

The main delivery tool for implementing *REPowerEU* at national level will be the RRF, whose challenges will be aligned with the objectives of REPowerEU by means of dedicated chapters.

Productivity

According to the Commission, **strengthening EU competitiveness and its long-term potential for sustainable growth** remain key for economic prosperity and social welfare.

Record inflation and sharp increases in energy prices have forced some businesses to temporarily downscale production or to close permanently, particularly in the non-ferrous metals, ferro-alloys, fertiliser, steel and glass sectors. To address this situation, the Commission presented a **proposal for a Single Market Emergency Instrument**[92] to preserve the functioning of the single market and EU supply chains in times of crisis.

To make durable progress on productivity and competitiveness, the Commission considers it essential to implement reforms and investments to decarbonise industrial processes, address labour shortages and skill mismatches, reduce administrative and regulatory burdens, improve insolvency frameworks and tackle systematic late payments. A proper functioning single market, where fair and effective competition is ensured, is key to boosting productivity and growth. Higher productivity will also require the modernisation of education and training. That is why the Commission emphasises reforms for digital transformation that will enable businesses to gain competitive advantage, improve services and products and expand markets.

Research and innovation are also crucial to faster green and digital transformation. The necessary investments in this area are addressed by the RRF, the *InvestEU* programme, the recently renewed *European Research Area* and the new *European Innovation Agenda.*

Fairness

Economic growth in 2021 and the first half of 2022 was followed by steep rises in energy prices and inflation at the end of 2022, with negative impacts on household purchasing power and labour markets. Updating minimum wages and introducing short-time work schemes to preserve employment and firm-specific human capital have played a key role in protecting purchasing power. Vocational training and upskilling and reskilling measures also supported employment and social inclusion. The digitalisation of the economy has accelerated, generating a greater **demand for digital skills** at all levels, which makes it necessary to adapt education and training systems.

The COVID-19 pandemic highlighted the importance of **resilient and sustainable healthcare systems** that can respond rapidly to health emergencies while preserving the quality and accessibility of care for other health conditions.

National and EU policies kick-starting growth have an important role to play in improving and sustaining social safety nets and tackling regional disparities and demographic changes, particularly those caused by population ageing. The **RRF, together with *Cohesion Policy* funds and *Just Transition Mechanism* funds** are intended to deliver the required reforms through investment.

The **2030 EU headline targets on employment, skills and poverty reduction** will play their part in boosting upward social convergence in the EU. Progress towards the national targets for 2030 will be part of the Semester.

92 Proposal for a Regulation of the European Parliament and of the Council establishing a Single Market emergency instrument and repealing Council Regulation (EC) No 2679/98, COM(2022) 459 final of 19 September 2022.

Macroeconomic stability

Deteriorating economic conditions have increased the **vulnerabilities and risks associated with pre-existing imbalances and the slowdown in economic activity.** The weakening of economic activity and the **tightening in financing conditions are increasing the risks associated with high debt levels.** The Commission therefore decided to focus on housing market developments, competitiveness dynamics and external sustainability and balances. For the ten Member States identified as experiencing imbalances, the Commission carried out in-depth reviews to assess the evolution of these imbalances. The in-depth reviews were then extended to seven other Member States, including the Czech Republic, which is contending with the emergence of new imbalances. **According to the Commission, ensuring macro-financial stability and maintaining the credit channels to the economy are key for resilience.** Euro area Member States must continue to work on completing the banking union, as capital market union is crucial for funding the very large investments needed for the green and digital transitions. The Commission encouraged Member States to develop tools to assess the climate implications of budgetary planning and long-term sustainability, alongside policies and tools that help prevent, reduce and prepare for climate-related impacts in a fair way. **The Commission did not propose to open new excessive deficit procedures.**

As part of the coordination of EU economic policy through the Semester and following up the Annual Survey, ***the Office of the Government of the Czech Republic issued the National Reform Programme of the Czech Republic 2023***[93] (NRefP 2023). This document **outlines the reforms and investments the Government plans to implement in line with its priorities over a period of approximately 12 months.** The NRefP 2023 also responds to previously issued Semester documents, most notably the specific recommendations of the Council of the European Union (the "Council") for the Czech Republic in 2022[94] and the *2022 Country Report – Czechia*[95] drawn up by the Commission[96]. The NRefP 2023 also provides information on progress made in the implementation **of the NRecP**[97], through which the Czech Republic can draw financial support from the ***Recovery and Resilience Facility.*** On the basis of the satisfactory achievement of the 37 milestones and targets of the Czech Republic's recovery and resilience plan, the first set of milestones and targets has been fully met. For example, the modernisation of railway bridges and tunnels has been completed, a platform for the digitalisation of the economy has been created and a new programme to support research and development has been launched. The Czech Republic received EUR 928 million in funding on 22 March 2023.

In line with the Commission's recommendations for non-euro area Member States, the CR drew up ***the Convergence Programme of the Czech Republic (April 2023)***[98] (CP 2023). This programme document prepared by the MoF describes the Government's budgetary strategy and the planned development of public finances in the coming years. The proposed strategy follows the Commission's call to Member States to state in their stability and convergence programmes for 2023 how their fiscal plans will ensure compliance with the 3% of GDP deficit reference value. The Commission also requested that MS propose credible and continuous debt reduction or debt maintenance at a prudent level over the medium term. The Czech Government therefore drew up measures to reduce the deficit by at least CZK 70 billion in 2024, while proposing a way to achieve the medium-term budgetary objective, which is currently a general government structural balance of -0.75% of GDP. According to the expectation presented in the CP 2023, the year 2023 will still be mainly affected by developments in electricity and gas prices, so the economy will stagnate in year-on-year terms but GDP growth of 3% is expected in the following year (2024). Inflation should return to the inflation target in 2024 and real wages will also rise. The general government deficit is also expected to fall below 3% of GDP in 2024 and to around 2% of GDP by the end of the outlook. Public budgets will be heavily influenced by energy prices, however. The government is also preparing a raft of measures to strengthen the long-term sustainability of the pension system.

The Czech Republic submitted its NRefP 2023 to the Commission on 13 April 2023 and its CP 2023 on

93 The NRefP 2023 was approved at the meeting of the government's EU Committee on 12 April 2023.

94 The recommendations for individual MS were approved on 12 July 2022 by the Council at a meeting of Finance Ministers (ECOFIN).

95 *2022 Country Report – Czechia,* SWD(2022) 605 final issued on 23 May 2022.

96 The Council's recommendations for the Czech Republic and the 2022 Country Report – Czechia are often cited in the individual chapters of the NRefP 2023.

97 The NRefP was approved by Government Resolution No 467 of 17 May 2021.

98 The Convergence Programme was approved by Government Resolution No 278 of 26 April 2023.

28 April 2023. Given the interconnected nature of the two programmes, the Commission assessed both programmes simultaneously in accordance with Article 8(1) of Regulation (EC) No 1466/97[99].

Based on the Commission's recommendation[100], the Council reviewed both documents and issued its recommendation[101] on 16 June 2023. The Council's recommendations for the Czech Republic for 2023 and 2024 were as follows:

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. 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, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions. 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 Council Implementing Decision of 8 September 2021. 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.

On the *National Recovery Plan,* the Council noted that the implementation of the Czech recovery and resilience plan was on track but risked some delays. The Czech Republic submitted one payment request in relation to 37 milestones and targets of the plan, for which a total of around EUR 928 million was paid. **At the same time, the Council concluded that the timely implementation of the plan depended on further improving administrative capacity and prioritising key reforms and investments.** It is expected that the plan will be revised in 2023 to add a *REPowerEU* chapter with an increase in non-refundable support. In accordance with Article 14(6) of Regulation 2021/241[102], the Czech Republic expressed its intention to apply for additional support in the form of a loan of up to EUR 11 billion from the RRF on 30 March 2023. The rapid inclusion of the new REPowerEU chapter in the recovery and resilience plan will make it possible for further reforms and investments to be financed in support of the country's strategic energy and green transformation objectives. The systematic and effective involvement of local and regional authorities, social partners and other stakeholders is also important for the successful implementation of the recovery and resilience plan and other economic and employment policies.

99 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.
100 Recommendation for a Council Recommendation of 24 May 2023 on the 2023 National Reform Programme of Czechia and delivering a Council opinion on the 2023 Convergence Programme of Czechia, Official Journal of the European Union (2022/C 334/03), 1 September 2022.
101 The recommendations for individual MS were approved by the Council at a meeting of Finance Ministers (ECOFIN) on 14 July 2023.
102 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility.

D.3.2 IMPLEMENTATION OF THE *NATIONAL REFORM PROGRAMME OF THE CZECH REPUBLIC 2023*

The Report on the Implementation of the National Reform Programme of the Czech Republic 2023[103] (NRefP 2023 Report) was approved by the Government at the meeting of the Committee for the EU on 13 December 2023 and subsequently sent to the Commission.

Ministries and other central government bodies participated in drawing up the NRefP 2023 Report, which was written by the European Affairs Section of the Office of the Government. On 7 November 2023, the Office of the Government organised a round table where the details of this strategic document were discussed with representatives of the economic and social partners and non-governmental non-profit organisations, as has been the case in previous years.

The NRefP 2023 Report states the following:

Introduction

> **The NRefP 2023 Report takes into account the economic and social impacts of the war in Ukraine, the effects of high inflation on Czech households and the decline in real wages.** In connection with the need to urgently address Czechia's strategic energy security, a **Government Committee for Strategic Investments** was established on the basis of a government resolution of 21 June 2023. Its main objective is to ensure better coordination of the preparation of strategic investments in the areas of transport, housing, energy, education and research, development and innovation and other investments requiring government approval for the granting of incentives and to improve the conditions for faster and more efficient implementation of these investments.
>
> In relation to the *Recovery and Resilience Facility*, whose implementation through the NRecP is covered by the NRefP 2023 Report, the information focused on the use of the additional national envelope grants for the Czech Republic, the new REPowerEU chapter and RRF loans to the Czech Republic. **The increase of the NRecP allocation by approximately CZK 49 billion** (from the original CZK 179 billion) and its update and extension were discussed by the Government on 23 August 2023 and the Council's implementing decision on the extended NRRP was subsequently approved at the ECOFIN Council meeting on 17 October 2023.
>
> The NRecP framework now includes reforms using investment funding in the form of an **RRF loan**[104]. The reforms aim to improve the cyber security of at least 244 public sector information systems by 2025, for example. Another key priority is to support affordable housing through public investment through cheap loans.
>
> The introduction to the NRefP 2023 Report also provides **information on the preparation of the reform of the EU's economic governance framework,** which may have a major impact on future Semester cycles. The main aims of the reform are to increase the sustainability of public debt, to promote sustainable growth in all Member States and to simplify economic governance, with an emphasis on a medium-term horizon of at least four years. The proposed reform would mean the possible replacement of the NRefP and the convergence programme by a medium-term fiscal and structural plan.

103 The text of the NRefP 2023 Report is available in Czech at https://vlada.gov.cz/assets/evropske-zalezitosti/aktualne/Zprava-o-realizaci-NPR-2023.pdf.
104 The approximately CZK 170 billion loan was approved by the Government as part of the NRecP update by Government Resolution No 437 of 14 June 2023.

Macroeconomic and budgetary context

GDP is projected to shrink by 0.5% in 2023 and, despite the expected positive external trade balance, economic performance is still not expected to reach pre-pandemic levels. **Economic output for 2024 is expected to increase by 1.9%,** mainly due to a revival in household consumption.

High inflation in 2023 (approx. 11%), driven by rising consumer prices for food and energy, is expected to fall to 3–4% in 2024 (3.3% for the year).

The general government deficit is also projected to fall well below the 3% threshold in 2024. Despite the sluggish economy, the unemployment rate should not exceed 2.8% in 2024.

To support the fiscal balance of the pension system, a first package of measures was approved with a long-term objective of reducing pension expenditure by 0.4–0.5% of GDP. At the same time, the conditions for early retirement were tightened and pension indexation was capped.

Reforms and public investment

Digitalisation

Partial progress was achieved in the area of **digital transformation of public administration** in 2023. This progress included the launch of the **Digital and Information Agency,** whose purpose is both to help advance the digital transition in the Czech Republic and to increase the Czech Republic's overall level of digitalisation in the context of the EU. The NRefP 2023 Report also focuses on the need to develop the digitalisation of Czech businesses (especially SMEs) as a key prerequisite for boosting the country's competitiveness on the global market. In addition to projects financed by the state budget, funding for the digitisation of public administration is also provided by EU funds and the NRecP, specifically components 1.1 *Digital services for citizens and companies* and 1.2 *Digital public administration systems.*

Physical infrastructure and green transition

Decarbonisation and the transition to renewables are supported primarily by incentives to improve the energy efficiency of buildings and production facilities, by building and developing a smart energy network, by using sustainable means of transport, by switching to cleaner energy sources and replacing heating sources, and by investing in recycling infrastructure, biodiversity, forestry reform and watercourse management. **The objectives and priorities are set out in the updated *National Energy and Climate Plan of the Czech Republic,*** which was submitted to the Commission for consideration, with the final draft to be submitted for approval by 30 June 2024. The national plan will be the basis for **updating the *State Energy Concept and the Climate Protection Policy in the Czech Republic.***

Training and the labour market

The main labour market challenge continues to be the employment trends of women, young people, the low-skilled and the elderly, so the solution focused on adult education, digital skills development and expanding childcare capacities for children of working women.

The availability of pre-school care is being increased, with a subsidy call for the provision of pre-school meals for children whose families have found themselves in a disadvantaged socio-economic situation.

Reform of primary education is underway (revision of the framework curriculum), and activities aimed at integrating foreign nationals have been very successful (e.g. provision of Ukrainian teaching assistants).

In the field of secondary education, the process of innovating the system of educational fields for secondary vocational education is going ahead.

The inclusiveness of the education system continues to improve.

Reform of pre-graduate teacher training and support for their continued learning is also underway. For example, a draft *Competency Framework for Graduate Teachers* has been drawn up, which represents a common national vision of the quality of teacher training graduates, and **an amendment to the Teaching Staff Act has been adopted.**

Institutions, regulation and business support in response to COVID-19

As regards anti-corruption measures, the Whistleblower Protection Act has been adopted; to strengthen the legislative framework, an amendment to the Courts and Judges Act and an amendment to the Act on Proceedings in Matters of Judges, Public Prosecutors and Licensed Enforcement Officers have been adopted.

