Czech Republic
Supreme Audit Office

NKÚ

EU REPORT 2015

REPORT ON THE EU FINANCIAL MANAGEMENT IN THE CZECH REPUBLIC

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Section II

Editorial note:

The editorial deadline for *EU Report 2015* was set at 1 April 2015. The information and numerical overviews taken from Czech sources reflect the situation in 2014, possibly with up-to-date data from the start of 2015. The information on activities linked to the management and audit of the European Union (EU) budget by the relevant authorities and institutions covers 2013 and 2014. With a few exceptions, the latest available data officially published by the European Commission ("the Commission") and other EU institutions in annual reports and statistical overviews apply to the financial year 2013.

Opening message from the president of the Supreme Audit Office

Dear readers,

We are presenting another issue of our EU Report, regular information of the Supreme Audit Office about the financial management of EU funds, which we published in 2014. This year, we celebrated the 10th anniversary of the accession of the Czech Republic into the European Union. The beginning of the report is composed as a summary of our membership, its benefits, possibilities, costs and wasted opportunities.

I consider this report to go well beyond the usual horizons of auditor´s workload.

We try to answer the question of what benefits our citizens gained with the EU membership, and objectively inform you about achievements and failures. The Czech Republic obtained approximately CZK 800 billion from the EU budget between 2004 and 2014, and contributed with CZK 390 billion in the process.

The "net" CZK 410 billion was instrumental to the creation of 134,000 work positions, building or reconstruction of nearly three thousand kilometres of roads and railways, or refurbishment of 42,000 housing units. European funds contributed to the enhancement of research and development capacity of the Czech Republic, for example 48 research centres acquired the support from Brussels.

Agricultural facilities were redeveloped, their technological possibilities were improved, and the relationship between agriculture and environment was enhanced. More than 1,500 of farmsteads were modernised and several thousand of agricultural machinery was bought.

With respect to the total financial allocation, the Czech Republic took a fourth place among all EU countries in the Cohesion policy area in the programming period 2007 – 2013. Simultaneously at the beginning of 2013, we finished the fourth from the bottom as regards the funds drawdown. I will appreciate it if you consider the figures and think of what reflection they cast on us. How did we make use of the opportunity we were given? And where did we make the mistakes? How was the national management and control system administered? Did we invest into areas, which were worth it? And was it appropriate to question the results of audits and controls instead of trying to eliminate the assessed shortcomings?

The period between 2010 and 2012 was a breaking-point when serious corruption affairs came to light. The European Commission intervened and with respect to the malfunctioning audit body and threat to the credibility of the whole management and control system globally blocked all reimbursements within all operational programmes.

I assume that this provides substantial evidence. Is it really the case that we cannot enforce, without an outside pressure, the support of projects, which contribute to the Czech Republic and bring value for money to its citizens instead of projects promoted by suspicious groups with special interests? To write a publication which you are holding in your hand was a very difficult task for many of my colleagues. If we learn a lesson from their work, it was worth it.

Miloslav Kala
SAO President

List of abbreviations

AB	Audit Body (Department 52 of the Ministry of Finance)
AFCOS	*Anti-Fraud Coordinating Structure*
CAP	*Common Agricultural Policy*
CF	*Cohesion Fund*
CFP	*Common Fisheries Policy*
CJEU	Court of Justice of the European Union
CMO	Common Market Organisation
Commission	European Commission
Council	Council of the European Union
CNB	Czech National Bank
CR	Czech Republic
CSO	Czech Statistical Office
DAS	statement of assurance (Déclaration d´assurance)
DG Empl	Directorate-General for Employment, Social Affairs and Inclusion
DG Mare	Directorate-General for Maritime Affairs and Fisheries
DG Regio	Directorate-General for Regional Policy
ERDF	*European Regional Development Fund*
EMFF	*European Maritime and Fisheries Fund*
EP	European Parliament
EFF	*European Fisheries Fund*
EC	European Communities
EIA	*Environmental Impact Assessment*
ESF	*European Social Fund*
ESIF	European Structural and Investment Funds
EU	European Union
ECA	European Court of Auditors
EAFRD	*European Agricultural Fund for Rural Development*
GDP	gross domestic product
GNI	gross national income
HRDP	*Horizontal Rural Development Plan*
IACS	*Integrated Administration and Control System*
IB	intermediate body
IOP	*Integrated Operational Programme*
LPIS	Land Parcel Identification System
MfRD	Ministry for Regional Development
MoA	Ministry of Agriculture
MoD	Ministry of Transport
MoE	Ministry of the Environment
MoEYS	Ministry of Education, Youth and Sports
MoF	Ministry of Finance
MoIT	Ministry of Industry and Trade
MoLSA	Ministry of Labour and Social Affairs
NCB	National Coordinating Body
OFI	Other financial instruments of the EU
OLAF	European Anti-Fraud Office (Office européen de lutte antifraude)
OP	operational programme
OPT	OP *Transport*
OPEI	OP *Enterprise and Innovation*
OPPA	OP Prague – Adaptability
OPPC	OP *Prague – Competitiveness*
OPF	OP *Fisheries 2007–2013*
OPRDMA	OP *Rural Development and Multifunctional Agriculture*
OPR14+	OP *Fisheries 2014–2020*
OPRDI	OP *Research and Development for Innovation*
OPEC	OP *Education for Competitiveness*
OPE	OP *Environment*
OUS	organisational unit of the state
PA	payment application
PCA	Paying and Certifying Agency (MoF division – National Fund)
PMG	Prague Municipality Government
RDP	*Rural Development Programme for 2007–2013*
RDP14+	*Rural Development Programme for 2014–2020*

ROP	regional operational programme NUTS II
ROP SW	ROP *South-West*
ROP MS	ROP *Moravia-Silesia*
ROP CB	ROP *Central Bohemia*
ROP NM	ROP *North Moravia*
ROP NE	ROP *North-East*
ROP NW	ROP *North-West*
MCS	management and control system
MA	managing authority
SAI	supreme audit institution
SAIF	State Agricultural Intervention Fund
SAO	Supreme Audit Office
SAPS	Single Area Payment Scheme
SF	structural funds
V4	Visegrad Four
VAT	value added tax

EU Member States

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

European Union

EU15	AT, BE, DE, DK, EL, ES, FI, FR, IE, IT, LU, NL, PT, SE, UK
EU25	EU15 plus CZ, CY, EE, HU, LT, LV, MT, PL, SI, SK
EU26	EU27 minus MT (for lack of relevant data)
EU27	EU25 plus BG and RO
EU28	EU27 plus HR

Section I

Ten years of European Union membership

The turn of the 1980s and 1990s brought fundamental political changes in Central and Eastern Europe, when the totalitarian systems collapsed and the new democracies aligned themselves with the system of western political structures, most notably the European Union and the North Atlantic Treaty Organization (NATO). Three central European countries that emerged from similar political and economic conditions expressed an interest in closer cooperation and decided to coordinate a number of their activities.

This interest was institutionalised in the form of the Visegrad Three[1] on 15 February 1991, when the supreme representatives of Czechoslovakia, Hungary and Poland met in the Hungarian town of Visegrad and concluded a declaration affirming that their countries would cooperate on the journey to European integration. After the division of Czechoslovakia, membership was passed on to the successor states, the Czech Republic ("CR") and Slovakia, with the alliance's name changing to the Visegrad Four ("V4").

The signing of the *Association Agreement* by the then Czechoslovakia, Hungary and Poland, which took place on 16 December 1991, can be regarded as the formal starting point of the central European countries' integration into Europe and the EU. Among other things, the agreement contained a timetable for creating a free trade zone between Czechoslovakia and the European Communities by 1 January 2002.

After the break-up of Czechoslovakia on 1 January 1993, a new association agreement was signed on 4 October 1993. The Association Agreement between the Czech Republic and the European Communities entered into force on 1 February 1995.

The Czech Republic officially applied for EU membership on 23 January 1996. On 31 March 1998 the EU opened accession negotiations with the CR. The process of complicated pre-accession negotiation was successfully completed at a meeting of the European Council in Copenhagen on 12 and 13 December 2002. The Accession Treaty was signed at a ceremony in Athens on 16 April 2003.

Citizens of the CR affirmed their country's accession to the EU in a referendum held on 13 and 14 June 2003 (77.33% in favour, turnout 55.21%).

On 1 May 2004 the Accession Treaty took force and the Czech Republic became a full member of the European Union.

1 The alliance of states known as the Visegrad Three was inspired by the historic event of the signing of a treaty between the king of Bohemia John of Luxembourg, Polish king Casimir III and Charles I of Hungary in the Hungarian town of Visegrad in 1335. The treaty paved the way for close cooperation in political and trade affairs and proclaimed eternal friendship.

A. What has EU membership brought?

This chapter assesses the changes that have occurred in the last ten years in the Czech Republic and other Visegrad Four countries, whose development was significantly influenced by the EU membership. The complexity of this issue makes it impossible to analyse all aspects of the developments in detail, so attention here is devoted to a few selected socio-economic indicators that paint a clear picture of the impact and position of V4 countries in the EU.

The V4 countries went through similar accession procedures and also coordinated some activities. Their further evolution within the EU displays substantial differences as well as a number of similarities.

The V4 states joined the EU as economically weaker members. Although their total population was almost 64 million in 2004, i.e. almost 14% of the entire EU25, their total economic output represented just 3.8% of the EU25. There was a realistic assumption, however, that restructuring would kick-start rapid economic growth that would enable them to close the gap on EU15 states. The subsequent development of a number of indicators confirmed this assumption, as we show in the following chapters.

With the exception of findings from the Supreme Audit Office's own audit work, most of the figures given in this chapter are taken from widely available sources, but were not subsequently verified.

A.1 Selected economic indicators of the CR and comparison with V4 countries

A.1.1 V4 gross domestic product per capita relative to the EU15

Gross domestic product ("GDP") is widely regarded as one of the principal gauges of the development of an economy as a whole. Although this view can often be misleading, it gives a relatively objective idea of a country's economic development especially over the longer term.

Table 1 – Comparison of GDP figures in the V4 countries and EU15 in 2004 and 2013

State	GDP (billion €)	
	2004	2013
CZ	91.9	149.5
HU	82.1	98.0
PL	204.2	389.7
SK	34.0	72.1

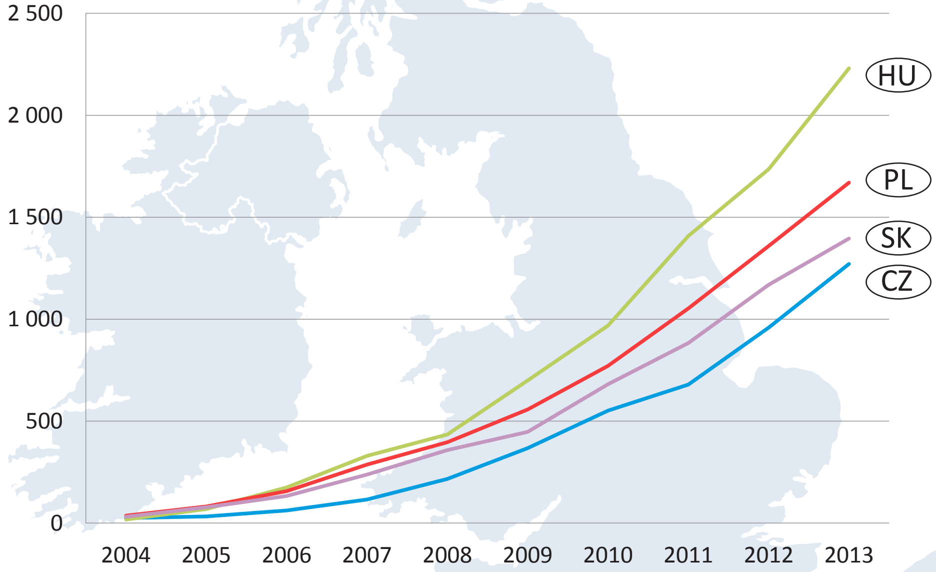
Source: Eurostat, March 2015.

The economic strength[2] of the new Member States in the V4 alliance showed strong growth during their first ten years in the EU. While GDP per capita growth in EU15 states grew by 14.5% on average, in the V4 the figure was more than 72.4%.

That is shown clearly by the graph 3 on page 12 .

2 Measured in GDP at current prices, expressed in € and converted to per capita.

Graph 1 – Cumulative net positions of V4 countries per capita (€) for the period 2004–2013



Graph 2 – Labour productivity in V4 countries compared to the EU15 (%)

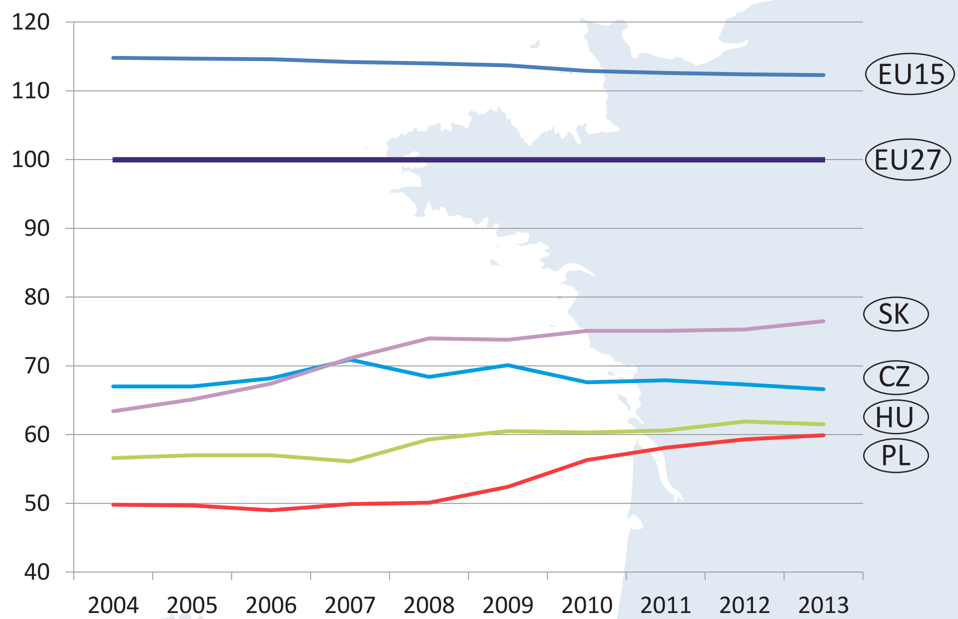
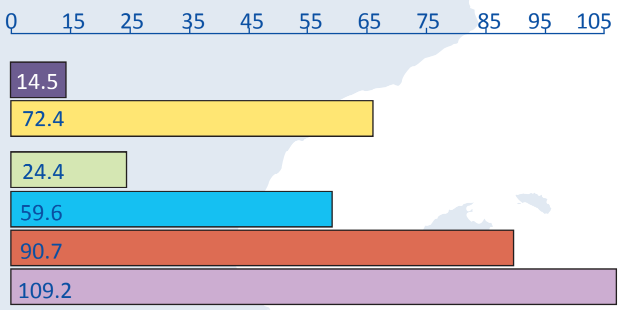


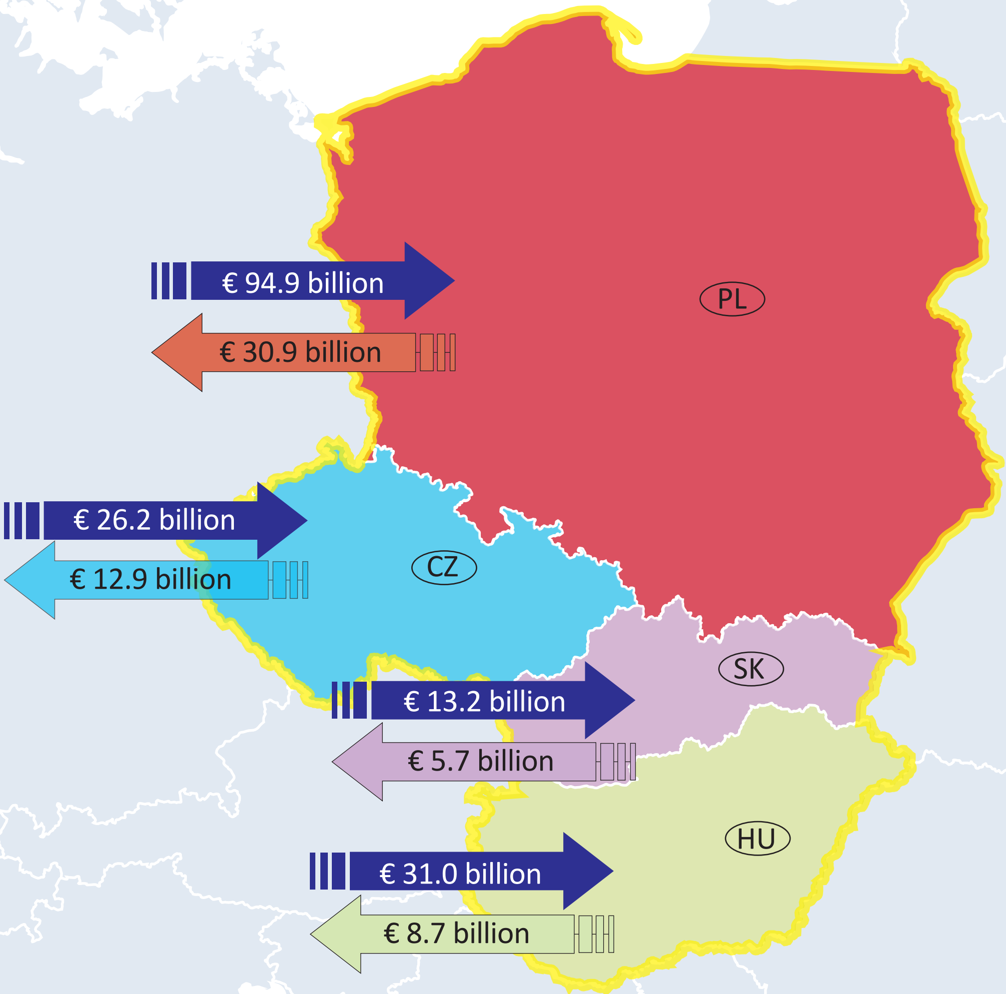
Table 2 – Comparison of GDP per capita between 2004 and 2013 (CZK thousand)

	2004	2013
Ø EU15	26.9	30.8
Ø V4	6.6	11.3
HU	8.2	10.2
CZ	9.4	15.0
PL	5.4	10.3
SK	6.5	13.6

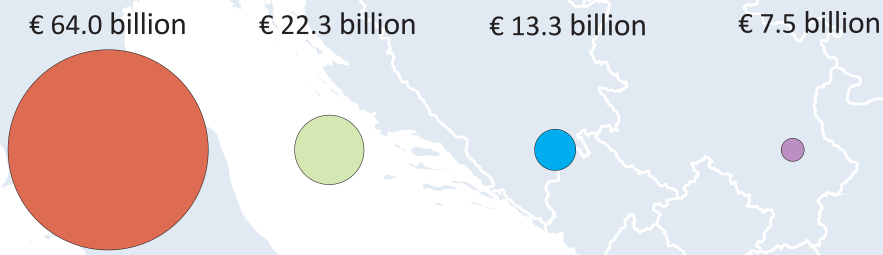
Graph 3 – GDP per capita growth between 2004 and 2013 (%)



EU budget expenditure and revenues in V4 countries between 2004 and 2013



Net position of V4 countries (€ billion) between 2004 and 2013



Value of V4 countries' exports between 2004 and 2013 **(€ million)**

2004	60 332	55 460	44 671	22 305
2013	152 133	121 588	81 365	64 754

Source: Eurostat, 2015; Commission Financial Report for 2004–2013.

GDP per capita growth was faster in countries starting from a lower baseline (Poland and Slovakia). GDP per capita growth at purchasing power parity was slower in the CR than those countries mainly because of state budget expenditure restrictions and also the slow pace of EU funding drawdown[3], but even so it grew from 60% of the EU27 average to more than 79%.

The data expressed in the table 1 on page 11 indicate a closing of the gap between the EU15 and V4 countries. Although the closing trend is apparent, the pace of change differs from country to country. Two significant factors here are the countries' starting position (economic performance), which was reflected in the size of the funding allocation from the EU budget for each country, and the structure of the countries' economies (varying proportions of agriculture, industry and services). These factors are reflected in the "net position". The impact of different countries' active economic policy should not be overlooked, though.

A 1.2 V4 countries' net positions

All the Visegrad countries are net beneficiaries, i.e. Member States whose revenues from the EU budget exceed their contribution to it (see the table 3). The main revenues from the EU budget are finances provided under *Sustainable Growth*, where activities coming under the policy of economic, social and territorial cohesion ("Cohesion Policy") are funded, and from the heading *Preservation and Management of Natural Resources*, which funds agriculture and rural development.

The funding Member States receive under Cohesion Policy is determined by the size of their allocation, defined separately for each programming period. This funding can be reduced by corrections and other penalties imposed by the Commission. The second main portion of support consists in agriculture funding which, with the exception of rural development programme measures, is often provided on a claimed-support basis (per unit).

Appendix 1 gives an overview of programmes in the CR in the "non-claimed" portion of funding, broken down by programming period[4]. Actual drawdown is thus determined by the size of the allocation, the drawdown rate and the magnitude of any penalties imposed for rule breaches and also by the size of the agriculture sector, or the volume of claimed payments in agriculture.

Table 3 – Net positions of V4 countries between 2004 and 2013

State	Net position (€ million)									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
CZ	250.5	84.7	294.7	554.0	1,045.1	1,574.5	1,917.9	1,346.6	2,935.4	3,276.5
HU	176.3	523.8	1,059.7	1,557.4	1,055.5	2,659.7	2,695.0	4,393.5	3,248.7	4,898.7
PL	1,409.6	1,702.0	2,859.0	4,977.8	4,167.0	6,119.0	8,165.2	10,860.2	11,827.5	11,965.1
SK	168.5	250.5	294.6	563.4	646.9	480.8	1,257.7	1,091.4	1,544.0	1,226.8

Source: Commission Financial Report for 2004–2013.

The net positions graph on page 12 shows the development of the cumulative net positions of these countries in the period under scrutiny, converted to a per capita basis. The sharp growth is mainly driven by an improved allocation drawdown rate in the last years of the 2007–2013 programming period.

A.1.3 Development of V4 countries' exports and progress in the V4 as a whole compared to the EU's biggest exporters

The V4 countries' accession to the EU considerably widened their export opportunities – this is one of the most profound effects of integration into EU structures. As the V4 countries' economies

3 More detailed information on the drawdown of the EU funding allocation is presented in sections B.1 and D.2.1 of the *EU Report 2015*.

4 The V4 states are involved in by three programming periods, 2004–2006, 2007–2013 and 2014–2020.

were some of the most open, their exports grew significantly quicker than the exports of the biggest EU exporters. That was reflected in increased exports of goods and services both to EU15 countries and to external markets, i.e. outside the EU. The export growth in individual V4 countries between 2004 and 2013 is evident in the infographics on page 13.

During their decade of EU membership, the V4 countries as a whole experienced major progress towards the biggest European exporters, moving from the seventh place in 2004 to the fourth, not far behind France. Actual volumes of total exports of goods and services are shown in Table 4.

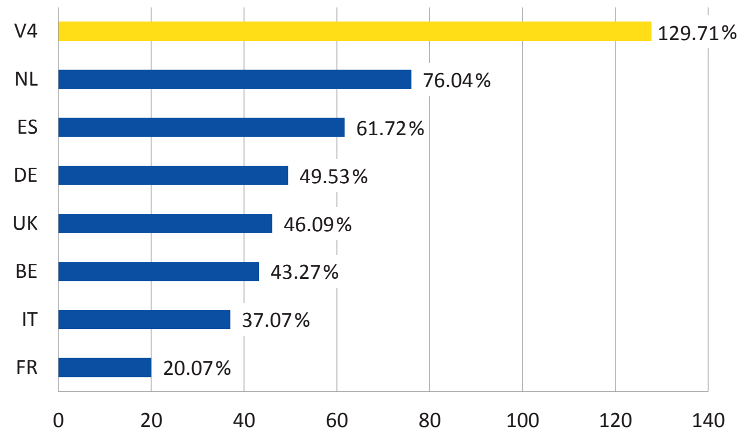
Table 4 – Volume of export of the biggest exporters between 2004 and 2013 (€ million)

Exporter	2004	Exporter	2013
DE	731,479	DE	1,093,788
FR	363,458	NL	505,836
NL	287,336	FR	436,418
IT	284,413	V4	419,840
UK	279,358	UK	408,124
BE	246,697	IT	389,835
V4	182,768	BE	353,452
ES	146,815	ES	237,422

Source: Eurostat, February 2015.

These changes are represented in percentage form in the following graph, which reveals that V4 countries' exports grew by almost 130% between 2004 and 2013.

Graph 4 – Growth of the volume of exports and services at the biggest exporters of V4 countries in 2004 and 2013 (€ million)



Source: Eurostat, February 2015.

The CR's export growth is mainly driven by the increased production and export of cars. According to figures from the Czech Automotive Industry Association (AutoSAP), car production almost tripled between 2004 and 2013, with most of the output directed towards markets in the EU. Over 118 cars are made for every thousand people in the CR every year. Across the world, only Slovakia has a higher figure[5].

A.1.4 Labour productivity in V4 countries

Labour productivity is a macro-economic metric stating the ratio of real value from combined outputs, which are mainly labour, capital, natural resources and mineral riches, intellectual

5 Source: OICA (Organisation Internationale des Constructeurs d'Automobiles) – www.oica.net.

property and know-how of the given country. The comparison of development of labour productivity[6] in V4 countries and in EU15 between 2004 and 2013 is given in the following table.

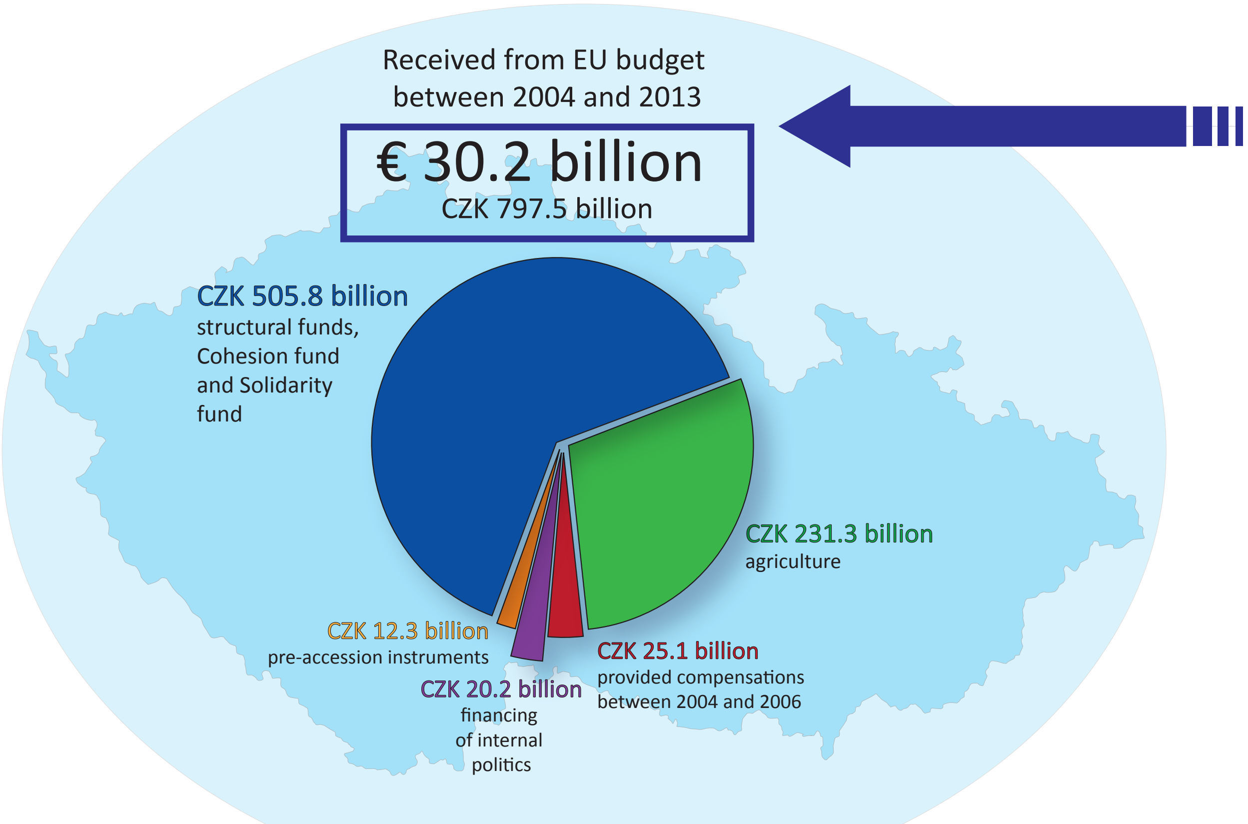
Table 5 – Development of labour productivity in V4 countries compared to the average of EU15 **(%)**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
EU15	114.8	114.7	114.6	114.2	114.0	113.7	112.9	112.6	112.4	112.3
CZ	67.0	67.0	68.2	70.9	68.4	70.1	67.6	67.9	67.3	66.6
HU	56.6	57.0	57.0	56.1	59.3	60.5	60.3	60.6	61.9	61.5
PL	49.8	49.7	49.0	49.9	50.1	52.4	56.3	58.1	59.3	59.9
SK	63.4	65.1	67.4	71.1	74.0	73.8	75.1	75.1	75.3	76.5

Source: Eurostat and Czech Statistical Office, February 2015.
NB: The data in the tables are correlated to the figures reported for the EU27, i.e. EU27 = 100%.

The graph charting the development of hourly labour productivity on page 12 (at purchasing power parity, per hour worked) in V4 countries as a percentage of the EU27 average shows that this metric has seen practically constant growth in Poland and Slovakia. The CR and Hungary are characterised by fluctuating values. Since 2005 the CR has gradually begun to lose the fairly pronounced head start it had over the other V4 countries.

From 2004 to 2008 the CR's labour productivity grew year-on-year by 3.6%, compared to just 0.2%, or essentially stagnation, from 2009 to 2013. The reasons were the weak performance of the Czech economy in consequence of the global financial crisis and government spending cuts. In the years 2009–2012 labour productivity only experienced growth of any substance in the processing industry, wholesale and retail, and real estate.



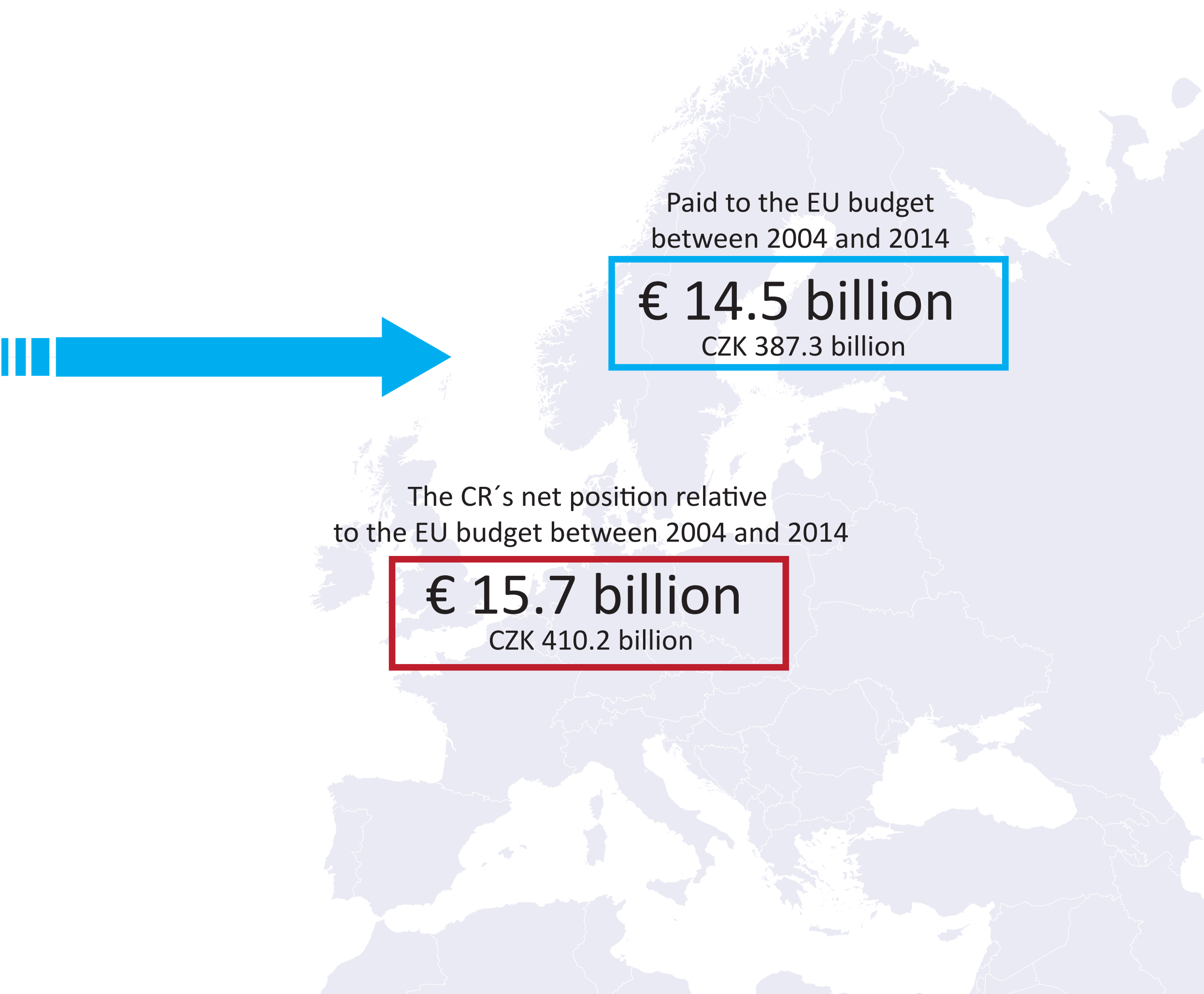
Source: Commission Financial Report for 2004–2013, MoF information, January 2015.

6 Labour productivity per hour is a relationship between the total economic performance given in GNP and the number of working hours of all employed persons.

A.2 Measurable results achieved with EU co-funding

From 2004 to 2014, i.e. over two programming periods, the Czech Republic obtained a total of €30.2 billion from the EU budget, which converts[7] to CZK 797.5 billion[8]. Of that total, the equivalent of CZK 505.8 billion was provided out of the structural funds ("SF"), *Cohesion Fund* ("CF") and *Solidarity Fund*. The CR obtained a total of CZK 232 billion out of agriculture financing, CZK 23.1 billion from funding for EU internal policies, and CZK 12.3 billion was released from pre-accession instruments. The final portion of the total was CZK 25.1 billion provided as compensation[9] in the years 2004–2006.

In the period 2004–2014, the CR paid in a total of €14.5 billion to the EU budget, which converts to CZK 387.3 billion**.** That put **the CR's overall net position relative to the EU budget at €15.7 billion**, i.e. the equivalent of CZK 410.2 billion.



7 The average exchange rate for the given year according to the Czech National Bank is used for the conversion.
8 According to Ministry of Finance data from February 2015.
9 Contribution towards direct costs associated with the country's accession to the EU.

In the 2004–2006 programming period more than 13,000 projects were supported through SF and CF co-funding and **the total amount**[10] (not including funding out of the state budget and public budgets of the CR) **disbursed by the Commission reached almost €2.8 billion**, the equivalent of over **CZK 80.4 billion**[11] (99% of the SF allocation and 96% of the CF allocation was utilised).[12]

Based on monitoring indicators, the selected benefits of the implemented projects supported out of the EU budget have been quantified as follows:

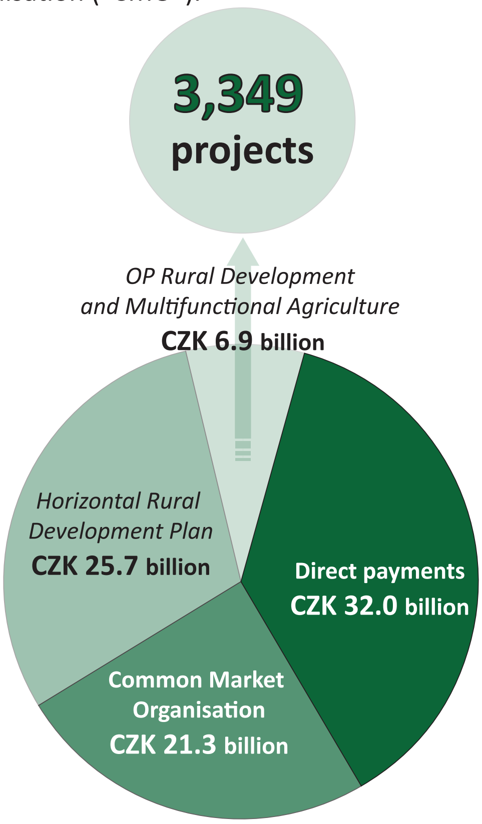
The selected benefits of the implemented projects supported out of SF and CF based on monitoring indicators

PROGRAMMING PERIOD 2004–2006

Employment:	Environment:	Enterprise support:	Tourism support:
46,020 supported jobs	**374 km** of new sewer networks	**1,570** new small and medium-sized enterprises established in the regions	**5,510** permanent beds in accommodation facilities created
Transport infrastructure:	**1,100** collection centres and separate collection systems		
426 km of new and renovated roads	**68,810** equivalent inhabitants connected to wastewater treatment plants		

10 *Benefits of the Structural Funds and Cohesion Policy in the Czech Republic*, MfRD, March 2014.
11 Data provided by the MoF for the 2004–2006 programming period as of 31 December 2014.
12 *The Czech National Bank's average exchange rate for 2006 was used for the conversion: 28.343 CZK/€.*

Under the ***Common Agricultural Policy*** ("CAP"), almost **CZK 86.0 billion** was paid out to beneficiaries in the same programming period (with the equivalent of over **CZK 51.1 billion**[13] coming from the EU budget). Of the CZK 86.0 billion total, **CZK 32.0 billion** was spent on direct payments to farmers; a total of *CZK 32.7 billion* went on funding rural development under OP *Rural Development and Multifunctional Agriculture* ("OP RDMA")[14] and the *Horizontal Rural Development Plan* ("HRDP"); and roughly CZK 21.3 billion was spent on market support under the Common Market Organisation ("CMO").



3,349 projects were implemented under OPRDMA, 175 of them fisheries projects and 59 technical assistance projects.[15] Based on monitoring indicators, the selected benefits of the implemented projects have been quantified as follows:

The selected benefits of the OPRDMA implemented projects based on monitoring indicators

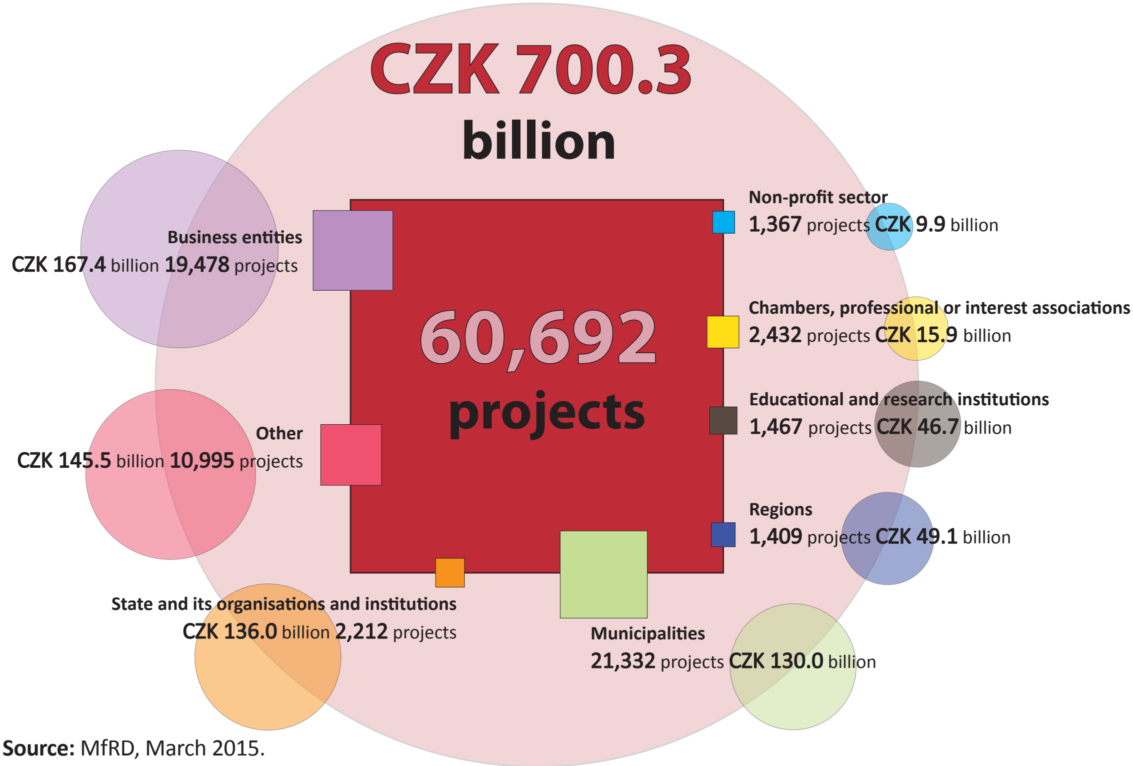
PROGRAMMING PERIOD 2004–2006

Employment:	Machinery:	Water management:	Forestry:
4,526 jobs created and retained	**1,466** agricultural and forestry machines acquired	**125** fishponds renewed, dredged out and rebuilt	**144 ha** of forested land, forest vegetation renewed and maintained
Fisheries:	**Farm buildings:**	**47** polders and reservoirs built	
24 fish processing plants built/modernised	**724** cattle, pig, goat and sheep farming buildings renovated/built		

13 According to data provided by the Ministry of Agriculture and State Agricultural InterventionFund in March 2015.
14 From April 2008 on, the remaining HRDP commitments were disbursed from the funding allocated to the *Rural Development Programme of the CR for 2007–2013* which followed on from the HRDP framework.
15 Materials provided by the Ministry of Agriculture, March and April 2015.

Data provided by the Ministry for Regional Development ("MfRD") in March 2015 indicate that **more than 60,000 projects were supported** out of the SF and CF **in the 2007–2013 programming period** and the commitment to beneficiaries amounted to **more than CZK 700.3 billion**. As of 31 December 2014, **payments worth €18.3 billion out of the EU budget had been applied for**, which converts to approximately **CZK 507.0 billion.**[16]

A breakdown of projects and their aggregate expenditure by types of beneficiary as of 31 December 2014 is contained in the following infographic.



Source: MfRD, March 2015.

The benefits accrued by the CR from EU membership should be precisely quantified, especially in the area of support financed from the SF and CF. Monitoring and evaluation of the use of EU funding is done by means of the defined project indicators[17] aggregated at OP level. The following selected indicators expressed in value units were summarised from the available sources[18]:

The selected benefits of the projects supported out of the SF and CF based on monitoring indicators

PROGRAMMING PERIOD 2007–2013

Employment:
83,700 new jobs

Housing construction:
42,000 regenerated housing units

Transport infrastructure:
2,400 km of new and renovated roads and railways
more than **800 km** of new cycle paths

Cultural heritage:
202 state-registered monuments renovated

Public transport:
500 buses, trams and trolley buses bought

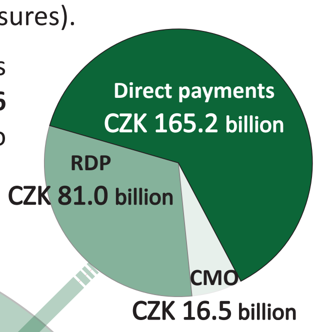
Revitalisation:
1,400,000 m² of revitalised buildings

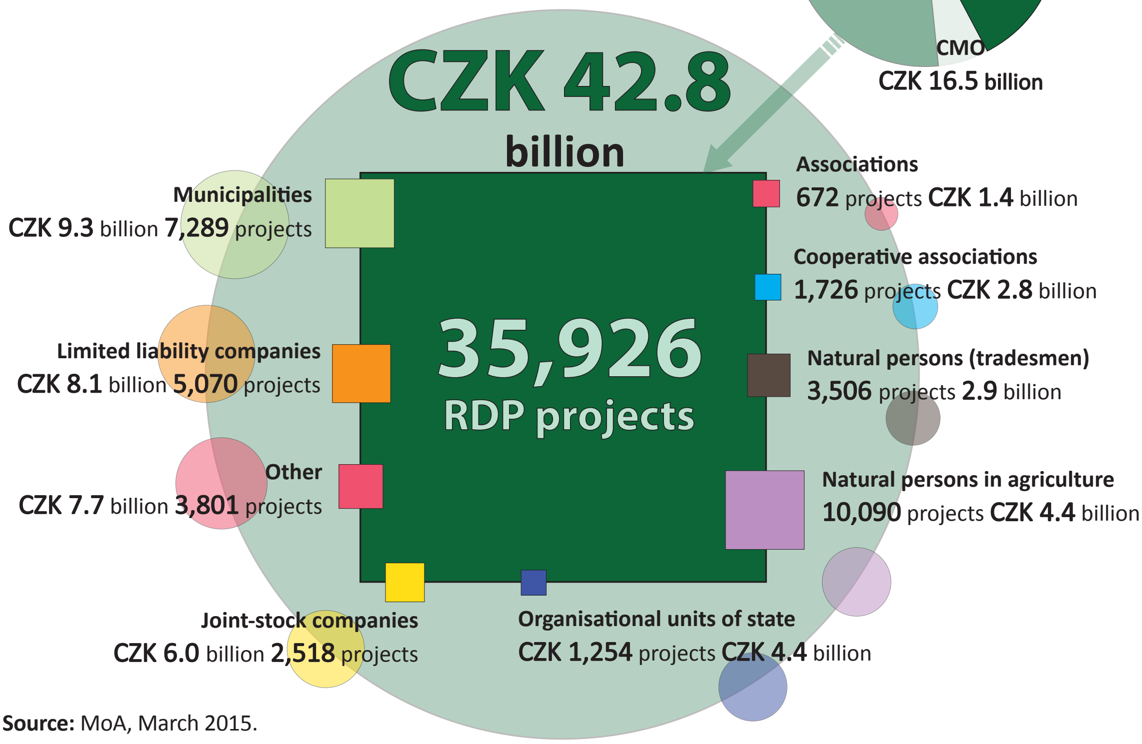
Enviroment:
760,000 m² of toxic hot spots cleared
103 wastewater treatment plants built

16 The Czech National Bank's exchange rate for 30 December 2014 was used for the conversion: 27.730 CZK/€.
17 *National Catalogue of Indicators for the 2007–2013 programming period.*
18 *Quarterly Monitoring Report on Drawdown from the Structural Funds*, Cohesion Fund, *in the Programming Period 2007–2013*, 4th quarter of 2014, MfRD/NCB, 31 January 2015.

In the same programming period, **a total of CZK 262.7 billion was paid out** to applicants under the CAP up to 31 December 2014, with the equivalent of CZK 205.7 billion of that coming from the EU budget. Of that amount, CZK 165.2 was paid out on direct payments and CZK 16.5 billion on CMO. A total of CZK 81.0 billion was spent on the *Rural Development Programme of the CR for 2007–2013* ("RDP") (on both projects and non-project measures).

The infographic gives an overview of completed commitments for RDP project measures as of 31 December 2014. **35,926 projects in total were supported**, with the total commitment to applicants amounting to **CZK 42.8 billion**.





Source: MoA, March 2015.

Quantifiable benefits for the CR from the ten-year EU membership up to the end of 2014 can be seen mainly in rural development project measures. The following selected indicators, expressed in value units, were summarised from materials provided by the Ministry of Agriculture ("MoA"):

The selected benefits of the implementation of RDP based on monitoring indicators

PROGRAMMING PERIOD 2007–2013

Enterprise in agriculture and food production:

1,661
farms modernised

1,299
young farmers supported

827
micro-enterprises founded or supported

Forestry:

2,421 ha
of farmland converted to primary forest

1,326
forestry enterprises supported

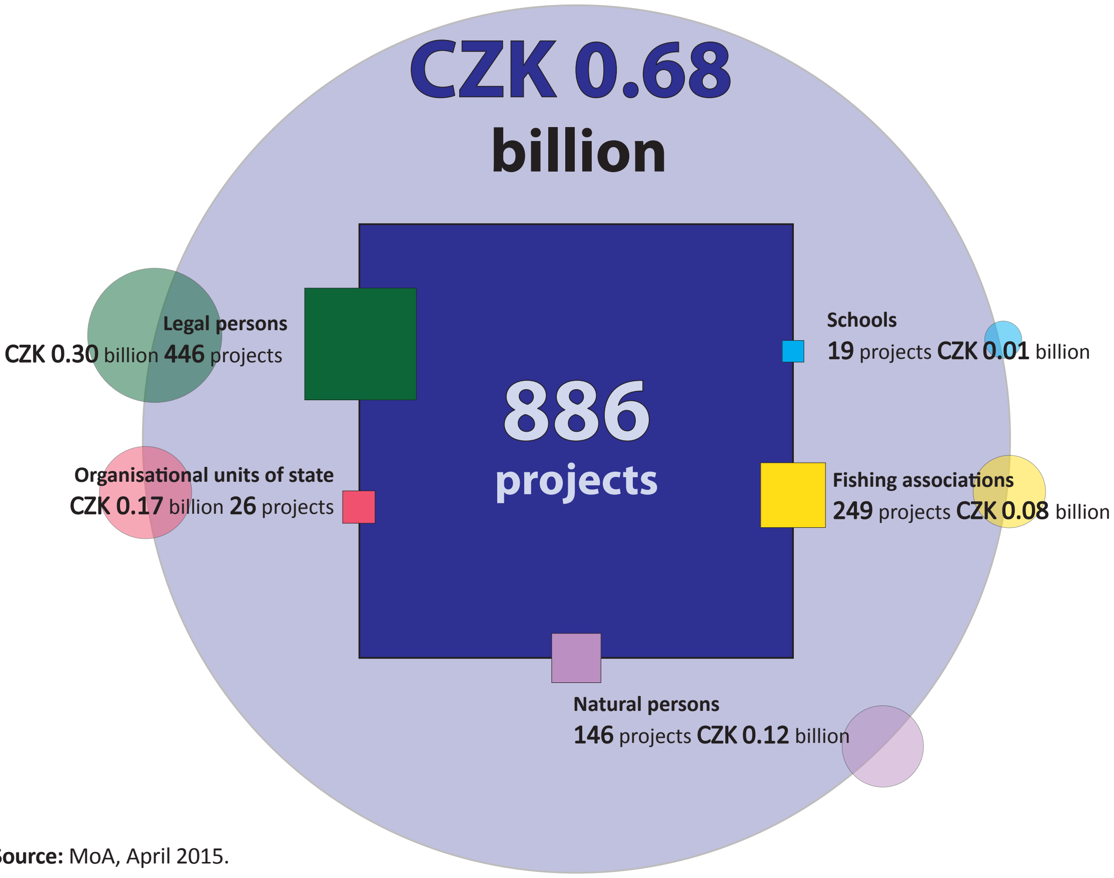
Rural development:

965
villages where renewal and development actions were undertaken

590
actions to revive rural cultural heritage

In OP *Fisheries 2007–2013*, as of 31 December 2014 *886* projects with a total value of **CZK 692.5 million** were co-financed out of the *European Fisheries Fund* ("EFF").

A breakdown of projects and their aggregate expenditure by types of beneficiary as of 31 December 2014 is presented in the following infographic.



Source: MoA, April 2015.

Selected fisheries monitoring indicators quantifying the benefits for the CR from EU membership as of the end of 2014 were taken from the available sources.

The selected benefits of the implementation of OP *Fisheries* 2007–2013 based on monitoring indicators

PROGRAMMING PERIOD 2007–2013		
20,000 tunnes annual production of market fish	**177** number of fish-introduction projects	**8.7 ha** fishpond area with improved aquatic environment

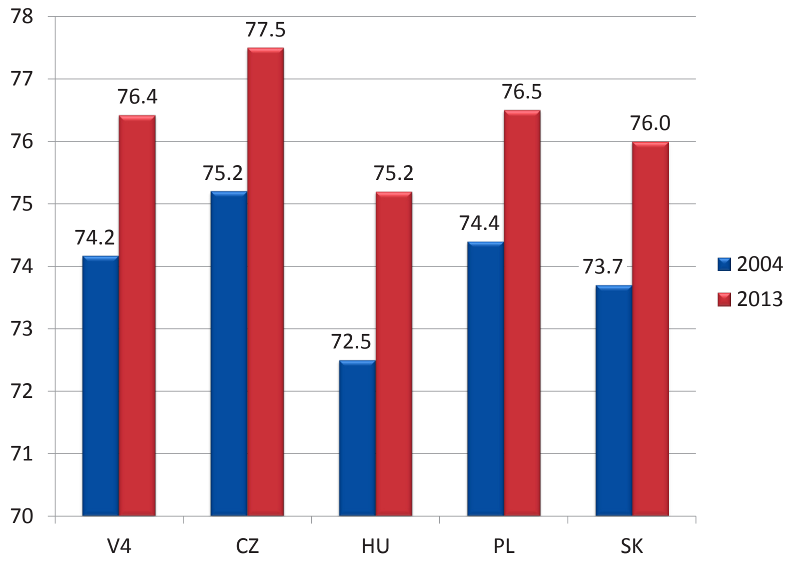
A.3 It's about more than money

Some benefits ensuing from EU membership cannot be categorically quantified by a system of measurable units; in some cases it is not even possible attribute a monetary value to them, as we did in the section A.2. Nevertheless, their positive impacts are in many cases more socially significant than of benefits which can be easily quantified. This is mainly a question of the following impacts:

- **Free movement of goods, services, labour and capital**
- **More competitive enterprise**
- **Increased trade exchange with the EU market** (see A.1. for more).
- **Joint border security and defence** (the CR is not part of the "buffer zone")
- **Legal aspects** (enforceability of law, international cooperation, unification of law, especially trade law)
- **Return to the traditional cultural environment**
- **Increased emphasis on the quality of the environment and protection of animals**
- **New experience as potential stimuli for improving quality of life in the CR** (tourism, foreign stipends and work placements, work abroad, joint cultural events etc.)
- **Mean life expectancy growth**

The following graph shows the change in mean life expectancy[19] in V4 countries and a comparison between 2004 and 2013.

Graph 5 – Development of mean life expectancy in V4 countries (years)



Source: Eurostat, data published in the first half of 2015.

Mean life expectancy is rising in all EU Member States, including the V4 countries. In 2013 the highest life expectancy within the V4 – 77.5 years – was attained by the CR, which represented an increase of 2.3 years in the period under scrutiny. To compare, mean life expectancy in the EU15 rose in the same period from 79.1 to 81.1 years, a two-year increase.

When assessing financially unquantifiable benefits, it should be kept in mind that their existence and impact cannot be attributed solely to EU membership. In a number of cases the positive effects were already influenced by societal changes taking place in V4 countries at the end of the 1980s. Other influences, such as globalisation and general geopolitical developments in Europe and the rest of the world, are also important.

19 A statistic expressing the mean age attained by the members of a given population.

B. What needs to be improved?

This chapter deals with the shortcomings that complicate the utilisation of support from the EU budget in the Czech Republic. The financing of *Common Agricultural Policy* measures suffers from relatively fewer problems.[20] By contrast, the Czech government and MfRD, as the body responsible for coordinating the use of finances provided out of the SF and CF, are continuously dealing with a number of problems in Cohesion Policy. This chapter also presents findings from the audit work of the Supreme Audit Office ("SAO") and audit missions of the European Court of Auditors ("ECA") in the Czech Republic.

B.1 The CR's deficiencies in the utilisation of support from the EU budget

Since the start of the 2007–2013 programming period the CR has struggled to draw down the allocation from the Structural Funds and *Cohesion Fund*. The marked delay in the launch of OPs and in the drawdown of the allocation was mainly caused by protracted approval procedures for programmes, fragmented rules and methodological materials for utilising funding and frequent changes to these rules and materials. **The state of affairs was mainly the result of the large number of programmes and the complexity of their implementation structure.** Another reason for the delay was the initially slow implementation of the coordination role of the National Coordinating Body[21] ("NCB") and its limited powers, especially as regards the OP managing authorities ("MAs"). Both the MfRD and the Czech government responded to the unfavourable developments in the utilisation of support from the SF and CF by adopting a number of measures. The Czech government, for example, approved[22] a material entitled *Analysis of the Utilisation of European Funds and Crisis Plans*, including annexes, at the start of 2014. At the same time, it tasked the regional development minister with submitting monthly information on drawdown from European funds, measures tackling cross-cutting and key risks and progress towards implementing the measures in OP crisis plans. In line with this task, in December 2014 the MfRD draw up a material entitled *Analysis of the Utilisation of European Funds and Crisis Plans 2015* (the "2015 Analysis"). In this 2015 Analysis, which was presented to the government on 3 February 2015, the MfRD qualified cross-cutting risks that can impact on the full utilisation of the allocation for the 2007–2013 programming period. These risks are:

- the administration of a large quantity of finances from European funds (approx. CZK 216 billion) at the end of the programming period (insufficient staffing, higher error rates);
- failure to complete projects on time (by the end of the eligibility period, i.e. by 31 December 2015);
- the phasing of projects in the 2007–2013 programming period (additional financing for the 2nd phase of projects in the 2014–2020 programming period);
- EIA[23] issues (the incorrect transposition of the environmental impact assessment directive and its impact on projects financed out of EU funds);
- public procurement (numerous and protracted appeals procedures, managing authorities' lack of awareness);
- open audits (protracted resolution of Commission audits);
- the closing of the 2007–2013 programming period (design of processes for closing individual programmes and areas and increase in administrative bodies' duties);
- stabilisation of administrative capacity and staffing for activities at the programming period closing time (two programming periods running concurrently, pressure on human resources).

20 The results of audits by the ECA and the Commission in 2010 and 2012 revealed a higher error rate in certain thematic OPs and less effective management and control systems in regional OPs.

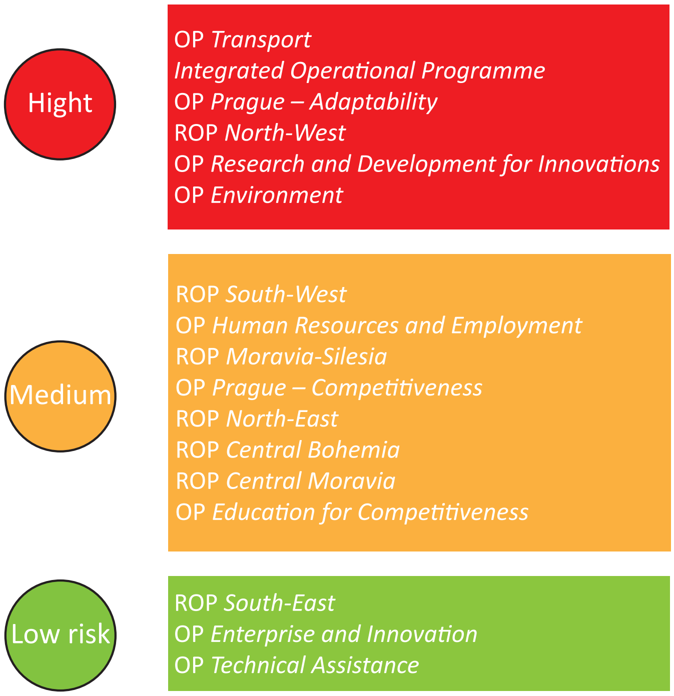
21 The National Coordinating Body is an organisational component of the MfRD. The NCB is the central methodological and coordination body for the policy of economic and social cohesion; it is the Commission's partner in the CR, the monitoring system administrator, the methodological authority in the areas of implementation and financial flows and controls and the central body for publicity and building absorption capacity. The NCB is the MA for the National Strategic Reference Framework of the CR 2007–2013.

22 Resolution of the Government of the Czech Republic No. 144 of 5 March 2014.

23 Environmental Impact Assessment.

In the 2015 Analysis, the MfRD proposed measures to eliminate these risks. The MfRD divides operational programmes into three categories by degree of risk, as the following graph shows.

Graph 6 – Degree of risk of operational programmes in the CR as of 31 December 2014



Source: *Analysis of the Utilisation of European Funds and Crisis Plans 2015*, MfRD/NCB, December 2014.

The MfRD has for long practised "enhanced risk management" in programmes where drawdown of SF and CF finances displays a high risk. The aim is to ensure full drawdown of the allocated finances while retaining the required quality of the supported projects.

Despite the increased efforts, the CR is one of the Member States with the lowest rates of utilisation of the allocation. In connection with the failure to comply with the n+2/n+3 rules for utilisation of the allocation (in 2013 the n+3 rule came into force for the allocation for 2010 and the n+2 rule for the 2011 allocation), the Commission, in line with the General Regulation[24], applied "automatic decommitment", i.e. it reduced the allocation by the amounts which were not used for preliminary or interim payments or for which payment applications ("PAs") were not filed by the end of 2013.

The decommitment applied to the equivalent of CZK 11.4 billion in 2013 and CZK 8.5 billion in 2014. This figure has already been reduced by CZK 112 million that was approved by the Commission under the application of Article 95 of the General Regulation for 2014, which makes allowance for the fact that the certification authority could not implement certain sums as operations had been suspended by ongoing court proceedings or proceedings on administrative appeals with suspensory effect. According to the 2015 Analysis, **the MA's prediction for the end of the programming period** puts the allocation drawdown shortfall at **approx. CZK 18.7–23.1 billion**. The MfRD's estimate admits, however, that a more pessimistic scenario, brought about partly by the accumulation of PAs at the end of the programming period (expenditure certification by 30 April 2016) and especially by the possible failure to resolve the EIA issues, which will prevent the completion of major transport projects. **The worst-case scenario even entails a drawdown shortfall of CZK 85.1 billion in 2015, which would put the total shortfall for the years 2013 to 2015 at CZK 105.0 billion.** This threat is not entirely unrealistic, given that almost 30% of the entire allocation, i.e. approx. CZK 215 billion, is supposed to be drawn down in the last eligible year of the 2007–2013 programming year.

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

B.2 What were the SAO's audit findings?

B.2.1 Statistical data on SAO audits

87 audits
linked to European Union budget finances, i.e. 22% of the total of 382 audits completed from 1 May 2004 until the end of March 2015

1,000 entities
were scrutinised while the audited volume was approx.

CZK 167.8 billion

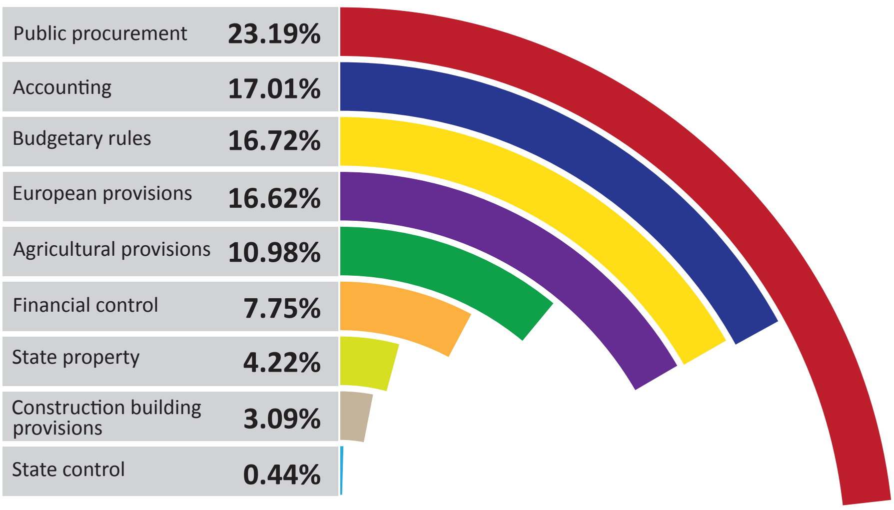
Audits uncovered more than
2,000 cases of violations
of the national and European legislation

and a futher
5,200 breaches
of other norms, mainly binding rules, procedures and contract conditions

During the Czech Republic's membership of the European Union, the Supreme Audit Office has conducted 87 audits linked to European Union budget finances (i.e. 22% of the total of 395 audits completed **from 1 May 2004 to 31 March 2015).**[25] **These audits scrutinised over 1,000 entities;** the total **audited volume of transactions** concerning EU finances and state budget finances earmarked for co-financing **was approx. CZK 167.8 billion**. These audits uncovered more than **2,000 cases of violations of the national and European legislation** and a further **5,200 breaches of other norms**, most notably binding rules, procedures and contractual terms.

The following graph shows the percentage shares of violations of the legal regulations as the SAO qualified them during audits concerning funds coming from the EU budget and Czech state budget funds earmarked for co-financing. For the sake of clarity, the violated legal regulations are classified by areas of legislation.

Graph 7 – Violations of legal regulations broken down by area of legislation (%)



Source: SAO audit and information system.

25 A completed audit means an audit whose audit conclusion was approved by the SAO Board or one of its Senates.

The value of the identified shortcomings amounted to CZK 17.6 billion. **Notifications to the tax offices were filed in 93 cases with a total value of over CZK 7.4 billion**[26] (i.e. **almost 31% of the total of 303 notifications** filed by the SAO in respect of all audits completed between May 2004 and February 2015). **Criminal complaints** were filed against 28 audited entities (i.e. almost 53% of all entities against which the SAO filed criminal complaints in respect of all audits completed in the same period).

B.2.2 Audit targeting approaches and systemic findings of the SAO

Risk-based approach to planning audits

In order to achieve better targeting of audits looking at programme support provided to the CR from the EU budget, in 2012 risk analyses were conducted concerning both the CAP and *Common Fisheries Policy* ("CFP") and cohesion policy. The analyses were based on a categorisation of the shortcomings identified to date, divided into 16 characteristic areas where shortcomings were the frequency of their incidence was assessed. Weightings of the impact of the individual risk factors were then allotted them. By multiplying the frequency of incidence and the impact weighting it was possible to determine the significance of the different categories of shortcomings.

The key shortcomings identified by the analyses were divided into three groups:

- highly significant shortcomings in terms of frequency;
- highly significant shortcomings in terms of the expert assessment of the risk of the gravity of their impact;
- highly significant shortcomings in terms of both criteria.

The final results were elaborated into a risk map, with a description of the main risk areas. These risk areas were factored into the planned audits and were also crucial for defining key areas to target with audits in the following period. Audit hypotheses and detailed audit procedures were also defined on this basis.

Shortcomings in control work by entities in the implementation structure, most notably MAs, the Intermediate Body ("IB") and beneficiaries, and also shortcomings in the legislative field can be regarded as significant risk areas in terms of the impact of errors and the frequency of errors. Shortcomings in the assessment and selection of projects, financial shortcomings, shortcomings in contracts and decisions on the provision of support and shortcomings in administrative work have proven to be shortcomings with an intermediate frequency of incidence but a high risk of impact. The expert estimate of the gravity of impact also rated certain shortcomings that appeared less frequently in audit findings as highly significant. These include breaches of contractual duties by beneficiaries, deficiencies in public procurement, badly designed assessment criteria and unsatisfactory programme outcomes (either partial or overall). The SAO's audit programmes and procedures target all the aforesaid areas of shortcomings.

In line with the analysis of risks in terms of frequency or gravity of impacts, the types of shortcomings listed below are the most important for the targeting of future audits.

CAP and CFP – management and control system audits:

- shortcomings in legislation;
- control system shortcomings;
- shortcomings in the assessment and selection of projects for financing, including badly designed assessment and selection criteria;
- shortcomings in contracts and decisions on the provision of subsidies;
- financial shortcomings;
- shortcomings in the administration of applications for subsidies and PAs;
- unsatisfactory outcome of the operational programme.

26 In three cases notifications were submitted to the tax offices without any quantification of the amount to be recovered.

CAP and CFP – project audits (transaction audits):

- shortcomings in public procurement;
- ineligible expenditure;
- breach of terms laid down in a legal document on the award of support.