In the area of public administration, a project aimed at increasing the efficiency of public administration was underway in 2023, involving a number of reform steps, with the first stage of the reform being the design of an electronic tool for data collection in public administration, referred to as the *Single Information System for Data Collection.*

Research, development and innovation (R&D&I)

Legislative preparation of the R&D&I system went ahead in 2023 with the drafting of a new **legislative act on research, development, innovation and knowledge transfer, an amendment of the Universities Act and an amendment to the Public Research Institutions Act.** Work also continued on the revision of the *National Priorities of Oriented Research, Experimental Development and Innovation* for R&D&I Support approved by the Government for the period until 2030.

Population health and resilience

According to the NRefP 2023 Report, the collection of public health insurance premiums has improved, so the expected deficit has reached only CZK 5 billion. In support of screening programmes, the **screening programme steering committees established since 2023 continued their work, and screening programme projects were successfully initiated under the respective NRecP components.**

Healthcare digitalisation objectives were set out in the *Strategic Framework for the Development of Healthcare in the Czech Republic until 2030.*

Energy – *REPowerEU* [105]

The primary objective of the REPowerEU plan is to end dependence on Russian fossil fuel imports by accelerating the transition to clean energy and joining forces to achieve a more resilient energy system and a true Energy Union. For these reasons, the EU's revised Directive 2018/2001[106] envisages an **increase in the renewables target for the Czech Republic to 31% by 2030,** but the national climate and energy plan from 2020 sets the contribution to the EU target for the share of renewables at just 22%. This contradiction was addressed by the *update of the Czech National Energy and Climate Plan,* which was noted by the Czech Government in October 2023. **In the proposed update, the achievable share of renewables in final consumption by 2030 was set at 30%.** The updated plan was due to be debated, with the final version to be submitted to the Commission by 30 June 2024.

105 Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, REPowerEU Plan COM(2022) 230 final of 18 May 2022; see https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52022DC0230.

106 Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018 on the promotion of the use of energy from renewable sources.

The Czech Republic has begun to promote green transition, primarily through incentives for the use of sustainable modes of transport, promoting the transition to cleaner energy sources and investing in recycling infrastructure, biodiversity, forestry reform and watercourse management. Financing involves funds from the NRecP and the *State Environmental Fund.*

In the area of support for affordable housing and reducing the risk of energy poverty, work to prepare a legislative act on the support for housing went ahead in 2023. *Supported Housing, Rental Housing* and *Affordable Housing* programmes/sub-programmes had either been launched or were in the notification phase. The long-term *Social Housing* project financed from ROP14+ continued in 2023. Almost CZK 1.2 billion from the ERDF was made available to applicants in 2023. Under two calls for proposals, beneficiaries could obtain support for the acquisition of apartments, apartment buildings and non-residential premises and adapt them for social housing.

Implementation of the UN Sustainable Development Goals (SDGs)

Green transition (selected SDGs)

SDG 7 *Affordable and clean energy* – The Czech economy consumes more energy per unit of economic output (index 93.2) than the EU average (index 87.4). The energy mix continued to be dominated by fossil fuels. The Government therefore updated the energy and climate targets in the Czech Republic's national plan to reduce emissions, increase the share of renewables and improve energy efficiency. It also actively supports the *New Green Savings* programme, which comprises fitting insulation in buildings, replacing substandard heat sources and other measures to reduce energy consumption.

SDG 12 *Responsible consumption and production* – The transition to circular economy principles will be substantially aided by the implementation of the Circular Czechia 2040 strategic framework and its segment contained in the *Circular Czechia Action Plan for the 2022–2027 period,* which was approved by the Government in June 2023.

SDG 13 *Climate action* – Although the Czech Republic is below the EU average in terms of greenhouse gas emissions, it is working to tackle the increase in emissions from transport and waste management. The Czech Republic is therefore committed to supporting the adaptation of aquatic, non-forest and forest ecosystems to climate change, in particular through the *Support for the Restoration of Natural Landscape Functions* programme with a view to enhancing biodiversity. Support for the renovation and replacement of heating sources in residential buildings and public buildings was initiated in the context of project funding through the MoF.

SDG 15 *Life on land* – Measures already launched in 2022 included reforestation, with the target of reforesting 24,000 ha with ameliorative and stabilising tree species. The volume of recorded timber harvesting, including unplanned harvesting, fell by about 14% year-on-year. To protect farmland from erosion, monocultures were capped at 30 ha and permanent grassland growth was encouraged.

Social justice (selected SDGs)

SDG 1 *No poverty* – The proportion of the population at risk of poverty or social exclusion in the Czech Republic in 2022 was 11.8%, which was higher than in 2021 but still the lowest share among Member States. The cost of housing and related services is an issue of current importance. Relative to Czech incomes, prices are beyond domestic budgets for some groups of the population and can have a palpable impact on the population.

SDG 3 *Good health and well-being* – The Czech Republic was severely affected by COVID-19, but the health system came through the crisis. However, the pandemic exacerbated long-standing unresolved imbalances in access to and the staffing and financing of social and health services.

Since 2023, the health system has come in for vociferous criticism from medical staff for inadequate working conditions, particularly due to frequent overtime work.

SDG 5 *Gender equality* – The index rating gender equality in the EU[107] gave the Czech Republic a score of 57.9 for 2023. Czechia has long been one of the Member States with the most pronounced gender inequality in the EU. Gender inequality in the Czech Republic is probably most visible in the representation of women in leadership and decision-making positions. In recent years, the proportion of women in these positions has varied between 20% and 30% (and less in elected positions). The gender employment gap has been changing to the detriment of women for some time, rising to 15% in 2022. In response to these problems, the Czech Republic adopted the *Gender Equality Strategy 2021–2030* and the *Gender Equality Action Plan 2023–2026*.

107 Gender Equality Index.

E. SECTOR MATTERS 2023

E.1 REVENUES LINKED TO THE EU BUDGET

E.1.1 DEVELOPMENTS IN EU REVENUE SOURCES IN 2023

Existing own resources, not including new funding sources, are made up of[108]:

- **own resources from gross national income** based on a uniform rate[109];
- **own resources from value added tax,** where a uniform rate of 0.3% is applied to each Member State's VAT base[110];
- **traditional own resources,** which mainly comprise custom duties[111].

The own resources system is also used to rectify the budgetary imbalance between the net contributions of the MS. Flat-rate corrections in the 2021–2027 period[112] will continue to reduce the annual GNI-based contributions of the Netherlands, Austria, Sweden, Denmark and Germany. In addition to the resources mentioned above, **other revenues, the balance carried forward from the previous year and borrowing** are also used to finance the budget[113].

The EU's own resources system[114] was expanded with effect 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 levy is intended to incentivise Member States to boost the circular economy and promote recycling.

Since the EU's current long-term budget for the 2021–2027 period was approved in 2020, the EU has had to contend with unforeseen and unprecedented challenges ranging from the impact of Russia's invasion of Ukraine to accelerating inflation and the associated rise in interest rates[115]. **As a result of this budgetary pressure,** in June 2023 **the Commission submitted (as a follow-up to the analysis of the revision of the MFF for 2021–2027[116]) three legislative proposals to strengthen the EU budget**.[117] Following the performed analysis, the Commission proposes in the Communication a limited, targeted and balanced revision of the MFF 2021–2027 to ensure that the EU budget can meet its objectives in the coming years.

The first proposal is for a Council Regulation revising the MFF 2021–2027[118]. It sets total commitment appropriations at EUR 1,097,583 million and total payment appropriations at EUR 1,076,055 million.

In a second step, the Commission proposes to create a new Ukraine facility[119] that will be able to meet both the short-term recovery needs of Ukraine and its medium-term reconstruction and modernisation needs. The facility is organised around three pillars:

108 Council Decision of 26 May 2014 on the system of own resources of the European Union (2014/335/EU, Euratom).
109 The uniform rate is applied to Member States' GNI and is adjusted every year to ensure that the EU budget's revenue and expenditure are balanced.
110 The taxable VAT base is limited to 50% of the GNI of each MS.
111 Member States retain 25% of the amount collected as compensation for the costs of collection.
112 EU long-term budget for 2021–2027 (https://www.consilium.europa.eu/en/policies/eu-long-term-budget/timeline-long-term-eu-budget-2021-2027/) and Next Generation EU – COVID-19 recovery package (https://www.consilium.europa.eu/en/infographics/ngeu-covid-19-recovery-package/), European Council and Council of the European Union, 2022.
113 Factsheets of the European Union – The Union's Revenue (https://www.europarl.europa.eu/factsheets/en/sheet/27/the-union-s-revenue), European Parliament, 2023.
114 GNI own resource, VAT own resource and TOR own resource – 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.
115 EU budget: The Commission proposes to strengthen the EU's long-term budget to better address today's most pressing challenges, European Commission, 2023 (https://czechia.representation.ec.europa.eu/rozpocet-eu-komise-navrhuje-posilit-dlouhodoby-rozpocet-eu-tak-aby-lepe-resil-nej-nalehavejsi-vyzvy-2023-06-20_cs).
116 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Mid-term revision of the Multiannual Financial Framework 2021–2027, COM(2023) 336 final of 20 June 2023.
117 Commission proposals: https://commission.europa.eu/strategy-and-policy/eu-budget/long-term-eu-budget/2021-2027/documents_en.
118 Proposal for a Council Regulation amending Regulation (EU, Euratom) 2020/2093 laying down the multiannual financial framework for the years 2021 to 2027, COM(2023) 337 final of 20 June 2023.
119 Proposal for a Regulation of the European Parliament and of the Council on establishing the Ukraine Facility, COM(2023) 338 final of 20 June 2023.

- Pillar I covers financial support in the form of both non-repayable support and loan support provided to Ukraine;
- Pillar II is a Ukraine Investment Framework, designed to attract private and public investments in Ukraine's recovery and reconstruction, supporting the implementation of the Plan;
- Pillar III provides technical assistance and other supporting measures.

The total resources made available for funding the Ukraine Facility for the 2024–2027 period will not exceed EUR 50 billion. Additional financial contributions to the Facility may be provided by Member States, third countries, international organisations, international financial institutions or other sources.

The Commission's third proposal was to introduce *A Strategic Technology Platform for Europe*[120]. In view of the pressing budgetary difficulties expected to become apparent in 2024, the Commission called on the EP and the Council to ensure that this package was in place by 1 January 2024.

In December 2021[121] the Commission proposed to amend the decision on the own resources system to introduce a package of three new revenue resources. **This first set of new own resources included an own resource based on reallocated profits of large multinationals, a revised EU Emissions Trading Scheme (ETS) and a Carbon Border Adjustment Mechanism (CBAM)**[122].

In June 2023, the Commission presented a proposal for a second own resources package[123]. The proposal included a temporary statistical own resource paid as a national contribution from company profits of 0.5% of the notional profit base of EU companies[124]. However, this option will eventually be replaced by a genuine own resource based on corporate taxation, which will be a contribution from the future Business in Europe: Framework for Income Taxation.[125]

The proposal also envisages an increase in the call rate for the ETS-based own resource from 25% to 30%. Rising carbon prices are mentioned as a justification. The proposed package could generate additional annual revenues of around EUR 23 billion from 2024. From 2028 onwards, this would amount to EUR 36 billion, equivalent to around 18–20% of total revenues.

In June 2023, the Commission published its **Annual Report on Taxation 2023**[126] (Taxation Report), which presents the current state of taxation and tax systems in the EU. The Taxation Report looks at the challenges faced by different types of taxes and how the design of tax systems can affect different economic actors and their behaviour. The Taxation Report aims to describe the latest reforms of tax systems and the main indicators used by the Commission to assess tax policies in Member States and at EU level. The Taxation Report shows that in 2021 tax revenues in absolute terms stood at 40.6% of GDP across the EU, 0.6 percentage points higher than in 2020. The EU relies heavily on labour taxation, which, including social security contributions, generates 51.4% of all tax revenue in the EU-27 in any given year. VAT is also an important source of revenue, rising from 6.9% of GDP in 2020 to 7.4% of GDP in 2021. Corporate tax revenue as a share of GDP rose from around 2.4% in 2020 to 3% in 2021. Environmental taxes remain unchanged in the EU at 2.2% of GDP in both 2020 and 2021.

On the subject of labour taxation, the Taxation Report also states that shifting part of the tax burden from labour taxation to consumption and property taxation could foster economic growth. The average tax burden on labour (the "tax wedge") in the EU was falling but remained at 39.6% of labour costs in 2021. There are significant differences between countries, but the EU average remains above the OECD average of 34.6%.

120 Proposal for a Regulation of the European Parliament and of the Council establishing the Strategic Technologies for Europe Platform ("STEP") and amending Directive 2003/87/EC, Regulations (EU) 2021/1058, (EU) 2021/1056, (EU) 2021/1057, (EU) No 1303/2013, (EU) No 223/2014, (EU) 2021/1060, (EU) 2021/523, (EU) 2021/695, (EU) 2021/697 and (EU) 2021/241, COM(2023) 335 final of 20 June 2023.

121 Own resources legal texts (https://commission.europa.eu/publications/own-resources-legal-texts_en), European Commission, 2021.

122 See EU Report 2023.

123 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. An adjusted package for the next generation of own resources, COM(2023) 330 final of 20 June 2023.

124 Based on the gross operating surplus for the sectors of financial and non-financial corporations calculated by Eurostat.

125 Transfer Pricing Directive – Head Office Tax System for SMEs – Business in Europe: Framework for Income Taxation (https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/13463-Transfer-Pricing-Directive-Head-Office-Tax-system-for-SMEs-Business-in-Europe-Framework-for-Income-Taxation_en), European Commission, 2023.

126 Annual Report on Taxation 2023, Directorate General for Taxation and Customs Union, European Commission, Publications Office of the European Union, Luxembourg, 2023.

Environmental taxation is still underused in many Member States, as it accounts for only 5.5% of total tax revenues in the EU. In 2021, energy taxes accounted for 78% of total environmental tax revenues, followed by transport taxes (18% of environmental tax revenues) and resource and pollution taxes (3.5% of environmental tax revenues).

The Taxation Report also provides an overview of developments in VAT collection, another important source of tax revenue for the EU budget. In 2021, EU revenue from consumption taxes represented around 11.2% of GDP and VAT accounted for 7.4% of GDP in the EU. The EU's average standard VAT rate remained almost unchanged between 2017 and 2022 at 21.5%. The implicit tax rate on consumption in the EU rose to 17.9% in 2021 (0.8 percentage points higher than in 2020), the highest value registered since 2009.

The Taxation Report goes on to discuss how digitalisation can simplify compliance, reduce associated costs and be an important tool in the fight against tax evasion and VAT fraud. The use of information technology makes it easier for firms to calculate the amounts they have to pay and keep track of other related administrative tasks. Member States that have introduced digital reporting requirements have experienced an increase in VAT revenues. Digital reporting is likely to help tax administrations fight tax evasion, but they also present a risk that a multitude of different digital reporting systems could emerge across the EU. To address these challenges, the Commission presented in December 2022 its VAT in the Digital Age (ViDA) initiative, which will change the way intra-EU transactions are reported while harmonising the main features of reporting for domestic transactions[127].