Structural policy – management and control system audits:

- shortcomings in the design of the legal and institutional framework;
- shortcomings in the selection of projects for financing;
- shortcomings in contracts and decisions;
- monitoring system shortcomings;
- control system shortcomings;
- failure to achieve the goals of the programme.

Structural policy – project audits (transaction audits):

- shortcomings in awarding of public procurement;
- ineligible expenditure;
- breach of terms laid down in a legal document on the award of support;
- failure to achieve the goals of the project.

The above risks affecting the CAP, CFP and cohesion policy are fundamental for defining the focus of audits in the subsequent 2014–2020 programming period.

Reporting of financial information on EU finances

In the SAO's opinion, accounting linked to EU funding is a risk area, one whose persisting shortcomings can have a significant impact on the management of the CR's public finances. The SAO has repeatedly stated that the CR's accounting regulations are not absolutely clear in defining the way finances for projects co-funded by the EU are accounted for and reported.

At the level of organisational units of the state ("OUSs"), information on financial flows coming from the EU budget is contained in various information systems, most notably:

- in administration and monitoring systems (for the purposes of the Commission);
- in accounts;
- on the websites of MAs[27];
- in the budgetary system[28].

As regards data on EU finances presented in accounts, the SAO identified significant systemic problems hindering the comparability of data between ministries. According to the SAO, the incomparability of accounting data on costs, revenues, receivables, payables and the impacts of the use of EU finances gives rise to a significant risk of distortion of the information value of aggregated data:

- in the area of the consolidation of the state accounts, which will take place for the first time in 2015;
- in the area of national accounts (data for the government institutions sector), i.e. for statistical purposes.

27 To ensure transparency, data related to subsidies from the EU budget provided for concrete projects, i.e. lists of beneficiaries with detailed information, are reported on the website of MA.

28 Transfers of EU funds are dealt with at OUS level on the basis of the requirement of the budgetary rules via a flow of finances via the state budget.

Systemic incomparability of data from accounting systems

In its audit conclusions concerning accounting data for the period after 2010[29] the SAO repeatedly stated that the accounting regulations were not absolutely clear as regards how EU finances should be accounted for by organisational units of the state[30]. According to the SAO, various ministries recorded financial flows and links to EU finances in markedly different, non-comparable ways.

The principal point of uncertainty in the regulations lies in the definition of the role of an OUS when providing transfers according to *Czech Accounting Standard No. 703 – Transfers*. Some ministries identified themselves as the "provider" when providing finances, e.g. from OPs, while others identified themselves as the "intermediary" in equivalent situations. In practice, the different identification of roles resulted in the structure of the data in the financial statements being fundamentally different.

The SAO's audits identified a risk of incomparability of the data reported every year worth tens of billions of CZK.

For 2015 the Ministry of Finance ("MoF") substantially amended the accounting regulations relating to EU finances. This has paved the way for resolving the problem of data comparability, primarily for the 2014–2020 programming period.

Diversity of EU finances – impact on comparability and completeness of accounting data

The basic systemic precondition for data comparability is not just clear rules for how to record the data – it is also consistent and comprehensive accounting for all accounting cases (financial relations). EU finances represent diverse types of support, which apply various financial flow schemes and involve various units, apportion differing degrees of responsibility to both the CR and accounting units in providing the support, and have varying links to the EU budget. [31] It is **this substantive diversity and the relative complexity of processes linked to flows of EU finances that, in the SAO's opinion, present a natural risk to the recording of correct and complete data and to the comparability of data as reported in financial statements**.

Influence of the recording of EU finances in accounting systems on national accounts data

The source data for compiling national accounts and the reliability of these data are issues where EUROSTAT, the European Union's statistics office, urges national audit authorities to play a greater role in ensuring the quality of this information. In this spirit, in 2012 the Contact Committee of the supreme audit institutions of EU countries adopted its resolution CC-R-2012-02. This resolution encourages the supreme audit institutions of EU countries to consider taking steps to improve the reliability of upstream data for national accounts and to communicate with national statistical institutions. In this context, **the Supreme Audit Office established closer cooperation with the Czech Statistical Office ("CSO") and signed with it a Memorandum on Mutual Cooperation (2013). The sharing of information concerning risks linked to the reporting of EU finances is currently a major part of this cooperation.**

EU finances have a profound influence on:

- overall data on state budget management (budget deficit/surplus) defined on the basis of revenues and expenditure (cash basis);
- national accounts data informing about the value of indicators used to assess implementation of the Maastricht criteria; these data are created on an accrual basis according to *the European System of Accounts* (ESA 2010).

29 These shortcomings mainly applied to data on transfers from the 2007–2013 programming period.

30 The audit conclusions of audits nos. 10/20, 11/29, 12/14, 12/15 , 12/30, 13/19, 13/38 and 13/39.

31 This includes matters of the accounting for financial corrections imposed by the Commission or the exclusion of projects from EU funding.

The balance of the state budget, which is defined by the MoF, is directly influenced by data on state budget expenditure used to pre-finance projects co-financed out of the EU budget. Pre-financing expenditure increases the state budget deficit, while refunds paid into the state budget reduce it.

In the case of national accounts, however, "neutralising operations"[32] take place, in which the impact of this spending on the size of the deficit and public sector debt[33] is eliminated when pre-financing is provided. Spending pre-financed by ministries does not deepen the deficit (according to the ESA 2010); instead, it represents the creation of a certain type of receivable for finances from the EU budget. Consequently, even the subsequent refunding has no impact on the deficit. Naturally, there are differences between the two deficits caused by their computation method, whereby transfers of EU finances are a significant source of difference.

Although the ministries' accounting is based on the accrual principle, like the national accounts (ESA 2010), the CSO mainly uses cash-based information from reports for assessment of the implementation of the budget (data on ministries' revenues and expenditure) for quantifying the ESA deficit. In the SAO's opinion, this approach is rational mainly in a situation where the data on EU finances are not comparable between organisational units of the state. It thinks, however, that the currently used alternative procedure of neutralising operations affecting EU finances based on outputs from ministries' data on the (cash-based) implementation of the budget has pitfalls and risks. The system for recording data on the implementation of the budget only concerns performed financial flows and does not suitably record all the relevant contexts of EU finances, such as the (retroactive) exclusion of projects that have already received pre-financing, the application of financial corrections or the imposition of across-the-board corrections.

Yet these are not hypothetical problems: as part of the autumn notification of the 2014 government deficit and debt the CSO revised data for the years 2010–2013 for the very reason of reflecting excluded projects. The CSO incorporated into the national accounts supplementary data sources on excluded projects it could not obtain from the accounting systems. Additional data sources therefore need to be used to prevent any repeat of this type of revision.

Reporting of EU finances and SAO audits

The complexity and diversity of the operations involving EU finances and of the changes taking place in the accounting regulations necessitate a more profound systemic look at the nature of operations and how they are recorded and reported in relation to on-going changes in accounting provisions. For that reason the SAO, in implementing the audit plan for 2014, has been performing a specific audit focusing on the reporting of finances from abroad[34]. The results of this audit work will allow the SAO to formulate audit conclusions specifying how successfully the fundamental problems linked to the accounting regulations and the incomparability of reported data have been eliminated. This audit will be completed during 2015 and its results will be published in *EU Report 2016*.

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32 EUROSTAT. *Manual on Government Deficit and Debt, Implementation of ESA 2010*, 2014 Edition, [online]. Luxembourg, European Union, 2014. P. 117 (section II.6) et seq. Available from http://ec.europa.eu/eurostat/documents/3859598/5937189/KS-GQ-14-010-EN.PDF/c1466fde-141c-418d-b7f1-eb8d5765aa1d.

33 The procedures do not apply to cases where an accounting unit from the government sector, i.e. an organisational component of the state, is the end beneficiary of pre-financing.

34 Audit no. 14/37 – *State budget, EU budget funds and other funds acquired from abroad*.

B.3 The Czech Republic in audits by the European Court of Auditors

B.3.1 Statistical data on ECA audits

From 2004 to 2014 the ECA conducted a total of **89** audit missions and questionnaire-based surveys in the CR. The following table shows the types of audit and the years they were conducted in.

Table 6 – Number and types of ECA audit missions in the CR, 2004–2014

Year	Surveys (DAS, Performance audit)	On-the-spot missions			Total of surveys and on-the-spot audits
		DAS	Performance audit	Data reliability audit	
2004	0	0	0	0	0
2005	0	3	2	0	5
2006	0	3	1	0	4
2007	0	4	2	0	6
2008	0	3	0	0	3
2009	2	3	1	0	6
2010	3	4	1	0	8
2011	4	5	4	0	13
2012	5	4	2	1*	12
2013	5	9	3	0	17
2014	5	7	3	0	15

Source: EU Reports 2008–2014, SAO materials.
NB: * Audit entitled *Statistics containing the results of administrative and on-the-spot checks*.

The results of the ECA's performance audits carried out in 2004–2014 among others in the CR form Appendix 2.

B.3.2 The Czech Republic from the point of view of an ECA member[35]

The Czech Republic in the selection of the ECA audit sample

The ECA's mandate is to audit EU budget revenues and expenditure. The statements, opinions and conclusion of the ECA's audit work thus ultimately refer to EU financial management as a whole, in other words to programmes and policies Member States participate in. The ECA never performs a "solo" audit of a single Member State, not even the Czech Republic, in order to pronounce an assessment of that country alone. That does not mean, of course, that the ECA can refrain from visiting Member States, their institutions and end beneficiaries. More than 80% of the EU budget takes place under the "shared management" system, where the ultimate responsibility for sound management of EU finances is borne by the Commission, but the Member States are the actual implementers: the responsibilities for programming, announcing calls, selecting eligible and effective projects, monitoring and assessing projects and interim and ex-post checks rests on the Member States. All the ECA's audits are based on a sample of projects (payments) executed in a sample of Member States. The way they are selected for the audit sample depends on the type of investigation.

*__Mr. Jan Kinšt__ (*1965), a Member of the European Court of Auditors*

Graduated at the Prague University of Economics where he was a Member of the Scientific. Board until June 2004. In 1990´s, he sarted to work at the Czech Ministry of Finance and was involved in the design of the state budget. Cooperated within the International Monetary Fund and the OECD. In 1999 joined the Supreme Audit Office of the Czech Republic where he held the post of director of the Analysis Department for four years. He represented the Czech SAO in the working group of ECA, contributed to the SIGMA programme and within the group of candidate country experts on audit manuals. He had also assignments for the World Bank. In July 2003 he was appointed Member of the Supreme Audit Office of the Czech Republic. In May 2004 became a Member of the European Court of Auditors.

(Source: www.mzv.cz.)

In the case of the annual compliance audit (which underpins the DAS[36]), transactions for audit are selected at random so that the results identified on the basis of the sample are fully representative and can be extrapolated to the entire population of financial operations. As the selection method employed by the ECA is what is known as MUS[37], the advantage of which is that it "captures" larger-volume transactions, payments going to big Member States and, in general, major beneficiaries logically have a greater chance of being included in the sample. The probability of selecting countries like Luxembourg or Malta is minimal (but not ruled out), whereas major beneficiaries like France, Italy, Spain or Poland are included in the selected samples for compliance audit essentially every year.

The Czech Republic, as a medium-sized Member State and subsidies beneficiary, thus has a corresponding likelihood of being included in the audit sample. This probability rises proportionately if the Commission provides some bigger payments to the Czech Republic in a given year. That actually happens, e.g. when at the end of a programming period Czech MAs try to make up for earlier delays and draw down as many of the remaining funds as possible. The probability of being included in monetary unit sampling was then increased by the temporary suspension of payments for a number of MAs in the years

35 The text's author is Ing. Jan Kinšt, a member of the ECA.

36 Déclaration d'assurance, or statement of assurance.

37 Monetary unit sampling.

2011–2013; logically, after this suspension was lifted, large payments based on both new applications and suspended applications arrived from Brussels. That is why significantly more ECA audits have taken place in the 2012–2015 period than in the preceding years.

As far as performance audit is concerned, the selection of audited transactions and, by extension, Member States is not strictly statistical as is the case in compliance audit. Nevertheless, the purpose of the selection is to obtain a representative sample of beneficiaries. The primary criterion is the extent to which a given Member State takes part in a given programme or policy, so that the Member States selected for audit represent in sum a sufficient share of participation within the EU (ideally over 50%). Another criterion is a certain geographic proportionality and evenly spread coverage of Member States by audit on a multi-year time scale. Last but not least, there is an interest in having a reasonable mix of "older" and "newer" Member States in individual audits.

Although the audit declaration and overall assessment in both types of audit – compliance and performance – are directed at the financial management of the EU as a whole, the ECA's audit reports are full of examples (positive and negative) from Member States. They often contain assessments of the standard of Member States' management and control systems ("MCSs").

Published audit reports are underpinned by *Statements of Preliminary Findings*, which are detailed audit results applying to a given Member State. Like the SAO's audit protocols, these Statements are non-public documents so, apart from the ECA, only the relevant national authority, the Commission and the national supreme audit institution (the SAO in the CR) have access to them. These Statements provide the Member State's authorities with detailed information on identified errors and sufficient material on which to base efforts to remedy and improve management and control systems.

The most common errors in cohesion policy projects in the EU are serious violations of the public procurement regulations, which accounted for 45% of the total estimated error rate in that period.

Assessment of the Czech Republic in compliance audits

In November 2014 the European Court of Auditors published a summary overview of expenditure on the two biggest spending areas – agricultural policy and cohesion policy – for the five-year period of 2009–2013[38]. This analysis encompasses the drawdown results, error rate and main types of error detected by the ECA in its compliance audits. It makes it possible to perform a comparison between Member States, albeit with certain constraints: in some countries receiving a smaller volume of subsidies with a lower number of audited transactions (see above) it is difficult, if not impossible, to draw statistically valid conclusions from results based on such a small sample.

In this five-year period the ECA audited 115 transactions in the CR: 56 of them were payments under subsidies to farmers and 59 were projects financed out of the SF. One or more violation of the law or other regulations (e.g. conditions set by MAs) was detected in 57 of these transactions, i.e. roughly half. In terms of the frequency of detected errors the CR is above the EU average (45%).

A somewhat more structured picture can be obtained by looking at the two aforementioned expenditure areas separately.

In the area of agricultural subsidies the ECA identified 25 erroneous transactions out of the 56 audited.[39] What is more important, however, is the fact that there were 17 quantifiable errors, only one of which was quantified at over 20% of the value of the payment in question. The remaining 16 quantifiable errors were more minor inaccuracies ensuing from the incorrect calculation of farmland areas eligible for subsidy and breaches

38 *Agriculture and cohesion: overview of EU spending 2009–2013*, ECA, November 2014.

39 The ECA distinguishes between quantifiable errors and other errors (more formal in nature). Quantifiable errors involve a directly quantifiable loss to the EU budget caused, for example, an incorrect calculation or measurement of area, reimbursement of ineligible expenditure or selection of a contractor and conclusion of a contract fundamentally in contravention of the public procurement rules.

of the “cross-compliance rules”. From this point of view the results of audits in the CR fall within the better EU average. Nevertheless, the ECA Annual Report for 2013 negatively assessed the standard of checks of cross-compliance policy by the Czech authorities.

The situation is less favourable in the results of cohesion policy audits, i.e. projects financed out of the SF and CF. The proportion of transactions affected by error (32 out of 59, i.e. 54%) is 10 percentage points above the EU average. Of the quantifiable errors, 4 are in the 20–80% error-rate bracket and another 4 even in the 80–100% bracket – these were therefore projects with gross violations of the regulations. Despite the aforementioned constraints on comparing error rates between Member States, it is fair to say that the CR belonged to the group of problem Member States in the period in question.

The most common errors in cohesion policy projects in the EU are serious violations of the public procurement regulations, which accounted for 45% of the total estimated error rate in that period. This category of error was also most prevalent in the CR. The most serious errors occurring in a whole series of transport route investment projects include awarding extra work of a foreseeable nature directly to the same contractor performing the main contract without any kind of competition. Another serious violation of the public procurement regulations was the splitting of contracts into lots so that these tenders are governed by simpler and less transparent rules than if there were one larger tender.

In general it is fair to say that the results of these audits done in the CR are essentially no different from audits in other EU Member States.

These kinds of error point to clear failings of the national management and control authorities for the SF. The ECA had already flagged up serious deficiencies in this area in audits of projects conducted in the CR in 2010. Unfortunately, the responses of the national authorities concentrated more on trying to cast doubt on the ECA’s findings than taking steps to put things right. The situation came to a head in the 2010–2012 period, when some serious corruption affairs began to surface and the Commission and the ECA audited certain projects under national or regional OPs, with highly critical results.

The last straw was a detailed examination of the work of the national Audit Body (“AB”) for the Structural Funds[40]. The ECA published the results in its 2011 Annual Report.[41] The Audit Body was rated ineffective (for two years it was the worst of 15 such authorities in EU countries in the audited sample), because serious shortcomings were found in all key requirements for the AB’s work. These shortcomings were consistent with the Commission’s findings. The AB is supposed to function as “the long arm” of the Commission, assessing the probable error rate in OPs (and, by extension, the standard of management and control) on the basis of its independent audits and communicating its results to the Commission, which can then impose remedial measures (financial corrections, temporary suspension etc.). The dysfunction of this authority and the unreliability of its audit reports were assessed as jeopardising the reliability of the entire management and control system and led to the blanket suspension of payments under all OPs in 2012. The Commission only permitted a gradual resumption in drawdown after an action plan for remedying the shortcomings was adopted by the Czech government, involving a fundamental reorganisation of the AB and its modus operandi.

The national authorities’ inadequate approach to the deficiencies found by the Commission, the ECA and the SAO had negative consequences. With drawdown in the majority of OPs already very slow, the imposition of financial corrections and temporary suspension brought further complications and delays in drawdown. They ultimately contributed to the (probable) loss of several tens of billions of Czech koruna from the 2007–2013 programming period, which the CR will not be able to utilise.

40 *Audit Body is a part of MoF and its designation is “Department 52”.*

41 *European Court of Auditors’ Annual Report on the Implementation of the Budget for 2011, together with the institutions’ replies*, ECA, November 2012.

Without doubt, the reduction in the number of OPs should simplify administration and thus contribute to better results in the new programming period. More stable staffing and greater professionalism in the national implementation bodies (especially managing authorities), based on the functioning Act on the Civil Service, are a key condition for improving the utilisation of programme funding. The same can be said of the endeavour to restrict financing to high-quality projects in order to preclude a further suspension of payments.

Ensuring that operations financed by EU funds are compliant is of course predicated on the existence of functional control, especially in the first and key levels of the implementation structure, i.e. managing authorities and the bodies to which they delegate powers. Despite all this ECA criticism of the work of the AB, the primary problem lay in the MAs' systems for implementing and auditing EU funds. Two other links in the chain, i.e. the Payment and Certification Authority ("PCA") and AB, have to operate autonomously in exercising their control functions. When the MAs' control function fails and errors appear in OPs, they have to be able to go against the MAs' interests and against the short-term interest of certifying expenditures and requesting payment for the biggest possible volume of finances from Brussels. The general simplification of the drawdown rules and good work with applicants, including providing sufficient information before applications are drawn up and during implementation, both also contribute to reducing the risk of non-compliance. That is also linked to the sometimes inadequate publicity given to calls, which led to a low number of applications, slow drawdown and the subsequent attempt to make up for the loss, with all the negative consequences that brought (insufficient emphasis on selecting high-quality projects that comply with the rules).

Seeing that the largest number of errors concern public procurement, it is crucial that the often (and rightly) criticised lack of a uniform interpretation of certain legal provisions by the European and national executives and justice authorities is resolved in order to dispel legal uncertainty on the part of subsidy beneficiaries. This phenomenon is the most pressing problem in the area of judging the eligibility of "additional works". The ECA's audit work showed that the national control bodies (MAs and the AB) had a tendency to interpret the provisions of the law more flexibly than the ECA and the Commission.

Assessment of the Czech Republic in performance audits

As regards performance audits, which assess programmes and projects in terms of economy, efficiency and effectiveness, the CR featured in the sample of audited countries[42] in fourteen ECA audits covering the 2007–2013 programming period (eight of these audits scrutinised the CAP and six cohesion policy).

In general it is fair to say that the results of these audits done in the CR are essentially no different from audits in other EU Member States. The ECA's conclusions are mostly critical and draw attention to the low importance the national authorities place on ensuring that EU finances are only used to support efficient and effective projects.

As a rule, the problem has its roots in the very first step, i.e. in the programming phase. If the goals of programmes are defined very generally and do not contain measurable and verifiable indicators of the outputs and benefits of the programme and its projects, it is hard to judge during implementation whether they were successful and achieved the desired goals. The dominant accent on the drawdown of finances by Member States, which can be summed up as "Use it or lose it!"[43], led the national authorities to define programme goals as vaguely as possible, resulting in a broad definition of the set of fundable projects so that as many applicants and types of project as possible could be "squeezed" into the set. That also led to assessment and selection criteria that were often purely formal. One example of this practice was the funding of diversification measures in the third priority axis of the RDP. Although the Ministry of Agriculture devised a points system for judging submitted projects, it did not define the minimum number of points

42 That means that the audit was conducted on-the-spot or as a "desk review", i.e. checking documentation without an on-the-spot inspection.

43 "Use it or lose it!" – a phrase for a type of approach to the EU funds drawdown.

that had to be achieved for a project to be financed. Consequently, an ineffective project with a very low score could receive EU funding. In one year the ministry even completely scrapped its points system and financed all admissible projects on the basis that there was enough money in the budget.

In this regard the ECA also directed criticism at the Commission for approving such vague priorities and goals in the OPs and RDP and for failing to leverage its role in the monitoring committee to take effective action against the practices of formally designed systems for selecting projects in Member States.

The vague definition of goals results in the information from monitoring and ex-post assessment often being insufficient for judging the success of programmes. Programme goals were often quantified more or less formally or unrealistically. Failure to achieve the goals during the period (in some cases falling short by tens of per cent) did not lead to a correction of the programme conditions, merely to a formal change in "target" values, often done only at the end of the programming period.

Additionally, in the Czech Republic (as in most Member States) ex-ante assessment of the risk of "deadweight effect" and "displacement effect" in private-sector applicants was not functional when assessing proposed projects. The point of the former is to judge whether a given project actually needs funding from public sources, whether it has broader effects or added value that justify public funding, and whether it is not an ordinary commercial project that can be financed privately. Displacement effect constitutes a risk that the provision of a subsidy to one business will give it an unjustified advantage over its competitors, ultimately leading to an increase of market share while proportionately reducing its competitors' share (and thus disrupting market competition).

These experiences have thrown up several recommendations for subsequent programming periods. First and foremost, the actual programming documents on which project selection and financing is based must rest on a sound analysis of what it is to be achieved through the programme in question; i.e. what is the current state of affairs, what is the desired state of affairs, what are the obstacles to achieving it and what activities (including types of project) should be used to achieve it. Every programme should contain interim and final measurable targets and outcomes for judging success, in terms of not just primary outputs (numbers of projects financed, kilometres of road built, biogas stations built etc.) but also final effects (sustainable increase in employment in the area, a cleaner river, reduced transit time etc.). The selection of projects and the design of assessment criteria should be derived from these goals. In addition, there should be a definition of a minimum level to be achieved by a proposed project for it to be eligible for financing so that poor-quality proposals are rejected, even at the cost that not all the money will be utilised from the budget for a particular call. That also applies to efficiency criteria, where preference must be given to proposals achieving the given outputs at lower cost (per job created, per km of road built etc.), so that projects that will probably deliver the expected goals but at disproportionate cost and with a very slow rate of return on the money spent are rejected.

Programme and project monitoring must be based on verifiable data and timed in a way ensuring that a programme not making progress towards the defined targets can be revised during the programming period. Like other countries, the Czech Republic should not confine itself to the monitoring and assessment indicators prescribed as binding by the Commission: it should add other specific metrics where these are important for monitoring progress towards the programme's goals. Equally, it should introduce management of the deadweight effect and displacement effect risks as standard, drawing on the experiences of Member States who already do so (e.g. the United Kingdom).

In short, if the CR again utilises (an estimated) 85–90% of European programme funding in the new programming period and if this funding is used on efficient and effective programmes, that will be more sensible than having 100% drawdown from EU funds as the primary success criterion regardless of the actual socioeconomic effect of the supported projects.

B.4 Risks for the 2014–2020 programming period

B.4.1 Risks and recommendations defined by the SAO

Although the focus of SAO audits dealing as a rule with compliance is different in many regards from ECA audits, in a number of cases in the fields of agriculture, fisheries and rural development and in cohesion policy the SAO identified the same situation as the ECA and came to similar conclusions.

An analysis comparing the findings contained in SAO audit conclusions and in ECA special reports from audits done in the CR covering the period from 2004 to 2014 makes it possible to identify the areas of risk listed below.

Support for measures under programme management:

- Shortcomings in the rules and defined conditions for providing subsidies, with a negative impact on administration and project implementation and, consequently, drawdown.
- Control systems are insufficient and not entirely effective; they are not always able to verify the reasonableness of approved expenditure.
- During control work the implementing bodies focus mainly on whether formal requirements are met and less on whether a project's aims are achieved and projects are cost-effective, and whether the project actually delivers benefits.
- Administrative errors (e.g. missed deadlines, deficiencies in the process of reporting changes and in the process of issuing decisions) appear mainly in the years 2004–2007.
- The criteria for assessing projects and selecting projects for financing make no allowance for the quality of projects or the principles of sound financial management, i.e. economy, efficiency and effectiveness. Projects were selected according to unapproved criteria.
- Projects displaying errors in public procurement, most notably violations of the principles of transparency, equal treatment and non-discrimination, are financed.
- Projects that do not satisfy the eligibility criteria and are not sustainable are financed.
- Inflated or ineligible expenditure is funded.
- Promotional activities that do not entirely fulfil their purpose and are unnecessary are supported.
- The goals of projects are not defined specifically enough and are the bare minimum required by the EU regulations.
- The ultimate objectives and outcomes of programmes and projects are not achieved.
- Monitoring progress towards goals and in the implementation of programmes and projects is done using inappropriately defined indicators; worse, there are no indicators for certain goals.
- Towards the end of the programming period emphasis is placed on utilising as much EU money as possible rather than on efficiency and effectiveness.

Non-claimed payments, in particular direct payments:

- Non-compliance with cross-compliance requirements and standards and violation of eligibility rules by subsidy beneficiaries.
- Shortcomings in the planning and implementation of cross-compliance checks, giving rise to a risk that support will be paid out for an ineligible area or to ineligible beneficiaries.
- The insufficient and unreliable *Integrated Administrative and Control System* (IACS), which is the key tool for ensuring the correctness of operations in the case of direct payments.
- Shortcomings in records of the use of agricultural land ("LPIS"[44]), in particular discrepancies between registered area sizes and the actual state.
- Excessive claims by farmers and incorrect calculation of payment entitlements.
- The systems of penalties for breaches of the cross-compliance rules are not fully compliant with the European legislation.

44 *Land Parcel Identification System*.

Having examined its findings to date, the Supreme Audit Office made the following recommendations for the new programming period 2014–2020:

- Simplify implementation systems and subsidy provision processes.
- Simplify the rules and regulations for the provision of subsidies and reduce the paperwork involved.
- Correctly define the development strategies and directions that should be invested in.
- Analyse the needs for more precise targeting of support.
- Define better specific and measurable goals reflecting the necessity of support.
- Focus more on efficiency and effectiveness when selecting and financing projects.
- Projects must deliver value for money.
- Improve control systems; target control work at verifying benefits and necessity and simultaneously on compliance with the principles of economy, efficiency and effectiveness; do not focus solely on formal errors and ensure that based on these errors applicants' subsidies are not inadequately reduced.
- Put in place more effective monitoring systems with the emphasis on assessment of outcomes and impacts.

B.4.2 Risks defined by the European Court of Auditors

In 2014 the European Court of Auditors published a report entitled ***Making the best use of EU money: a landscape review of the risks to the financial management of the EU budget***. This review summarises the risks to sound financial management as identified from previous audits of hundreds of beneficiaries in EU Member States. **In the ECA's opinion, these risks are that the EU budget:**

- **is not spent as intended**, i.e. for the purposes and according to the rules established by the budgetary authority (legality and regularity of expenditure);
- **will not be accounted for properly in the annual financial accounts** (reliability of accounts);
- **is not spent wisely, according to the principles of sound financial management** (economy, efficiency and effectiveness):
- **EU spending may not add value and the expected benefits may not materialise** (EU added value).

A detailed list of the external, financial and operational risks that may occur in spending the EU budget is presented in annex 1 of the landscape review.

B.4.3 Risks defined by the National Convent on the EU

On 11 December 2014 the **National Convent on the EU** [45]organised a round table with the participation of the MfRD. Its conclusions and recommendations are consistent with the SAO's opinions. The main recommendations designed to improve the drawdown and utilisation of cohesion policy finances were summarised in the following categories:

1. **Cut red tape and simplify processes** – computerisation of the entire agenda, checking projects' real benefits and not minor administrative and formal requirements.
2. **Ensure sound selection and assessment of projects** – impartiality and quality of assessment, giving feedback to applicants, announcing calls sufficiently in advance.
3. Rigorously **differentiate between types of applicants**/end beneficiaries.
4. **Improve management, control and the legislative environment** – reducing the high levels of staffing fluctuations, greater emphasis on evaluation as an assessment tool and for modifying programmes and calls.

45 The National Convent on the EU project is a discussion platform that makes recommendations to the government based on the results of round-table debates.

Section II

Report on the Financial Management of European Union Finances in the Czech Republic

Summary of Section II

General information

- **In 2014 the Commission continued to coordinate Member States' economic policies** with a view to staying the course of the initiated reform measures. To this end, **it analysed their convergence programmes and national reform programmes and proposed that the Council of the European Union** ("the Council") **issue specific recommendations**. In the CR's case the recommendations targeted public finances, structural reforms, and social policy and employment.
- During 2014 the **Czech Republic** fulfilled a number of the declared measures, among them **adopting and starting to implement the Act on the Civil Service**, initiating steps to **improve tax collection** (especially VAT) and **maintaining a healthy fiscal situation**. **The government sector ended 2014 with a deficit of CZK 85.3 billion**, the equivalent of **2% of GDP**. **Government debt** reached **42.57% of GDP**.
- The ***2014–2020 Partnership Agreement***, which summarises the CR's national strategy for utilising European structural and investment funds ("ESIF") **was concluded with the Commission in August 2014**. It contains a list of eight thematic OPs that come under cohesion policy, including operational programme *Technical Assistance*, one cross-border cooperation OP and also the *Rural Development Plan for the Years 2014–2020 ("RDP14+")* and OP *Fisheries 2014–2020* ("OPF14+"). **In the new programming period the Czech Republic can draw down more than €24 billion, i.e. the equivalent of approx. CZK 660 billion** from various ESIFs.
- **CAP and CFP reform only entered into force in 2015. For the 2015–2020 period the CR was allocated an average annual financial framework** (or "envelope") **for direct payments** equalling approx. **CZK 23 billion.** In the next seven years the CR will receive more than **CZK 84 billion for rural development** and more than **CZK 1 billion for fisheries**.
- **The 2013 EU budget** comprised total **revenues of €149.5 billion** and **expenditure totalling €144.1 billion. The Czech Republic contributed** a sum **exceeding €1.6 billion and drew down**, mainly through the SF, **almost €4.9 billion. The CR's net position reached almost €3.3 billion, the highest figure since the CR joined the EU**. In January 2015 the Ministry of Finance published data on **the net position for the budget year 2014 showing an annual fall to just less than €2.8 billion**.
- The **European Court of Auditors** issued statements on the legality and accuracy of operations underpinning the EU's financial accounts for the 2013 budget year that were consistent with the statements made in recent years. **The statement was positive with regard to revenues and commitments but, in keeping with tradition, negative on the legality and accuracy of payments.** The ECA estimated the most likely error rate in payments posted as expenditure at 4.7% (a year-on-year fall of 0.1%) and rated the scrutinised supervision and control systems as partially effective.

- **The Czech Republic reported a total of 35 cases of suspicion of fraud concerning expenditure** to the European Anti-fraud Office (OLAF[46]**) for the year 2013, with the value of the suspected fraud totalling €13.1 million**, and a further **three cases concerning incomes worth €45,100**. The amount of funding linked to suspicion of fraud in expenditure fell to 24% of the 2012 level. **The financial value of the 1,060 reported irregularities** (not including suspicion of fraud) **on the expenditure side was €359.1 million**, making the **CR** a leading Member State in terms of the value of reported irregularities.

Sector matters

Revenues

- **The European Parliament, Council and Commission adopted an inter-institutional agreement for 2014–2020** to complement the approved multiannual financial framework. The agreement provides for the introduction of budgetary discipline, improvement of the functioning of the annual budgetary procedure, enhanced cooperation between institutions and sound financial management. In January 2014 the Council published its opinion on the modification of the EU own resources system for 2014–2020. A **compromise proposal** of the amendment was approved in May 2014. Notwithstanding minor changes, **the principles and systems of the revenue side of the EU budget have remained essentially unchanged**.
- As regards legislation, **the Act on Value Added Tax was changed in 2014**, bringing in **the compulsory filing of tax returns, reports** and annexes thereto **in electronic form** and **electronic submissions to registers of taxpayers** and notifications of changes to registration data.
- **In April 2015 the Supreme Audit Office published the results of an audit** intended to verify the functioning of the new mechanisms rolled out from 2011 to 2013 under the act on VAT. In the audit conclusion the SAO stated that the goals of most of these new instruments had not been achieved by year-end 2014 and that their effectiveness was low.

Common Agricultural Policy and Common Fisheries Policy

- **In 2014** a total of **CZK 37.6 billion** was paid out in the CR under the **CAP**, which is five billion more than in 2013. Almost **CZK 78 million** was disbursed to beneficiaries under the **CFP**, the same as in the previous year.
- **The CR's drawdown under the CAP and CFP was without serious problems.** As of 31 December 2014 more than 90% of the RDP allocation had been paid out to beneficiaries and more than 74% of the OPF allocation.
- In 2014 the Supreme Audit Office **audited axis V *Technical Assistance*** of the **RDP**. The audit targeted the conditions for the use of technical assistance and the implementation of 86 selected projects carried out by the MoA or the State Agricultural Intervention Fund ("SAIF"). The SAO found that the subsidy provision rules issued by the RDP MA **had a negative impact on the implementation of technical assistance and did not permit effective control**. The Ministry of Agriculture purchased promotional items without any information value, and thus **acted wastefully**.

Structural policy

- **The CR ranks among the Member States that utilise EU finances the least successfully. Of the total SF and CF** allocation for 2007–2013 **the CR had drawn down almost €18.3 billion, i.e. 70.1% of the allocation, by year-end 2014.** That means **29.9%** of the allocation **remains to be utilised** in 2015. That is roughly **€7.8 billion**, the equivalent of **CZK 216.3 billion**[47].

46 From the French Office européen de lutte antifraude.

47 The Czech National Bank exchange rate applicable as of 31 December 2014 was used for the conversion: 27.725 CZK/€.

- Although the rate of allocation utilisation improved in 2014, **for the year 2014 the CR ultimately failed to utilise €309.4 million**, i.e. the equivalent of **approx. CZK 8.5 billion. This amount is subject** to the n+2 rule and thus **automatic decommitment by the Commission**. At the end of the programming period (expenditure certification up to 30 April 2016) a further sum of approx. **CZK 23.1 billion** could remain unused from the allocation, or in the crisis scenario as much as **CZK 41.4 billion.** If the EIA issue is not resolved and major EU-funded transport projects cannot be executed in the Czech Republic, the figure could rise as high as **CZK 85.1 billion. The MfRD estimates that the "loss" for the programming period as a whole could range from CZK 38.6–105.0 billion.**
- **During 2014 the SAO published the audit conclusions of nine audits**, some of which covered SF and CF finances. The SAO **repeatedly found** that **programme and project goals were very often vague and non-measurable and monitoring indicators had not sufficient information value about progress towards goals.** In some cases **programmes and projects did not achieve the declared goals**. The SAO also found significant (by the frequency and context) errors jeopardising public budgets by allowing the formation expenditures that are not eligible for funding. In addition, **the SAO repeatedly detected errors linked to project selection** and also **non-transparent** or **discriminatory conduct in public procurement** and violations of other provisions of Act No. 137/2006 Coll.
- **In 2014 the SAO completed an audit targeting fisheries support**, based on which it **rated the OPF management and control system as partially effective**. **The majority of errors** with a financial impact were detected in the ***Ryba domácí ("Czech Fish")*** project designed to increase the consumption of freshwater fish in the CR. The advertising campaign was problematic, however, and **consumption of freshwater fish in the CR has been in decline since 2009**.
- **The Supreme Audit Office declares that although control system errors have in the past led to the Commission imposing measures, including substantial corrections, the proportion of these errors remains high – control systems are incorrectly set up and checks are often not carried out on the necessary scale or fail to detect errors.**
- **The SAO's findings match the results of scrutiny performed by the AB**, which stated reservations on 14 operational programmes in 2014 (based on transaction and system audits). **The ECA's audit results are similar**, finding mainly **errors in public procurement, eligibility and compliance with the state aid rules**.
- **By the *EU Report 2015* publishing deadline the Commission had not approved any of the CR's operational programmes for the 2014–2020 programming period**[48], so **implementation delays** can be expected, **representing a risk** to the utilisation of the allocation. **Consequently, there is a repeat of the situation with delayed start of implementation as was the case in both previous programming periods;** the delay is even getting longer.

Other EU financial instruments

- Other financial instruments ("OFIs") are allocated by the Commission directly to applicants by **public tender** and the funding is conditional on the creation of **a partnership between entities from different countries** for implementing projects **with European added value**. Expenditure is mainly paid out of **Community programmes** or in some cases the **Solidarity *programme*** or the ***Solidarity Fund***.
- **Entities from the CR** have **for long been unsuccessful** in competition with applicants from other EU Member States. In 2013 **they drew down just approx. €105.1 million**, so the **CR**, traditionally alongside **Poland and Romania**, occupied a position **at the bottom end of the Member States success rate** in terms of funding paid out **per capita**.

48 Latest state in the approval of the OP – as of the date of publication of the *EU Report 2015*, the Commission approved all the OP.

Other SAO activities

Legal matters

- In the interdepartmental consultation process **in 2014 the Supreme Audit Office** submitted **suggestions** for changes to the legal environment in the case of **73 draft regulations** out of a total of **179 submitted drafts**.
- In 2014 the **legislative process** seeking to **widen the SAO's mandate by changing the constitution went ahead**. The widening of the audit mandate **has not been approved by the Senate** yet. The government draft of **a technical amendment of the Act on the SAO was approved in March 2015**, with effect from 1 July 2015.

International activities

- The most important international activities in 2014 were the successful bilateral **cooperation between the SAO and the supreme audit institutions of Poland and Slovakia on coordinated audits** and cooperation in **Contact Committee**[49] working groups.

49 More about the Contact Committee on: www.contactcommittee.eu.

C. General information

C.1 Current developments in the implementation and audit of the EU budget

C.1.1 Coordinated EU economic policy measures

The European semester, through which the economic policies of EU Member States designed to achieve the goals of the *Europe 2020* strategy are coordinated, was launched for the first six months of 2014 with the publication of the ***Annual Growth Survey 2014***[50]. In it the Commission published the result of its examination of the state of public finances in Member States for 2013 and the result of its assessment of current progress in the implementation of structural reforms. The Commission declared that, after five years, economic forecasts confirm signs of a slow recovery. It regards keeping up the pace of reform to improve competitiveness and secure a lasting recovery as the biggest challenge.

The European Commission (Commission) recommended staying the course of reform measures, with the emphasis on the same medium-term priorities adapted to the changing economic and social circumstances. For the EU as a whole and for its Member States it proposed focusing efforts on the following areas:

- **Pursuing differentiated, growth-friendly fiscal consolidation**
  primarily stimulating private investment and consumption, safeguarding investments in education, research, innovation, energy and climate, and shifting the tax burden from labour to consumption;
- **Restoring lending to the economy**
  primarily restructuring the banks, developing alternative forms of financing, and closely monitoring private debt levels;
- **Promoting growth and competitiveness for today and tomorrow**
  primarily improving the cost effectiveness of support schemes for renewable energy, and improving waste and water management, recycling and energy efficiency;
- **Tackling unemployment and the social consequences of the crisis**
  improving the performance of public employment services, supporting job creation in fast-growing sectors and facilitating labour mobility, modernising education systems, improving social protection systems, and simplifying and targeting social benefits;
- **Modernising public administration**
  primarily deploying e-government services with increased use of information and communication technologies, simplifying the business environment, and reducing red tape.

The Commission also issued recommendations specifically for the CR. These covered public finances (adjustments to the pension system and healthcare system); structural reform (strengthening research, development and innovation and economic competition in the services sector); and employment and social policy (stepping up active labour market policy and the state's involvement in the labour market and taking measures in education and training).

On 16 April 2014 the **Czech Republic submitted its national reform programme for 2014**[51] to the Commission and on 28 April 2014 its **convergence programme from 2014**[52] focusing on

50 Commission communication: *Annual Growth Survey 2014*, COM(2013) 800, final wording of 13 November 2013.
51 *National Reform Programme of the Czech Republic 2014* drawn up by the Office of the Government of the Czech Republic and submitted to the government of the CR for approval on 16 April 2014.
52 *Convergence Programme of the Czech Republic (April 2014 update)* drawn up by the MoF and approved by government resolution no. 319 of 28 April 2014.

the 2014–2017 period. Further to the Commission's assessment, the Council issued recommendations **regarding both documents at once.**[53]

In line with the results of a comprehensive analysis of the CR's economic policy conducted by the Commission and after studying both submitted documents, the **Council** issued the following **recommendations** for the CR for the years 2014 and 2015:

- Following the correction of the excessive deficit, preserve a sound fiscal situation in 2014 and strengthen the budgetary strategy in 2015 to ensure that the medium-term objective is achieved. Prioritise growth-enhancing expenditure and establish an independent fiscal institution to monitor fiscal policies. Introduce fiscal rules for local and regional governments and improve coordination between all levels of government.
- Improve tax compliance with particular focus on VAT, reduce the costs of collecting tax and simplify the tax system by harmonising the tax bases for personal income tax and social and health contributions. Reduce the high level of taxation on labour, shift taxation to areas less detrimental to growth (e.g. environmental tax) and reduce discrepancies in the tax treatment of employees and the self-employed.
- Ensure the long-term sustainability of the public pension scheme by accelerating the increase in the statutory retirement age. Promote the employability of older workers, review the pension indexation mechanism and improve the cost effectiveness of the healthcare sector (in particular for hospital care).
- Strengthen the efficiency and effectiveness of the public employment service (set up a performance measurement system) and increase considerably the availability of affordable and quality childcare facilities and services, with a focus on children up to three years old.
- Improve the quality of university education and ensure it has greater labour market relevance. In compulsory education, make the teaching profession more attractive, implement a comprehensive evaluation framework and support schools and pupils with poor outcomes. Increase the inclusiveness of education by promoting the participation of socially disadvantaged and Roma children. Introduce a new performance-based methodology for assessing research and for allocating funding.
- Accelerate the reform of regulated professions[54] and improve energy efficiency in the economy.
- In 2014 adopt and implement a Civil Service Act that will ensure a stable, efficient and professional state administration service. Speed up and substantially reinforce the fight against corruption by implementing the remaining legislative measures provided for in the anti-corruption strategy. Improve the management of EU funds and increase transparency of public procurement.

C.1.2 Implementation of the convergence programme of the Czech Republic

In 2014 the CR began to implement a number of declared measures to improve its economic and social situation. These measures are part of the ***Action Plan to Promote Economic Growth and Employment***[55] (the "Action Plan") intended for the end of 2014 and for 2015, with expected annual updates. The Action Plan includes measures targeting the following issues:

1. creating an attractive business environment;
2. supporting exports and tourism;
3. promoting foreign and domestic private investment;

53 *Council recommendation on the National Reform Programme of the Czech Republic for 2014 and delivering a Council opinion on the Convergence Programme of the Czech Republic from 2014*, COM(2014) 404, final wording of 2 June 2014.

54 Database of regulated occupations and activities in the CR (http://uok.msmt.cz/uok/ru_list.php).

55 *The Action Plan to Promote Economic Growth and Employment* was approved by Czech government resolution no. 989 of 1 December 2014.

4. transferring the results of research, development and innovation into practical application;
5. developing construction and investment construction;
6. effective performance of functional public administration;
7. supporting employment and the labour market;
8. boosting state budget revenues.

The key measures for improving the performance of public administration include implementing the strategy for effective public administration formulated in the ***Strategic Development Framework for Public Administration 2014–2020***[56]. This strategic framework follows up the strategy called ***Effective Public Administration and Friendly Public Services – Smart Administration in the 2007–2015 Period***[57]*,* which is implemented through projects financed inter alia by *OP Human Resources and Employment* and the *Integrated Operational Programme* ("IOP").

One of the most important measures to improve the performance of public administration is approving and promulgating the long-debated **Act on the Civil Service**[58], with the subsequent implementation of essential measures linked to the creating an organisation and management structure for the exercise of the invested powers. Another stage in the implementation of the Act on the Civil Service was commenced in January 2015, when the majority of the provisions of the act in question took force.

Measures to boost state budget revenues through improved tax collection are also being carried out. One example is the completion of a draft act on electronic sales records, which the MoF expects will deliver a marked increase in VAT collection. The draft act was put before the government at the start of April 2015.

Information about the achievement of selected macroeconomic indicators essential to attaining a high degree of sustainable convergence, among other things for the subsequent adoption of the euro, can be found, for example, in the report issued in December 2014 by the Ministry of Finance and the Czech National Bank[59] ("CNB"). This material shows the gradual improvement in achieving most of the assessed indicators.

On 1 April 2015 the CSO issued a press statement notifying of the deficit and government sector debt levels for 2014. According to this report, **the government sector debt ended the year 2014 at CZK 85.3 billion, the equivalent of 2% of GDP**. **Government debt reached 42.57% of GDP.** The deficit worsened slightly from 2013, mainly due to the year-on-year increase in investment expenditure (17%), the deficit in the budgets of public health insurers, payouts to clients from the Deposits Insurance Fund (newly classified under the government sector) and the lower collection of taxes from tobacco products (as a result of pre-stocking). The reduction in government debt of 2.45 per cent point is mainly thanks to better GDP growth (4.4%).

56 Approved by Czech government resolution no. 680 if 27 August 2014.
57 Approved by Czech government resolution no. 757 if 11 July 2007.
58 Act No. 234/2014 Coll., on the civil service, which enters into effect on 1 January 2015, with the exception of certain provisions which became effective upon promulgation.
59 *An assessment of progress towards the Maastricht convergence criteria and the degree to which the CR has economically converged with the Eurozone,* MoF, December 2014.

C.1.3 Partnership Agreement 2014–2020

In the years from 2014 to 2020 the Czech Republic can draw on more than €24 billion (approx. CZK 660 billion) from various European structural and investment funds. The number of operational programmes for implementing cohesion policy has been reduced compared to the previous programming period. There are seven thematic OPs, one *Integrated Regional Operational Programme* and one cross-border cooperation programme managed by a Czech authority. OP *Fisheries 2014–2020* and the *Rural Development Programme for the Years 2014–2020* will also run.

Preparations for the 2014–2020 programming period were launched at the end of 2011, when the Czech government approved the "national development priorities", which were later elaborated into thematic areas. These became the basis for the Partnership Agreement, which contains a list of OPs through which projects will be supported. The Partnership Agreement was signed with the Commission on 26 August 2014. Without this agreement it would not be possible to utilise the almost €24.1 billion earmarked for the CR in the ESIF for the 2014–2020 programming period. The operational programmes were approved by the Czech government in July 2014 and were then officially sent to the Commission, opening formal negotiations on their wording. The Commission raised comments which the Czech side acted on. Since the end of February 2015 the OPs, bar OP *Technical Assistance*[60] and OP *Prague – Growth Pole of the CR*[61], were sent to the Commission, which is gradually approving them.

Table 7 – Funding allocation broken down by operational programmes in the 2014–2020 programming period

Programme	ESIF	Managing authority	Allocation (€ million)
OP Enterprise and Innovation for Competitiveness	ERDF	MoIT	4,331.06
OP Research, Development and Education	ERDF, ESF	MoEYS	*2,768.06
OP Environment	ERDF, CF	MoE	2,636.59
OP Transport	ERDF, CF	MoT	4,695.77
Integrated Regional Operational Programme	ERDF	MfRD	*4,640.70
OP Technical Assistance	CF	MfRD	223.70
OP Employment	ESF, YEI	MoLSA	2,145.74
OP Prague – Growth Pole of CR	ERDF, ESF	PMG	201.59
Rural Development Programme	EAFRD	MoA	2,170.33
OP Fisheries	EMFF	MoA	31.11
Cross-border Operational Programme Czech Republic – Poland	ERDF	MfRD	226.22
Total CR allocation			**24,070.88**

Sources: *Partnership Agreement for the 2014–2020 Programming Period*
Czech Republic-Poland Cross Border Cooperation Programme 2014–2020
NB: *Adjusted values that will be part of the updated Partnership Agreement.

C.1.4 Reform of the Common Agricultural Policy and Common Fisheries Policy

Because of the delay in the approval of European regulations, the CAP was implemented in the Czech Republic in 2014, i.e. the first year of the new 2014–2020 financial framework, largely according to the rules applicable for the 2007–2013 programming period.

60 In the case of OP *Technical Assistance* the Commission demanded a performance audit of the monitoring system.
61 The least prepared operational programme.

The necessary EU regulations on CAP reform were adopted during 2014, with the reform entering into effect in 2015.

The Czech Republic has been allocated an average annual "envelope" for 2015–2020 for **direct payments** amounting to the equivalent[62] of **CZK 23 billion**. Czech agriculture will receive more than ***CZK 84 billion*** out of the **Rural Development Programme 2014–2020** in the 2014–2020 programming period, CZK 63 billion of that from EU sources and CZK 21 billion from the state budget. ***CZK 1.1 billion*** has been allocated to OP **Fisheries 2014–2020** for the entire programming period, with the EU and the state budget providing CZK 840 million and CZK 270 million respectively.

The MoA is responsible for implementing the CAP and CFP as a whole and for preparing implementing regulations in the CR. The MoA is also in charge of the SAIF, which will serve as paying agency for the CAP and intermediate body for the CFP in the new programming period.

CAP reform brings fundamental changes in the links between the first and second pillars from 2015 on, i.e. direct payments and RDP14+. One change is the option of shifting up to 15% of the average annual envelope between the two pillars.

The first pillar gives Member States more leeway in deciding how to set up direct payments and the CMO. It accents environmentally friendly practices through a greening scheme, supports young farmers and supports agricultural segments and regions facing various difficulties. The second pillar (RDP14+) comprises investment measures to make all types of agriculture more competitive and improve the viability of farms and measures to improve the environment and mitigate climate change.

One of the new features of the 2014–2020 programming period is a closer link between the second pillar of the CAP and the structural funds. RDP14+ finances are now part of the ESIF. Bar some minor exceptions, management of RDP14+ is based on a uniform methodological environment, which is one element of the implementation of the Partnership Agreement.

Direct payments

The direct payments system is designed as a multi-component system. [63]Besides the Single Area Payment Scheme (SAPS), a green payment will be disbursed. Green payments will go to farmers who satisfy the crop diversification conditions (alternating crops and defined proportions of cultivation areas), maintaining an "ecological focus area" and maintaining a certain proportional area of permanent grassland. In addition, vulnerable sectors, which in the CR include growing hops, potatoes, some kinds of fruits and vegetables and sugar beet and keeping milking cows and meat calves, will be supported through coupled voluntary support. A significant portion of the direct payments, approx. CZK 3.5 billion a year, will be channelled into this area.

The purpose of the reform is to improve the age structure of agriculture workers. Young farmers up to 40 years of age will be supported with the 25% additional payment on top of the SAPS payment. This payment will be provided to one farmer for a maximum area of 90 ha for a period of 5 years.

The changes in direct payments have applied since 1 April 2015 in the CR.

The structure of the average annual envelope for direct payments of approx. CZK 23.0 billion is as follows:

- SAPS – approx. 54%;
- greening payment – 30%;
- voluntary support coupled with production – 15%;
- bonus for young farmers (on top of SAPS) – approx. 1%.

62 An exchange rate of 27.43 CZK/€ was used for the conversion.
63 Single Area Payment Scheme.

One new aspect of direct payments is that only genuinely active farmers will be entitled to subsidies. This condition will also be binding for certain schemes in the second pillar of the CAP as well. Another new feature is the capping of direct payments by 5% of the sum exceeding €150,000. The money gained from this reduction will be moved into the second pillar to increase the RDP14+ budget.

Rural Development Programme

In July 2014 the Czech government approved *RDP14+*, which was subsequently passed on to the Commission for approval. The Commission is expected to approve the programme in the 2nd quarter of 2015.

Roughly €2.3 billion from the budget of the *European Agricultural Fund for Rural Development* (EAFRD) has been earmarked for RDP14+ in the CR. Co-financing from the state budget stands at 25%. The total amount of public finances available for RDP14+ is therefore approx. €3.1 billion.

The focus of the new RDP14+ is narrower than in the previous programming period, mainly because the overall budget has been cut. RDP14+ will focus on investment in farms and agricultural products processing and support for young farmers; other goals are the renewal, conservation and improvement of ecosystems dependent on farming, landscape infrastructure and support for animal production. Emphasis will also be placed on cooperation projects and the transfer of know-how and acquisition of skills. RDP14+ no longer includes direct support for municipalities and non-agricultural entities or support for the protection of cultural heritage. These activities will be covered by OPs under other ministries or via local action groups under the LEADER initiative (community-led local development), for which 5% of the RDP14+ budget is earmarked.

As in the previous period, RDP14+ project measures will be implemented according to the Rules, which lay down the conditions for providing subsidies to RDP projects. The launch of the first round of receipt of applications for RDP14+ project measures can be expected in September 2015 at the latest. RDP14+ environmental measures will mainly be implemented through a series of government regulations, which are expected to take force in the first half of 2015.

OP Fisheries

In October 2014 the Czech government approved OP *Fisheries 2014–2020*, which defines areas and conditions for utilising support from the *European Maritime and Fisheries Fund* (EMFF). The Czech Republic will receive €31.1 million of the total amount approved by the European Commission for the EMFF (more than €5.7 billion for all EU Member States). Fishermen and fish producers in the CR will thus receive approx. CZK 1.1 billion over the next seven years, i.e. roughly CZK 125 million more than in the previous programming period.

The aim of the programme is to improve Czech fish producers' market position, boost production and promote innovations and methods that contribute to an improved environment and biological diversity.

The focus of subsidies will be broader than in the previous period. Start-up fishermen or businesses that want to buy fish-breeding facilities, for example, will now also be supported. This OP will also target the development of fishing tourism and more thorough processing of aquaculture data.

The Ministry of Agriculture published a timetable of calls for subsidy applications for 2015. The first round should take place in October 2015.

Changes in the Act on Agriculture and Act on the State Agricultural Intervention Fund

An amendment of Act No. 252/1997 Coll., on agriculture, and Act No. 256/2000 Coll., on the State Agricultural Intervention Fund took effect on 1 January 2015. The main reason for these changes was the need to adapt the Czech legislation to the new European regulations defining the CAP and CFP for the 2014–2020 period.

The Act on Agriculture puts in place new rules governing the distribution of powers and authority between the MoA and SAIF. Now the SAIF will update records of the use of agricultural land in the LPIS. Changes are also being made to the LPIS register itself: e.g. a change in the definition of a land block and part of a land block, a new definition of the minimum area of units, which is 0.01 ha, and the introduction of records of environmentally significant features in connection with the greening requirements. The agenda of keeping records of the cultivation of genetically modified varieties of crops has also been transferred to the SAIF since 1 January 2015. Other changes in the Act on Agriculture include simplified records of farmers and the greater precision of general provisions on the CMO and direct payments.

The amendment of the Act on the SAIF brings about the completion of the incorporating process of the Agency for Agriculture and the Countryside into the SAIF structure. The SAIF is fully taking on the regional structure of the MoA intended mainly for the receipt and administration of applications under the CAP, national subsidies and maintaining the LPIS.

The amended Act on the SAIF emphasises the SAIF's role as an administrative authority. The MoA has tasked the SAIF with the administration and provision of national subsidies. Another change is simplified electronic submission of applications via the *Farmers Portal*.

In addition, the SAIF has been tasked with implementing and coordinating regional activities under the *National Rural Network* from 1 January 2015.

C.1.5 Annual reports of the European Court of Auditors for the financial year 2013

The European Court of Auditors adopted its annual reports for 2013 at its 4 September 2014 session. These reports, along with the responses of the relevant authorities to the ECA's comments, are the basis on which the European Parliament ("EP") issues a statement confirming that the Commission has properly discharged its duties in implementing the budget.

The principal content of the Annual Report on the Implementation of the Budget published on 12 November 2014[64] is the ECA's statement of assurance (DAS) concerning the reliability of the EU's annual financial accounts and statements on the legality and accuracy of the operations underpinning these accounts.

As regards the statement on the reliability of the financial accounts, the ECA is of the opinion that the EU accounts for 2013 are a faithful representation, in all material respects, of the European Union's financial situation as of 31 December 2013 and that the results of its activities, its cash flows and changes in net assets for the year are in compliance with the Financial Regulation and with the accounting rules based on internationally recognised public-sector accounting standards.

In its statements on the legality and accuracy of operations, the ECA declared that both revenues and commitments were legal and accurate in all material respects.

The ECA issued a negative statement on the legality and accuracy of payments, as it is of the opinion that the payments underpinning the financial accounts for the financial year 2013 are materially affected by errors. The ECA estimates that the most likely error rate in payments posted to expenditure and underpinning the financial accounts is 4.7%. The examined supervisory and control systems were partially effective at ensuring payments were legal and accurate.

The following table summarises the results of the assessment of supervisory and control systems in various areas of the budget for the EU as a whole.

64 The Official Journal of the European Union of 12 November 2014, C 398/1, C IV Notices from European Union institutions, bodies, offices and agencies.

Table 8 – Summary of ECA findings concerning the accuracy of operations for 2013 for the EU[65]

Policy groups	Audited operations (€ mil.)	Total of tested payments	Most likely error rate (%)	Error frequency (%)	Functioning of supervisory and control system
Agriculture: Market and direct support	45,016	180	3.6	61	★⯪☆
Rural development, environment, fishing and health protection	15,581	177	6.7	54	★⯪☆
Regional policies, energy and transport	45,477	180	6.9	57	★⯪☆
Employment and social affairs	16,200	182	3.1	27	★⯪☆
External aid, development and enlargement	6,019	172	2.6	29	★⯪☆
Research and other internal policies	10,431	150	4.6	51	★⯪☆
Administrative and other expenditure	10,600	153	1.0	10	★★★
Total of audited payments	149,324	1,194	4.7	42	★⯪☆
Total revenues	149,504	55	0.0	0	★★★

Source: *ECA Annual Report on the Implementation of the Budget for the Financial Year 2013.*

Explanation: ★★★ Effective ★⯪☆ partially effective ☆☆☆ ineffective

A year-on-year comparison of the results of ECA audits reveals that the most likely error rate in the audited payments increased slightly compared to 2012 in the policy groups *Regional policy, energy and transport, Research and other internal policies,* and *Administrative and other expenditure*. Conversely, other policy groups registered a slight fall in this metric, so the overall estimated error rate fell by 0.1 of a per cent point. According to the ECA, the key factor driving this improvement was the positive impact of corrective measures executed by Member States and the Commission.

Information on the deficiencies found by DAS audits in 2013, or in performance audits conducted by the ECA in the CR in 2014, is presented in Chapter D *Sector Matters*.

C.1.6 Current developments in the protection of the EU's financial interests

In July 2014 the European Commission published its annual report for 2013 on measures to protect the EU's financial interests and combat fraud.[66] The report contains information on the results of measures adopted by the Commission and Member States, including recommendations for solutions to problems and the risks detected by data analysis. The Commission states that the key tools for enhancing the protection of the EU's financial interests are the multi-annual anti-fraud strategy[67] and the adoption of a new regulation on investigations by the European

65 The error frequency shows the portion of audit sample affected by the quantifiable and unquantifiable errors.

66 Report from the Commission to the European Parliament and the Council: *Protection of the European Union's financial interests – Fight against Fraud 2013 Annual Report*, COM(2014) 474, final wording of 17 July 2014.

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

Anti-Fraud Office[68], which enables OLAF to exercise powers entrusted to the Commission for the purpose of on-the-spot checks and inspections in Member States, mainly in order to detect irregularities[69]. Furthermore, the Commission adopted a draft Council regulation on the establishment of a European Public Prosecutor's Office[70], which is to be empowered to investigate crimes harming the EU's financial interests and pass these crimes on to the courts. The European Public Prosecutor's Office is to comprise a central level and a decentralised level in Member States, where European delegated prosecutors are to operate. The annual report also informs about the fulfilment of the Commission's commitment in the anti-corruption strategy, in line with which it issued its first report on the fight against corruption in the EU[71].

According to the mentioned annual report, member and candidate states reported a total of 13,520 cases of suspicion of fraud and other irregularities to the Commission in 2013. The financial impact on the EU budget is approx. €2.1 billion.[72] The following table shows the numbers and aggregate amounts of the reported suspicions of fraud and other irregularities, broken down by expenditure area and revenues.

Table 9 – Number of cases of suspicion of fraud and non-fraud irregularities reported by EU Member States in 2013 and the amounts involved

Area of expenditure/revenues		Number of fraud suspicions	Volume of fraud suspicions (€)	Number of other irregularities	Volume of other irregularities (€)
Agriculture	EU	565	66,509,407	2,814	188,117,982
	CR	15	1,509,736	61	1,443,547
Fishing	EU	23	9,149,365	133	14,348,044
	CR	0	0	1	1,113,878
Cohesion policy	EU	321	155,736,322	4,674	1,178,020,295
	CR	20	11,588,467	998	356,518,778
Pre-accession funds	EU	36	14,526,948	177	45,673,317
	CR	0	0	0	0
Total expenditure	EU	945	245,922,042	7,798	1,426,159,637
	CR	35	13,098,203	1,060	359,076,203
Total revenues	EU	633	60,518,262	4,144	327,361,789
	CR	3	45,098	54	2,990,937

Source: Report from the Commission to the European Parliament and the Council: *Protection of the European Union's financial interests – Fight against Fraud 2013 Annual Report.*

In addition to the aforementioned irregularities with a suspicion of fraud and non-fraud irregularities reported under shared management of the EU budget via the Irregularity Management System (IMS), cases affecting direct expenditure administered by the Commission under direct budget management were also reported. These irregularities reported through ABAC (the Commission's accounting system) were 2,245 in number and represented a total sum of €81.9 million.

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68 Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council of 11 September 2013.

69 Under Article 9 of Council Regulation (EU, Euratom) No 2988/95, on the protection of the European Communities' financial interests.

70 Communication of the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: Better protection of the Union's financial interests: Setting up the European Public Prosecutor's Office and reforming Eurojust, (COM 2013) 532, final wording of 17 July 2013.

71 Report from the Commission to the Council and the European Parliament: *EU Anti-Corruption Report* COM(2014) 38, final wording of 3 February 2014.

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

The reported suspicions of fraud and other irregularities affecting EU budget expenditure represented approx. 1.34% of the total value of payments. The reported suspicions of fraud and other irregularities affecting revenues represented approx. 1.86% of revenues within the framework of traditional own resources. Although the total number of cases increased by 17% compared to 2012, their financial value fell by 36%. The increase in the total number of cases reported was driven by the increase in the number of suspicions of fraud (up approx. 30% year-on-year); the reduction in the total value was caused by the fall in the number of reports of other irregularities (down approx. 41% year-on-year).

A year-on-year comparison reveals a relatively sharp increase in both the number and value of reported fraud-related irregularities and other irregularities in agriculture (particularly the rural development programme) and fisheries. In cohesion policy there was a slight increase in the number of reported cases of both types, but also a clear reduction in the affected amounts. Even so, these amounts exceed those other expenditure areas. The trend of decreasing reported amounts is also evident in pre-accession assistance and revenues from traditional own resources.

The annual report declares that differences persist in the ways Member States detect irregularities. The differences are attributed to different approaches between Member States and between different authorities in each country. It can be deduced from the report that certain Member States set aside considerable resources for the fight against fraud, mainly to ensure that control systems function properly, while others prefer to perform financial corrections without any further investigation of possible crimes.

The Czech Republic is mentioned several times in the report of the Commission, always in connection with the adoption of recommended measures. In the fight against fraud the CR, along with six other Member States, is mentioned in connection with the adoption of separate legislative measures on public procurement. The report also states that the CR and Greece introduced anti-corruption measures in their national anti-corruption strategies. As regards the Anti-Fraud Coordinating Structure (AFCOS), the CR is one of 13 Member States, which imposed particularly far-reaching coordination duties on AFCOS. The CR is also one of eight EU Member States in which cooperation agreements were signed between AFCOS and the justice authorities.

Annex 1 of the annual report for 2013 contains data on reported suspicions of fraud for each Member State. On this point the Commission states that the number of fraud-related irregularities reported is a measurement of the results Member States achieve in the fight against fraud and other unlawful activity harming the EU's financial interests. It should therefore not be interpreted as an indicator of the prevalence of fraud in a particular Member State.

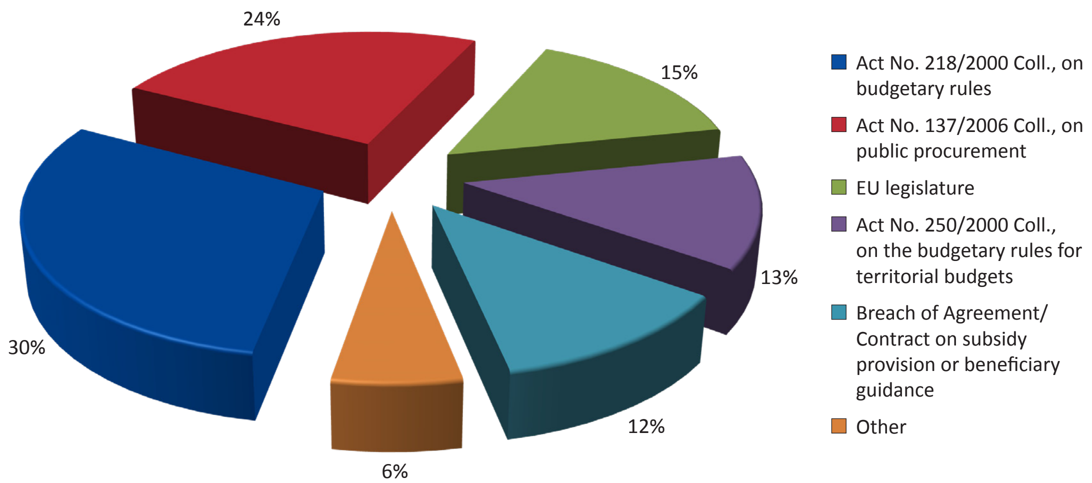
The data in annex 1 of the annual report reveals that **during 2013 the CR reported 35 cases of suspicion of fraud affecting expenditure with a total value of €13,098,203 and three cases of suspicion of fraud affecting revenues with a value of €45,098.** The number of reported cases affecting expenditure is almost the same as in 2012, but the affected amount is just 24% of the amount in 2012. Agriculture is more prominent than in the previous period, especially in the total number of reported cases. **The CR ranked sixth among EU Member States in terms of the financial value of the reported suspicions of fraud affecting expenditure and eighth in terms of the number of cases. By contrast, the CR is among the countries with the lowest reported figures as regards both the number and quantified values of suspicions of fraud affecting revenues.**

Annex 2 of the annual report of the Commissions shows that **in the area of expenditure of the EU in 2013, the CR reported 1,060 "other" (i.e. non-fraudulent) irregularities affecting expenditure with a total value of €359,076,203**, with cohesion policy being the predominant area in both the number of cases and the total reported amount. The number of reported non-fraudulant irregularities increased by 60% over 2012, but the total reported amount fell to approx. 34%

of the previous figure. **Despite this fact, the CR ranked first among the EU Member States that reported both the highest number of cases and the highest financial impact affecting expenditure. The CR also reported 54 irregularities affecting revenues with a total value of €2,990,937, ranking it in twelfth place among EU Member States.** Compared to 2012, the total reported value and number of cases of non-fraud irregularities affecting revenues remained practically the same.