In October 2023, the Commission published its eleventh **report on VAT collection**[128]. This is an annual report on the VAT revenue gap (VAT gap), which measures the effectiveness of VAT enforcement measures in each Member State. It also estimates the revenue lost due to fraud and tax evasion and tax avoidance, but also due to bankruptcies, financial insolvencies and calculation errors. In 2021, the share of VAT revenue in total tax revenue was around 27% of total annual EU-27 tax revenue.

The VAT report provides annual estimates of the shortfall in VAT revenue for the EU-27 over the five-year period 2017–2021. Overall, the VAT gap in the EU-27 decreased by EUR 38.7 billion year-on-year to EUR 61 billion in 2021[129]. As statistical analysis of shifts in the VAT gap and other developments following the COVID-19 pandemic showed, 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, these were MS where the VAT burden was significantly reduced. In a year-on-year comparison, this significant and unexpected fall in the VAT compliance gap is also linked to retail shifts towards categories where compliance is generally higher (e.g. online shopping) and to an increased share of non-cash payments.

In the Czech Republic, the VAT gap shrank by 5.1% in 2021, and the downward trend continues. In order to prevent tax evasion, the Czech Republic 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 CO2 emission certificates.

In the fight against tax evasion, changes and updates to existing measures have been made within the EU to strengthen cooperation to prevent tax evasion. The Council again revised the **list of non-cooperative jurisdictions for tax purposes**[130]. This list was first compiled in December 2017 and it is updated twice a year. Countries are assessed on the basis of their compliance with good tax governance criteria. These include meeting international standards aimed at preventing tax base erosion and profit shifting. Furthermore, this set of objective good tax governance criteria also includes tax transparency and fair taxation. In this context, it was decided in 2023 to add three new countries[131] to the EU list of non-

127 In line with this initiative, a proposal for a Council Directive on customs reform and a proposal for a Council Regulation amending Regulation (EEC) No 2658/87 as regards the introduction of simplified tariff treatment for the distance sales of goods and Regulation (EC) No 1186/2009 as regards the abolition of the customs duty relief threshold were published in May 2023.

128 VAT Gap in the EU, Report 2023, Commission, 24 October 2023.

129 The smallest compliance gaps in relative terms were quantified in the Netherlands (–0.2%) and Finland (0.4%), while the largest was in Romania (36.7%). In nominal terms, the highest VAT gap was estimated in Italy (EUR 14.6 billion). The most significant year-on-year reductions in the VAT gap were achieved by Italy, Cyprus, Poland, Belgium and Ireland.

130 Council conclusions on the revised EU list of non-cooperative jurisdictions for tax purposes, 13879/23 FISC 221 ECOFIN 976, of 17 October 2023.

131 Antigua and Barbuda, Belize and Seychelles.

cooperative jurisdictions while removing three jurisdictions from the list[132], so the current list comprises 16 countries.

In October 2023, the Council adopted a directive containing a new set of changes to the rules under the Directive on Administrative Cooperation (DAC8)[133]. These changes mainly relate to information on advance tax rulings for the wealthiest individuals[134] and reporting and automatic exchange of information on income from crypto-assets. The aim is not only to expand registration and reporting obligations but also to strengthen administrative cooperation between tax administrations. The new rules apply to other categories of assets and income, such as crypto-assets. Under the Directive, tax authorities will have to automatically exchange information reported to them by crypto-asset operators. The reason for this solution is the fact that it has been difficult for the Member States' tax administrations to ensure compliance with tax regulations in this specific field. One of the main features of crypto-assets is that they are decentralised and are easily traded across borders. Strong international administrative cooperation is therefore essential to ensure effective tax collection.

On the basis of the **new rules (DAC7)**[135] adopted by the Council at the beginning of 2021, the Member States' tax authorities have automatically exchanged information on the income of sellers on digital platforms since 2023. This helps to make taxation fairer, ensure a level playing field for sellers and platforms, and prevent tax evasion and avoidance linked to activities on these platforms.

In May 2023, the Council formally adopted rules related to markets in crypto-assets[136]. One impact for crypto-asset service providers is the obligation to provide information on their environmental and climate footprint. More fundamentally, though, and not just from the perspective of revenue protection, this regulation requires these providers to have an authorisation to operate in the EU. Consequently, they will have to comply with strict requirements to protect consumers' wallets and will be liable in the event of loss of crypto-assets entrusted to them by investors[137]. This regulation thus binds crypto-asset service providers, crypto-assets themselves and crypto-asset issuers under a single regulatory framework for the first time. These new rules aim not only to protect investors and regulate the risks associated with crypto-assets, but also to stimulate innovation and strengthen the EU's role as a rule-maker for digital policy.

In October 2023, the Council adopted a regulation creating a standard for European Green Bonds[138]. This lays down uniform requirements for issuers wishing to use the "European Green Bond" label for their bonds that they claim are environmentally sustainable. It introduces, for example, a system for registering entities acting as external reviewers of these bonds, including supervision and the regulation of the supervision of issuers. All proceeds from these bonds must be invested in economic activities that are in accordance with the EU taxonomy for sustainable activities.[139]

In November 2023, the Commission adopted a draft Council Implementing Decision[140] in the context of the UK's withdrawal from the EU on 31 January 2020. From 1 January 2021, the UK is not subject to EU VAT legislation. The Withdrawal Agreement included a *Protocol on Ireland/Northern Ireland,* which states that Northern Ireland remains under EU VAT legislation on goods. For services, Northern Ireland is treated as a third country. This leads to a dual or mixed VAT system. To make it possible to continue to apply the special VAT system in Northern Ireland which provides for flat-rate measures in respect of non-deductible VAT charged on fuel expenditure in company cars, the United Kingdom was authorised by a Council Implementing Decision of 2021 to apply a special measure derogating from Articles 16 and 168 of Directive 2006/112/EC in respect of Northern Ireland, which was due to expire on 31 December 2023. The United Kingdom therefore requested in relation to Northern Ireland that it be allowed to continue to apply the derogation from 1 January 2024[141].

132 British Virgin Islands, Costa Rica and Marshall Islands.
133 Council Directive (EU) 2023/2226 of 17 October 2023 amending Directive 2011/16/EU on administrative cooperation in the field of taxation.
134 With high net worth.
135 Council Directive (EU) 2021/514 of 22 March 2021 amending Directive 2011/16/EU on administrative cooperation in the field of taxation.
136 Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on markets in crypto-assets and amending Regulations (EU) No 1093/2010 and (EU) No 1095/2010 and Directives 2013/36/EU and (EU) 2019/1937.
137 The European Banking Authority will keep a public register of crypto-asset service providers that do not comply with the relevant rules.
138 Regulation (EU) 2023/2631 of the European Parliament and of the Council of 22 November 2023 on European Green Bonds and optional disclosures for bonds marketed as environmentally sustainable and for sustainability-linked bonds.
139 For sectors not yet covered by the EU taxonomy and for some very specific activities, there will be a flexibility pocket of 15%.
140 Proposal for a Council Implementing Decision amending Implementing Decision (EU) 2021/512 authorising the United Kingdom to apply, in respect of Northern Ireland, a special measure derogating from Articles 16 and 168 of Directive 2006/112/EC on the common system of value added tax as regards the extension of the authorisation, COM/2023/704 final of 20 November 2023.
141 The proposal envisages an extension of the derogation from Articles 16 and 168 of Directive 2006/112/EC until 31 December 2026, with the UK being

In the context of the UK, a **framework for administrative cooperation between Member States and the UK**[142] has been adopted. The aim of the draft rules is to enable the various public authorities to assist each other in ensuring compliance with VAT legislation and in protecting VAT revenue and recovering debts arising from taxes, fees and customs duties.

In May 2023, the Commission presented a proposal for customs reform[143]. The aim of this reform is to create a more cost-efficient and effective cooperation framework governing the Customs Union, based on a new partnership among EU customs authorities and between customs and business, with two overarching objectives:

- Reduce compliance costs for administrations and businesses through simplified and modernised procedures;
- Enable EU customs authorities to better protect the financial and non-financial interest of the EU and its Member States as well as the single market, based on common, EU-wide risk management and more harmonised controls.

To deliver on this ambition, the reform proposes to set up two key enablers: **the EU Customs Authority and EU Customs Data Hub.** The key function of the EU Customs Authority will be to pool expertise and competences that are currently scattered across the EU. It will steer, coordinate and support national customs authorities in the EU. The new EU Customs Data Hub will be a prerequisite for strengthening supervision and simplifying procedures. The reform will secure several billion euros of additional public revenue in the EU by reducing tax and customs fraud and tackling undervaluation. A tailor-made e-commerce scheme will also bring additional revenue, estimated at EUR 1 billion per year.

In May 2023, the Commission also adopted a proposal for a Council Regulation[144] repealing the customs duty relief threshold. This proposal complements the proposal to revise the Union Customs Code with a view to addressing the specific problems posed by goods in the context of e-commerce by removing the duty relief for imports of goods valued up to EUR 150 and introducing a simplified tariff treatment for goods imported in the context of a business-to-consumer (B2C) transaction, which is treated as a distance sale for VAT purposes.

In the context of customs reform, the Commission also approved a proposal for a Regulation of the European Parliament and of the Council[145], establishing a new EU Customs Code and the European Union Customs Authority.

Furthermore, in May 2023, the Commission adopted a proposal for a Directive[146]in the context of the customs reform, which concerns the one-stop shop system. The present proposal introduces the concept of “deemed importer”, who is any person involved in distance sales of goods to be imported from third territories or third countries and who is authorised to use the import one-stop shop. The “deemed supplier” regime mitigates the risk of non-payment of VAT. Where this regime applies, individual sellers on electronic marketplaces do not have to register for VAT in respect of supplies covered by the deemed supplier rule. Under this proposal, the import one-stop-shop could be used to declare and remit VAT due on all distance sales of goods imported into the EU, regardless of their value, but not including products subject to excise duties, which would remain excluded from the scheme. Similarly, both the special arrangements and the deemed supplier regime would be extended by removing the EUR 150 threshold that currently limits their application and effectiveness.

able to request a further extension until 31 March 2026.

142 Proposal for a Council Decision on the position to be taken on behalf of the European Union within the Trade Specialised Committee on Administrative Cooperation in VAT and Recovery of Taxes and Duties established by the Trade and Cooperation Agreement between the European Union and the European Atomic Energy Community, of the one part, and the United Kingdom of Great Britain and Northern Ireland, of the other part, COM/2023/504 final of 4 September 2023.

143 Communication from the Commission to the European Parliament, the Council and the European Economic and Social Committee: Customs reform: Taking the Customs Union to the next level, COM(2023) 257 final of 17 May 2023.

144 Proposal for a Council Regulation amending Regulation (EEC) No 2658/87 as regards the introduction of a simplified tariff treatment for the distance sales of goods and Regulation (EC) No 1186/2009 as regards the removal of the customs duty relief threshold, COM(2023) 259 final of 17 May 2023.

145 Proposal for a Regulation of the European Parliament and of the Council establishing the Union Customs Code and the European Union Customs Authority, and repealing Regulation (EU) No 952/2013, COM(2023) 258, 17 May 2023.

146 Proposal for a COUNCIL DIRECTIVE amending Directive 2006/112/EC as regards VAT rules relating to taxable persons who facilitate distance sales of imported goods and the application of the special scheme for distance sales of goods imported from third territories or third countries and special arrangements for declaration and payment of import VAT, COM/2023/262 final of 17 May 2023.

E.1.2 DEVELOPMENTS IN BUDGET REVENUES IN THE CZECH REPUBLIC IN 2023

In 2023, the VAT Act[147] was amended by Act No 417/2023 Col.[148] in order to implement Directive 2020/284[149] amending Directive 2006/112/EC. This amendment to the VAT Act targeted the area of e-commerce, where new simplifications were introduced to help taxpayers meet their VAT obligations when providing services, when distance-selling goods and importing, including electronic VAT registration and payment of VAT through the one-stop shop (registration in one MS instead of all MS of consumption).

A “top-up tax” was introduced in 2023 by Act No 416/2023 Coll.[150]. This tax was introduced through the transposition of Directive 2022/2523[151]. The aim of the legislation is to eliminate excessive tax competition between countries and to achieve taxation at an effective level of 15%. The Act introduces two new direct taxes, namely the attributed top-up tax, which will fall on large-scale parent entities of groups with annual revenues of over EUR 750 million, and the domestic top-up tax, which is aimed at preventing the transfer of effective taxation abroad.

In 2023, the “consolidation package” was approved[152]. This legislation has resulted in numerous changes to all taxes. For example, the consolidation package changes the corporate income tax[153] rate from 19% to 21%, on the basis of which sickness insurance of 0.6% paid by every employee was reintroduced, and limits tax deductibility in the purchase of passenger cars for business purposes to CZK 2 million of the price of the vehicle. In 2020, for example, 96 out of 101 new Ferrari cars bought in the Czech Republic were registered for business purposes. This is actually something of a return to the situation before 2007, when the Income Tax Act had a limit of CZK 1.5 million for depreciation of cars from the tax base.

Changes in personal income tax relate to the limitation or abolition of tax exemptions, such as the limitation of the spouse tax credit, the abolition of the tax credit for placement of a child in a pre-school facility and the abolition of the student tax credit. The aim of the amendment was not only fiscal, but above all to simplify and level the existing situation.

In the context of the Gambling Tax Act[154], the consolidation package reduced the exemption limit for income from raffles and gambling from the current CZK 1 million to CZK 50,000, with such winnings still subject to a 15% withholding tax.

Furthermore, as part of the consolidation package the VAT Act reduces the number of VAT rates to two: the basic 21% rate and the reduced 12% rate, with effect from 1 January 2024.

The Excise Duties Act was amended[155], with changes made to the tax on mineral oils. The principal reason was the need to take into account the impact of the energy crisis on fuel prices (a consequence of the invasion of Ukraine by the armed forces of the Russian Federation) and thus on business entities and Czech citizens. The temporary reduction of excise duty on diesel fuel and its substitutes by CZK 1.50 per litre was abolished as of 1 August 2023. Another amendment in the consolidation package changed the tax rates on tobacco products and heated tobacco and introduced a tax on alternative products. The amendment to the Excise Duties Act will result in regular increases in excise duty on cigarettes, smoking tobacco, cigars and cigarillos of 10% in 2024 and 5% in each of the years 2025–2027. In addition, there will be a regular 15% increase in the tax on heated tobacco in each of the years 2024–2027, and the introduction of a new excise duty on other tobacco products (to include, for example, chewing tobacco and snuff) and on tobacco-related products (nicotine sachets and e-cigarette refills, for example, but also any nicotine-containing products that are launched in the future).

147 Act No 235/2004 Coll., on value added tax.
148 Act No 417/2023 Coll., amending Act No 235/2004 Coll., on value added tax, as amended, and other related laws.
149 Council Directive (EU) 2020/284 of 18 February 2020 amending Directive 2006/112/EC as regards introducing certain requirements for payment service providers.
150 Act No 416/2023 Coll., on top-up taxes for multinational enterprise groups and large-scale domestic groups.
151 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.
152 Act No 349/2023 Coll., amending certain laws in connection with the consolidation of public budgets.
153 Act No 586/1992 Coll., on income taxes.
154 Act No 187/2016 Coll., on taxes on gambling.
155 Act No 353/2003 Coll., on excise duties.

E.2 EXPENDITURE IN SUPPORT OF COHESION POLICY

The year 2023 was formally the third year of PP21+ (though in reality this programming period did not start in full until 2022), but it was also an important year from the point of view of PP14+ in terms of the application of the n+3 rule to ongoing activities, including payments (see point E.2.1.2).

E.2.1 2014–2020 PROGRAMMING PERIOD

E.2.1.1 CURRENT STATE OF ABSORPTION OF THE ALLOCATION FOR PP14+

The quarterly report on the implementation of ESI Funds in the Czech Republic in the programming period 2014–2020, 1st quarter 2024,[156] states that as of 31 March 2024 there were a total of 1,205 calls with a total allocation of CZK 924.3 billion (i.e. 141.0% of the total allocation of the Czech Republic).

On the basis of these calls, legal documents granting/transferring support totalling CZK 722.6 billion were issued, which represents 110.2% of the total allocation of PP14+. OPF14+ and OPTA14+ had the highest share of funds in legal documents issued relative to the total programme allocation (124.2% and 118.6% of the allocations, respectively).

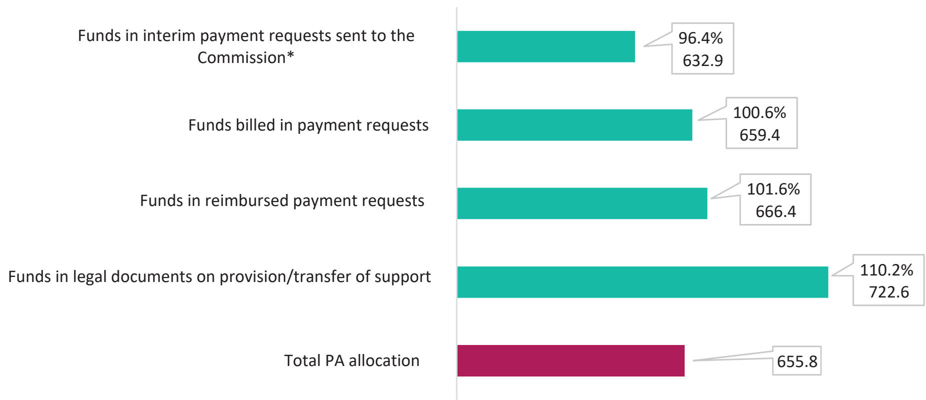
By the end of March 2024, a total of CZK 666.4 billion, i.e. 101.6% of the total allocation, had been paid to beneficiaries at the entire Partnership Agreement level. The largest amounts relative to the programme allocations were reimbursed in the case of OP RDI (108.7%) and OPTA14+ (106.0%).

The volume of all funds billed in payment requests as of 31 March 2024 was CZK 659.4 billion, i.e. 100.6% of the total allocation of PP14+. The highest rates of billing relative to the total programme allocations were also in OP RDI (106.7%) and OPTA 14+ (106.0%).

By the end of March 2024, payment claims for all programmes totalling CZK 632.9 billion, i.e. 96.4% of the total PA allocation, had been sent to the Commission. The highest percentages of funds reported to the Commission in interim payment requests relative to allocations were achieved by the OP PGP (100.5%) and OP En14+ (100.3%).

156 The MoRD-NCA report was published in May 2024 based on data available in MS2014+ at the time of the editorial deadline for the *EU Report 2024.*

Chart 11: ***Partnership Agreement*** **PP14+ utilisation status as at 31 March 2024 (EU contribution)** **(CZK billion)**



Source: MS2014+, as at 31 March 2024.
Note: The chart does not cover programmes under the *European territorial cooperation* objective.

E.2.1.2 COMPLIANCE WITH THE N+3 RULE

In view of the current phase of closure of PP14+, the final utilisation of the total allocation of programmes is being monitored from the 1st quarter of 2023 onwards. The state of the interim payment requests sent as of 31 March 2024 for individual programmes is shown in Table 14.

Table 14: Interim payment requests sent to the Commission as at 31 March 2024

Programme	Total allocation	Payment requests sent		To be sent to Commission
	(EUR mil.)	(EUR mil.)	%	(EUR mil.)
OP *Enterprise and Innovation for Competitiveness*	3,850.11	3,672.10	95.4	178.01
OP *Research, Development and Education*	2,768.06	2,763.73	99.8	4.33
OP *Employment 2014–2020*	2,386.16	2,347.79	98.4	38.37
OP *Transport 2014–2020*	4,559.77	4,537.89	99.5	21.88
OP *Environment 2014–2020*	2,789.61	2,797.88	100.3	0.00
Integrated regional operational programme	5,911.21	5,397.35	91.3	513.86
OP *Prague – Growth Pole of the CR*	201.59	202.62	100.5	0.00
OP *Technical Assistance 2014–2020*	209.70	207.74	99.1	1.96
Rural Development Programme 2014–2020	3,075.73	2,886.27	93.8	189.46
OP *Fisheries 2014–2020*	31.11	29.65	95.3	1.45
Total	**25,783.05**	**24,843.02**	**96.4**	**949.32**

Source*: Quarterly report on the implementation of ESI funds in the Czech Republic in the 2014-2020 programming period, Q1 2024*, MoRD-NCA, May 2024
Note: Compared to other programmes, RDP14+ has extended eligibility of expenditure.

The n+3 rule was fulfilled by all programmes throughout PP14+ and the Czech Republic did not lose any funding in this context.

In March 2024, the MoRD-NCA presented the government with its *Report on Risks and Measures for the Implementation of EU Funds as of 31 December 2023* (Risks and Measures Report). **The Risks and Measures Report shows that the years 2023 and 2024 are crucial from the point of view of full absorption of the PP14+ allocation. As of the end of February 2024, the MoRD-NCA estimated the underutilisation risk at CZK 485 million (combined figure for OPF14+, IROP14+ and OPEn14+).**

E.2.2 2021–2027 PROGRAMMING PERIOD

At the end of September 2022, the Commission approved the last Czech OP, which was OP *Just Transition* (OPJT), making the Czech Republic the second Member State to have all programmes approved. PP21+ thus became fully operational in 2023.

No external reallocations between programmes are planned in 2023 and until the end of March 2024.

As of 31 March 2024, the MoRD-NCA had not received any reports informing about the suspension of funding or corrections related to PP21+.

E.2.2.1 CURRENT STATE OF ABSORPTION OF THE ALLOCATION FOR PP21+

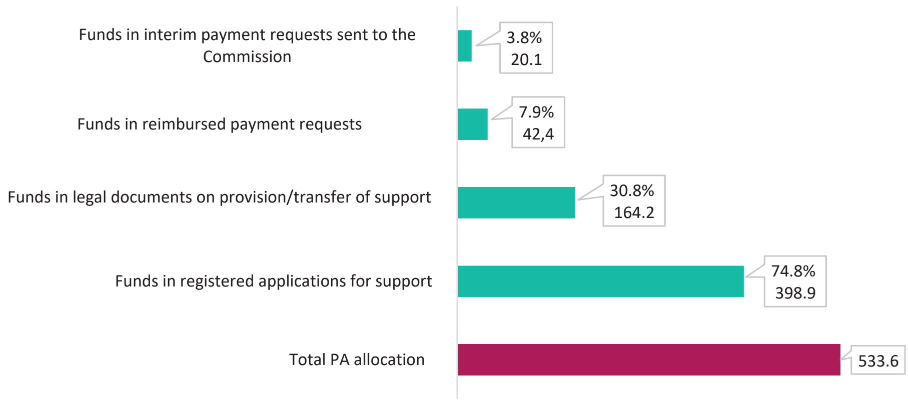
As of the editorial deadline of the EU Report 2024, i.e. 31 March 2024, the MoRD-NAC had issued the *Monthly Information on the Implementation of EU Funds (2021–2027), March 2024*.[157] The information presented in this part of the *EU Report* is taken from this document and from other information provided to the Supreme Audit Office by the MoRD-NCA.

By the end of March 2024, a total of 14,867 legal documents granting/transferring support totalling almost CZK 164.24 billion had been issued, i.e. 30.8% of the total allocation for PP21+. The highest shares of funds covered by issued legal documents relative to their allocations were in OPEm+ (57.8%), OP JAK (42.5%) and OPEn (42.1%).

A total of CZK 42.4 billion, i.e. 7.9% of the total allocation, was paid to beneficiaries, with the highest relative reimbursements in OP JAK (17.8%) and OPEm+ (15.0%). The highest percentages of funds reported to the Commission in interim payment requests relative to allocations were in the OPT (11.2%) and OPEm+ (4.2%).

Although these figures may seem low, they correspond to the given phase of the seven-year programming period and rank the Czech Republic among the most successful Member States in the EU-27 in terms of allocation absorption progress.

Chart 12: *Partnership Agreement* PP21+ utilisation status (EU contribution) as at 31 March 2024 (CZK billion)



Source: MS2021+, as at 31 March 2024.

157 The MoRD-NCA issues these reports on a monthly basis. The data underpinning these reports come from MS2021+.

E.2.2.2 COMPLIANCE WITH THE N+3 RULE

Due to the delayed start of PP21+, the n+3 rule was adjusted so that the planned allocation for 2021 was added to the allocation for 2022. The first year in which the n+3 rule applies will be 2025. The current state of compliance with this rule for 2025 is shown in the table below.

Table 15: Compliance with the n+3 rule for 2025 as at 31 March 2024 (EU contribution)

Programme	Allocation until 2022 (n+3)	Advance payments (2021–2025)	Payment requests sent	Basic conditions not fulfilled	Fulfilment of the limit
	(EUR mil.)	(EUR mil.)	(EUR mil.)	(EUR mil.)	(in %)
OP *Technologies and Applications for Competitiveness 2021–2027*	535.70	109.76	2.90	0.00	21.0
OP *Jan Amos Komenský*	382.08	89.27	50.77	0.00	36.7
OP *Employment plus*	249.14	51.05	61.36	0.00	45.1
OP *Transport 2021–2027*	882.82	169.89	542.26	0.00	80.7
OP *Environment 2021—2027*	408.31	86.06	64.18	124.79	67.4
Integrated regional programme 2021–2027	820.43	165.70	74.88	0.00	29.3
OP *Technical assistance 2021–2027*	37.63	7.71	6.56	0.00	37.9
OP *Fisheries 2021–2027*	5.82	0.75	0.37	0.00	19.2
OP *Just Transition 2021–2027*	580.47	41.04	18.92	0.00	10.3
Total	**3,902.40**	**721.23**	**822.20**	**124.79**	**X**

Source: MoRD-NCA information, June 2024.
Note: Expenditure related to non-compliance with the basic conditions is not reimbursed by the Commission but counts towards the n+3 rule. This amount corresponds to the amount of the fictitious payment request.

According to the information in the Risks and Measures Report, from the point of view of optimal absorption of the allocation and successful implementation of PP21+ programmes, a high risk is identified for OPJT and OP TAC.

OPJT is a specific programme with multi-source funding. Strategic projects are typically complex and demanding in terms of preparation and evaluation, as well as in terms of implementation. Although the managing authority predicts compliance with the n+3 rule for 2026, the MoRD-NCA classified the risk of non-compliance with n+3 for 2026 and with the defined milestones and targets as significant. **Based on its predictions, the MoRD-NCA estimates the possible decommitment (cancellation of part of the commitment by the Commission) in 2026 at CZK 4 billion to CZK 9 billion.** The MoRD-NCA goes on to say that all Member States that were allocated funds from the *Just Transition Fun*d are contending with delays in the implementation of the funds. The Czech Republic is doing better than other MS in this regard.

In the case of OP TAC, the MoRD-NCA identified an increased risk of non-achievement of the defined milestones and targets and also a risk relating to n+3 compliance, but so far without any loss of the allocation.

E.2.3 ADMINISTRATIVE CAPACITY OF THE CZECH REPUBLIC'S IMPLEMENTATION STRUCTURE IN 2023

The MoRD-NCA stated in its Risks and Measures Report that the main risk in PP21+ is the risk of insufficient administrative capacity. At the request of the SAO, the MoRD-NCA described the current state of administrative capacity in the Czech Republic's implementation structure.[158]

In terms of human resources, the Czech Republic's implementation structure has qualified and experienced personnel. Staff turnover in the implementation structure increased slightly to 9.44% (from 8.34% in 2022). In FTE terms, 3,405.71 FTEs were involved in implementation in 2023[159], a comparable figure to the previous year (3,433.12 FTEs). At the end of 2023, 3,788.63 systemised positions were assigned to the implementation of EU funds, which represents 0.65% of the total number of civil servants in the Czech Republic (75,868 employees).[160]

Any further reductions in the number of systemised implementation structure positions may seriously jeopardise the full absorption of the respective allocations, compliance with the n+3 rule, and the continuity and speed of reimbursement of EU budget funds. At the same time, it is important to point out that the implementation structure positions are largely financed from technical assistance projects and reducing the number of positions does not represent a significant saving for the state budget.

According to the Commission's regular *Country Report – Czechia 2024*[161], the number of public administration employees and spending on them in the Czech Republic is below the EU average. **Wages are lower than in the private sector at comparable levels of education and have fallen by more than 10% in real terms since 2004.** This reduces the appeal of the public sector as an employer and makes it hard to bring in and retain talented and educated professionals. This particularly applies to managerial, analytical and IT positions.

The 2021 *Framework for Strengthening the Administrative Capacity of the Implementation Structure of European Funds in the 2021–2027 Programming Period* (known as "the Roadmap") was reviewed and updated in 2023 in the Czech Republic. This document also states that the Czech Republic's implementation structure is sufficient and competent in terms of human resources and capacity, which is borne out by the success rate in drawing down EU funds. New measures to strengthen administrative capacity were not needed as of the end of 2023. The emphasis is placed on proper implementation of existing measures to avoid any unnecessary increase in the administrative burden.