Materials obtained from the AFCOS Central Contact Point in the CR show that the main OPs featuring in the total number of reported irregularities for 2013 concerning the 2007–2013 programming period were OPs managed by the Ministry of Education, Youth and Sports ("MoEYS"), the Ministry of Industry and Trade ("MoIT") and the Ministry of the Environment ("MoE"). These OPs account for more than 62% of all reported irregularities and almost 58% of the total reported financial value.

Graph 8 – Irregularities reported by the Czech Republic in 2013 for the 2007–2013 programming period, broken down by violations of the regulations* (%)



Source: MoF – AFCOS Central Contact Point in the CR.

* Member states are obliged to report each irregularity of €10,000 or higher to OLAF.

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

C.2.1 European Union budget revenues

EU budget revenues mainly derive from **own resources**, which account for over 93% of all EU budget revenues. **Own resources** are divided into traditional own resources[73], which Member States collect on behalf of the EU and then pay into the EU budget, and the VAT-based resource[74] and the GNI-based resource[75], which are financed out of Member States' national budgets.

Other sources are **other revenues**[76] and the **budget surplus** from the previous year.

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

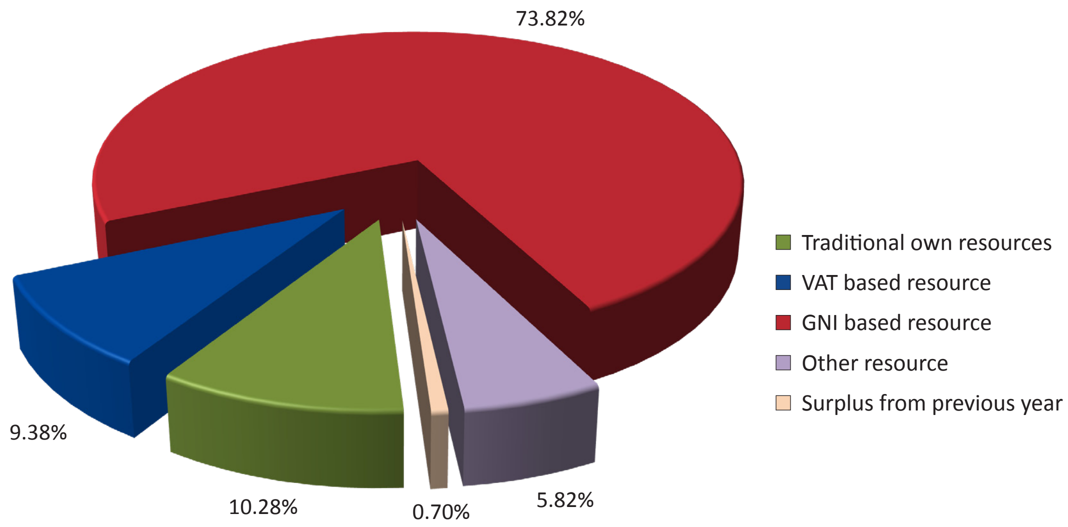
74 **The VAT-based resource** derives from a uniform percentage (0.3%) levied on the harmonised VAT base of each Member State. The VAT base to be taxed is capped at 50% of GNI for each Member State.

75 **The GNI-based resource** is a variable resource. It is used to settle the difference between revenues and expenditure in the EU budget so that the budget as a whole is balanced. A single percentage rate is applied to all Member States. In 2013 this rate was more than 0.84%.

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

Graph 9 shows the various sources' share of total EU budget revenues, which **amounted to €149.5 billion in 2013**.

Graph 9 – Structure of the financing of the EU budget in 2013



Source: *EU Budget 2013 – Financial Report*, European Commission 2014.

Revenues from the sources based on VAT and GNI are influenced by **correction mechanisms** under which certain Member States contribute lower payments to the EU budget from these sources. The main reasons for the reduced payments are to compensate for a pronounced budgetary imbalance between payments into the EU budget[77] and revenues from the EU budget and certain Member States' non-participation in selected EU policies[78]. The costs of these measures are borne by other Member States according to their share of the GNI of the EU as a whole, with the burden of financing this mechanism reduced for certain Member States[79].

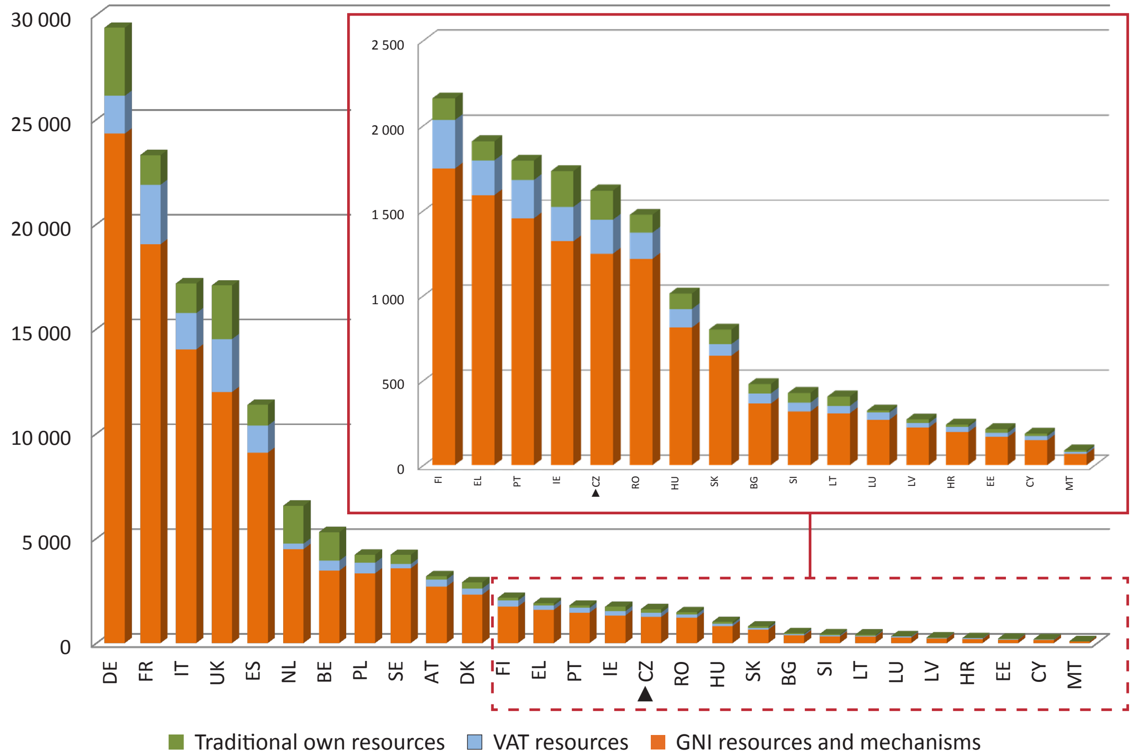
The following graph shows the structure of EU budget revenues by Member State, making allowance for all correction mechanisms.

77 The most significant compensation mechanism is the UK rebate (almost €4.33 billion in 2013). The Netherlands and Sweden have also been awarded significant reductions in their annual GNI-based contributions (€0.65 billion and €0.14 billion respectively). For 2007–2013 the rate applied to the VAT-based resource was defined at 0.225% for Austria, 0.15% for Germany, and 0.10% for the Netherlands and Sweden, with all other Member States paying a single rate of 0.3%.

78 The reduction of payments for Denmark, Ireland and the UK linked to their refusal to participate in certain areas of legal and security cooperation totalled almost €0.49 billion in 2013.

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

Graph 10 – Member states' contributions to the EU budget in 2013 (with close-up section) **(€ million)**



Source: *EU Budget 2013 – Financial Report*, European Commission 2014.

C.2.2 European Union budget expenditure

EU budget expenditure is used to cover the needs of the EU's policies and defray the costs associated with the working of European institutions. **EU expenditure in 2013 was almost €144.1 billion** (including contributions to EFTA[80] worth €240 million).

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

The ***Sustainable Growth*** heading has two sub-headings, *Competitiveness for Growth and Employment* (which encompasses education, science and research, and the development of trans-European networks) and Cohesion for Growth and Employment (comprising finances earmarked for enhancing economic, social and territorial cohesion).

The ***Preservation and Management of Natural Resources*** heading covers spending on agriculture, rural development, fisheries and the environment.

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

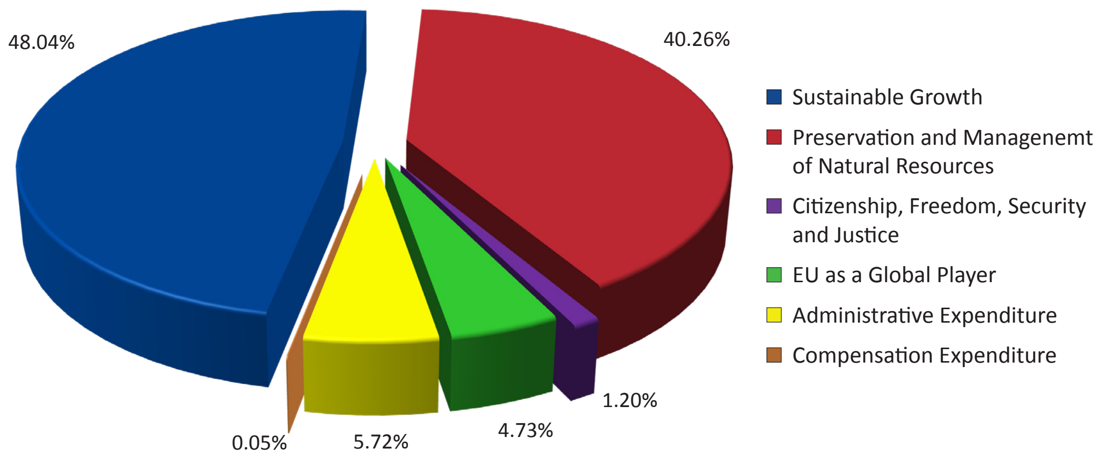
The EU as a Global Player finances spending on the EU's external affairs, i.e. cross-border activities, EU enlargement, bilateral relations, humanitarian aid and development aid.

The heading ***Administrative Expenditure*** provides resources for the running of EU institutions and the heading ***Compensation Expenditure*** **covers the compensations to new member states** (in 2013 the only compensation expenditure went to the newly acceded Croatia).

80 European Free Trade Association.

The following graph shows the structure of the EU budget's expenditure side in the financial year 2013, broken down by headings.

Graph 11 – Share of expenditure headings in the EU budget in 2013

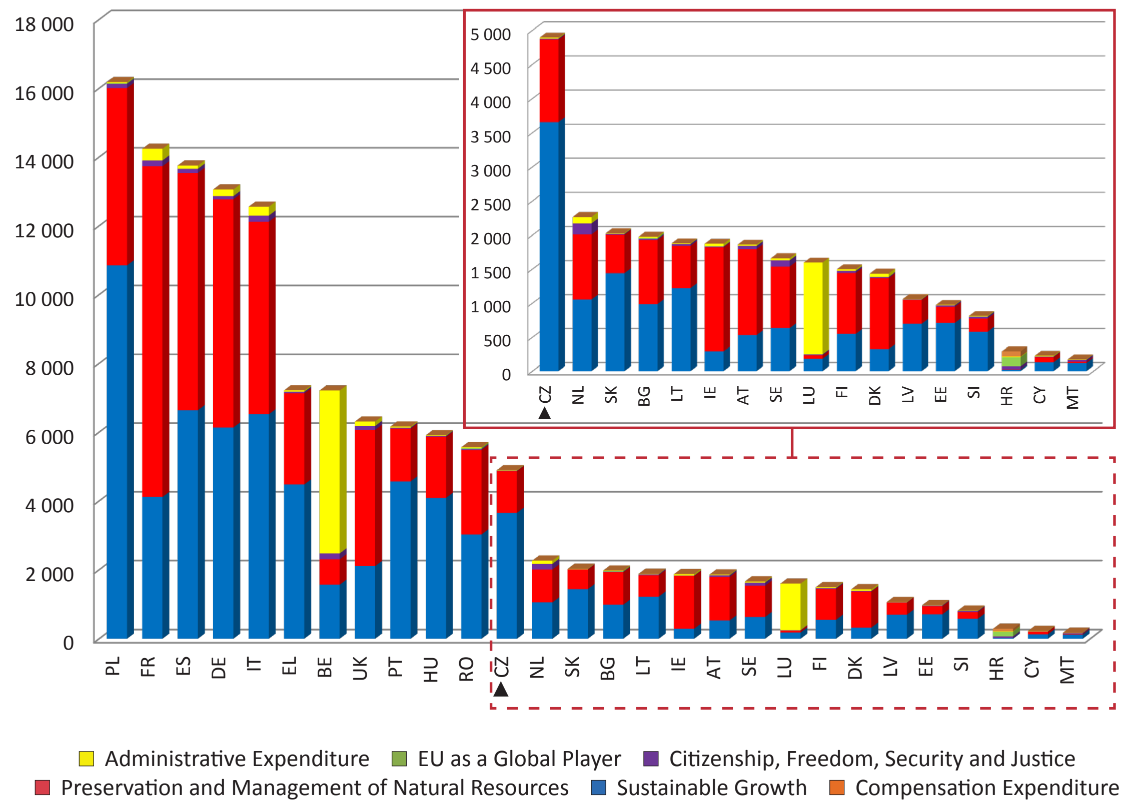


Source: *EU Budget 2013 – Financial Report*, European Commission 2014.

As the graph shows, 88.30% of this expenditure was divided up between the two biggest headings, *Sustainable Growth* and *Preservation and Management of Natural Resources*.

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

Graph 12 – Drawdown from the EU budget in Member States in 2013 (with close-up section) **(€ million)**



Source: *EU Budget 2013 – Financial Report*, European Commission 2014.

Graph 12 reveals that the predominant expenditure in countries that acceded in 2004 and later is cohesion policy spending (*Sustainable Growth* heading), whereas the biggest budget expenditure heading for the original EU-15 states is *Preservation and Management of Natural Resources*, which includes the CAP.

C.2.3 The EU budget in relation to the CR

All Member States, including the CR, are obliged to contribute to the EU budget. They also have the right to utilise finances from EU funds.

In keeping with tradition, the CR mainly draws down finances under cohesion policy and the CAP.

Contributions of the CR to the EU budget

Since the CR joined the EU (i.e. from 2004 to 2013) the CR's contribution to the EU budget has totalled €12.9 billion, with €10.3 billion of that coming from the finishing 2007–2013 programming period alone. Table 10 provides an overview of these payments in individual years.

Table 10 – Overview of Czech contributions to the EU budget in the 2007–2013 programming period

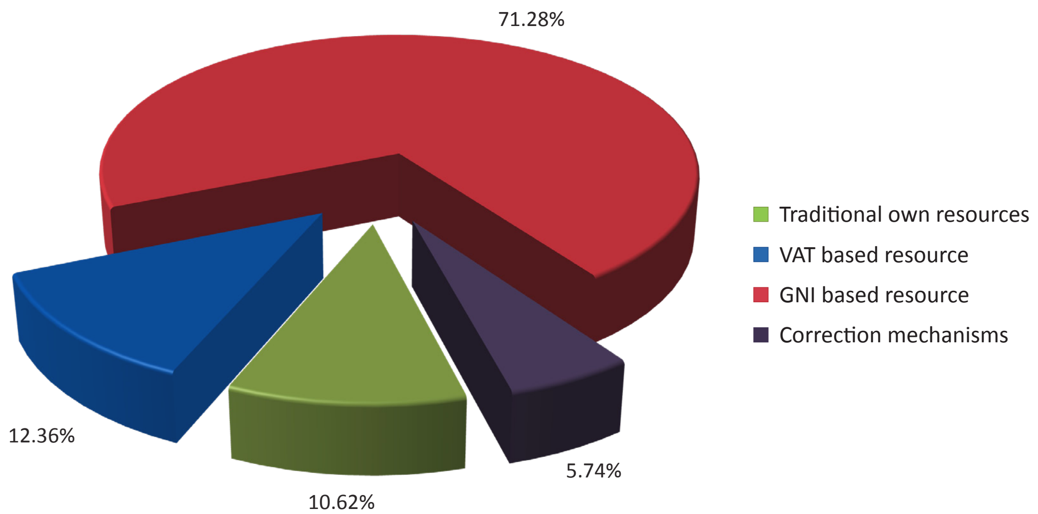
	2007	2008	2009	2010	2011	2012	2013
Total (€ million)	1,167.0	1,396.0	1,374.1	1,497.7	1,682.5	1,594.1	1,616.6
Annual growth (in %)	+12.7	+19.6	-1.6	+9.0	+12.3	-5.3	+1.4

Source: *EU budget 2013 – Financial Report* and previous reports on the EU budget, European Commission 2008–2014.

In 2013 the CR's contribution to the EU budget was in excess of €1.6 billion. Although it grew year-on-year by approx. €22.5 million (i.e. about 1.4%), it fell short of the 2011 figure. In this context it should be pointed out that the level of the CR's contribution in 2013 was not affected by exceptional factors to the extent it had been in previous years[81].

The following graph shows the structure of the CR's contributions to the EU budget in 2013 in percentage terms.

Graph 13 – Structure of Czech contributions to the EU budget in 2013



Source: *EU Budget 2013 – Financial Report*, European Commission 2014.

81 See EU Report 2014, section A.2.3.1 – available from http://www.nku.cz/cz/publikace/eu-report.htm.

The CR's revenues from the EU budget

As in the case of the CR's contributions to the EU budget, in 2013 the CR's revenues from the EU budget also avoided the formerly persisting inconsistencies and the related large-scale fluctuations.

In 2013 the CR's total revenues from the EU budget stood at almost €4.9 billion, a year-on-year increase of approx. 8%. The CR thus received the largest amount from the EU budget since it joined the EU. The amount could have been as much as €0.4 billion higher, but the CR's failure to comply with the n+2/n+3 rule in 2013 led to the Commission decommitting that amount in line with Council Regulation (EC) No 1083/2006 (General Regulation).

Since 2004 (when the CR joined the EU) till the end of 2013 the Czech Republic received approx. €26.2 billion from the EU budget, almost €23.0 billion of that in the 2007–2013 period. The amounts obtained in the individual years of this programming period can be seen in the following table.

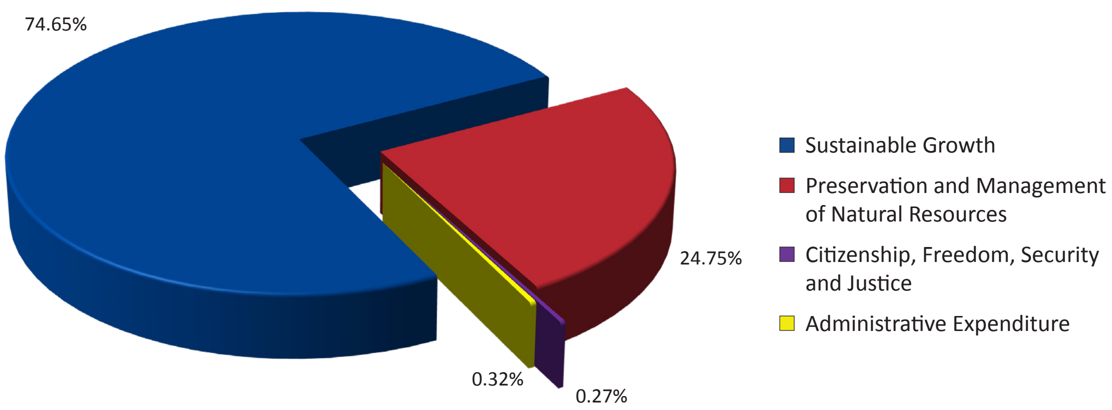
Table 11 – Czech revenues from the EU budget in the 2007–2013 programming period

	2007	2008	2009	2010	2011	2012	2013
Total (€ million)	1,721.0	2,441.1	2,948.6	3,415.6	3,029.1	4,529.5	4,893.1
Annual growth (in %)	+29.4	+41.8	+20.8	+15.8	-11.3	+49.5	+8.0

Source: *EU budget 2013 – Financial Report* and previous reports on the EU budget, European Commission 2008–2014.

The following graph shows the structure of the CR's revenues from the EU budget in 2013 in percentage terms.

Graph 14 – Structure of Czech revenues from the EU budget in 2013



Source: *EU Budget 2013 – Financial Report*, European Commission 2014.

Graph 14 shows clearly that the CR's biggest revenue from the EU budget comes from the *Sustainable Growth* heading, which funds **cohesion policy**. In 2013 that accounted for almost 75% of the CR's revenues from the EU.

The second most significant policy in terms of funds obtained is the **CAP** (funded out of *Preservation and Management of Natural Resources*), which made up almost 25% of all the CR's revenues from the EU.

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

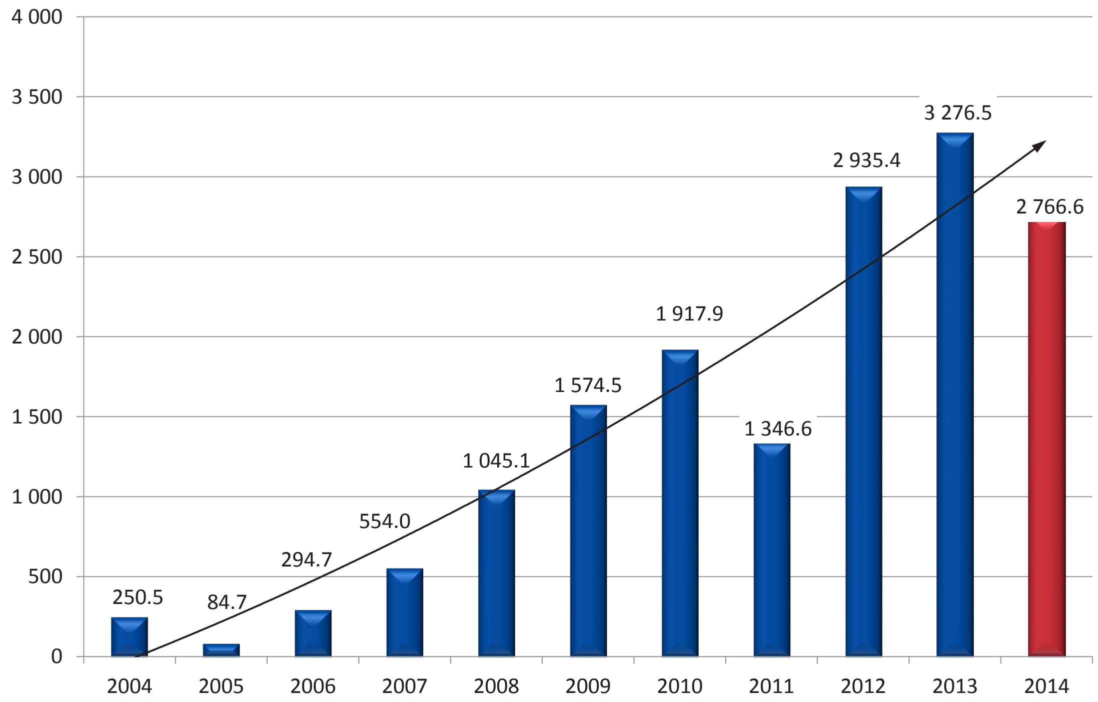
Net position of the CR in the EU

The Czech Republic is one of those Member States whose revenues from the EU budget regularly exceed its contributions. It is therefore a **net beneficiary**. In total, **the CR's net position for the years 2004–2013 amounted to almost €13.3 billion**, the equivalent of over CZK 344.9 billion[82].

The CR's net position improved by almost €3.3 billion in 2013, a year-on-year increase of almost 12% and it was a new record value for the CR's net position.

Graph 15, which is based on official EU sources for the period 2004–2013, illustrates the evolution of the CR's net position (administrative expenditure not excluded). The last column in the graph shows the net position for 2014 according to data published by the MoF. A trend curve based on polynomial regression runs through the graph.[83]

Graph 15 – The CR's net position in the years 2004 to 2013 completed by data from MoF for 2014 **(€ million)**



Source: *EU budget 2013 – Financial Report* and previous reports on the EU budget, European Commission 2005–2014; MoF data for 2014 published in January 2015.

It is apparent from the graph that the trend curve copies the development of the CR's net position very well. Especially years 2004 and 2011 deviate from the trend. In 2004 the net position of acceding countries, including the CR, was profoundly influenced by the provided compensation. In 2011 the CR's net position registered a year-on-year drop of almost 30%, mainly as a result of the suspension of expenditure certification following problems in OP *Transport* ("OPT"), OP *Environment* ("OPE") and the *Regional Operational Programme of NUTS II North-West* ("ROP NW"). Another reason for the fall was a revision of the national accounts by the CSO, as a result of which the CR had to pay in an additional sum of approx. €0.2 billion to the EU budget.

In January 2015 the Ministry of Finance published data[84] showing that the CR's net position in

82 The Czech National Bank's average exchange rate for 2013 was used for the conversion: 25.974 CZK/€.
83 Polynomial regression is a regression model which is linear but describes a non-linear dependency between variables.
84 http://www.mfcr.cz/cs/aktualne/tiskove-zpravy/2015/cista-pozice-ceske-republiky-vuci-rozpoc-20319.

the financial year 2014 reached almost €2.8 billion[85] (putting the CR's overall net position for 2004–2014 at over €16.0 billion). Total revenues from the EU budget stood at almost €4.4 billion, with the CR's total contributions to the EU budget amounting to almost €1.7 billion. These data had not been published by the Commission by the *EU Report 2015* print deadline, but it is a reasonable assumption that the official EU data will not differ significantly from the MoF figures.

The abovementioned developments show a year-on-year fall of over 15.5% in the CR's net position. The principal causes of this are the automatic decommitment by the Commission of more than €0.3 billion for failure to fulfil the n+2 rule and the larger number of payment applications not yet paid by the Commission compared to 2013.

85 *The Czech National Bank's average exchange rate for 2014 was used for the conversion: 27.533 CZK/€.*

D. Sector matters

D.1 European Union budget revenues

D.1.1 Current developments in budget revenues in the CR

After the EP approved the EU's multi-annual financial framework for 2014–2020[86] in November 2013 and the Council regulation[87] on the multi-annual financial framework was adopted on 2 December 2013, the inter-institutional agreement[88] was approved on that same day. Its objective was to introduce budgetary discipline, improve the working of the annual budget process, improve cooperation between institutions and ensure sound financial management.

The EU's own resources system for the multi-annual financial framework 2014–2020 was unanimously approved by the Council in January 2014, with the legislation adopted after debate in the EP in May 2014. The necessary ratification process for the revenues framework is currently taking place at Member State level and is expected to be completed in 2016. The introduced provisions will then be used to convert EU Member States' payments to date retroactively with effect from 1 January 2014.

The basic principles of the functioning of the EU introduced in previous years remained unchanged in the new financial framework, including the hitherto applied correction mechanisms (see section C.2.1). As previously, the biggest source of EU revenues will be the share of the GNI of EU Member States. One minor change is a reduction in the contribution towards the costs associated with the collection of traditional own resources that EU Member States keep, which has been reduced from 25% to 20%.

Some additional changes are expected to be made in the approved system. One such change should affect the deadlines for Member States' contributions based on actual VAT and GNI. Up to 2014 the level of these contributions was adjusted as of the first working day in December of the following year, with no possibility of agreement on a later payment date. Consequently, Member States could get into budgetary difficulties at the end of the year or could find their financial stability at risk. For that reason, on 12 November 2014 the Commission submitted a draft Council regulation[89] amending Regulation (EC, Euratom) No 1150/2000, which gives Member States that satisfy certain conditions the option of paying the amount ensuing from these adjustments at any time between the first working day in December and the first working day in September of the following year.

[90]The European Court of Auditors adopted its Opinion No. 7/2014 on this Commission proposal: despite partial reservations that the own resources system may become more complicated, the ECA approved the proposal.

The European Parliament approved the Commission's proposed amendment, but demanded that the Commission and the Council of any use of this option by a Member State, including information on the number of payment instalments, the amount of each instalment, the date of

86 €960 billion in commitment funding and €908.4 billion in payment funding was approved (i.e. 1% and 0.95% of EU GNI respectively).

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

88 Interinstitutional Agreement of 2 December 2013 between the European Parliament, the Council and the Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management.

89 Proposal for a Council Regulation amending Regulation (EC, Euratom) No 1150/2000 implementing Decision 2007/436/EC, Euratom, on the system of the European Communities' own resources, COM(2014) 704 final.

90 Opinion No 7/2014 concerning a proposal for a Council Regulation amending Regulation (EC, Euratom) No 1150/2000 implementing Decision 2007/436/EC, Euratom, on the system of the European Communities' own resources.

crediting to account and changes in revenues in the financial year. The Commission's proposal in the form approved by the EP was subsequently approved by the Council on 18 December 2014. The changes introduced by this proposal still have to be transposed into the legislation for the new programming period by means of an amendment of Council Regulation (EC, Euratom) No 609/2014, which should take place in spring 2015.

The principles and systems of the EU budget revenues side have so far remained essentially unchanged, but the debate on an overhaul of this system has not ended. On 25 February 2014 it was announced in Strasbourg that a high-level inter-institutional group on own resources was being set up. This group will undertake a general review of the own resources system. Its first meeting was held in April 2014. The first assessment report was published in December 2014 and presented to the Committee on Budgets of the EP on 5 February 2015. The report pointed out that the financing of the EU budget has not changed significantly for the past 25 years. The report says that, "...[91]the system of own resources has gradually become a system of national contributions with only a minor part representing 'genuine' or 'autonomous' own resources". The group judged that moving towards a more accountable, transparent and simple financing system for the EU budget would also ensure fair burden sharing among EU Member States and declared that, given the extremely difficult process of reforming own resources, a necessary precondition for change is common understanding and acknowledgement. It therefore invited the EP, Commission, Council and national parliaments of EU Member States to embrace the ambitious objectives and work in a spirit of cooperation to devise a viable way forward. The group will now focus both on proposed new sources of financing and on the political and institutional problems that have to date prevented reform of the own resources system.

The parliaments of EU Member States should discuss the group's outputs, including the adopted recommendations, at an inter-parliamentary conference in 2016.Then the Commission should consider, in parallel with the review of the multi-annual financial framework for 2014–2020, whether reform of the current own resources system should be proposed for the period after 2020.The EP's Committee on Budgets welcomed the creation of the group in its report[92] of 7 April 2014. The Committee also demanded that the EP continue to call for the kind of reform of the own resources system that would make it simpler, more transparent, fairer and easier to understand.

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

[93]As part of the harmonisation of excise duties, on 28 January 2014 the Commission adopted an implementing regulation regarding the computerised procedure for the movement of excise goods under suspension of excise duty. The aim of this regulation is to improve the correlation between information concerning the movement of excise goods held by excise authorities and the information on excise goods that have been imported held by the authorities responsible for importation formalities. The regulation modifies certain formalities regarding the filling in of data in applications for monitoring transport. This regulation should contribute to the control of the movement of excise goods and is binding in its entirety and directly applicable in all Member States.

Gambling is another important area affecting the EU common market and taxation. The annual revenues of gambling service providers in the EU were estimated at approx. €84.9 billion in 2011. Online gambling games are the fastest-growing area of services in the EU, with an annual

91 *First Assessment Report*, High Level Group on Own Resources, Brussels, December 2014.
92 Report dated 7 April 2014 on implementing measures for the system of own resources of the European Union (2014/2020(INI)).
93 Commission Implementing Regulation (EU) No 76/2014 amending Regulation (EC) No 684/2009 as regards the data to be submitted under the computerised procedure for the movement of excise goods under suspension of excise duty, Official Journal of the European Union L 26, 29 January 2014, page 39.

growth rate of approx. 15%. The annual revenues of online gambling system operators in the EU are therefore expected to reach €13.0 billion in 2015, up from €9.3 billion in 2011. The sector's importance is underlined by EU Member States' growing tax revenues from this business.

In 2011 the Commission published its *Green Paper on Online Gambling in the Internal Market*[94], which sought to provide a full picture of the existing situation in the internal market, influenced by the rapid growth in both lawful and unlawful online gambling. In October 2012 the Commission published a communication entitled *Towards a Comprehensive European Framework for Online Gambling*[95], in which it announced that it would speed up its assessment of the national provisions of EU Member States. It did not yet intend to propose special EU legislation for this sector, but it proposed a combination of initiatives and relevant measures focused on five priority areas to address the challenges in the EU:

- compliance of national regulatory frameworks with EU law;
- enhancing administrative cooperation and efficient enforcement;
- protecting consumers and citizens, minors and vulnerable groups;
- preventing fraud and money laundering;
- safeguarding the integrity of sports and preventing match-fixing.

Although gambling is not regulated by EU law, according to the judicature of the Court of Justice of the European Union (CJEU) the national legal environment must ensure the rules of fair competition are upheld. The CJEU's judicature mainly affects domiciling options and the practice of cross-border gambling.

In the Czech Republic, the issue of the operation of lotteries and other similar games publicly on the internet has not yet been sufficiently regulated by the Ministry of Finance. The legislation was scrutinised by the EU authorities because access to the operation of these activities in the CR was restricted, to the detriment of entities not domiciled in the CR and entities with foreign ownership (with the exception of casino operation). The Supreme Audit Office drew attention to shortcomings in audit no. 13/35[96], in which it estimated the loss of revenue resulting from the absence of legislation on online lottery operation at approx. CZK 600 million a year.

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

In July 2014 the Council issued recommendations[97] on the national reform programme of the Czech Republic for 2014, which is meant to deliver improved tax revenues without the need to increase the tax burden. The Council's recommendations were:

- improve tax compliance (with particular focus on VAT) and reduce the costs of collecting and paying tax by simplifying the tax system and harmonising the tax bases for personal income tax and social and health contributions;
- reduce the high tax burden on labour, especially for people on low incomes;
- shift the tax burden to areas where it will have a less restrictive impact on growth, e.g. onto periodic housing taxes and environmental taxes;
- reduce the differences in tax treatment between employees and the self-employed.

94 Green Paper on on-line gambling in the Internal Market, COM(2011) 128 final, of 24 March 2011.

95 Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions: *Towards a comprehensive European framework for online gambling* of 23 October 2012, COM(2012) 596 final.