The Czech Republic has managed the transition between the 2014–2020 and 2021–2027 programming periods well and is continuing to implement EU funding successfully.

158 Source: information from MoRD-NCA, June 2024.
159 Full-time equivalent
160 *Information on ensuring the administrative capacity of the implementation structure for the Partnership Agreement and the National Strategic Reference Framework for 2023: Report for the information of members of the government,* MoRD-NCA, 2024.
161 *Country Report – Czechia,* DIRECTORATE-GENERAL FOR ECONOMIC AND FINANCIAL AFFAIRS. 2024 Online. 2024 European Semester: Country Reports. 2024. Available at: https://economy-finance.ec.europa.eu/document/download/facc4bb2-4e1b-471f-998e-6895c4091e3c_en?filename=SWD_2024_603_1_EN_Czechia.pdf.

E.2.4 EXTRAORDINARY TASKS DEALT WITH BY SPECIFIC MEASURES IMPLEMENTED UNDER COHESION POLICY[162]

E.2.4.1 COVID-19 AND REACT-EU

The *REACT-EU* initiative provided funding of more than CZK 28 billion to tackle the impact of the COVID-19 pandemic. A total of CZK 25.3 billion was paid to beneficiaries as of 31 March 2024.

Eight calls were held under priority axis 6 of IROP14+ and 609 projects were carried out. Thanks to support from *REACT-EU*, 98 healthcare and public health facilities were improved. A total of 1,925 new beds were added for COVID-19 patients and 29 cybersecurity improvements were implemented; 269 new ambulances and 509 new emergency response vehicles were acquired. The Integrated Rescue System received 1,449 sets of equipment and material resources and 61 IRS buildings were modernised. Services capacity and social care capacity were increased to serve an additional 2,569 clients and 690 care service and social work facilities were supported.

Table 16: REACT-EU utilisation status as at 31 March 2024 (EU contribution)

Priority axis IROP14+	Total allocation	Funds in registered applications for support			Funds in legal acts on the provision/ transfer of support			Funds in reimbursed payment requests	
	(CZK mil.)	(CZK mil.)	Number	% of allocation	(CZK mil.)	Number	% of allocation	(CZK mil.)	% of allocation
06.6	27,701.48	33,351.14	728	120.4	29,160.85	610	105.3	25,339.26	91.5
06.7	29.32	49.88	3	170.1	21.36	2	72.9	12.50	42.6
06.9	561.40	388.23	5	69.2	359.27	4	64.0	0.00	0.0

Source: MS2014+.

E.2.4.2 SUPPORT FOR REFUGEES FROM UKRAINE

Support for refugees from Ukraine was implemented under strategic objectives 8.1 and 9.1 of IROP14+. The goal was to manage the migration crisis in the Czech Republic that followed the Russian military aggression in Ukraine. The supported projects were aimed at providing for basic needs, including housing, and assisting the socio-economic integration of refugees into society.

The total funding earmarked for these projects exceeded CZK 937 million. Projects in strategic objective 8.1 were restricted to the territory of the capital city of Prague, while projects in strategic objective 9.1 could be implemented anywhere in the Czech Republic, including the capital. EU funding amounted to almost CZK 376 million for strategic objective 8.1 and CZK 561 million for strategic objective 9.1.

On 31 January 2023, IROP14+ launched call No 105 *Support for Accommodation for Refugees from Ukraine* intended to address the immediate need for refugee housing. The only eligible applicant was the Labour Office. More than CZK 184 million was allocated to its project from the ERDF. Call No 106 *Support for Refugees from Ukraine* was announced on 29 June 2023, focusing on basic material assistance to refugees (e.g. food, hygiene items, clothing etc.) as well as direct services such as accommodation, health services, health prevention and integration into society. The ERDF prepared an emergency package of over CZK 163 million. On 12 December 2023, IROP14+ launched call No 107 *Support for the Accommodation*

162 Source: information from MoRD-NCA, June 2024.

of Refugees from Ukraine from REACT-EU aimed at addressing refugees' urgent housing needs. The only eligible applicant was again the Labour Office. CZK 285 million was allocated to the project from *REACT-EU* funds. On 18 December 2023, IROP14+ launched call No 108 *Support for Refugees from Ukraine from REACT-EU.* This appeal was aimed at providing for the basic needs and socio-economic integration of refugees from Ukraine. The only eligible applicant was the Capital City of Prague. CZK 127 million was allocated to projects from *REACT-EU* funds.

E.2.5 INFORMATION ON THE STATE OF PREPARATION OF THE 2028–2034 PROGRAMMING PERIOD (PP28+)[163]

The MoRD-NCA is actively engaged in preparations for OP28+. In 2022, during the Czech Presidency of the Council of the European Union, it commenced discussions on the future form of EU Cohesion Policy after 2027 with representatives of European institutions and Member States. This was also a central issue during the Czech Presidency of the Visegrad Group (1 July 2023 – 30 June 2024), during which a declaration was signed by 11 like-minded Member States. This declaration covers key areas of Cohesion Policy, such as its role, principal features and scope after 2027, financial aspects and implementation rules, and the possible impact of EU enlargement on the policy.

In parallel with promoting the Czech Republic's position in the design of Cohesion Policy after 2027, it is necessary to start preparing the Czech Republic's substantive priorities. European funding accounts for up to 40% of the Czech Republic's investments, so Cohesion Policy is a key investment policy. That makes it essential to ensure it continues beyond 2027. Given that allocations for the Czech Republic are likely to gradually fall and will therefore not cover the expected needs of the state, priority areas the Czech Republic will focus on in the next programming period have to be defined.

The MoRD-NCA is involving all the relevant actors – responsible ministries, economic, territorial and social partners, academia and churches – in the discussions on priorities for the future focus of EU funding in the Czech Republic, with the aim of arriving at a national position for the Czech Republic. **This cooperation mainly takes place through a working group under the MoRD that was launched in September 2023. It is important that these discussions with experts and partners on the prioritisation of issues take place before the new MFF is proposed and EU legislation for the future period is drawn up, so that the conclusions are reflected in the negotiations with the Commission.**

The MoRD-NCA is working on a material summarising the key starting points for the direction of Cohesion Policy after 2027. The material will be submitted to the Czech Government in July 2024. It should serve as a basis for expert and political discussions at European and national level. **The MoRD-NCA also plans to draw up a proposal for the main EU funding areas and submit it to the Government by mid-2025. The future structure of the programmes will be defined later, however, on the basis of new legislation and the Commission's requirements.**

In 2023, the MoRD-NCA carried out two major evaluations to assess what impact Cohesion Policy funds had in the Czech Republic in PP14+. The first, regional evaluation assesses the impact of EU funds on territorial development at regional level. The second, thematic evaluation assesses how the funds were used and what results were achieved, broken down by the various areas supported (as defined by thematic objectives). The evaluations' principal findings provide key data for the future use of EU funds.

At the European level, general discussions on the future form of the MFF and Cohesion Policy per se are still taking place – specific recommendations for Member States can only be expected after the legislative proposals for PP28+ are published.

163 Source: information from MoRD-NCA, June 2024.

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

E.3.1 *MODERNISATION FUND*

The *Modernisation Fund*[164] was established by Directive (EU) 2018/410 of the European Parliament and of the Council amending Directive 2003/87/EC[165]. This Directive was transposed in the Czech Republic by Act No 1/2020 Coll.[166] The goal of the *Modernisation Fund* for 2021–2030 is to support investment in modernising energy systems and improving energy efficiency. These investments should also contribute to the Czech Republic's energy independence. The MF obtains funding mainly from the monetisation of 2% of the total number of emission allowances in the EU ETS[167] for the 2021–2030 period. From 2024, an additional 2.5% of allowances auctioned between 2024 and 2030 have been added. At EU level, the European Investment Bank, the Investment Committee and the Commission have the key evaluation and approval role.

The current estimate of the amount available for the Czech Republic for the years 2021–2030 is approximately CZK 500 billion. The Modernisation Fund Committee and the Modernisation Fund Platform[168] are involved in the preparation and administration of the MF in the Czech Republic. The beneficiary of the funds is the SEF.

The funds are channelled into eight programmes with energy saving measures. **Most of the calls were related to the HEAT programme (heating production sector); after absorption capacity is verified, it is planned to increase the programme allocation to approx. CZK 100 billion. Similarly, the expectation for the programme *RES+* (Renewable Energy Sources) has been updated, with approximately CZK 100 billion due to be allocated. Support for *ENERG ETS* (energy-intensive industry) will increase, with the programme allocation set to reach CZK 80 billion.** The allocation to other programmes will also be increased: specifically, *ENERGov* (energy efficiency in public buildings and infrastructure) should reach CZK 20 billion and *TRANSGov* (modernisation of public transport) will be increased to CZK 50 billion. *GREENGas* (support for green gases, including biomethane and hydrogen) and *SMARTNET* (modernisation of public and other networks) should both have an allocation of CZK 20 billion, with *KOMUNERG* (support for community energy) set to be allocated approx. CZK 14 billion.

According to information from the SEF[169] nearly 1,600 projects of major importance had been supported by the end of 2023. This makes the Czech Republic one of the most successful Member States in this respect. At the level of the European Investment Bank and the Commission, the projected funding, which amounted to a total of CZK 194 billion were successfully defended. Approximately CZK 66 billion (at an exchange rate of CZK 24.6/EUR) had been paid out by 2023, i.e. roughly one third of the defended investments.

E.3.2 *NATIONAL RECOVERY PLAN*

The NRecP for 2021–2026 is funded in the Czech Republic through grants and subsidies from the *Recovery and Resilience Facility,* which is the largest *NextGenerationEU* instrument. The NRecP was updated in 2023[170] and a "loan component" was added to the total amount earmarked. **This increased the total NRecP allocation from the original sum of more than EUR 7.0 billion to EUR 9.2 billion, i.e. CZK 228.4 billion,** of which approximately CZK 209.0 billion was in grants and CZK 19.4 billion in loans.

164 The MF was set up to support ten Member States, namely Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia.

165 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.

166 Act No 1/2020 Coll., amending Act No 383/2012 Coll., on the conditions for greenhouse gas emission allowances 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 amending certain laws (the Energy Act), as amended.

167 EU Emissions Trading System.

168 Organisational structure: https://mzp.gov.cz/en/modernisation_fund .

169 Data available on the SEF website https://www.sfzp.cz/en/about-the-modernisation-fund/.

170 Council Implementing Decision amending the Implementing Decision of 8 September 2021, approving the assessment of the Recovery and Resilience Plan for the Czech Republic, dated 10 October 2023, No 13383/23.

Binding conditions for the implementation of the NRecP (i.e. the Council Implementing Decision, or CID) were set out as part of the approval of the Czech NRecP by the Council for Economic and Financial Affairs in 2021[171]. Halfway through the implementation period, the administrative burden entailed in the provision of grants proved to be significantly higher. The Commission therefore sent Member States a draft of the updated RRF implementation guidelines. This draft sets out the permissible types of changes to objectives or process measures without reducing the plans' overall ambitions. At the same time, the updated guidelines simplify reporting requirements (modification of monitoring steps), address complementary funding and set out ways to strengthen cooperation with the ECA to avoid overlapping audit work.

The overriding principle of the proposed adjustments remains that Member States should ensure progress on reforms and investments and prioritise measures that can be completed by August 2026. **It still applies that the targets and milestones have to be achieved by 31 August 2026.**

As of the editorial deadline of *EU Report 2024*, the Czech Republic received almost EUR 1.88 billion in grants for a total of three applications. **Including pre-financing, the total amount disbursed to beneficiaries in the Czech Republic has already reached approximately EUR 2.7 billion, which represents more than 29% of the financial support contracted for the CR from the RRF. At the same time, 19% of the agreed NRecP milestones and targets have been satisfactorily achieved.** By the 15 September 2024 deadline, the Czech Republic plans to submit the 4th and 5th payment requests for a total of almost EUR 2.0 billion and a loan payment request worth approximately EUR 191 million. This should enable the Czech Republic to meet a further 63 NRecP milestones and targets.

These milestones had to be met by 31 December 2023 at the latest, but there were slight problems or delays in implementation. Specifically, in the fourth payout request, Milestone 193 – *adoption of the Long-Term Care Act* – appears to be critical. Due to the threat that its entry into force or transitional provisions directly related to the Council Implementing Decision may have to be deferred, the matter is being discussed with the Commission. **This currently threatens to delay the application for payment of almost EUR 1.3 billion.**

E.4 EXPENDITURE IN SUPPORT OF EU HOME AFFAIRS

EU home affairs funding provides support to strengthen freedom, security, justice and law and to cover migration policy.

These areas have been supported by the EU budget for a long time. In the Czech Republic, these activities were financially covered first by the *European Refugee Fund* (PP4+) and then by the general programme called *Solidarity and Management of Migration Flows* (PP7+). In the previous programming period, national AMIF and ISF programmes were operational. Starting in PP21+, home affairs funding is being integrated with other EU funds and incorporated into the common legal framework.

In the 2021–2027 programming period, three new funds have been added to the group of EU funds with a common legal framework:

- ***Asylum, Migration and Integration Fund[172];***
- ***Internal Security Fund[173];***
- ***Border Management and Visa Instrument[174].***

171 Council Implementing Decision No 11047/21 of 31 August 2021 approving the assessment of the recovery and resilience plan for Czechia.

172 In the Czech Republic, OP AMIF focuses on three of the four strategic objectives. These are Integration, Returns and Asylum. The Czech Republic can utilise funding of up to almost EUR 70 million from OP AMIF.

173 The ISF has three strategic objectives that can be funded, namely *improving and facilitating the exchange of information among and within the EU law enforcement, and other competent authorities and relevant EU bodies; Improving and intensifying cross-border cooperation; and Strengthening capacities to combat and prevent crime, terrorism and radicalisation.* The Czech Republic can utilise funding of up to almost EUR 35 million through OP ISF.

174 The BMVI has two strategic objectives. These are *Support for European integrated border management and Support for the common visa policy.* The Czech Republic can utilise funding of over EUR 30 million through OP BMVI.

The Czech Republic's managing authority for all three OPs supported through these funds is the MoI. The total allocation for these OPs amounts is EUR 135 million.

In March 2024, the MoI issued an interim evaluation report[175] (covering the period until 31 December 2023) for the OPs it manages. The report states that the OPs are at the start of the implementation phase, so it is not possible to assess their impacts, even short-term impacts. **Nevertheless, on a general terms the MoI judges the OPs to be appropriately designed. Despite the low allocation, these OPs can help address the needs of specific groups.**

As at 31 December 2023, 38.2% of the total allocation had been committed in legal documents, with the largest amount of funds in relative terms approved in OP ISF projects (52.8%). By the end of 2023, however, only a small amount of funding had been reimbursed, ranging between 1% and 2.5%.

By the end of 2023, a total of 21 projects out of 46 submitted project applications had been approved in the three OPs. Twelve projects have been approved in OP AMIF, six in OP ISF and three in OP BMVI.

The external evaluator (Ernst & Young, s.r.o.) found that:

- a significant number of activities lack an indicator (quantitative or qualitative) that would make it possible to evaluate the success and impact of the implemented activities;
- indicators do not cover all supported activities, or do not reflect the substantive content of projects (irrelevant monitoring of gender and age breakdown) and the needs of target groups (children, vulnerable persons);
- although the MA is obliged to regularly report datasets to the Commission, the usefulness of these reports is not clear;
- the inclusion of these OPs under the General Regulation places additional administrative requirements on both the MA and the beneficiaries;
- respondents have a very positive attitude to the possibility of streamlined expenditure reporting that should bring significant administrative simplification (e.g. unit reporting of wage costs).

Among other things, the external reviewer recommended:

- elaborate the intervention logic of each OP in its entirety, including externalities that have an impact on the interventions;
- learn from the current situation and develop a comprehensive intervention logic for the next programming period, including links to output and result indicators, to form a basis on which the success of the programmes can be judged;
- when preparing the new programming period, assess the relevance of including home affairs programmes under the General Regulation and, where appropriate and in cooperation with the Commission, adapt or simplify the blanket rules that are redundant for these programmes, and no longer automatically impose Cohesion Policy rules on home affairs funding without proper evaluation.

The findings and recommendations made by the external evaluator with regard to EU home affairs support in the Czech Republic halfway through PP21+ are basically the same as the SAO's findings and recommendations concerning PP14+ Cohesion Policy.

175 Mid-term evaluation of OP AMIF, OP ISF and OP BMVI in the 2021–2027 programming period, Ernst & Young, s.r.o., March 2024.

E.5 EXPENDITURE ON THE COMMON AGRICULTURAL POLICY

E.5.1 RECENT DEVELOPMENTS IN THE COMMON AGRICULTURAL POLICY[176]

The basic principles of the CAP for the years 2023–2027 are designed to support and stabilise farmers' incomes and ensure food security, while operating resilient, sustainable and competitive agriculture with a focus on environmental protection. In this programming period, CAP support has been merged into a single strategic document to allow better management so that the objectives can be achieved. The CAP Strategic Plan is an instrument for supporting the farming, food, forestry and rural sectors through the two agricultural funds (EAGF and EAFRD), which were also in operation in the previous programming period.

The Strategic Plan of the Common Agricultural Policy of the Czech Republic for the period 2023–2027 (SP CAP 23+) was approved by the Commission in November 2022. It contains three main areas of support: direct payments, rural development and sectoral interventions. These areas are further divided into 92 interventions. More than EUR 8,013.13 million is earmarked for financing these interventions, with EUR 5,646.82 million coming from the EU budget and EUR 2,366.31 million from the State budget.

Most of the funding (more than 51%) is targeted at direct payments, which help farmers secure stable incomes and function as a safety net against the volatility of agricultural markets. Direct payments are awarded in the form of a payment per hectare farmed or according to the number of animals kept. The granting of direct payments is conditional on the good agricultural practice, i.e. compliance with mandatory farming requirements and good agricultural and environmental soil standards, in addition to the conditions of individual types of support.

Rural development interventions (47% of the planned SP CAP 23+ budget) are divided into area-based and livestock interventions and project interventions. Project interventions provide funding for farming, food, rural areas, and contributions to forestry and water management measures. Project interventions are intended to contribute to the creation of new jobs in rural areas and the modernisation of agricultural holdings, among other things. They should also support research and innovation, training and consulting activities.

Sectoral interventions, representing the remaining less than 2% of the planned budget of SP CAP 23+, represent support provided to selected sectors. Within the Czech Republic, sectoral interventions apply to the fruit and vegetables, potatoes, eggs, ornamental plants, wine and apiculture products sectors.

E.5.2 STATE OF ABSORPTION OF CAP FUNDING ALLOCATED TO THE CZECH REPUBLIC IN 2023

In 2023, according to SAIF data[177], CZK 30,949.38 million was paid out under the CAP in the Czech Republic (with EU funds accounting for CZK 23,857.01 million and the state budget CZK 7,092.37 million). More detailed data are given in the following table.

176 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 a https://www.mfcr.cz/cs/zahranici-a-eu/hospodareni-eu/prostredky-alokovane-pro-cr.

177 The source of the information is the CAP and marketing budget for 2023 and its implementation as of 31 December 2023, drawn up by the SAIF.

Table 17: Overview of funds paid out in the main CAP areas in 2023 **(in CZK thousand)**

Area of expenditure	EU contribution	CR contribution	Total
Direct payments *	15,074,792	532,606	15,607,398
Common Market Organisation	645,577	335,009	980,586
Rural Development Programme***	8,136,642	6,224,757	14,361,399
Total	**23,857,011**	**7,092,372**	**30,949,383**

Source: documents provided by the SAIF - *CAP and marketing budget for 2023 and its drawdown as at 31 December 2023, table Total use of CAP resources in 2023.*
* This is the sum of direct payments paid from the envelope for the years 2014–2020 (CZK 8,685,324 thousand) and direct payments under SP CAP 23+ (CZK 6,605,889 thousand). This includes a financial discipline adjustment (refund of the part of the subsidy to farmers by which it was reduced in the previous year, i.e. CZK 314,345 thousand and the transfer of the forfeited portion of the refunded subsidies, i.e. CZK 1,840 thousand).
** This is the sum of funding under the Rural Development Programme of the Czech Republic for the period 2007–2013 (CZK 26,048 thousand), the Rural Development Programme for the period 2014–2020 (CZK 12,730,716 thousand) and Rural Development 2023–2027 (CZK 1,604,635 thousand).

E.5.2.1 DIRECT PAYMENTS

Direct payments are entitlement-based payments paid by the SAIF to farmers since the Czech Republic joined the European Union in 2004. They are provided almost exclusively from EU sources, specifically from the EAGF. One exception is the transitional national support paid in the 2014–2020 period. Direct payments are a secure source of money for farmers, almost regardless of their agricultural production. Direct payments are paid on the basis of a single application form completed by the applicant but are subject to compliance with the defined farming practice conditions.

In 2023, the SAIF paid out funds provided under direct payments for PP14+ and also, from autumn 2023, for the first time from SP CAP 23+ as 2023+ direct payments. **Direct payments in 2023 totalled CZK 15,607 million.** This is approximately CZK 7,351 million less than in 2022. The reasons are the lower number of applications and, above all, the lower direct payment rate for 2023.

PP14+ direct payments

In 2023, SAIF paid out a total of almost CZK 8,687 million in direct payments for the 2014–2020 period. The largest share of that went on the payment for farmers who apply farming practices that benefit the climate and environment (greening), amounting to CZK 6,204 million. Almost CZK 1,600 million was paid out in coupled support, with the largest share going on the rearing of beef calves (more than CZK 603 million). This was followed by transitional national support of CZK 531 million; SAPS (Single Area Payment Scheme) payments amounting CZK 264 million; and payments to young farmers totalling CZK 91 million.

2023+ direct payments

Direct payment interventions in the current 2023–2027 programming period are partly following up the 2014+ direct payments. In the current programming period, they continue to account for the largest share of CAP payments. **Direct payments included under the approved SP CAP 23+ are primarily divided into decoupled and coupled direct payments.** The purpose of direct payments is to stabilise farmers' incomes: they should contribute more to the development of smaller farms, while also encouraging greener farming practices.

The generally applicable fundamental condition for direct payments is that the applicant must be an active farmer, must farm at least 1 ha of agricultural land registered in the LPIS[178], which must be properly farmed according to the standards of good farming and environmental practice and the mandatory farming requirements, or the applicant must keep animals properly registered in the Central Register

178 Land Parcel Identification System.

under the Breeding Act. The rate for each intervention is set annually by the MoA, based on the budget ceilings and the exchange rate set by the European Central Bank before 1 October of the year in question.

In the case of decoupled direct payments, agricultural production is not a condition for receiving a subsidy. These payments are paid to applicants according to the area of land farmed, regardless of the size of the enterprise and the volume of production. Decoupled direct payments include:

- *basic income support for sustainability;*
- *payments for small farmers;*
- *complementary redistributive income support for sustainability;*
- *complementary income support for young farmers;*
- *schemes for the climate and environment – eco-scheme payments (basic/premium).*

The largest payment is the *basic income support for sustainability* (BISS), which follows on from the *Single Area Payment Scheme* (SAPS) in operation until 2022. BISS is provided in the form of an annual payment per hectare of agricultural land farmed. In addition to this BISS payment, young farmers up to the age of 40 receive additional support for up to 90 hectares of farmland. This is the same payment that was paid up to 2022. From 2023, a new payment for small farmers farming up to 10 hectares of land registered in LPIS, complementary redistributive support granted to all applicants for the first 150 hectares, and an eco-scheme payment aimed at promoting green and sustainable practices have been introduced.

A small farmer farming up to 10 ha of land registered in LPIS can receive a subsidy for a maximum of 4 ha of agricultural land, but cannot apply for any other direct payment. The redistributive payment is granted on top of the BISS payment and is intended to provide significantly more support to small and medium-sized farmers. It should account for 23% of the total budget for direct payments. The granting of the eco-scheme payment is dependent on compliance with the requirements and specific conditions for all individual cultivated crops. If farmers comply with the defined procedures and conditions for the basic level of the whole-farm eco-scheme payment, they will be entitled to a payment for all hectares of the farm. The premium level of the whole-farm eco-scheme payment aims to increase the proportion of non-productive areas in the agricultural landscape and to contribute to the protection of watercourses.

Coupled direct payments are designed to support enterprises producing selected commodities, boost their competitiveness and ensure the sustainability of agricultural production. Support is granted for the cultivation of fruit, vegetables, sugar beet, hops, starch potatoes and protein crops and for livestock in the cattle, sheep and goat sectors.

In 2023, the SAIF paid out almost CZK 6,606 million in 2023+ direct payments. The most widespread support under 2023+ direct payments was *Basic Income Support for Sustainability* (BISS). In 2023, 24,295 applications were submitted for a total area of 3,505,595 ha. The BISS subsidy rate was set at CZK 1,760.44/ha. A total of CZK 4,267 million was paid out for BISS. The second major component of 2023+ direct payments was coupled support totalling approx. CZK 1,564 million, with the largest share of that going on milk production (CZK 997 million). Other payments made were *complementary redistributive income support for sustainability* worth CZK 749 million and the *payment for small farmers* totalling CZK 26 million.

E.5.2.2 COMMON MARKET ORGANISATION

The EU applies Common Market Organisation (CMO) to selected agricultural commodities, for which it sets certain binding production and trade conditions, and supports them through intervention purchases/sales, subsidies, licensing policy for imports and exports of agricultural commodities from/to third countries, adjustment of terms of trade etc. This support is financed from the EAGF, with supplementary funding from the state budget of the Czech Republic.

In the years 2023–2027, CMO measures are being administered and disbursed both within the framework of the approved SP CAP 23+ and outside of it. This is due to the specific approach under the CAP, where only some selected subsidy titles have been included in SP CAP 23+ and the others continue to be governed by the original legislation, primarily Regulation No 1308/2013[179] as amended.

A total of EUR 981 million was spent on CMO in 2023, with CZK 646 million coming from the EU budget and CZK 335 million from the state budget.

Common Market Organisation – not under SP CAP 23+

In 2023, subsidy titles and areas that were not part of SP CAP 23+ and will not be in the future were administered and disbursed. These are school programmes aimed at creating healthy eating habits among children in schools and improving the distribution of agricultural products – *Milk to schools* (CZK 137 million paid) and *Fruit and vegetables to schools* (CZK 134 million paid). There were also market measures – *Support for fruit and vegetable producer organisations* (CZK 170 million paid); *Support for apiary products* (CZK 30 million paid); and Support in the wine sector (CZK 141 million paid). *Support for the promotion of agricultural products was also paid* (CZK 5 million). In 2023, extraordinary measures were adopted in connection with the Russian invasion of Ukraine to help farmers compensate for the falling purchase prices of agricultural products (CZK 211 million paid out).

Common Market Organisation – within SP CAP 23+

Under SP CAP 23+, interventions will be administered and paid out in the following areas:

- beekeeping;
- wine;
- producer organisations (fruit and vegetables, eggs, potatoes, ornamental plants).

In 2023, only interventions in the beekeeping sector were paid out under SP CAP 23+ (training for beekeepers and exhibitions, investment in tangible assets, combating bee diseases, rationalisation of nomadic beekeeping, breeding work, analysis of bee products). In total, the SAIF paid out 71 million (half of which came from the EU budget and half from the state budget).

E.5.2.3 RURAL DEVELOPMENT PROGRAMME

Support for rural development is financed from EAFRD funds, with the participation of the state budget of the Czech Republic. Support is given to projects focused on innovation, research and knowledge transfer in agriculture or forestry, making farming more competitive, food chain organisation, and welfare, but also on promoting organic farming, protecting farmland and forests, supporting the transition to a low-carbon economy with respect to climate and ecosystems, and supporting rural social development.

179 Regulation (EU) No 1308/2013 of the European Parliament and of the Council of 17 December 2013 establishing a common organisation of the markets in agricultural products and repealing Council Regulations (EEC) No 922/72, (EEC) No 234/79, (EC) No 1037/2001 and (EC) No 1234/2007.

In 2023, the administration and disbursement of RDP14+ measures (extended to 2022) related mainly to applications from previous years. At the same time, the administration of the new Rural Development interventions already underway under the approved SP CAP 23+ has started.

A total of CZK 14,361 million was spent on RDP14+ and *Rural Development* under SP CAP 23+ in 2023 (of which CZK 8,136 million came from the EU and CZK 6,225 million from the state budget).

Rural Development Programme 2014–2020

The Commission approved the final version of the RDP14+ basic programming document on 26 May 2015. On 29 December 2020, Regulation 2020/2220[180] entered into force, setting out the rules for the two-year transition period, i.e. rural development expenditure for the 2021–2022 period, which remained largely the same as the rules for the 2014–2020 period. On 24 July 2023, the Commission approved the 11th update of the programming document. RDP14+, extended until 2022, will close for good at the end of 2025. Applicants can submit payment requests until 30 June 2025.