96 Audit no. 13/35 – *State budget revenues from lottery and other similar games*.

97 Council recommendation of 8 July 2014 on the National Reform Programme of the Czech Republic for 2014 and delivering a Council opinion on the Convergence Programme of the Czech Republic, 2014 (2014/C 247/3), Official Journal of the European Union C 247, 29 July 2014, pp. 12–16.

In the area of legislation, the Act on VAT[98] was amended in the CR in 2014, mainly in connection with the amendment of Council Directive 2006/112/EC[99]. As of 1 January 2014, Act No. 502/2012 Coll.[100] introduced an obligatory electronic form of tax returns, reports and annexes thereto for all (bar natural persons with a turnover less than CZK 6 million for twelve consecutive calendar months and other designated persons[101]) as well as electronic submissions to registers of taxpayers and notifications of changes to the registration data. The same act was also meant to reduce the turnover level requiring registration as a person obliged to pay VAT to CZK 750,000. This change was contained in Part 7 of the act, whose effect was tied to the entry into force of Act No. 458/2011 Coll.[102] After the amendment of the Act on VAT by Act No. 360/2014 Coll.[103] was adopted, Part 7 was repealed at the end of 2014, so the turnover level making VAT registration obligatory remained unchanged at CZK 1 million for 12 consecutive calendar months.

The amendment of the Act on VAT implemented by Act No. 196/2014 Coll.[104] with effect from 1 January 2015 is a response to the amendment of Council Directive 2006/112/EC and introduces the new "Mini One Stop Shop".[105] The amendment also brings new rules for determining the place of supply in the case of telecommunications services, radio and television broadcasting services and electronic services. These services will now always be taxed in the place of the service recipient. The providers of these services (whether they come from the EU or not) will be obliged to pay VAT on the affected services in the EU Member States where their end customers are based. To ensure that the providers of these services do not have to undergo the protracted process of registering for VAT in every Member State where their end customers are based and do not have to file tax returns and pay tax in every Member State, they will be given the option of voluntarily registering with a Mini One Stop Shop. They can then file tax returns and pay tax on all services covered by the system via the tax portal of the Member State where they register with a Mini One Stop Shop.

From 1 January 2015 Act No. 262/2014 Coll.[106] introduces a second reduced rate of VAT at 10% that will apply to baby food, radiopharmaceuticals and medicinal preparations, printed books and sheet music, and selected milled products.

In the fight against fraud, the conditions for taxpayers applying the institute of "unreliable payer" were also tightened up. The public interest in VAT collection will be deemed jeopardised in VAT collection if a cumulative non-payment of at least CZK 500,000 is registered over the course of three months (the limit was reduced from the earlier CZK 10 million). The General Financial Directorate also defined new conditions under which a taxpayer can be termed unreliable: these are the repeated assessment of tax using aids, the failure to provide sufficient cooperation in tax administration, the repeated failure to file a tax statement or report, and the giving of incorrect or incomplete information when registering for VAT.

98 Act No. 235/2004 Coll., on value added tax.
99 Council Directive 2006/112/EC on the common system of value added tax, Official Journal of the European Union L 347, 11 December 2006, pp. 1–118.
100 Act No. 502/2012 Coll., amending Act No. 235/2004 Coll., on value added tax, as amended, and other related acts.
101 Within the meaning of Section 6g of Act No. 502/2012 Coll. this is an "obligated person" who is not a taxpayer or a legal person not subject to tax.
102 Act No. 458/2011 Coll., amending acts related to the establishment of a single collection point and other amendments to tax and insurance acts.
103 Act No. 360/2014 Coll., amending Act No. 235/2004 Coll., on value added tax, as amended, and other related acts.
104 Act No. 196/2014 Coll., amending Act No. 235/2004 Coll., on value added tax, as amended.
105 Council Directive 2008/8/EC of 12 February 2008 amending Directive 2006/112/EC as regards the place of supply of services, Official Journal of the European Union L 44, 20 February 2008, p. 11.
106 Act No. 262/2014 Coll., amending Act No. 235/2004 Coll., on value added tax, as amended, and other related acts.

Act No. 360/2014 Coll. was in the CR passed in response to the adoption of the Council directive[107] on the use of the quick reaction mechanism and the Council directive[108] making it possible to extend the reverse charge mechanism to other sectors. This act reacts to the possibilities for widening the fight against fraud and introduces two new temporary schemes:

- the extension of the reverse charge mechanism to the supply of mobile telephones, devices with integrated circuits, games consoles, tablets, laptops, grains and technical crops and raw or semi-processed metals, including precious metals;
- the "quick reaction mechanism", which makes it possible to issue a government regulation which, for a maximum period of nine months, requires the reverse charge mechanism to be applied to supplies where the Commission, in order to combat tax evasion, confirms it has no objections to the use of this system for the selected goods or services.

D.1.4 The SAO's audit work in the field of revenues

On 30 March 2015 the SAO Board approved the audit conclusion of audit no. 14/17[109], which sought to verify the functioning of new VAT mechanisms rolled out from 2011 to 2013. These mechanisms (the disclosure of bank accounts, reverse-charging selected commodities, the institute of unreliable payer, the recipient's guaranteeing taxable supply and ensuring payments towards not-yet due or as yet unspecified tax) were adopted as tools in the fight against tax evasion. The Supreme Audit Office simultaneously verified the effectiveness of these new tools in the implementation of state budget revenues.

According to the SAO's calculation, the rate of tax evasion in the CR as measured by the VAT gap[110] was 25.7% in 2013. The new tools in the fight against tax evasion were not sufficiently effective in 2013 to reduce the VAT gap. On the contrary, the VAT gap has continued to grow since 2007, from approx. CZK 60 billion to CZK 105 billion. The biggest factor in that amount was businesses deliberately distorting data (40%). The shadow and illegal economy accounted for 7%. The low effectiveness of VAT collection is borne out by the volume of new VAT non-payment for 2013, which amounted to 25%. The remaining part of the VAT gap (28%) is a combination of various factors, e.g. other tax evasion, errors and mistakes in tax returns and differences between reported statistical and tax data.

The audited institutes had not delivered the expected effects. The reverse charge eliminated the risk of tax evasion where the provider does not declare or pay tax and the recipient claims a tax deduction, but tax evasion caused by misapplication of the reverse charge cannot be fully ruled out. The audit found a difference of CZK 14 billion in the values of supply declared by suppliers and recipients, with the tax offices demanding the payment of CZK 69.5 million in additional tax in 2012 alone. The objectives of the introduction of the "unreliable payer" institute were not achieved by the end of 2014 (there were only 156 unreliable payers published by the end of 2014). Furthermore, the expected impact of the introduction of the institute of the recipient's standing surety for taxable supply, which was expected to bring in CZK 1.5 billion in the 2011–2013 period, did not materialise. The tax offices made minimal use of this institute in the audited period.

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107 Council Directive 2013/42/EU amending Directive 2006/112/EC on the common system of value added tax, as regards a Quick Reaction Mechanism against VAT fraud, Official Journal of the European Union L 201, 26 July 2013.

108 Council Directive 2013/43/EU amending Directive 2006/112/EC on the common system of value added tax, as regards an optional and temporary application of the reverse charge mechanism in relation to supplies of certain goods and services susceptible to fraud, Official Journal of the European Union L 201, 26 July 2013.

109 Audit no. 14/17 – *Value added tax administration and the impacts of legislative amendments for the state budget revenues*.

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

Conversely, the introduction of a special provision on ensuring payment towards not yet due or not yet defined tax in the form of a "security order" under the Act on VAT proved to be an effective tool in the fight against tax evasion. The recovery success rate was approx. 13% higher than in the case of security orders issued under the tax code.

The SAO attributes the low effectiveness of the new mechanisms to both external influences and the actual work of the Financial Administration of the CR. The fact that the changes in the Act on VAT took effect a few days after they were approved and published was a hindrance. The Financial Administration of the CR did not meet the three-month deadline for verifying and subsequently publishing approx. 518,000 bank accounts in the VAT Payers Register and did not utilise the control mechanism for supply under the reverse charge system. One fundamental shortcoming in the SAO's opinion was the absence of any analysis of the effectiveness of the new mechanisms by the Financial Administration of the CR and assessment of their use in tax administration.

The SAO also commenced an audit of excise taxes on spirits and tobacco[111] in 2014. This audit is checking whether the customs authorities are performing the administration of selected excise taxes in compliance with the legal regulations, effectively and efficiently, and whether the legislation, which ought to comply with EU law, permits their effective and efficient administration. It is evident from the available data that the collection of excise taxes on spirits and tobacco products has long fallen short of the budgeted amount; despite the increase in tariffs, there has not been a proportionate increase in the levels of these taxes collected.

As the results of this audit will be published after the editorial deadline for this issue of the EU Report, an assessment of audit no. 14/28 will form part of the next issue, i.e. *EU Report 2016*.

D.1.5 Audit work by EU authorities in the CR

On 22 September 2014 the EP debated ECA Special Report No. 11/2013[112] dealing with the effectiveness of the Commission's verification of Member States' GNI data for the years 2002–2007, which were used to determine GNI-based own resources. It was found that revenue derived from this source increased from around 50% of the budget in 2002 (€46 billion) to 70% in 2012 (€98 billion). The audit determined the risks in compiling GNI and assessed the Commission's performance in addressing these risks. The ECA found that the interpretation of results in the Commission's reports is unclear and recommended making the kind of changes in them that would ensure that these reports have uniform content and are transparent and complete for verifying significant and risky components of GNI and for judging assessment reports on Member States' GNI[113].

In the field of VAT revenues, the Commission initiated several studies with a view to quantifying the VAT gap in EU Member States. In October 2014 the Commission published a study of the VAT gap in 2012.This gap was estimated as the whole of EU at approx. €177 billion, i.e. 16% of the theoretically potential VAT revenue in the EU-26. Factors influencing the actual collection of VAT include tax fraud, bankruptcies or insolvencies, statistical errors, delayed payments and tax avoidance. The study also contains updated data for 2009–2011 and presents the trends that contribute to the gap, combined with an analysis of the impact the economic climate and political decisions had on VAT revenue.

The lowest VAT gaps in 2012 were recorded in the Netherlands (5%), Finland (5%) and Luxembourg (6%). The biggest gaps were found in Romania (44%), Slovakia (39%) and Lithuania (36%). The CR's VAT gap in that year was estimated at almost €3.3 billion, i.e. 22% of expected VAT revenue.

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

112 ECA Special Report No 11/2013 *'Getting the Gross National Income (GNI) data right: a more structured and better-focused approach would improve the effectiveness of the Commission's verification'*, Luxembourg, Publications Office of the EU, 2013.

113 ECA Special Report No 11/2013, pp. 10–11.

D.2 Economic, Social and Territorial Cohesion Policy and Common Fisheries Policy

D.2.1 Current developments in *Economic, Social and Territorial Cohesion Policy*

Drawdown of the 2007–2013 programming period allocation

Almost €350 billion was set aside in the SF and CF for achieving the goals of cohesion policy in the EU as a whole for the seven-year programming period. Almost €26.8 billion of that was earmarked for the Czech Republic. Under this policy, finances are drawn down via three funds[114]. The CR ranks among the Member States that utilise EU finances the least successfully, as the following figures make clear:

- Out of the total allocation for 2007–2013[115] the CR drew down a total of €18.3 billion by 31 December 2014, i.e. 70.1% of the allocation minus the amount decommitted by the Commission for 2013 and 2014. 29.9% of the allocation therefore remains unutilised, i.e. €7.8 billion or CZK 216.3 billion[116]. Detailed information on the drawdown of the 2007–2013 allocation can be found in Appendix 3.
- The drawdown rate improved partially in 2014, but the amount affected by the n+2 rule, i.e. automatic decommitment, was €309.4 million, the equivalent of CZK 8.5 billion (in the case of a further CZK 112 million the Commission applied Article 95 of the General Regulation and did not decommit). Contrary to the estimates, the unutilised amount was roughly halved.
- The managing authorities of OPs predict that the equivalent of CZK 23.1 billion allocated from the EU budget could remain unutilised as of 31 December 2015. According to the pessimistic forecast of the MfRD NCP, as much as CZK 41.4 billion could be unutilised; if the EIA issue is not resolved and the Commission does not make it possible to implement major EU-funded transport projects, the amount could even reach CZK 85.1 billion.
- The loss for the 2007–2013 programming period as a whole could therefore range from CZK 38.6 billion to CZK 105.0 billion.

Table 12 – Estimate of the shortfall in the utilisation of the allocation made by managing authorities and the NCP (CZK billion)

Estimating entity	2011	2012	Real shortfall		Estimate of the shortfall at the end of programming period	Total
			2013	2014		
Managing authorities	0	0	11.4	8.5	18.7–23.1	38.6–43.0
MfRD – NCP					41.4–85.1	61.3–105.0

Source: *Analysis of Drawdown from European Funds and Crisis Plans 2015*, presented at a session of the Czech government on 4 February 2015, combined with updated MfRD and MoF data.

The risks to the utilisation of the full allocation of European finances at the end of the period are detailed in section B.1.

114 The ERDF supports investment projects such as support for start-ups, investments in infrastructure and cooperation in border regions. The ESF supports non-investment projects, such as programmes for disadvantaged population groups, the development of educational programmes, re-training for the unemployed etc. The CF finances key transport and environmental infrastructure projects.

115 The original allocation of €26.8 billion minus €411 million in funds affected by automatic decommitment at the end of 2013 (non-compliance with the n+2/n+3 rule) and minus over €309 million at the end of 2014.

116 The Czech National Bank exchange rate applicable as of 31 December 2014 was used for the conversion: 27.725 CZK/€.

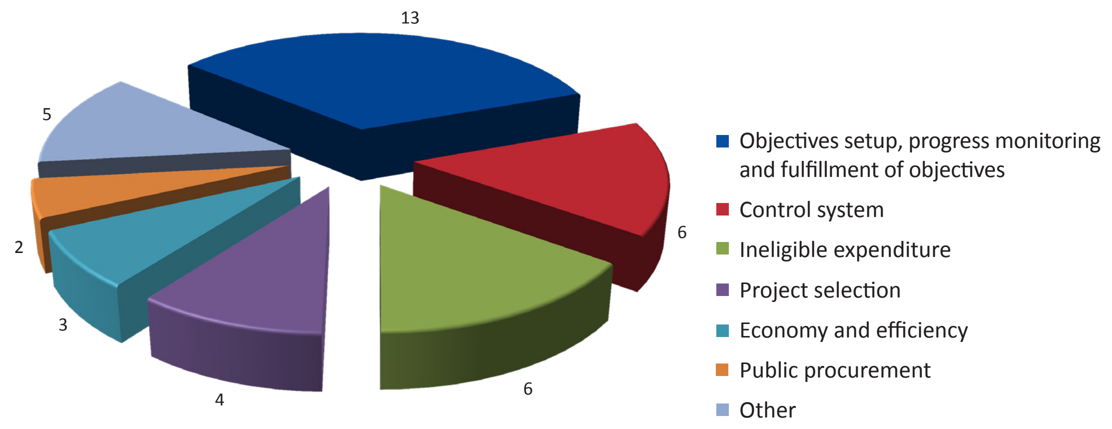
D.2.2 The SAO's audit work in the field of *Economic, Social and Territorial Cohesion Policy*

During 2014 the SAO published the audit conclusions of nine audits in its bulletin, some of which covered SF and CF finances:

1. These were two audits that targeted tourism projects[117] and renewables projects[118].
2. A further seven audits targeted selected priorities of structural policy OPs[119]. These audits examined the management and control systems of the OPs and the legality and accuracy of transactions in a selected sample of projects.

The following graph shows the nature and frequency of the errors found in 2014.

Graph 16 – Nature and frequency of errors found by the SAO in cohesion policy in 2014



Source: Analysis of errors described in SAO´s audit conclusions.

Compared to the errors the SAO detected in 2013, the only changes were in the increase in the error rate relating to the definition of the goals of programmes or projects and of progress towards these goals and a decrease in the field of public procurement.

Definition of goals, monitoring of progress towards goals

The most numerous errors:

1. The goals of programmes and projects were very often defined vaguely and in non-measurable ways, so it will not be possible to ascertain whether they were achieved.

2. Monitoring indicators were not defined in a way making it possible to evaluate progress towards the target values.

3. In some cases specific goals were not achieved.

- Audit no. 13/21 (OPE) – In contravention of the principle of sound financial management

117 Audit no. 13/32 – *Funds earmarked for the development of tourism*.

118 Audit no. 14/06 – *Management of funds earmarked for the support of energy production from renewable energy resources*.

119 Audits nos. 13/17 – *EU and state budget funds earmarked for the implementation of the Operational Programme* Enterprise and Innovation; 13/21 – *Funds of the Operational Programme* Environment *earmarked for wastewater treatment*; 14/03 – *Funds earmarked for development and modernisation of waterways and harbours, and for the support of multimodal cargo transportation*; 14/09 – *EU and state budget funds earmarked for the implementation of the Operational Programme* Prague – Competitiveness; 14/13 – *EU and state budget funds earmarked for the implementation of the project* "Revitalisation of the pond Jordán in Tábor"; 14/16 – *Funds earmarked for the development and reconstruction of regional health-care facilities within the* Regional Operational Programme – South-East for the period 2007–2013*; and 14/39* – EU and state budget funds earmarked for financing of projects of regional and supra regional centres for popularisation of science and development within priority axis 3 – *Commercialisation and Popularisation of R&D* of the Operational Programme *Research and Development for Innovation.*

the Ministry of the Environment did not define a specific goal[120] for support area 1.1 of the OPE – the goal is hard to measure as no materiality threshold is defined.

- Audit no. 14/03 (OPT) – The MoT defined vague and hard-to-measure goals[121] for achieving the global objective of priority axis 6 of OPT, without allocating any corresponding indicators to these goals to enable progress to be measured. In doing so, the MoT flouted the principle of sound financial management as laid down in EU regulations.
- Audit no. 14/03 (OPT) – Although the audited project was declared as a waterways development project to obtain a subsidy in support area 6.2 of the OPT (the project's main goal was to ensure a bridge had a sufficient clearance to allow craft to pass beneath it, whereas in reality it concerned the renovation and modernisation of railway infrastructure, both on the expenditure side and on the side of the project's expected benefits). From the point of view of the rail infrastructure authority, however, the original bridge was described as functional and no renovation or rebuilding was envisaged for the next 20 years.
- Audit no. 14/09 (OP *Prague – Competitiveness*, or "OPPC") – The SAO audit identified a risk that certain indicators of outputs and outcomes[122] would not be achieved at the priority axes level.
- Audit no. 14/09 (OPPC) – Failure to achieve binding monitoring indicators[123] in the project entitled *Use of Renewable Energy Sources in the Buildings Prague 15 of City District Authority – Phase II.*
- Audit no. 14/09 (OPPC) – The goal of one of the projects selected for the audit sample was the implementation of an automatic system for the provision of information and safety warnings in Prague with a link to the existing web site of the City of Prague and a new voice portal under preparation. In the project application the beneficiary planned that the system would have 4,000 to 8,000 users in the third year after the completion of the project. The system only had 444 active users at that time, however, i.e. 5–10% of the planned number, which was moreover described as a conservative estimate in the project application. In the budgeting of the overall subsidy, the cost per active user was thirty to sixty times higher than planned.
- Audit no. 13/32 (IOP) – The SAO declared that the projects *Consolidation of the Position of the Czech Republic and its Competitiveness in Tourism*, *Rebranding and Marketing Support for Incoming Tourism* and The Czech Republic Tastes Great implemented by the CzechTourism agency were inadequately prepared. During project implementation CzechTourism changed the project activities, their budget structure, award procedure, target values of indicators and completion deadlines. The aim of the projects was to develop tourism, put in place the right conditions for expanding incoming tourism and increase competitiveness and employment in tourism. The agency did not define any suitable indicators for evaluating these goals and confined its evaluation of the projects to the number of campaigns and marketing products. Research into how tourists reacted to the campaign conducted via web sites and billboards under the *Consolidation of the Position of the Czech Republic and its Competitiveness in*

120 One specific objective of support area 1.1 of OPE is significantly reducing pollution in and the eutrophisation of surface waters and introducing comprehensive monitoring and assessment of the state of waters, including technical equipment. The Ministry of the Environment did not define what pollution reduction can be considered significant.

121 The objective is defined as support for multimodal cargo transport and the development and modernisation of internal waterways in TEN-T (Trans-European Transport Networks) and outside TEN-T, and promoting the modernisation of river craft with a view to reducing the negative environmental impacts of water transport.

122 Progress towards targets in six out of 30 output and outcome indicators for priority axes 1 to 3 signaled a risk that the defined target values would not be achieved by the end of 2015. In addition, in the OPE indicators system the City of Prague incorrectly included two monitoring indicators among outcome indicators, even though they qualify as output indicators. There is therefore a risk of incorrect aggregation of these indicators in the final assessment of the National Strategic Reference Framework caused by inappropriate classification, and thus also the possibility that the wrong aggregate data will be presented to the public.

123 In the case of the project entitled *Use of Renewable Energy Sources in the Buildings of Prague 15 City District Authority – Phase II* the beneficiary did not fulfill the binding project indicators. The subsidy provider can impose a fine of up to CZK 4,491,000 for this shortcoming.

Tourism revealed that it was not at all clear to the tourists that the information concerned the Czech Republic – the information was unclear and confusing and the tourists did not know where to turn for more precise information.

- Audit no. 14/03 (OPT) – The SAO found that the system of *Transport Policy 2014* indicators did not make it possible to evaluate objectively and measurably the effectiveness of measures in the field of water-borne and multimodal transport, the degree to which identified shortcomings had been eliminated and whether the goals and priorities had been achieved. There were no separate monitoring indicators for water-borne transport, merely one aggregate indicator for water-borne transport together with rail transport. What is more, it is not clear how that indicator was defined and on what basis progress towards it will be measured.

In priority axis 6, the MoT did not monitor any outcome indicators at programme level and did not ensure that the indicators at various levels of the system of indicators could be combined and aggregated. Consequently, the MoT contravened the rules laid down at national level by the binding document[124] on monitoring.

A single indicator was defined for monitoring the audited project: *Number of projects supporting transport and transport infrastructure*, where the initial value was 0 and the target value 1. There were two more subsidiary indicators – *Renovation of Kolín railway bridge*, with an initial value of 0 and a target value of 1, and *Bridge clearance*, with an initial value of 4.35–4.61 m and a target value of 5.25 m. No indicators allowing the project's outcomes and impacts to be identified were defined.

- Audit no. 14/06 (OPEI, OPE and RDP) – Indicators targeting installed capacity and generated energy are defined in programmes co-funded by the EU and providing investment aid for renewable energy sources. In the SAO's opinion, any comparison of the outcomes of the subsidy programmes is hindered by their different focuses. If indicators such as *increasing installed capacity of electricity generation from renewables* are reported merely as the outcome of the investment aid, they do not tell the whole story, as electricity generation is also entitled to greater operational aid. Under these circumstances, the used performance indicators and the undertaken assessment of cost effectiveness do not make it possible to make an objective assessment of the extent to which EU finances contribute to achieving the set renewables targets.
- Audit no. 14/16 (ROP *South-West*, or "ROP SW") – The SAO found that the support area 2.6 monitoring indicators were not defined on the basis of actual values by the managing authority, the Regional Council of the Cohesion Region South-West. The indicators did not provide sufficient information for monitoring the implementation of ROP SW, for assessing projects, defining optimal budgets or evaluating of the cost effectiveness of the investments.

Control system

In the past, serious control system errors have led the Commission to impose measures, including substantial corrections (see *EU Report 2014*), but the occurrence of these errors remains high. Above all, the following shortcomings are repeated:

1. Control systems are incorrectly designed.

2. Checks are not carried out on the necessary scale.

3. Control work is ineffective because it fails to detect errors.

124 *Principles of the creation of indicators for monitoring and evaluation* issued by the MfRD in March 2006.

- Audit no. 13/17 (OP *Enterprise and Innovation*, "OPPI") – The SAO found that the implementing bodies failed to detect a number of shortcomings when performing administrative checks before payment, even though they were meant to identify these shortcomings with the help of these systems and to respond to them by adopting relevant measures.
- Audit no. 13/21 (OPE) – The Ministry of the Environment performed administrative checks to verify how the State Agricultural Intervention Fund ("SAIF") was checking support beneficiaries. Although this work should have been done by MoE representatives together with expert consultants, practically all the checks were done by representatives of an external contractor.

The SAO audit also scrutinised the design of the system for on-the-spot checks at beneficiaries and how the sample for project checks was selected. In addition to administrative on-the-spot checks, the SAIF also performs inspections and regards them as work done as part of the internal control system. The SAO already pointed out errors in this work in audits nos. 11/17 and 12/21.

- Audit no. 14/03 (OPT) – The SAO judged that the MoT's records on administrative checks of expenditure specified in payment applications do not show the extent to which expenditure eligibility was checked, on what basis and, in particular, whether the MoT rigorously verified the data and information presented by beneficiaries in payment applications. The MoT's checks linked to public procurement done prior to 2011 focused entirely on the formal accuracy of the contracting entity's procedure without verifying the effectiveness, efficiency and economy of the contract being awarded (e.g. not checking whether the tender documentation was consistent with the approved project application). What procedure the MoT used to check the eligibility of expenditure in terms of effectiveness, efficiency and economy is not apparent from the outputs of on-the-spot checks of project implementation.

According to the SAO's findings, the State Fund for Transport Infrastructure had not put in place the right conditions for proper and complete administrative on-the-spot checks, as it had not defined a specific procedure for checking beneficiaries' compliance with the eligible expenditure rules in terms of economy, efficiency and effectiveness, especially in the case of induced investments. Consequently, in contravention of the principle of sound financial management there is no guarantee that only genuinely eligible expenditure will be financed from European funds.

- Audit no. 14/09 (OPPC) – The SAO declared in its audit conclusion that the MAs' procedure in checking the ban on dual financing of projects was insufficient.

Ineligible expenditure

There are numerous and significant errors that jeopardise public budgets in that expenditure is not eligible but is nevertheless claimed by beneficiaries in their payment applications and in some cases is paid out by the provider.

Audit no. 13/17 (OPEI) – The SAO's scrutiny of a sample of projects revealed that the MAs' treatment of beneficiaries when assessing real estate transfer tax as eligible expenditure was inconsistent and in some cases discriminatory. In administrative checks of payment applications, expenditure linked to the transfer of real estate was excluded from eligible expenditure in some cases and not in others.

In one of the audited projects the beneficiary claimed expenditure for building work and supplies, even though in fact this building work and supplies had been done on a smaller scale or not at all. The accounting documents the beneficiary used to document the expenditure were not consistent with the work actually done.

In another case a beneficiary reported expenditure for building work that was done in contravention of the submitted payment application or lacked clear documentation.

The beneficiary also claimed as eligible expenditure money spent on the purchase of land located not in the place where the renovated building stood – the building work done on that land was not related to the contract and the land did not even adjoin the building site land. An on-the-spot inspection also found that part of the work done under the project had been finished by the winning candidate before the tender was held.

In the same project, the beneficiary claimed expenditure for the purchase of a solar system that had already been defined in the subsidy provision conditions as ineligible.

- Audit no. 14/09 (OPPC) – A shortcoming rated as significant by the SAO was detected in a project. This shortcoming consisted in a failure to prove the amount of building work done.
- Audit no. 14/16 (ROP SW) – The SAO found that three healthcare facilities wrongfully used money from subsidies to cover ineligible expenditure. This ineligible expenditure went on the acquisition of petty tangible assets that was not supported under the approved conditions. The MA approved the ineligible expenditure for reimbursement.

Project selection

The following errors are often found in the work of the implementing bodies when selecting projects for support out of the EU budget:

1. The assessment committees for example recommended projects in which external assessors identified a risk of wasteful spending.

2. Projects were selected according to unapproved criteria.

3. The managing authority based its decision on insufficient information.

- Audit no. 13/17 (OPEI) – The SAO found that some projects were supported despite the objections of external assessors. In some cases the assessment commission recommended a proposal for project funding without reservations without justifying this decision in any way and while it possessed assessment reports by external assessors pointing out violations of the principle of economy.
- Audit no. 13/21 (OPE) – Once the acceptability criterion has been satisfied, projects funded under the OPE were selected on the basis of assessments of general and specific criteria. These selection criteria are subject to assessment and approval by the OPE monitoring committee. The SAO stated that the OPE monitoring committee had not assessed or approved any selection criteria by December 2011; that contravenes the General Regulation. This shortcoming was not even detected by the OPE steering committee, which is obliged to check issues like this.
- Audit no. 14/03 (OPT) – The SAO declared that the MoT assessed and approved projects on the Elbe and Vltava waterways at a time when it did not possess the necessary materials to make a qualified decision on the provision of public support for these projects. It approved project applications for OPT funding even though they displayed major deficiencies. Uncertainties and discrepancies were identified in documents that were part of project applications or annexes thereto, but the MoT did not pay sufficient attention to these issues, even when project assessors drew attention to these shortcomings in the 2nd round of assessment, which was moreover conducted in a highly formal manner and on the basis of vague materials.
- Audit no. 14/09 (OPEI) – According to the SAO’s findings, the managing authority did not put in place a sufficiently effective system for verifying applicants’ ability to fulfil certain legally defined conditions of project activities.

Economy and efficiency

In some cases the SAO identified errors linked to the economy and efficiency of spending.

- Audit no. 13/32 (IOP) – When preparing and implementing the project entitled *National Quality System for Tourism Services in the Czech Republic,* the Ministry for Regional Development failed to ensure that some of the money spent was used sufficiently economically or efficiently. Nor is it possible to rule out the risk that the MfRD will be unable to secure funding for the further development and innovation of this system.
- Audit no. 14/03 (OPT) – The Ministry of Transport did not pay sufficient attention to evaluating the impact the implemented OPT projects would have on the relevant indicators expressing the ratio between rail and water-borne transport and overall goods transport, and performed no assessment of whether the expected benefits and effects of the projects were being delivered.
- Audit no. 14/16 (ROP SW) – The managing authority, the Regional Council of the Cohesion Region Southwest, did not compare and evaluate the costs of building work or the costs of purchasing medical technology. The SAO found differences between subsidy beneficiaries in the prices paid for medical apparatus and in the prices paid for building healthcare facilities. The managing authority did not evaluate either the effectiveness or efficiency of the investments. Yet this information was meant to be a comparative criterion when assessing equivalent projects and could have been acted on to eliminate the detected differences in acquisition costs.

Public procurement

Compared to previous periods, in 2014 the SAO identified fewer errors linked to public procurement. The main shortcomings were non-transparent or discriminatory procedure in public procurement and violations of certain other provisions of Act No. 137/2006 Coll., on public procurement.

Audit no. 13/17 (OPEI) – In one of the audited projects the beneficiary did not use the kind of criteria in tenders for project documentation contractors and software suppliers that would enable transparent and non-discriminatory assessment of bids. The beneficiary subsequently judged a bid that did not fulfil the conditions specified in the tender documentation as the best bid. Moreover, the selected firm supplied the software before the public tender and used this fact in its bid.

- Audit no. 14/03 (OPT) – The SAO detected formal and substantive shortcomings in the way the beneficiary made changes during the implementation of building work in the audited project. Considerable changes were made to both the subject of the work and the extent of the work. In the case of some buildings, the specification of the work was almost entirely changed. To a great extent, the changes did not take the form of extra or new building work that was necessitated by objectively predictable circumstances or could not have been obviated by proper preparation. The conditions laid down by the Act on Public Procurement for awarding the building work to the same contractor were not satisfied in these cases.

D.2.3 Current developments in *Common Fisheries Policy*

Spending on the *Common Fisheries Policy* is covered out of the *European Fisheries Fund*. In the 2007–2013 period the CR was able to draw down in this area €36.1 million through the OPF.

OP *Fisheries 2007–2013*

In the past two years, there was a significant reduction of costs in OP *Fisheries* in comparison to 2011 and 2012. As with the RDP, the reason for this is the completion of projects and the related completion of subsidies disbursement. The following table gives an overview of the finances paid out under this OP, broken down by priority axes.

Table 13 – Overview of finances paid out on OP *Fisheries 2007–2013* projects in 2014
(CZK thousand)

Axis OP Fisheries		CR	EU	Total
II	Aquaculture, processing and marketing of fish products and aquaculture	12,444	37,330	49,774
III	Common interest measures	6,206	18,619	24,825
V	Technical assistance	824	2,472	3,296
Total		**19,474**	**58,421**	**77,895**

Source: MoA materials.

In 2014 the amount paid out under the OPF was almost the same as in 2013.

The rate of drawdown in the various axes of the OPF can be seen in the following overview.

Table 14 – Overview of drawdown in OP *Fisheries 2007–2013* as at 31 December 2014

OP Fisheries Axis	OP Fisheries budget 2007–2013 (€ million)	Paid out	
		(€ million)	(%)
Axis II	21.56	16.05	74.44
Axis III	12.77	10.00	78.31
Axis V	1.81	0.76	41.99
Total	**36.14**	**26.81**	**74.18**

Source: MoA materials.

Compared to 2013 there was an increase in drawdown from 63% to over 74% of the programme's total allocation. Nevertheless, it is a reasonable expectation that the full financial allocation of almost CZK 1 billion will be utilised.

D.2.4 The SAO's audit work in the field of the *Common Fisheries Policy*

In 2014 the SAO completed an audit[125] targeting support for fisheries. The aim of the audit was to check whether money intended to support fisheries under the OPF was provided and used in compliance with the legal regulations and defined conditions. The SAO scrutinised 33 projects worth a total of almost CZK 129 million, which is one fifth of the amount paid out under this OP by the end of 2013. The most errors were found in the *Czech Fish* project, which was implemented by the MoA itself. The control system failed in the case of this project. The MoA even paid out funds to suppliers and for activities without any demonstrable work and paid for activities that did not qualify as eligible expenditure.

The *Czech Fish* project was supposed to increase the consumption of freshwater fish by means of an advertising campaign. According to the CSO, however, per capita consumption has been in decline since 2009. The campaign was problematic and delivered almost no results.

The SAO also looked at how the MoA and the SAIF, as the managing authority and intermediate body respectively, managed the programme, provided subsidies and monitored the entire process. The SAO found that when selecting projects the MoA made no allowance for the quality necessary for ensuring economical, efficient and effective use of funds. The SAO detected this significant shortcoming repeatedly, nevertheless the MoA did not take suitable corrective

125 Audit no. 13/28 – *Support for fisheries in the Czech Republic in accordance with Operational Programme Fisheries in 2007–2013*.

measures. Project monitoring also displayed serious deficiencies that mean it will not be possible to evaluate the actual effect of the OP sufficiently objectively.