A total of CZK 12,756.764 million was paid out under RDP14+ in 2023, with EU funds accounting for CZK 7,575.020 million of that amount and the national share being CZK 5,181.744 million. These amounts include additional sums paid from the "EURI Fund", which were approved at EU level under the *Recovery Plan ("NextGenerationEU")* agreement. This strengthened the EU's rural development financial instrument to support the development of rural areas. These funds were spent on measures M04 – *Investment in tangible assets; M06 – Development of agricultural holdings and business activities;* and M11 – *Organic farming* (OF), i.e. both the project and non-project part of RDP14+ measures.

Most of the utilised subsidies are for area-based/non-project measures, which account for CZK 7,147.46 million. This represents 56% of the total subsidies paid out under RDP14+ in 2023. CZK 5,609.30 million was paid out on project measures, with the largest share of the subsidies going on *Investments in tangible* assets (measure M04). This amounts to a total of CZK 3,657.54 million, which is approximately 65% of the funding earmarked for project measures.

Like direct payments, applications for non-project subsidies are part of a single application submitted in May of each calendar year. In the vast majority of cases, payments based on these applications are then effected by 30 June of the following calendar year. In budget terms, all the funds come under RDP14+, but some of the ongoing commitments stem from previous programming periods. Examples of this are measures coming under the *Horizontal Rural Development Plan of the Czech Republic for 2004–2006* or the *Rural Development Programme of the Czech Republic for 2007–2013;* they are therefore still distinguished in summaries and reports.

In the context of RDP14+ project measures, the 16th round of receipt of applications for subsidies was launched in 2023 and the continuous receipt of applications for technical assistance and Leader measures continued.

A detailed overview of the total funds disbursed under RDP14+ in 2023 is given in Table 18.

180 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 2022, (EU) No 1305/2013 and (EU) No 1306/2013 as regards resources and application in the years 1307/2013 and 2021 and Regulation (EU) No 2022 as regards resources and the distribution of such support in respect of the years 1308/2013 and 2021.

Table 18: Overview of Rural Development Programme RDP14+ disbursements for 2023 (budgeted under RDP14+) (in CZK thous.)

Rural Development Programme		Funds paid out		
		EU contribution	CR contribution	Total
Horizontal Rural Development Plan of the Czech Republic for the period 2004-2006		289	102	391
	Forestry; early cessation of agricultural activity	289	102	391
Rural Development Programme of the Czech Republic for the period 2007-2013		16,353	9,695	26,048
Axis I	*Improving the competitiveness of agriculture and forestry*	6,179	6,304	12,483
Axis II	*Improving the environment and landscape*	10,174	3,391	13,565
Rural Development Programme for the period 2014-2020		5,574,906	4,331,627	9,906,533
M01	*Knowledge transfer and information actions*	3,286	3,352	6,638
M04	*Investments in tangible assets*	406,559	1,907,810	2,314,369
M06	*Development of agricultural holdings and business activities*	184,990	188,728	373,718
M08	*Investments in forest area development and improvement of the viability of forests (excl. M8.1)*	100,178	168,966	269,144
M10	*Agri-environment-climate measure*	2,210,206	736,736	2,946,942
M11	*Organic farming*	4,369	1,456	5,825
M12	*Natura 2000 payments*	11,108	3,703	14,811
M13	*Payments to areas facing natural or other specific constraints*	1,445,912	481,971	1,927,883
M14	*Animal Welfare*	355,568	362,751	718,319
M15	*Forest-environmental and climate services and forest conservation*	20,373	6,791	27,164
M16	*Cooperation*	36,269	37,002	73,271
M19	*Local development aid LEADER*	707,436	397,934	1,105,370
M20	*Technical assistance*	88,652	34,427	123,079
Rural Development Programme (EURI)		1,983,472	840,320	2,823,792
M04	*Investments in tangible l assets*	873,060	470,110	1,343,170
M06	*Development of agricultural holdings and business activities*	353	190	543
M11	*Organic farming*	1,110,059	370,020	1,480,079
Rural Development Programme in total		7,575,020	5,181,744	12,756,764

Source: SAIF data on the volume of RDP14+ subsidies paid out in 2023.

Rural Development – SP CAP 23+

The SP CAP 23+ is the fundamental document for the 2023-2027 programming period. There is no longer a separate programming document for rural development support, as was the case in previous programming periods. Selecting interventions and projects is primarily the responsibility of each Member State.

Rural development is financed both from European sources (EAFRD) and from national budgets. The share of co-financing from the state budget has increased significantly in the case of the Czech Republic, as national sources already account for 65%.

Rural Development interventions are divided into two main areas:

- non-project (area-based) interventions, including interventions targeted at livestock farming;
- project interventions.

A total of almost CZK 1,604.64 million was paid out on *Rural Development* under SP CAP 23+ in 2023. The share of EU funding was CZK 561.62 million, while the national share was CZK 1,043.01 million. The entirety of the funding was for non-project (area-based) interventions. A more detailed overview of the subsidies paid is given in the table below.

Table 19: Overview of funds paid out in *Rural Development* within SP CAP 23+ in 2023 (in CZK thous.)

Name of intervention (according to SP CAP 23+)		EU contribution	CR contribution	Total
Non-project interventions				
Of which:	*Afforestation of agricultural land*	642	1,193	1,835
	Areas with natural constraints	559,190	1,038,496	1,597,686
	NATURA 2000 areas on agricultural land	1,790	3,324	5,114
Rural Development in total		**561,622**	**1,043,013**	**1,604,635**

Source: SAIF data on the volume of subsidies paid in 2023 under SP CAP 2023-2027.

Non-project (area-based) SP CAP 23+ *Rural Development* interventions ensure stable benefits for farmers. The structure of interventions and subsidy conditions remained almost exactly the same as in PP14+ (extended until 2022). These interventions continue to be part of the Single Application, with the first intake of applications for the SP CAP 23+ *Rural Development* interventions taking place in 2023. Subsidy payments started in December 2023, primarily for interventions in *Areas of Natural Constraints, Natura 2000 areas on agricultural land* and partly also for ongoing commitments under the Afforestation of agricultural land. Other interventions, such as *Agri-environmental-climatic measures, Organic farming, Animal welfare, Agroforestry* etc., were also administered.

In the case of SP CAP 23+ Rural Development project interventions, the 1st and 2nd rounds of receipt of applications for subsidies were launched in 2023. Applications were accepted for investments in agricultural holdings, processing and marketing of agricultural products, young farmer start-ups, innovations in agricultural products processing or investments in the restoration of areas affected by calamities. At the same time, continuous intake of applications for the *Support for consultancy* intervention was launched. In total, 5,786 applications for subsidies (projects) amounting to CZK 13,442.91 million were registered.

E.6 EXPENDITURE ON THE COMMON FISHERIES POLICY

The CFP is the main instrument for managing fisheries and aquaculture in the EU. Its first rules were established back in 1970. The CFP now brings together a range of measures designed to bring prosperity, competitiveness and sustainability to the European fisheries sector. In the Czech Republic, the CFP has been implemented since 2007 through operational programmes targeted at fisheries, each lasting for a seven-year period.

In 2023, two fisheries OPs were implemented simultaneously in the Czech Republic: the OPF14+ that is drawing to a close and the new OP *Fisheries 2021–2027*. The MoA was the managing authority in both these OPs.

E.6.1 2014–2020 PROGRAMMING PERIOD

OPF14+, funded by the *European Maritime and Fisheries Fund,* was approved by the Commission in June 2015, and 2023 was the last year in which beneficiaries could implement projects. The binding date for the completion of the physical implementation of the project, and the deadline for eligibility of expenditure, was set at 30 September 2023, with the binding date for submitting payment request set at 31 October 2023. As at 31 December 2023, the OPF14+ managing authority held a total of 59 calls or rounds of receipt of applications for subsidies.

The allocation for the entire PP14+ was almost EUR 41.14 million (i.e. approximately CZK 1.02 billion[181]), of which almost EUR 31.12 million was the EU contribution (approx. CZK 769.11 million) and EUR 10.03 million (approx. CZK 247.96 million) was from national sources.

According to data provided by the SAIF, 159 payment applications with a total support amount of CZK 144.10 million were reimbursed in 2023 under OPF14+. The total amount of EU funding was CZK 110.80 million, with national funding amounting to CZK 33.30 million. As at 31 December 2023, a total of 1,047 payment requests amounting to CZK 987.39 million were paid from OPF14+. EU funding and national funding amounted to respectively CZK 746.10 million (i.e. 97% of the allocated European contribution for the entire period) and CZK 241.29 million.

E.6.2 2021–2027 PROGRAMMING PERIOD[182]

The Commission approved OPF on 20 June 2022, making the Czech Republic the first Member State with an approved programming document.[183] OPF is the instrument for drawing down funds from the *European Maritime, Fisheries and Aquaculture Fund* (EMFAF). The programme focuses on the freshwater aquaculture sector and has competitive, resilient and sustainable aquaculture as its main objective, in line with 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 greater emphasis is placed on ecology, biodiversity and healthy food systems in the new programming period. Support is also given to projects aimed at the efficient use of resources or renewable resources and, for the first time, at the non-productive functions of ponds, i.e. water storage in the landscape, sport and recreational uses of ponds or maintenance of pond banks.

Roughly CZK 1 billion is available for OPF in the Czech Republic, split between from European and national sources. This is a similar amount to the previous programming period. However, the co-financing rate has changed, with the Czech Republic contributing 30% compared to 25% in the previous programming period. A more detailed overview of the OPF allocation is given in Table 20.

181 The ECB exchange rate of 24.724 CZK/EUR valid on 29 December 2023 was used for the conversion.
182 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.
183 Source: http: //eagri.cz/public/web/mze/dotace/operacni-program-rybarstvi-na-obdobi-2021-2027.

Table 20: Overview of the planned budget for OP Fisheries **(in EUR)**

Priority	Specific objective	EU contribution	CR contribution	Total
1. Promoting sustainable fisheries and the restoration and conservation of aquatic biological resources	1.4	853,268	365,687	1,218,955
	1.6	1,199,909	514,247	1,714,156
2. Promotion of sustainable aquaculture activities, processing and marketing of fishery and aquaculture products	2.1	23,645,282	10,133,693	33,778,975
	2.2	2,506,476	1,074,205	3,580,681
5. Technical assistance	5.1	1,800,314	771,564	2,571,878
Total		**30,005,249**	**12,859,396**	**42,864,645**

Source: Operational Programme *Fisheries 2021-2027* (version: January 2022), published at https://www.szif.cz/cs/opr2021-programove-dokumenty.
Note: The allocation of the OP is set in euros.

According to the information provided by SAIF, preparations for the launch of new OPF activities continued in 2023. Implementation of the requirements for the systemic and methodological design of administrative processes in the new MS2021+ information system was also underway. In 2023, applications for subsidies were received in seven rounds and five continuous calls, in which a total of 228 applications with a total value of CZK 288.20 million were registered. **As at 31 December 2023, 30 payment requests totalling CZK 12.84 million have been paid,** with the EU funding share amounting to CZK 8.99 million.

Issues addressed through the CFP are continuously monitored by the SAO. Audit No 22/15 was completed in 2023 – its results are presented in section B.2.1.2.

F. LEGAL MATTERS

F.1 SAO RECOMMENDATIONS ON CHANGES TO THE LEGAL ENVIRONMENT IN 2023

At the request of the Chamber of Deputies, the Senate or their bodies, the SAO, within an agreed time limit, draws up an opinion on draft legislation concerning budgetary management, accounting, state statistics and the performance of audit, supervision and inspection work[184]. In 2023, neither the Chamber of Deputies nor the Senate made a formal request for an opinion.

The SAO's findings regarding necessary legislative amendments were presented at meetings of the Audit Committee of the Chamber of Deputies when audit conclusions were being discussed.

The SAO also commented on draft legal regulations[185] relating to its powers or concerning it as an organisational unit of the state. Between 1 April 2023 and 31 March 2024, the SAO received a total of 145 legislative proposals and non-legislative materials for consideration. The SAO issued specific comments on a total of 24 of these proposals, mainly based on findings from its audit work.

In the area of proposed legislative amendments to EU-related legislation, the SAO, besides providing its recommendations, made a fundamental comment on the proposed outline of legislation on the management and control of public finances. The proposed legislative act implements Directive 2011/85/EU[186]. The SAO's fundamental comment comprised a demand to remove the obligation to make its audit plan available to other audit bodies via the *Information System for Financial Control in Public Administration,* as the SAO's audit plan is published by law in the SAO Bulletin on the SAO's website and is sent to the Chamber of Deputies, the Senate and the Government. The SAO's comment was accepted and this obligation was removed from the proposal. The material was discussed by the Government on 21 February 2024, and the Government instructed the Minister of Finance to prepare and submit a draft legislative act on the management and control of public finances and a draft legislative act amending certain laws in connection with the adoption of the legislative act on the management and control of public finances. Both of these drafts were submitted to the commentary procedure on 5 April 2024.

The SAO also commented on the draft legislative act on cyber security and its two implementing regulations. The draft transposes Directive 2022/2555[187]. The material was discussed by the Legislative Council of the Government on 21 March 2024.

During the period under review, the SAO also commented on the draft legislative act on the top-up tax for the purpose of ensuring a minimum level of taxation of large multinational and large-scale domestic groups. The legislative act transposes Directive 2022/2523[188] and was promulgated in the Collection of Laws under No 416/2023 Coll.

The SAO also commented on a draft legislative act amending Act No 226/2013 Coll., on the marketing of timber and timber products, which is primarily intended to adapt to Regulation 2023/1115[189]. The draft amendment is currently going through the inter-ministerial commentary procedure.

In the period under review, the SAO also commented on the draft decree on the publication of forms for the purposes of the Public Procurement Act and the requirements of the contracting authority profile, which formed part of the submitted proposals for legislative amendments to EU-related legislation.

184 Section 6 of the SAO Act.
185 In the interdepartmental commentary procedure; the process is regulated by the Government's legislative rules.
186 Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States.
187 Directive (EU) 2022/2555 of the European Parliament and of the Council of 14 December 2022 on measures for a high common level of cybersecurity across the Union, amending Regulation (EU) No 910/2014 and Directive (EU) 2018/1972, and repealing Directive (EU) 2016/1148 (NIS 2 Directive).
188 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.
189 Regulation (EU) 2023/1115 of the European Parliament and of the Council of 31 May 2023 on the making available on the Union market and the export from the Union of certain commodities and products associated with deforestation and forest degradation and repealing Regulation (EU) No 995/2010.

The decree implements Implementing Regulation 2019/1780[190]. After discussion by the Government, the changes were incorporated into the material and it was submitted to the Chamber of Deputies.

F.2 IMPLEMENTATION AND TRANSPOSITION OF EU LAW IN THE CZECH REPUBLIC

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,* 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. Implementation and monitoring are then carried out in different ways depending on the type of EU law involved. For directives, not only is their transposition by the Member State assessed, but also the subsequent communication of national transposition regulations to the Commission.

Member States' transposition activities are monitored by the Commission. The results are compiled into interim evaluations called the *Single Market Scoreboard* (Scoreboard), which are published on the Commission's website. The data for the Czech Republic are published in the annual Government report on the adoption of legislative commitments arising from the Czech Republic's membership of the European Union (Transposition Report).

In September 2023, the Commission announced changes to the Scoreboard format. Most notably, starting with the next edition for 2023, the name of the Scoreboard will be changed to *Single Market and Competitiveness Scoreboard* and the required upper limit of the transposition deficit should now not exceed 0.5% for all directives in general, while a transposition deficit of 0% should be achieved for directives with a transposition delay of more than two years. In addition, the Commission has shortened the accepted notification deadline for directives with a transposition deadline of 30 November from ten to five days.

The last official Scoreboard was published on 14 July 2023 and was based on data as at 30 November 2022 or, in some cases, 10 December 2022. It concerned internal market directives whose transposition deadline had expired by the reference date. As at the reference date, the Czech Republic had not completed the transposition of 14 directives, which works out as a transposition deficit of 1.4% (the EU average is 1.1%). **The Czech Republic was in 20th place in the ranking of Member States' success in transposing the directives and its results were rated average. Compared to 2021, all monitored parameters improved, except for the average length of transposition delay, which increased.**

The *Single Market Scoreboard* also tracks the number of procedures for failure to communicate transposing measures or for incorrect transposition of internal market directives. **According to the latest officially published *Single Market Scoreboard,* the Czech Republic has 56 open proceedings.**

On 14 February 2024, the 2023 assessment was published as the Single Market and Competitiveness Scoreboard for the first time. For 2023, an interim assessment was carried out by the Commission in relation to the directives whose transposition deadline expired on 30 November 2023, taking into account the notifications done on 5 December 2023. **The transposition deficit was gradually reduced over the course of 2023 and it had fallen below the one per cent threshold by the deadline. As of that date, the Czech Republic had nine untransposed directives, which corresponds to a transposition deficit of**

190 Commission Implementing Regulation (EU) 2019/1780 of 23 September 2019 establishing standard forms for the publication of notices in the field of public procurement and repealing Implementing Regulation (EU) 2015/1986 (eForms).

0.9% and a ranking of 17th place among Member States.

The reduction in the transposition deficit at the end of the period under review has already been reflected in a reduction in the number of procedures brought against the Czech Republic for failure to communicate transposition regulations. As of the editorial deadline of the *EU Report 2023,* there were 25 such proceedings open against the Czech Republic, 31 fewer than in 2022.

F.2.2 INFRINGEMENT PROCEDURES

As stated in Section V of the 2023 Transposition Report, infringement procedure is the mechanism by which the Commission exercises its obligation to monitor the application of EU law (cf. Article 17(1) of the *Treaty on European Union)*. If the Commission considers that there is an infringement of EU law by a Member State, it has the possibility under Article 258 TFEU to initiate a procedure divided into several stages, which may lead to an action being filed with the 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 uses structured dialogue (*EU Pilot*) to reach agreement with the Member State on eliminating the cause. 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. The procedure involves the following steps:

- The Commission invites the MS to comment on the alleged infringement.
- If the Commission does not receive a reply or if the reply is unsatisfactory, it issues a reasoned opinion and a time limit (normally two months) to remedy the situation.
- If the MS does not comply with the opinion within the time limit set by the Commission, the Commission may refer the matter to the CJEU.
- If an infringement is proven by the CJEU, the CJEU issues a judgment of conviction and the MS is obliged to take the action set out in the judgment.
- If the MS does not remedy the situation even after the conviction judgment is issued, the Commission sends another notice. If the Commission does not receive a reply or the reply is unsatisfactory, it may refer the matter to the CJEU and propose a lump sum fine and/or penalty payment.

As of 30 November 2023, there were in total 59 infringement proceedings open against the Czech Republic, 35 fewer than in the previous year. As of the same date, 18 procedures were being conducted against the Czech Republic under the *EU Pilot* system, one less than in the previous year.

During the period under assessment, i.e. from 1 December 2022 to 30 November 2023, in one procedure the Commission issued a decision to file an action.

In connection with Procedure No 2022/0043 under the responsibility of the MoJ, the Czech Republic was served with an action in Case C-152/23 on 15 March 2023. The Commission is of the opinion that the Czech Republic has not adopted all the laws, regulations and administrative provisions necessary to comply with Directive 2019/1937[191], and proposes sanctions for failure to comply with legislative obligations. In the interim period after the serving of the action, the Czech Republic communicated all the transposition regulations relating to this directive and these regulations entered into force. The Czech Republic should therefore be ordered to pay a lump sum, where the maximum amount is around CZK 70 million.

According to updated data as at 31 March 2024[192] a total of 57 infringement procedures were open against the Czech Republic, 39 of which were at the formal notice stage, 15 at the reasoned opinion stage, and in three cases an action had been filed with the CJEU.

In terms of the types of infringement, failure to communicate transposition rules was the subject of 26 procedures; incorrect transposition was found by the Commission in 16 procedures; application errors were the subject of seven procedures; and failure to comply with the requirements of regulations, treaties and decisions was the subject of eight 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 non-transposition or inadequate transposition of EU directives include the "direct application" of the directives, the risk of liability for damage caused by missing or inadequate transposition to natural and legal persons, and infringement procedures with possible financial consequences.

191 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.

192 See *Report on the status of the allocation of responsibilities and fulfilment of legislative obligations arising from the Czech Republic's membership in the European Union for the first quarter of 2024.*

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ANNEXES

1. Overview of SAO recommendations published in EU Reports 2008–2023
2. Overview of the European Court of Auditors' audit and verification missions carried out in the Czech Republic in 2022 and 2023
3. Overview of the European Commission's audit and verification missions carried out in the Czech Republic in 2022 and 2023

Annex 1

Overview of SAO recommendations published in EU reports 2008–2023

Recommendations reflecting the current situation in the programming periods from the SAO's perspective targeted the following areas in the individual issues of the EU reports:

- **2004–2006 programming period (PO4+) –** primarily legislation, with the recommendation to improve the legislative framework of the Cohesion Policy implementation structure (to make the evaluation of applications and the management control system more efficient); to simplify the legal regulation of the procedure for granting subsidies and repayable financial assistance; and to reduce the use of methodological guidelines instead of legal regulations;

- **2007–2013 programming period –** primarily management and control systems, with the recommendation to set up a system of monitoring indicators for monitoring the effectiveness of programmes and assessing the achievement of quantifiable objectives (baseline and target values of indicators, their measurability for evaluation); to define the delegation of powers between the implementing bodies for carrying out public-administration audits; and to correctly define the development strategies and directions to be invested in, taking into account performed needs analyses;

- **2014–2020 programming period –** primarily eligibility of expenditure according to the established rules, with the introduction of limits on eligible expenditure, assessment of the level of subsidised eligible expenditure to motivate greater economy and efficiency of expenditure, verification of absorption capacity and guaranteeing sufficient resources for the use of the generated outputs for the period of sustainability; the SAO also recommended the establishment of supervision of compliance with common uniform binding rules (uniform methodological environment), as this supervision is a prerequisite enforcing the rules;

- **2021–2027 programming period –** a number of areas with recurrent shortcomings, such as simplifying implementation systems and grant processes; reducing bureaucracy by simplifying regulations and rules for grant provision; conducting needs analyses to accurately target support; focusing on efficiency and effectiveness in project selection to ensure that supported projects deliver value for money; improving control systems; and ensuring that information systems for aid administration are fully functional from the start of the programming period.

Annex 2

Overview of the European Court of Auditors' audit and verification missions carried out in the Czech Republic in 2022 and 2023

Year	Audit number	Date of the mission	Audited OP (entity)	Audit subject (programme)	Audit type (DAS / performance audit)	State of contradictory proceedings	Audit progress, findings	Measures adopted
2022	CL-13517	19 September 2022	OP RDE	Audit work for the ECA's 2022 Statement of Assurance 2014–2020 programme period – OP RDE	DAS	Completed	19 September 2022 – Notification Letter. 9 February 2024 – Closing date of the audit for the 2022 Statement of Assurance.	No follow-up measures.
	CL-13518	1 October 20 22	OP EIC	Audit for the Statement of Assurance for the financial year 2022: 2014–2020 programming period, operational programme 2014CZ16RFOP001 "Enterprise and Innovation for Competitiveness", 22CH2SOA	Performance audit	Completed	8 February 2023 – Preliminary findings of the ECA audit in English; Czech version delivered on 3 March 2023. 14 April 2023 – Opinion on the audit conclusions sent – Statement of Assurance for 2022. 27 March 2024 – Final audit report – four findings of a systemic nature and six findings linked to operations.	Forwarded to the MA.
	CL-14055	21–25 November 2022	ISF	Audit for the 2022 Statement of Assurance (22CH3MF4) – Czech Republic – Internal Security Fund (ISF) 2021–2027 – audit of audit authorities' systems	DAS	Completed	19 September 2022 – Notification Letter. 24 November 2022 – Information on verification of preliminary findings from the inspection visit. 13 March 2023 – Report on the Result of the Audit for the Statement of Assurance – no comments.	

2023	CL-13549	7 June 2023	OP EIC	Audit for the ECA's 2022 Statement of Assurance on the Financial Instruments; CCI: 2014CZ16RFOP001	Performance audit	Completed	Notification Letter of 1 February 2023. 21 April 2023 – Preliminary conclusions delivered. 31 May 2023 – Member State opinion sent. 28 August 2023 – Final report delivered. 5 September 2023 – Final report in Czech delivered.	The ECA completed its audit. Follow-up measures depend on the Commission's response. The audit identified four findings, one with a financial impact, with no effect on the error rate.
	CL-14479	7 June 2023	OPT14+	Double funding between the Recovery and Resilience Facility and Cohesion Policy funds	Performance audit	In progress	7 June 2023 – Notification of Commencement. 13 December 2023 – Information on verification and identified findings. 8 March 2024 – Member State response to identified findings.	
	CL-14199	8 September 2023	OPT14+	Audit for the ECA Statement of Assurance for the year 2023, 2014–2020 programming period, CCI 2014CZ16M1OP001	Performance audit	In progress	7 September 2023 – Notification of Commencement.	
	CL-14200	21 June – 22 November 2023	IROP	Audit for the ECA Statement of Assurance for 2023, 2014–2020 programming period, CCI: 2014CZ16RFOP002	Performance audit	In progress	16 June 2023 – Notification of Commencement. 14 January 2024 – Information on preliminary findings. 20 February 2024 – Member State's opinion on the preliminary findings.	
	CL-14201	19 June 2023	OP EIC	Audit work for the ECA Statement of Assurance from 2023; 2014–2020 programming period; operational programme 2014CZ16RFOP001 (Enterprise and Innovation for Competitiveness)	Performance audit	In progress	27 June 2023 – Notification of Commencement. 29 September 2024 – Information on preliminary findings. 19 April 2024 – Member State's opinion on the preliminary findings.	

Source: Audit Authority, April 2024.

Annex 3

Overview of the European Commission's audit and verification missions carried out in the Czech Republic in 2022 and 2023

Year	Date of the mission	Audited OP	Audit number	Audit subject (programme)	State of the contradictory procedure	Audit progress, findings	Measures adopted
2022	13–17 June 2022	OP PGP	DAC214CZ1353	OP PGP – EPM verification of the AA's work; CCI: 2014CZ16M2OP001	Completed	Audit of the AA's work – CP 16 adequate audits of operations, sample of eight projects, two main findings with financial impact; final report sent on 14 February 2024; Czech version on 8 April 2024.	Joint response MR opinion 2 December 2022. Opinion sent to SFC on 20 December 2022;
	03–07 October 2022 10–14 October 2022	IROP	DAC214CZ1354	The audit's main goal is to obtain reasonable assurance that the management and control systems are working effectively.	Completed	The audit was performed in two phases. First remote phase 3–7 October 2022, completed at beneficiaries (10–14 October 2022). Final audit report of 14 August 2023 four findings of a systemic nature, qualified opinion, significant deficiencies: - Lack of procedures for checking the sustainability of operations; - Insufficient checks on the financial eligibility of applicants.	Information on the implementation of measures was sent on 16 October 2023.
	5–9 September 2022	OPF	Thematic audit/MARE/E1	EPM "Thematic audits 2014–2020" European Maritime and Fisheries Fund – Operational Programme for the Czech Republic, CCI 2014CZ14MFOP001	Completed	Notification of 10 June 2022. Commission assessment completed without follow-up measures. ACR approved in SFC 14 March 2023.	

2023	6–8 March 2023	All OPs	DAC214CZ1993	Verification of the legality of expenditure on Operational Programme Research, Development and Education, 2014CZ05M9OP001 – Operational Programme Employment, 2014CZ16M1OP001 – Operational Programme Transport, 2014CZ16M1OP002 – Operational Programme Environment, 2014CZ16M2OP001 – Operational Programme Prague – Growth Pole of the Czech Republic, 2014CZ16RFOP001 – Operational Programme Enterprise and Innovation for Competitiveness 2014–2020, 2014CZ16RFOP002 – Integrated Regional Operational Programme and 2014TC16RFCB025 – Interreg V-A – Czech Republic – Poland	Completed	Notification of 16 December 2022. Notification of completion – 4 April 2023 (Analysis of the documents submitted under Article 138(b) and (c) of Regulation (EU) No 1303/2013 (“the CPR”) – legality and regularity aspects of the annual control report, audit opinion, management declaration and annual summary). No follow-up measures.	

	20–24 November 2023	OP EIC	DAC214CZ2438	EPM “Review of the work of audit authorities / compliance audits in the 2014–2020 period”	In progress	29 August 2023 – Notification Letter. 5 April 2024 – Draft report sent. 19 April 2024 – Member State’s opinion on draft report sent.	
	9–20 October 2023	OPEm14+	DAC214CZ1769	Thematic Audits (2014–2020) Operational Programme(s) 2014CZ05M9OP001 – Operational Programme Employment Covered Funds: ESF 2014	In progress	24 July 2023 – Notification Letter. 21 December 2023 – Warning letter: information on identified deficiencies. 13 June 2024 – Member State’s opinion on the Draft Report.	
	5–6 June 2023	OP SN-CZ	DAC314TC1788	OP SN-CZ audit of the design of the programme management and control system; Interreg V-A Deutschland/Sachsen–Tschechische Republik	In progress	17 May 2023 – Notification of Commencement. 26 February 2024 – Final report, no follow-up measures.	

Source: Audit Authority, April 2024.

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