The OP *Fisheries 2007–2013* management and control system was rated partially effective. Two of the programme's three principal objectives will not be achieved, according to the SAO's conclusions.

For the new programming period 2014–2020 the SAO recommended that specific, measurable and achievable goals should be set; suitable indicators should be defined for measuring progress towards the programme's goals; and the project selection system should be designed in a way that is consistent with the principle of sound financial management, with the emphasis on project quality.

D.2.5 Annual reports and opinions of the Audit Body

The core activities of the Audit Body in the 2007–2013 programming period focused on the audit of operations (the sample selection for 2014 and audit procedure were again consulted with the Commission) and rigorous assessment of the working of the management and control system ("MCS") based on performed systems audits. Key requirements/assessment criteria were examined at MA, IB and PCA level. The execution of corrective measures recommended in previous systems audits was also verified. The *Annual Audit Report* for 2014 can be summarised as saying there was a significant relative reduction in the error rate compared to 2013. The identified error rate was below 2% in nine OPs; between 2% and 5% in seven OPs; and over 5% in two OPs (see Table 15). One OP was not audited because certification had been suspended. During 2014, the management and control systems of the various OPs that were scrutinised in systems audits performed in the second half of 2014 were updated. The results of these audits will be presented in the *Annual Audit Reports* for 2015. The AB updated its audit methodology and other relevant documents. On 1 April 2014 the AB management changed and a new organisational structure was approved as of 1 December 2014. The table below shows that the Audit Body issued an opinion with reservations on the majority of operational programmes (14) in 2014. Only five OPs received an opinion without reservations.

"An opinion with reservations was issued in view of the continuing inadequate functioning of the management and control systems (conclusions of systems audits, high error rate) of the OPs in question; most notably, the negative assessment of the administration of public procurement in projects and the identification of ineligible expenditure persists."

Table 15 – AB statements and error rate of OPs in 2014 – operations audits

Number	Operational programme	Auditor´s opinion	Error rate from audits	Fund
2007CZ161PO002	ROP *Central Moravia*	with reservations	7.87	ERDF/CF
2007CZ161PO005	ROP *North-East*	with reservations	5.61	ERDF/CF
2007CZ161PO008	ROP *North-West*	with reservations	3.73	ERDF/CF
2007CZ162PO001	OP *Prague – Competitiveness*	with reservations	3.63	ERDF/CF
2007CZ161PO009	ROP *Central Bohemia*	with reservations	3.53	ERDF/CF
2007CZ161PO013	ROP *South-West*	with reservations	3.19	ERDF/CF
2007CZ16UPO002	*Integrated Operational Programme*	with reservations	3.14	ERDF/CF
2007CZ05UPO002	OP *Education for Competitiveness*	with reservations	3.05	ESF
2007CZ161PO006	OP *Environment*	with reservations	2.62	ERDF/CF
2007CZ161PO010	ROP *Moravia-Silesia*	with reservations	1.92	ERDF/CF
2007CZ161PO004	OP *Enterprise and Innovations*	with reservations	1.77	ERDF/CF
2007CZ161PO001	ROP *South-East*	without reservations	1.60	ERDF/CF
2007CZ052PO001	OP *Prague – Adaptability*	without reservations	1.57	ESF
2007CB163PO025	OP *Cross-Border Cooperation Czech Republic – Poland 2007–2013*	without reservations	1.35	ERDF
2007CZ05UPO001	OP *Human Resources and Employment*	without reservations	0.76	ESF
2007CZ161PO012	OP *Research and Development for Innovation*	with reservations	0.68	ERDF/CF
2007CZ16UPO001	OP *Technical Assistance*	without reservations	0.03	ERDF/CF
2007CZ161PO007	OP *Transport*	with reservations	0.01	ERDF/CF
2007CZ14FPO001	OP *Fisheries 2007–2013*	with reservations	X[126]	EFF

Source: Data from the annual reports of the Audit Body for 2014.

The AB also performed a system audit of OPE and OPF. The result is presented in the following table.

Table 16 – AB statements and error rate of OPs in 2014 – system audit

Number	Operational programme	Auditor´s opinion	Error rate from audits	Fund
2007CZ161PO006	OP Environment	with reservations	6.00	ERDF/CF
2007CZ14FPO001	OP Fisheries 2007–2013	without reservations	1.00	EFF

Source: Data from the annual reports of the Audit Body for 2014.

The Audit Body’s findings included the following significant errors:

- In OPT it detected shortcomings that could lead to irregularities and could have a fundamental impact on the working of the MCS. It stated that the system required a fundamental improvement.
- In the case of ROP *Central Moravia* (“ROP CM”), ROP *North-East* (“ROP NE”), ROP *Central Bohemia* (“ROP CB”), ROP NW, OP *Education for Competitiveness* (“OPEC”), OPE and ROP *Moravia-Silesia* (“ROP MS”) the Audit Body identified insufficient verification by the MA (Article 60 (b) of Council Regulation 1083/2006 and Article 13 (2) of Commission Regulation 1828/2006.
- In the case of OPE, ROP NE, ROP CB, ROP NW, OPPC, ROP SW, IOP, OPEC and ROP CM the Audit Body identified an error rate above the permissible level.

126 Audits of operations not performed due to the suspension of expenditure certification in 2013, they were respectively performed on projects certified in previous years.

- In the case of OPE it identified shortcomings with an intermediate degree of gravity:
    - the existing system for verifying delegated activities as set out in the manual of work procedures is not sufficiently effective;
    - shortcomings in checks of the acceptability of projects in terms of the ownership structure of support applicants, shortcomings in the scoring of projects;
    - drawdown of support via advance payment invoices;
    - shortcomings in the final evaluation of projects;
    - shortcomings in the implementation of the *Action Plan*[127].

D.2.6 Audit work by the EU authorities in the CR

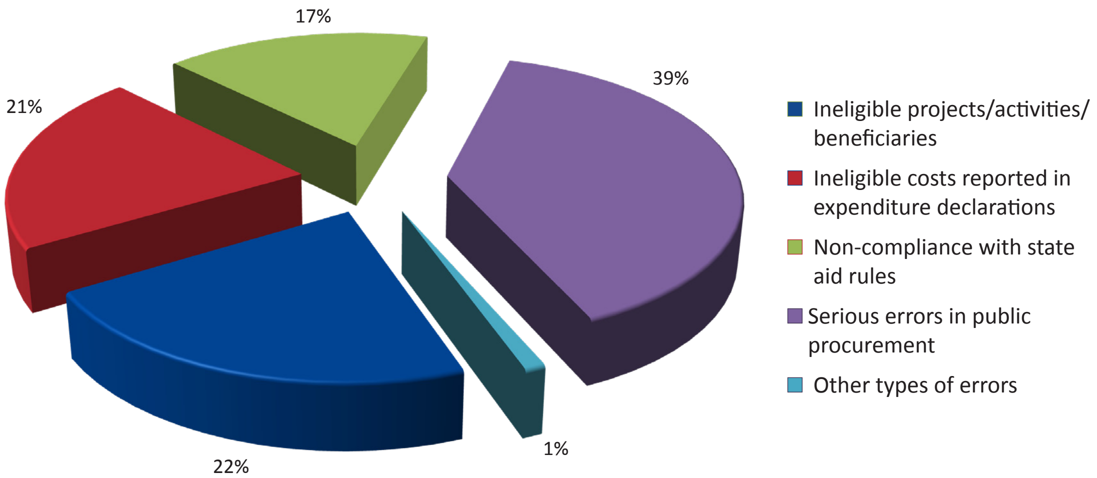
ECA Annual Report on the Implementation of the Budget for 2013

Although audits by the ECA or the Commission differ from SAO audits of structural policy in terms of methods, audited periods and audited entities, the *Regional Policy*, *Transport and Energy* and Employment and Social Affairs chapters of the ECA annual report on the implementation of the budget for 2013 contain some similar audit findings.

Chapter: *Regional Policy, Transport and Energy*

102 of 180 operations audited by the ECA were affected by error. Based on the quantified shortcomings the ECA estimates the most likely error rate at 6.9%. Graph 17 contains an overview of various types of irregularity and their share of the most likely error rate in 2013 according to an ECA estimate.

Graph 17 – Share of estimated most likely error rate by type of error



Source: ECA Annual Report on the Implementation of the EU Budget for the Financial Year 2013, ECA, November 2014.

The ECA annual report on the implementation of the EU budget for 2013 gives examples of serious deficiencies; where they concern the Czech Republic the information is given in bold.

127 *Action Plan for Improving the Management and Control System in the Context of the Structural Funds and Cohesion Fund in the CR*, part of a letter from the managing director for regional policy of 20 March 2012.

a) **Public procurement:**

- **Unjustified direct award of a contract for additional works (absence of unforeseen circumstances):** In a TEN-T project in German, contracts for additional construction works (which had been directly awarded to the same contractor) for an airport passenger terminal were declared for co-financing. This additional works were necessitated by shortcomings in project preparation, planning and implementation, not by unforeseeable circumstances. In such cases the direct award of a contract is unlawful and the additional works should have been put out to tender. **Similar cases were identified** in transport projects and projects financed out of the ERDF/CF in Belgium, **the Czech Republic**, Germany, Spain, Italy and Sweden.
- Use of illegal award criteria in a tender procedure: In one ERDF project related to the renovation of a public building in Spain, the formula specified in the tender dossier to determine the most economical offer unduly altered the outcome of the tender and the contract was awarded in an irregular manner.
- **Change of contract scope after tender:** In an ERDF project to upgrade and refurbish the water supply network in Spain, the scope of the project was significantly modified after the tender and the award of the contract. This is in breach of EU and national public procurement rules and the declared expenditure for this contract is therefore irregular. In addition, the works actually carried out were not in line with the modified contract. **Similar cases in ERDF/CF projects were found in the Czech Republic as well.**

b) **Ineligible projects/beneficiaries**

- Selection of a project which realistically cannot attain its objectives – a project in Poland consisted in the renovation of a historic building and its park for use as a training centre with accommodation facilities. This project was selected by the managing authority although the objectives of the project, as specified in the project application, could not be realistically attained. In particular, the number of trainees that would use the facilities was significantly inflated. The project still has not been completed and there is nothing to suggest it will be a historical building used as a training centre. Moreover, costs in relation to a private use of the building were declared that were outside the scope of the grant agreement.
- Beneficiaries do not fulfil the selection criteria – a project in Hungary consisted in the acquisition of an excavator by a beneficiary operating in the transport and construction sector. However, neither the project nor the business activity of the beneficiary can be considered to be innovative and therefore did not fulfil the criteria laid down in the OP.

c) **Ineligible costs**

- Staff costs not substantiated – for a project related to the construction of an electricity interconnection between France and Spain, some staff costs could not be substantiated by the beneficiary. The underlying expenditure related to these staff costs is therefore ineligible for EU co-financing.
- Expenditure declared for a non-EU organisation – a TEN-T project to further develop a common European airspace was carried out by organisations in several EU Member States and in one non-EU country. The requirement that only organisations from EU Member States could be beneficiaries and could therefore declare costs was disregarded by the consortium and costs from a non-EU participant were also reimbursed from the EU budget.

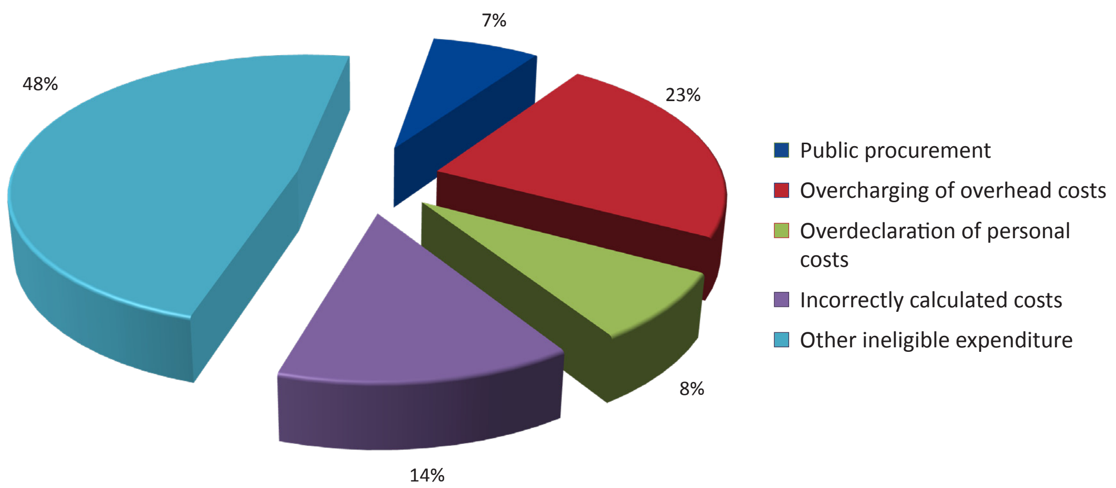
d) Insufficient management verificcations

- In 17 cases of quantifiable errors made by beneficiaries (out of 40) the national authorities had sufficient information to prevent, detect and correct the errors before declaring the expenditure to the Commission. **If all this information had been used to correct errors, the most likely error estimated for this chapter would have been 3 percentage points lower.** In addition, the ECA found that in five cases **the error detected by the Court was made by the national authorities. These errors contributed 2 percentage points to the most likely error estimated.**

Chapter: ***Employment and Social Affairs***

50 of 180 operations audited by the ECA were affected by error. On the basis of the 30 quantified errors the ECA estimates the most likely error to be 3.1%. Graph 18 shows the types of irregularity and their share of the most likely error rate in 2013.

Graph 18 – Share of estimated most likely error rate by type of error



Source: ECA Annual Report on the Implementation of the Budget for the Financial Year 2013, ECA, November 2014.

The annual report gives the following examples of serious deficiencies:

a) Public procurement

- Non-respect of the principle of equal treatment: In an ESF project in France, the principle of equal treatment was not respected during the evaluation process for a public procurement above EU thresholds. Furthermore, the service contract was inappropriately subdivided in lots. Only one bidder for each geographical section was received, de-facto limiting competition. In the ECA's view, these issues should have led to the cancellation of the procedure.
- Contracting of services outside the scope of the framework agreement: a beneficiary in Hungary procured services for software development by using an existing frame-work agreement resulting from a public procurement procedure carried out by the central purchasing body. This specific call for tenders explicitly stated that software development was not subject to the framework agreement and it could only be purchased through an individual public procurement procedure.

b) Numerous failures to observe procedural requirements

- Late payments to beneficiaries – the national authorities in France transferred the ESF funds to the regional bodies, when acting as beneficiaries, with serious delays, which is not in compliance with the rules. In two cases, the payment delay was longer than five months.
- Contract award notice sent late or not sent at all – according to EU public procurement rules contracting authorities must send a notice of the results of the award procedure no later than 48 days after the award of the contract. ECA found three cases of breaking this rule in the Great Britain.
- Accumulation of additional pre-financing – national authorities in France request from the Commission the maximum co-financing rate per priority axis, although beneficiaries are paid lower levels of co- financing. For the priority axis audited, the difference accumulated to date amounts to €32 million, which represents 'de facto' a supplementary advance payment to France without a specific derogation.

c) Insufficient management verifications

- In 13 cases of quantifiable errors made by final beneficiaries (out of 30), the national authorities had sufficient information (for example, from the final beneficiaries, their auditors or from the national authorities' own checks) to prevent, detect and correct the errors before declaring the expenditure to the Commission. If all this information had been used to correct errors, the most likely error estimated for this chapter would have been 1.3 percentage points lower. In addition, the ECA found that for 3 cases the error was made by the national authorities. These errors contributed 0.1 percentage points to the most likely error estimated.
- DG EMPL carried out a thematic audit and concluded that first level checks are not reliable as they "were carried out on a merely formal basis …" As a result, costs were certified to the Commission which had no added value or no link to the project. In addition, breaches in public procurement procedures were often not identified by the management verifications, although checks were carried out by the managing authority or its intermediate body at the premises of the beneficiaries.

ECA special reports

The following pages present findings mentioned in special reports that concern, either in whole or in part, the SF and CF and explicitly mention entities, projects or expenditure in the CR. The green box contains an example of good practice; the yellow boxes present examples of bad practice.

- Special Report No. 07/2014[128]

One of the most successful audited incubators in the Czech Republic regularly monitored the performance of hosted companies and the relevance and quality of the support offered to them. To do so, the incubator had developed a system of key performance indicators integrating exhaustive information about the activity of the incubator (e.g. number of training sessions organised, number of lectures given) and the performance of hosted companies (e.g. turnover, number of patents applied for, number of full-time equivalent jobs created). The resulting information was used by the management to assess the effectiveness of incubation programmes.

128 ECA Special Report 07/2014 – *Has the ERDF successfully supported the development of business incubators?* Luxembourg, Publication Office of the European Union, 2014.

The unsatisfactory results found in the audited incubators can be explained by the fact that the business incubators had not made sufficient use of good practices. Specifically, when business incubators were being established, too little attention had been paid to the effectiveness of their business support functions. Incubation services were only loosely linked to clients' needs. Another reason is that monitoring systems within the incubators did not provide adequate management information. Concerns about financial sustainability had also hampered incubation activity.

At the level of the managing authority, management systems were too focused on output and did not pay sufficient attention to the operational activity of business incubators. The procedure for selecting incubators for co-funding had not given sufficiently due consideration to several elements which are crucial for incubation activity such as staff qualifications, the scope and relevance of incubation services or financial sustainability. In most cases, the expected benefits for the regional economy had not been evaluated.

- Special Report No. 12/2014[129]

The *Implementation of Natura 2000 sites* project in the CR (ERDF support amounting to €4.3 million), to be completed in January 2015, had strategic importance. It mainly entails carrying out inventory and geodetic surveys needed to prepare protection plans for 303 out of 1,075 Natura 2000 sites and set up a monitoring framework for these sites. The setting-up and start of the project were difficult and lengthy due to continuous uncertainties regarding the project's scope and detailed targets (list of sites covered and types of work needed). Two and a half years passed between the project application in November 2008 and the grant decision in April 2011. The grant decision was amended twice, in November 2011 and December 2012, and a third change was planned for late 2013.

- Special Report No. 1/2015[130]

One of the EU's strategic goals is to eliminate infrastructure bottlenecks hampering the development of inland waterway navigation[131]. For the finances allocated for this strategic goal from the ERDF for the 2007–2013 programming period in the CR to be effective, the Děčín Navigation Stage would have to be built (estimated cost €142 million), because a section at Hřensko, approx. 40 km from the Czech-German border, is not navigable for 3–6 months of the year. The finances were spent on other projects of less relevance for achieving the strategic goal and there was no improvement of inland waterway freight transport.

129 ECA Special Report 12/2014 – *Is the ERDF effective in funding projects that directly promote biodiversity under the EU biodiversity strategy to 2020?* Luxembourg, Publication Office of the European Union, 2014.

130 ECA Special Report 1/2015 – *Inland Waterway Transport in Europe: No significant improvements in modal share and navigability conditions since 2001*. Luxembourg, Publication Office of the European Union, 2015.

131 The Elbe waterway is part of TEN-T. In the stretch from state border with the Federal Republic of Germany to Ústí nad Labem the Elbe is ranked by both United Nations and EU documents as a commercially non-navigable basic bottleneck.

An analysis and comparison of the findings of the ECA and SAO regarding the economic, social and cohesion policies make it possible to define the following risk areas:

- **Control systems are not sufficiently effective and violations of the regulations are not detected or rectified at the various levels of control in the Member State.**
- **Projects are financed which do not comply with the public procurement legislation or do not fulfil the eligibility conditions.**
- **Ineligible beneficiaries also received ESF financing. The results of the audits done by the two institutions to verify the accuracy of operations are very similar as regards ineligible projects, ineligible expenditure or participants and non-compliance with the public procurement rules. The SAO's findings in the field of state aid and project revenues are less frequent. There were delays in project administration.**
- **Projects that do not contribute to achieving strategic goals are supported.**
- **Ineligible entities and projects are supported; in some cases ineligible expenditure was declared and reimbursed!**
- **Projects did not attain the goals declared in the funding applications.**

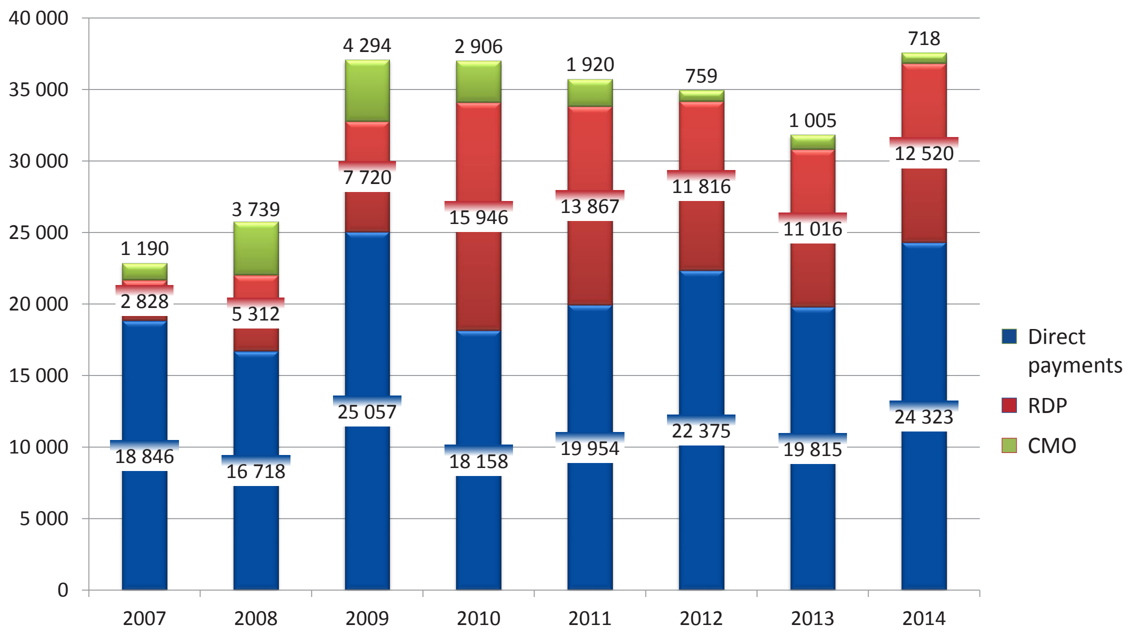
D.3 Common Agricultural Policy and Rural Development Policy

D.3.1 Current developments in the common agricultural policy

Spending on the CAP is financed out of the *European Agricultural Guarantee Fund* (direct payments and CMO) and *European Agricultural Fund for Rural Development* (RDP/RDP14+ subsidies). For the 2007–2013 programming period the Czech Republic could draw down €2.8 billion for rural development, with the understanding that the disbursement of finances according to the n+2 rule will continue until the end of 2015.

The amount paid out in subsidies in the CR in the main areas of the CAP for the years 2007–2014 is shown in the following graph.

Graph 19 – Finances paid out under the CAP in the years 2007–2014 (CZK million)



Source: SAIF annual reports for 2007 to 2013; SAIF materials – overview of SAIF finances paid out in the main areas of the CAP in 2014.

As the graph shows, the largest amounts were paid out under the CAP in 2009, 2010 and 2014. The amounts paid out in these years are almost identical at around CZK 37 billion.

Support under the CAP is divided into three main categories. The first of these is **direct payments**, which account for the largest share of the finances paid out in all years of the programming period. It usually makes up roughly two thirds of the CAP funding obtained from the EU. The second biggest category of the CAP is RDP finances. In 2007 and 2008 the amount paid out under the **RDP** was low, as that was the start of the programming period when the first rounds of funding applications were being sent in. Later, almost the same amounts were paid out, which ranged from CZK 7.7 to 15.9 billion. The third and with regard to its volume the least important category is **CMO** payments. CMO payments reached a peak in 2009 at almost CZK 4.3 billion. This support has been downscaled since 2010, so the amount paid out in funding is falling.

According to SAIF data, in 2014 almost CZK 37.6 billion was paid out in the CR under the CAP, with EU funding accounting for approx. CZK 34.4 billion of that. The amount was greater than in 2013 because of direct payments and the RDP, which have for many years been the most significant CAP areas financially. The following table shows spending on the areas of the CAP in 2014.

Table 17 – Overview of finances paid out in the main areas of the CAP for 2014 (CZK thousand)

Expenditure area	CR	EU	Total
Direct payments	68,303	24,255,422	24,323,725
Common Market Organisation	300,806	417,420	718,226
Rural Development Programme	2,768,875	9,751,120	12,519,995
Horizontal Rural Development Plan	9,267	28,424	37,691
Total	3,147,251	34,452,386	37,599,637

Source: SAIF materials.

Direct payments

In terms of the amount of finances paid out, direct payments are the biggest category of funding that is channelled into Czech agriculture from the EU. Single area payments (SAPS) are financially the biggest component of direct payments. They are paid out per hectare of farm land registered in the LPIS and are fully covered by EU finances.

The distribution of finances paid out in the CR in 2014 by category of direct payments is shown in Table 18.

Table 18 – Overview of finances paid out on direct payments in 2014 (CZK thousand)

Direct payments	CR	EU	Total
SAPS	0	22,394,699	22,394,699
Separate sugar payment	0	1,076,614	1,076,614
Separate tomato payment	0	10,109	10,109
Extra support	0	774,000	774,000
Temporary inner-state support	67,897	0	67,897
Other[132]	406	0	406
Total	68,303	24,255,422	24,323,725

Source: SAIF materials.

There was an increase of CZK 4.5 billion in spending on direct payments compared to 2013, with most of that increase affecting SAPS.

132 Transfer of expropriated subsidy returns.

Common Market Organisation

CMO applies to primary agricultural production and products after first-stage processing and is used to limit fluctuations in the prices processors or final consumers pay for these products. Various instruments are used to this end, such as financial aid, subsidies, production quotas, intervention purchasing, aid for storage and support for the promotion of agricultural products. The following table gives a breakdown of the funding given to various CMO measures in 2014.

Table 19 – Overview of finances paid out on CMO in 2014 (CZK thousand)

CMO measures	CR	EU	Total
Financial support	120,047	202,082	322,129
Subsidies and levies	120,720	151,377	272,097
Export subvention	0	0	0
Intervention purchases[133]	40,000	0	40,000
Support of agricultural products marketing	20,037	33,392	53,429
Other related expenditure[134]	2	30,569	30,571
Total	300,806	417,420	718,226

Source: SAIF materials.

CMO expenditure fell by CZK 286 million from 2013 to 2014. The biggest decline was registered in the *Subsidies and Levies* measure (down CZK 118 million), with increases in spending on *Support for the Promotion of Agricultural Products* measures and *Other Related Expenditure.* Exports of agricultural commodities were no longer supported in 2014.

Rural Development Programme

The implementation of the five priority axes of the RDP went ahead in 2014, with the goal of utilising the maximum remaining finances in this programme by 2015 through measures which the SAIF can complete in time for payment applications to be submitted by 30 June 2015. The extraordinary 22nd round of subsidy application submissions completed the RDP. The final acceptance of applications under this programme ended on 9 February 2015.

Table 20 presents an overview of subsidies paid out on the RDP in 2014.

Table 20 – Overview of finances paid out on the RDP in 2014 (CZK thousand)

Axis RDP		CR	EU	Total
I.	Improving competitiveness of agriculture and forestry	519,971	1,557,926	2,077,897
II.	Improving environment and landscape	1,531,730	5,867,584	7,399,314
III.	Quality of life in rural areas and diversification of rural economy	529,152	1,587,457	2,116,609
IV.	Leader	174,091	696,359	870,450
V.	Technical assistance	13v931	41,794	55,725
Total		**2,768,875**	**9,751,120**	**12,519,995**

Source: SAIF materials.

133 Intervention purchases were not carried out in 2014. The expenditure CZK 40 million is a repayment of a loan for intervention purchases.

134 Other expenditure related to CMO are mainly for the distribution of food to the poorest and bond returns.

Spending on the RDP increased by CZK 1.5 billion from 2013.

The fact that over 90% of the total RDP allocation had been paid out to beneficiaries as of 31 December 2014 can be seen as positive. The following table presents an overview of drawdown under the RDP as of the end of 2014.

Table 21 – Overview of drawdown in the priority axes of the RDP as of 31 December 2014

Axis RDP	RDP budget 2007–2013 (€ million)	Paid out	
		(€ million)	(%)
Axis I	873.50	691.50	79.16
Axis II	1,930.60	1,911.70	99.02
Axis III	641.80	530.90	82.72
Axis IV	205.80	176.00	85.52
Axis V	18.00	10.20	56.67
Total	3,669.7	3,320.3	90.48

Source: MoA materials.

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

Assessment of audit work

In 2014 the Supreme Audit Office conducted an audit of axis V of the *Rural Development Programme of the CR for the 2007–2013 period*[135], focusing on how the MoA and SAIF provided and utilised RDP finances earmarked for technical assistance. The SAO scrutinised the defined conditions for utilising technical assistance and 86 specific projects worth a total of CZK 127 million where the beneficiary was either the MoA or SAIF. The SAO found shortcomings worth almost CZK 8 million in subsidies, i.e. over 6% of the audited amount.

The SAO found that the MoA, as the RDP managing authority, issued subsidy provision rules that impacted negatively on the administration and implementation of projects and on the assessment of the effectiveness, efficiency and economy of spending. For example, these rules made it impossible to effectively verify the eligibility of expenditure and compliance with the dual financing ban. Unlike the rules for the other RDP axes, these rules did not deal with any system of corrections or penalties.

The MoA and the SAIF set themselves as beneficiaries markedly more benevolent conditions for utilising RDP finances than those that applied to other applicants for subsidies.

As beneficiaries, both the MoA and SAIF repeatedly violated the principles of transparency, equal treatment and non-discrimination when awarding contracts and claimed ineligible expenditure. In addition, the MoA wastefully bought promotional items worth a total of CZK 1 million. In the case of one project comprising consultation services for CZK 600,000 the MoA was completely unable to demonstrate what the money was used for.

Technical assistance was used to pay for promotional items with which the MoA was to inform the public about the RDP. When scrutinising the specific projects the auditors found that the MoA spent almost CZK 1 million on purchasing promotional items whose information value was zero. These items included sweets, bandages, fans, animal figurines and a puzzle. The MoA spent CZK 500,000 on the puzzle alone.

The MoA procured promotional items that gave the public no information about RDP measures. Buying them was therefore a waste of money.

135 Audit no. 14/07 – *EU and state budget funds earmarked for the implementation of the axis V of the Rural Development Programme*.

D.3.3 Audit work by the EU authorities in the CR

ECA annual report for 2013

The ECA annual report on the implementation of the budget for 2013 communicates the following key information:

Agriculture: market support and direct aid

The ECA's audits looked at a sample of 180 operations (164 of them coming under the IACS). 110 of these operations, i.e. 61%, were affected by error. The ECA estimates the most likely error rate at 3.6%. Based on its audits, the ECA concluded that payments in this area for 2013 were materially affected by error and the audited supervisory and control systems were partially effective.

The ECA recommended that Member States should ensure that eligibility and the size of agricultural parcels (and in particular permanent grassland) are correctly assessed and recorded. In addition, Member States should take remedial action where the IACS is found to be affected by systemic errors, and the debtors ledgers of the Member States should contain full and reliable information on the amounts and nature of debts. Applying these measures should ensure that the IACS is used to its full potential. The ECA also recommended that the Commission should ensure that the reinforcement of assurance procedure is effectively applied in order to enhance the quality and comparability of the work performed by audit bodies.

Rural development, the environment, fisheries and health

In its audit work the ECA looked at a sample of 177 operations, 54% of which were affected by error. The ECA estimates the most likely error rate at 6.7%. The ECA concluded that payments in this policy group for 2013 were materially affected by error and the audited supervisory and control systems were partially effective.

As regards rural development, the ECA recommended that Member States carry out their existing administrative checks better and make use of all relevant and available information. The ECA also recommended that Member States should ensure that action plans to address the high error rate in rural development are complete, by including all regions and addressing all measures. Above all, they should include investment measures and take the Commission's and ECA's findings into account. In the *Common Agricultural Policy* the ECA recommended that the Commission should document how it calculates the expenditure covered by its conformity audits, reduce the backlog of open audit files and further develop its approach to calculating the residual error rate by ensuring that it takes into account all expenditure and paying agencies. The ECA's other recommendations concerned the EFF, and specifically evidence of the validation of financial corrections intended for Member States.

ECA special reports issued in 2014

The European Court of Auditors published seven special reports focusing on agriculture, fisheries and forestry in 2014. The Czech Republic was selected for the audit sample in just one ECA audit and is mentioned in Special Report No. 22/2014[136].

Special Report No. 4/2014 [137]dealt with an ECA audit looking at whether the goals of the EU's water policy have been properly and effectively integrated into the CAP at both strategy level and implementation level. The ECA stated that this integration had been only partial and drew attention to deficiencies in both instruments used by the Commission to integrate water policy into the CAP (i.e. cross-compliance[138] and rural development) and to delays and shortcomings in

136 ECA Special Report No. 22/2014 – *Achieving economy: keeping the cost of EU-financed rural development grants under control.* Luxembourg, Publication Office of the European Union, 2014.

137 ECA Special Report 4/2014 – *Integration of EU water policy objectives with the CAP: a partial success*, Luxembourg, Publication Office of the European Union, 2014.

138 Cross-compliance – a mechanism making direct payments to farmers and a number of rural development payments conditional on compliance with a set rules applying to the environment, food safety, animal and plant health, good living conditions for animals...).

the implementation of the WFD[139]. The audit also found that monitoring and evaluation systems did not provide the information necessary for full information support for policy-making as regards the impact of agricultural activities on water, although it did find some useful initiatives.

Based on the identified deficiencies, the ECA recommends that the Commission should propose the necessary modifications to the current instruments (cross-compliance and rural development) or, where appropriate, new instruments capable of meeting the more ambitious goals with respect to the integration of water policy objectives into the CAP.

Special Audit No. 8/2014[140] deals with an ECA audit scrutinising the Commission's management of the calculation of payment entitlements, whether Member States' regulations complied with the conditions and principles laid down in EU legislation and whether the relevant authorities had introduced effective control systems ensuring the correct calculation and award of payment entitlements. Based on its audit, the ECA declared that the Commission's management of the integration of coupled support into the single payment scheme was only partially effective. The Commission did not sufficiently supervise the manner in which Member States calculated payment entitlements to EU aid for farmers in the single payment scheme in the 2010–2012 period. Member States did not always distribute the support in compliance with the policy's principles and objectives, which led to the inconsistent integration of coupled support into the single payment scheme.

From 2015 on, the basic payment scheme will also be based on payment entitlements. For that reason the ECA recommends that the Commission should establish clear guidelines and effectively supervise compliance with the applicable ceilings and ensure that payment entitlements whose values have not been calculated in accordance with the applicable rules are recovered.

In **Special Report No. 9/2014**[141] the ECA declares that the need for an investment measure under the wine CMO is not demonstrated, as similar aid already exists under the EU's rural development policy. The supplementary measure is a source of complexity and creates administrative obstacles. The ECA went on to state that the investment measure was not implemented with due regard to the principle of economy, as most Member States did not ensure that only viable projects received the aid. Large enterprises were also funded, which goes against the preference for small and medium-sized enterprises. The audit found that the costs of promotion measures were not sufficiently justified and beneficiaries would have borne the cost of the promotion actions without EU support.

The ECA recommends to rationalise the scheme, analysing the need for the measure and assessing whether the wine sector needs additional investment aid.

In **Special Report No. 10/2014**[142] the ECA declares that its audit examined whether EFF measures were well designed and implemented and whether they delivered value for money. The ECA stated that overall the EFF did not offer effective support for the sustainable development of aquaculture. At the EU level measures to support the sustainable development of aquaculture have not been well designed and monitored. The main objectives for the growth of the aquaculture sector have not been achieved to date and the sector has stagnated for many years. The projects audited in the Member States visited were often poorly selected and did not deliver the expected results, or value for money, and contributed little to growth and employment.

In the report the ECA recommends Member States to prepare and apply coherent national strategies for the development of the aquaculture sector and monitor project results more closely by setting and applying relevant indicators.

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139 WFD – Water Framework Directive (Directive 2000/60/EC of the European Parliament and of the Council).

140 ECA Special Report 8/2014 – *Has the Commission effectively managed the integration of coupled support into the Single Payment Scheme?,* Luxembourg, Publication Office of the European Union, 2014.

141 ECA Special Report 9/2014 – *Is the EU investment and promotion support to the wine sector well managed and are its results on the competitiveness of EU wines demonstrated?,* Luxembourg, Publication Office of the European Union, 2014.

142 ECA Special Report 10/2014 – *The effectiveness of European Fisheries Fund support for aquaculture,* Luxembourg, Publication Office of the European Union, 2014.

Special Report No. 22/2014 deals with an ECA audit that sought to verify whether the Commission and Member States used the most economical methods to keep the costs of rural development grants under control. These grants, i.e. spending on investment measures amounting to €100 billion, make up around half of EU rural development expenditure programmed for the 2007–2013 period.

In the report the ECA states that Member States' control systems addressed only some of the risks to economy or were flawed. The control systems focused on the prices of the items or works, with much less attention to whether the items themselves were reasonable or if the grant was cost-effective in relation to the policy objectives. The main methods used to check grant applications for reasonable prices were to compare offers from different suppliers or to compare to reference prices. According to the ECA, some Member States gave little assurance that the costs were reasonable — using reference prices that were 30% above real market prices, for example.

The ECA recommended that, before expenditure is committed in the new programming period 2014–2020, the Commission and Member States ensure that the approaches followed for all RDPs address the risks described in this report. It also recommended that the Commission and Member States check early in the new programming period that the systems operate efficiently and are effective.

Special Report No. 23/2014[143] dealt with an ECA audit examining the main causes for the high error rate in rural development and to what extent they are being effectively addressed by the Commission and Member States. The ECA found that the main reason for the high error rate in expenditure was the complexity of rural development policy and Member States' deficient control systems. Investment measures, mainly grants for the purchasing of farm machinery and food processing machinery, accounted for two thirds of the error rate, while area-related aid accounted for one third. In the case of investment measures, non-compliance with the public procurement rules accounted for the largest single share of the error rate. In the case of area-related aid, the main reasons are non-compliance with farming commitments, or non-compliance with agri-environment conditions, and the low effectiveness of the sanctions system.

Special Report No. 24/2014 [144]deals with an ECA audit that found that support for the prevention of forest fires and for restoring forestry potential in forests damaged by natural disasters and fire was not well managed and that the Commission and Member States cannot demonstrate that the intended results were achieved in a cost-effective way. In the report the ECA recommends that Member States should select the prevention actions based on explicit criteria, prioritise the actions in the most environmentally valuable forests (e.g. *Natura 2000* forest areas) and ensure that only actions linked to natural disasters or fire are supported.

D.4 Other EU financial instruments

Other EU financial instruments include finances allocated from the EU budget directly to applicants by public tender and not through individual Member States. To become a successful applicant and utilise the funds from other financial instruments, one has to ensure that their project is successful in the face of direct international competition.

Other financial instruments are mostly managed directly by the relevant unit of the Commission under centralised management and merely have a contact point at the programme coordinators in the Member States. There are exceptions, however: for example, the programmes *Lifelong Learning* and *Youth in Action* are implemented indirectly through national agencies that are entities of the Member States.

143 ECA Special Report 23/2014 – *Errors in rural development spending: what are the causes, and how are they being addressed?,* Luxembourg, Publication Office of the European Union, 2014.

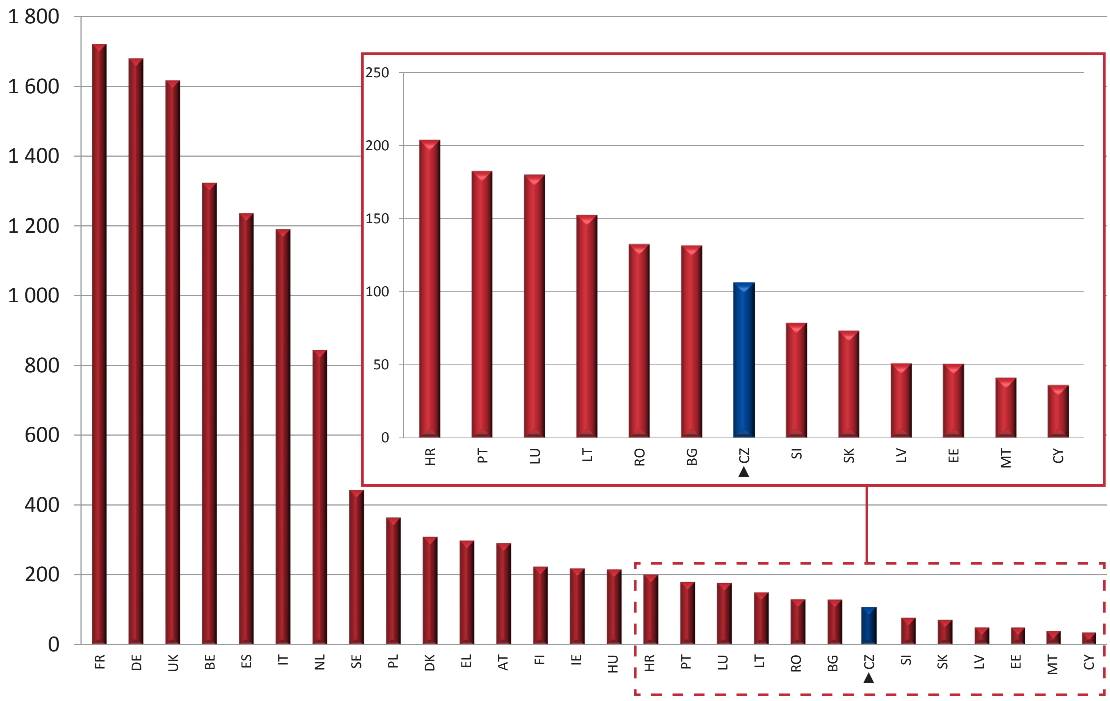
144 ECA Special Report 24/2014 – *Is EU support for preventing and restoring damage to forests caused by fire and natural disasters well managed?,* Luxembourg, Publication Office of the European Union, 2014.

Other financial instruments as a small part of the EU budget are mostly covered by the budget headings *Sustainable Growth*, *Citizenship, Freedom, Security and Justice* and *The EU as a Global Player.* They are mainly financed through a wide range of **Community programmes**; other sources of financing include the **IPA**[145], the ***European Union Solidarity Fund*** and funds for the EU's migration and asylum policy under the programme ***Solidarity and management of migration flow***.

The goal of the support provided under other financial instruments is to deliver more effective solutions to common problems in the EU's various policies and to increase the extent of cooperation between Member States and their entities. Two essential conditions for gaining support are that a **partnership between entities** from different states has to be established and **European added value** has to be created by supranational projects.

In 2013 the largest quantities of finances under other financial instruments were drawn down by France (€1,722.1 million), Germany (€1,680.4 million) and Great Britain (€1,617.9 million). The smallest shares of these resources were obtained by entities in Lithuania (€51.2 million), Estonia (€51.0 million), Malta (€41.3 million) and Cyprus (€36.4 million). After the sharp decline in the utilisation of other financial instruments by the CR in 2012, a fall of almost 26%, (CR gained approx. €80.0 million), in 2013 the country returned almost to the 2011 level, drawing down €105.1 million. The following graph shows the drawdown of finances under other financial instruments in EU Member States in 2013.

Graph 20 – Drawdown of finances from other financial instruments in EU Member States in 2013 (with close-up section) (€ million)



Source: *EU Budget 2013 – Financial Report*, European Commission 2014, http://ec.europa.eu/budget/figures/interactive/index_en.cfm.

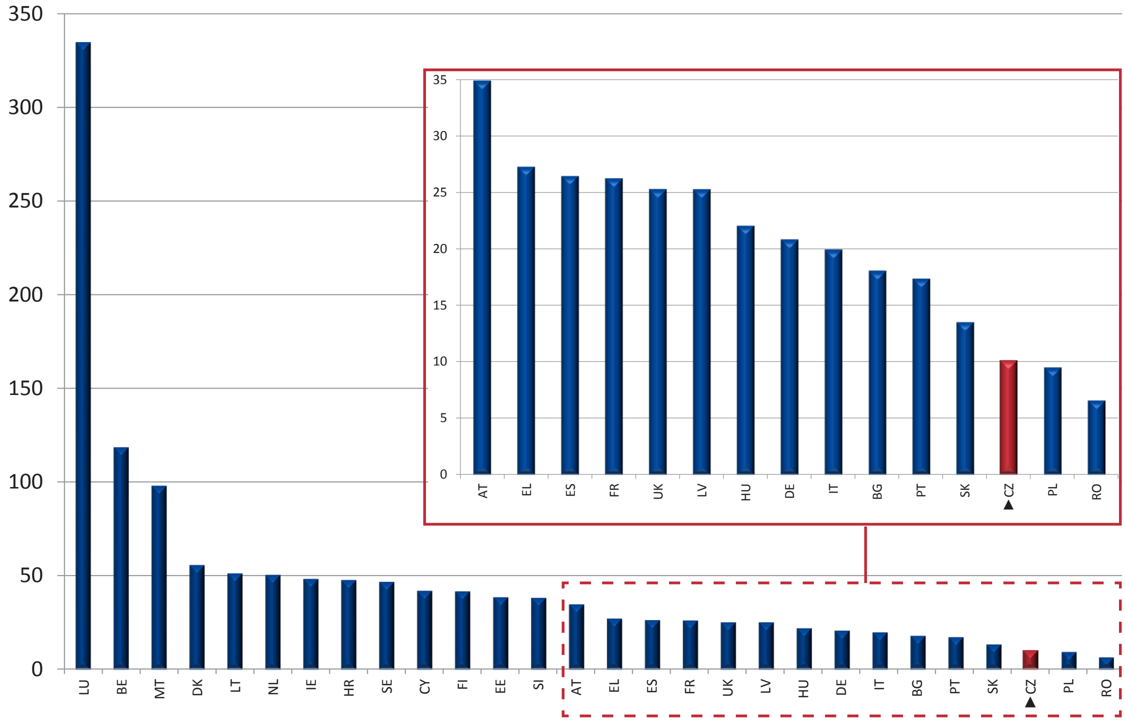
145 *Instrument for Pre-accession Assistance.*

In terms of how other financial instruments are used and the goals they are used to deliver, the per capita drawdown level is particularly telling. From that perspective, the CR remains in its traditional position at the bottom of the success rate in the EU, along with Poland and Romania. **Drawdown per inhabitant of the CR is just €10.13**, whereas the average figure is €47.03. The table is topped by Luxembourg with a per capita drawdown of €334.87.

Considering the revenues that flow into other EU Member States from other financial instruments, it is fair to say that Czech applicants have for long been unsuccessful in public competition for support provided under other financial instruments. In 2013, the proportion of the drawdown from these sources across the EU accounted for by the amounts drawn down in the CR was 0.8%.

This comparison is visualised in Graph 21, which shows the per capita utilisation of other financial instruments by entities in EU Member States.

Graph 21 – Per capita drawdown of finances from other financial instruments in EU Member States in 2013 (with close-up section) (€)



Source: *EU Budget 2013 – Financial Report*, European Commission 2014, http://ec.europa.eu/budget/figures/interactive/index_en.cfm, http://europa.eu/about-eu/countries/member-countries/index_cs.htm.

D.4.1 Other EU financial instruments in the CR

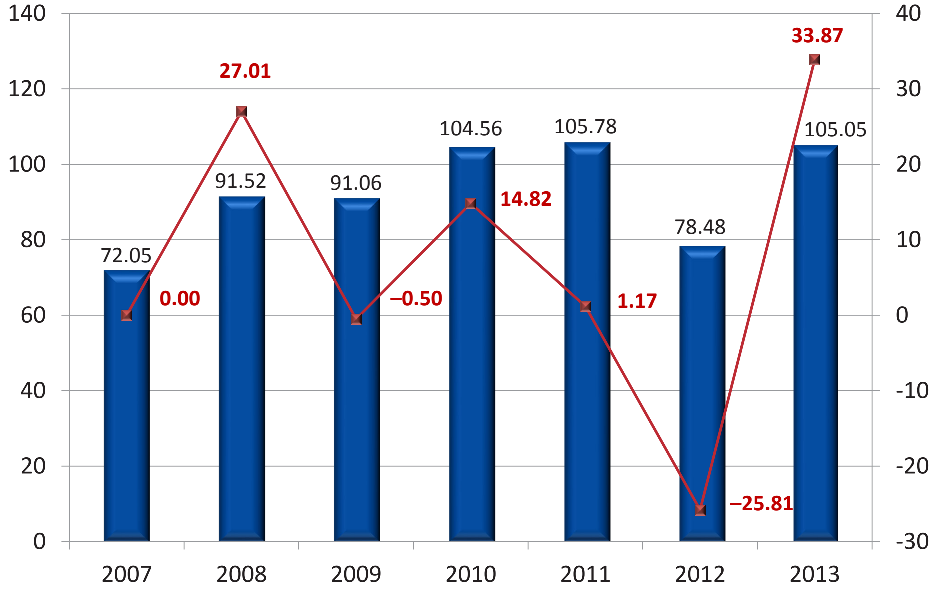
The total revenues entities in the CR obtained from other financial instruments in 2013 amounted to €105.05 million[146] (approx. CZK 2.73 billion[147]).

The following graph shows the drawdown of finances from other EU financial instruments in the CR in the years 2007 to 2013 (blue columns) and the year-on-year changes in percentage terms (red line).

146 *EU Budget 2013 – Financial Report*, European Commission 2014, http://ec.europa.eu/budget/figures/interactive/index_en.cfm.

147 The Czech National Bank's average exchange rate for 2013 was used for the conversion: 25.974 CZK/€.

Graph 22 – Drawdown of finances from other financial instruments in the CR in the years 2007–2013 (€ million) and year-on-year changes in drawdown (%)

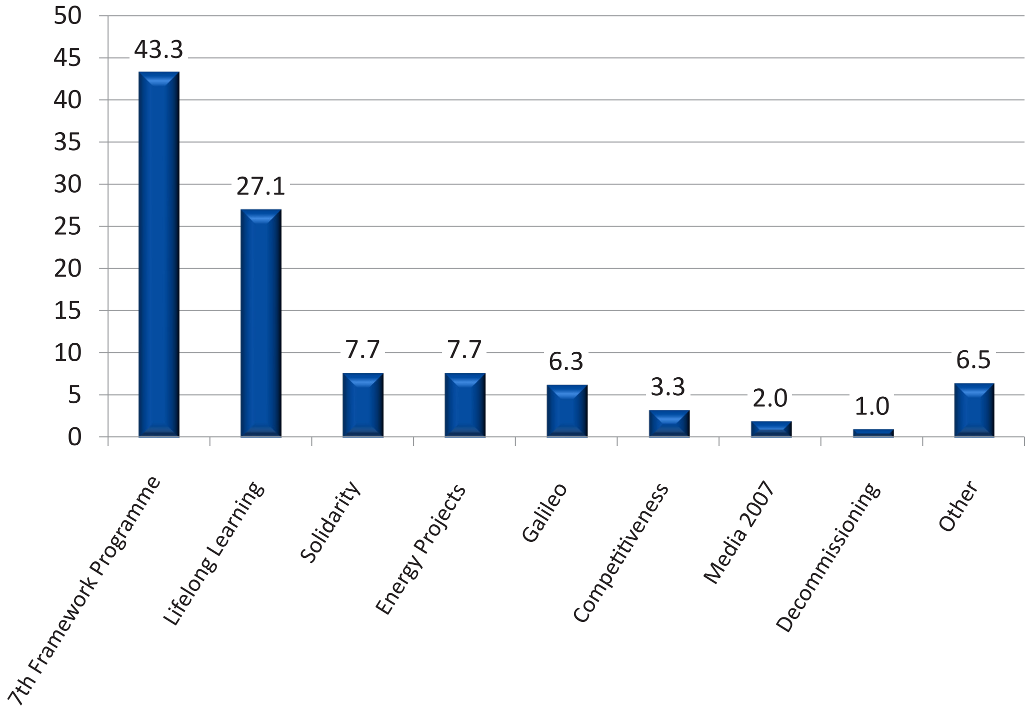


Source: *EU Budget – Financial Reports* for 2007–2013, European Commission 2008–2014.

The graph shows that there was a gradual increase in the utilisation of these resources by entities in the CR in the first years of the 2007–2013 programming period. From 2010 annual drawdown stagnated at around €105 million, with the exception of the decline in 2012.

Graph 23 presents a detailed overview of the drawdown of other financial instruments in the CR in 2013.

Graph 23 – Utilisation of other financial instruments in the CR in 2013 (€ million)



Source: *EU Budget 2013 – Financial Report*, European Commission 2014, http://ec.europa.eu/budget/figures/interactive/index_en.cfm.

NB: In 2013 entities in the CR also utilised other financial instruments that are bunched together under the *"Others"* column. These are the instruments *Life+*, *Communication*, *Security and Protection of Freedoms*, *Other Actions and Programmes*, *Social Agenda*, *Public Health and Consumer Protection*, *Fundamental Rights and Justice*, *Culture 2007–2013*, *TEN*, *Customs 2013 and Fiscalis 2013*, *Europe for Citizens*, *Youth in Action*, *Pre-accession Instrument (IPA)* and *Decentralised Agendas*.

Full names of the financial instruments abbreviated in the graph:
7th Framework Programme – *Seventh Framework Programme for Research, Technological Development and Demonstration Activities*; Solidarity – *Solidarity and the Management of Migration Flows*; Energy Projects – *Energy Projects for European Economic Recovery*; Competitiveness – *Competitiveness and Innovation*; Decommissioning – *Decommissioning (Direct Research)*.

D.4.2 Audit work by the EU authorities and SAO

In October 2014 the European Court of Auditors published a special report No 15/2014 on its audit of the [148]External Borders Fund *(EBF) examining processes linked to the effectiveness of the EBF, EU added value and the achievement of the objectives of programmes and projects.* The audit comprised 31 on-the-spot visits to completed projects, a desk review of seven completed projects and a separate audit (Spain). None of the "subjectively" selected projects was implemented in the CR. The audit showed that the EBF has contributed to external border management but the overall result could not be measured because programmes lacked SMART[149] objectives. The audit found serious shortcomings. The ECA concluded that these weaknesses lead to the risk that border management is not adequately strengthened where it is most needed.

148 ECA Special Report 15/2014 – *The External Borders Fund has fostered financial solidarity but requires better measurement of results and needs to provide further EU added value*. Luxembourg, Publication Office of the European Union, 2014.

149 Contraction of Specific, Measurable, Aligned, Realistic and Timed.

The Supreme Audit Office did not conduct any audits focusing on other financial instruments in 2014, even though the SAO constantly monitors the use of these instruments. The SAO pays heightened attention to the issue of measures financed under *Solidarity and the Management of Migration Flows* and included in its audit plan for 2015 audit no. 15/24, entitled *Funds earmarked for the implementation of EU asylum and migration policy objectives*. This audit will be begun during 2015 and its results will be published in *EU Report 2016.*

E. Other activities

E.1 Legal matters

In 2014 neither the Chamber of Deputies nor the Senate of the Parliament of the Czech Republic, nor any organs thereof, made use of their authorisation to ask the SAO's opinion on draft legislation concerning budgetary management, accounting, state statistics and the performance of audit, supervisory and inspection work, as provided for by Article 6 of Act No. 166/1993 Coll., on the Supreme Audit Office, as amended ("the Act on the SAO").

In 2014 the legislative processes seeking to widen the SAO's mandate by changing the constitution and to address technical matters by means of an amendment of the Act on the SAO went ahead.

- At the 8th session of the Chamber of Deputies held on 14 May 2014, a draft constitutional act amending Constitutional Act No. 1/1993 Coll., the Constitution of the Czech Republic, as amended, and specifically amending Article 97 (1) of the Constitution governing the powers of the SAO, was approved. The proposed wording provides that the SAO, as an independent body, audits the management of public finances and finances provided from public budgets and the management of the assets of legal persons of a public nature and of territorial self-governing units. The Senate did not debate this proposal before the end of 2014.
- On 3 July 2014 the government put before the Chamber of Deputies a draft act amending the Act on the SAO. This is a technical amendment designed to adapt the wording of the Act on the SAO to the current state of the legislation impacting on the work of the SAO. The amendment was passed in March 2015 and takes effect on 1 July 2015.

The Supreme Audit Office presented its own findings in relation to the necessary legislative amendments at sessions of the Committee on the Budgetary Control of the Chamber of Deputies in connection with discussion of audit findings, e.g.:

- In 2014 the Chamber of Deputies and the Senate debated a government bill amending Act No. 250/2000 Coll., on the budgetary rules for territorial budgets. The proposed wording made allowance for the SAO's comment which, further to findings made in audit no. 09/26, drew attention to the issue of grants being provided by regional councils of cohesion regions under private-law contracts. The draft amendment provides that grants or returnable financial assistance are to be provided on the basis of public-law contracts.
- The Chamber of Deputies and the Senate also debated a government bill amending the budgetary rules. The aim of the draft is to make it possible, in respect of subsidies co-funded by the EU, to define reduced fines for breaches of budgetary discipline by means of a fixed percentage and to apply the reduced subsidy before payment to other cases than just cases of breaches of the public procurement rules. The government bill was a response to the EU's requirements expressed in the *Action Plan to Improve the Functioning of Management and Control Systems for the Structural Funds in the Czech Republic* and to the SAO's findings presented in audit conclusions touching on this issue. Both acts were passed in January 2015.

In an inter-departmental consultation process conducted pursuant to the Government's Legislative Rules, the SAO gave its opinion on draft legislation that concerned it as an organisational unit of the state or fell within its competence. The SAO obtained a total 179 legislative drafts in 2014. The SAO made specific comments, stemming primarily from its audit findings, on 73 of them. For example:

- In comments on a draft act of the MfRD amending Act No. 248/2000 Coll., on support for regional development, as amended, and certain other acts, the SAO drew attention to the still-unresolved issue of **delegating the exercise of audit work to an intermediate body** that is not the subsidy provider. This issue is linked to the part of the draft act concerning the conclusion of agreements between regional councils and managing authorities, under which agreements the regional councils are to carry out the tasks of an intermediate body to the extent specified in the agreements. The treatment of this issue was incorporated into the modified draft act by the MfRD.

- In 2014, the SAO's comments in the inter-departmental consultation process were also directed at the draft act on internal management and control in public administration, which was submitted by the MoF and is supposed to supersede the existing Act No. 320/2001 Coll., on financial control in public administration and amending certain acts (the Financial Control Act). The SAO raised a number of specific comments on the draft act, including comments on the issue of the audit of finances provided from the EU budget. The consultation process was not completed by the end of 2014.

In its audit conclusions the SAO made certain recommendations for legislative amendments, e.g.:

- The *National Policy of Science, Development and Innovation of the Czech Republic for the Years 2009–2015* [150] envisages that finances provided out of the Prague OPs will be provided according to Act No. 130/2002. Article 4 (2) (c) of Act No. 130/2002, on support for research, experimental development and innovation, as amended, does not mention these OPs, however, and Prague's project administration does not proceed according to it in practice.[151] The SAO proposed changing this state of affairs by an amendment of Act No. 130/2002 (audit conclusion of audit no. 14/09).

E.2 International activities of the SAO

The main aim of the SAO's international activities is to gain and provide information, experience and good practice concerning external audit of public finances. To this end, the SAO is actively engaged in international organisations, performs coordinated audits with other supreme audit institutions ("SAIs"), cooperates with European institutions during audits conducted in Czech territory and shares the information it gains abroad with all concerned parties in the CR.

One integral part of information and experience sharing between the SAO and foreign partners is the holding of regular meetings between senior representatives of the SAO and ambassadors of EU countries in the CR together with representatives of the Ministry of Foreign Affairs and the Representation of the European Commission in the CR. The participants at the meetings are informed about current developments in the SAO's audit of European finances, international events organised by the SAO, changes in the SAO's organisation and status and the report on the financial management of EU finances in the CR for the previous year.

Joint audits with SAIs of EU Member States

On 28 March 2014 the presidents of the SAO and the SAI Poland approved and signed a joint report summarising the results of the two institutions' coordinated audit of

150 The material was approved by government resolution no. 729 of 8 June 2009.

151 Chapter V.2, p. 31: *"The implementation of the proposed activities and financial support for the proposed programmes make maximum use of finances from the EU Structural Funds that can be used for the development of the knowledge economy in the 2007–2013 programming period (some of the finances will be drawn down into 2015), i.e. OPRDI, OPPI, OPVK, OPPC and OP Prague – Adaptability. 15% of the support for research and development out of the EU Structural Funds is co-financed out of the state budget. In the period up to 2013, or where applicable 2015, these finances will be provided in accordance with the amendment of Act No. 130/2002 Coll., on support for research and development (by Act No. 110/2009 Coll.), in the form of institutional support,..."*

OP *Cross-Border Cooperation Czech Republic-Poland 2007–2013*[152]. The audit scrutinised activities linked to the implementation of projects, the involved authorities' management and control systems and the effectiveness of projects in achieving the programme's goals.

During the audit the SAO identified shortcomings in the CEDR III information system as regards the publishing of correct, complete and up-to-date information on provided subsidies. The SAO stated that the identified ineligible expenditure in the audited sample of projects did not exceed the materiality threshold and, last but not least, described the OP management and control system as partially effective.

In 2014 the SAO and the SAI of Slovakia commenced preparatory talks on an audit in the field of taxation. The talks focused on issues linked to the administration of excise duties and VAT on services. The proposed audit should answer questions regarding the new tax legislation in the CR, enable the detection of risks in this area and reveal the reasons for the increased incidence of tax evasion. The preparatory talks in Prague and Bratislava clarified the focus, subject and goals of the proposed audit.

Audit missions of European institutions in the CR

The ECA fulfils the key role in external audit of EU budget finances. In 2014 the ECA undertook 10 audit missions in the CR, during which the SAO coordinated information exchange between the ECA and the audited entities. SAO auditors took part in these missions as observers.

In selected cases the SAO assists the ECA by acquiring materials for studies being drawn up in survey work or by verifying information. An overview of the ECA audit missions, including correspondence enquiries, is presented in Appendix 4.

SAO auditors did not take part in any Commission audit mission in 2014. The focus and times of audit missions conducted by the Commission in the CR during 2014 are given in Appendix 5.

International cooperation in the context of Contact Committee activities

Activities linked to the CR's membership of the EU make up a fundamental part of the SAO's international cooperation. One of these is the SAO's work in the Contact Committee[153] ("CC") comprising heads of supreme audit institutions in the EU and the European Court of Auditors. SAO representatives are active in the CC's working groups and networks, especially those dealing with the Structural Funds, Common Agricultural Policy, the publishing of reports on the management of EU finances, value added tax, EPSAS and cooperation between SAIs and national statistics authorities and Eurostat.

In 2014, SAO representatives were most active in the CC Working Group on EPSAS, which was formed in 2013 on the initiative of the CC and Eurostat. The task force is mandated to assess the suitability of uniform public sector accounting standards for the EU (known as "EPSAS"), which should facilitate the comparison of statistical accounting data in the EU. The group will then monitor the process of drawing up EPSAS and will cooperate with the task force established by the Commission for the implementation of EPSAS in the EU.

The SAO also took part in a meeting of the Working Group on Structural Funds held in The Hague and dealing with the preparation of a joint audit targeting errors in public procurement detected by a managing authority, audit body or certifying authority. The audit also incorporated the findings of other entities involved in the audit of programmes co-financed out of the EU Structural Funds, such as the Commission and ECA. The various countries selected programmes for audit on the basis of data availability and compiled their own audit sample from projects done as public contracts.

152 Joint report published at http://www.nku.cz/assets/publikace/spolecna-zprava-kontrola-opps-cr-polsko-2007-2013.pdf.

153 More information on the Contact Committee can be found at www.contactcommittee.eu.

At the end October 2014 the SAO organised an international seminar with the title *Audit of State Budget Revenues*, which was a platform for sharing experience, problems and best practice. The seminar was attended by 65 representatives of 23 SAIs of EUROSAI member countries and ECA representatives. The main topics of the seminar were defined as follows:

- audit of tax revenues and the fight against tax evasion and fraud;
- audit of the creation and implementation of the state budget and audit of the state closing account;
- good practice from conducted audits that SAIs can share;
- the most problematic areas SAIs are confronted with during audits.

During the seminar, experiences were presented and recommendations shared for the correct preparation, implementation and assessment of revenues audit.

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15. Audit conclusion of audit no. 13/28 – *Support for fisheries in the Czech Republic in accordance with Operational Programme Fisheries in 2007–2013*
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Appendices

Appendix 1 – Programmes approved by the European Commission for the Czech Republic whose managing authorities are Czech entities

Appendix 2 – Overview of ECA performance audits for the 2004–2014 period conducted, inter alia, in the CR and summary of the key results according to ECA´s special reports

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Appendix 1 – EC approved programmes for the CR which are managed by Czech entities

- **Programming period 2004–2006**

- Horizontal Rural Development Plan of the CR
- *Single programming document for Objective 2*
- *Single programming document for Objective 3*
- Operational Programme *Infrastructure*
- Operational Programme *Industry and Enterprise*
- Operational Programme *Human Resources Development*
- Operational Programme *Rural Development and Multi-Functional Agriculture*
- *Community Initiative Programme INTERREG IIIA Czech Republic – Poland*
- Joint Regional Operational Programme

- **Programming period 2007–2013**

- Operational Programme *Transport*
- *Integrated Operational Programme*
- ROP *South-East*
- ROP *South-West*
- Operational Programme *Human Resources and Employment*
- ROP *Moravia-Silesia*
- Operational Programme *Enterprise and Innovation*
- Operational Programme *Prague – Adaptability*
- Operational Programme *Prague – Competitiveness*
- *Rural Development Programme CR for 2007–2013*
- *Operational Programme Cross-Border Cooperation Czech Republic – Poland 2007–2013*
- Operational Programme *Fisheries 2007–2013*
- ROP *North-East*
- ROP *North-West*
- ROP *Central Bohemia*
- ROP *Central Moravia*
- Operational Programme *Technical Assistance*
- Operational Programme *Research and Development for Innovation*
- Operational Programme *Education for Competitiveness*
- Operational Programme *Environment*

- **Programming period 2014–2020**

- Operational Programme *Transport*
- *Integrated Regional Operational Programme*
- Operational Programme *Enterprise and Innovation for Competitiveness*
- Operational Programme *Prague – Growth Pole CR*
- *Operational Programme Cross-Border Cooperation Czech Republic – Poland 2014–2020*
- *Rural Development Programme CR for 2014–2020*
- Operational Programme *Fisheries 2014–2020*
- Operational Programme *Technical Assistance*
- Operational Programme *Research, Development and Education*
- Operational Programme *Employment*
- Operational Programme *Environment*

Appendix 2 – The results of the ECA's performance audits for the 2004–2014 period carried out in CR as an on-the-spot audit or in a special form, so-called desk review; for which results were issued in the form of special reports

Year	Area	Report No.	Findings	Result for the whole audit sample
2014	SP	7/2014	***Has the ERDF successfully supported the development of business incubators?*** The performance of audited incubators was modest. At the level of the managing authority, management systems were too focused on output and did not pay sufficient attention to the operational activity of business incubators. In particular, the procedure for selecting incubators for co-funding had not given due consideration to several elements which are crucial for incubation activity such as staff qualifications, the scope and relevance of incubation services and financial sustainability.	☹
	SP	12/2014	***Is the ERDF effective in funding projects that directly promote biodiversity under the EU biodiversity strategy to 2020?*** The Court concluded that available ERDF financing opportunities have not been exploited to their full potential by the Member States. Although ERDF co-funded projects match Member State and EU priorities, efforts must be made to monitor their actual contribution and ensure that their effects will last.	😐
	SP	22/2014	***Achieving economy: keeping the costs of EU-financed rural development project grants under control*** Some member states do not sufficiently ensure the control of economical use of funds. More effective approaches were available but were not widely applied. There is significant potential that by using reliable approaches real savings can be made.	😐
2013	AG	6/2013	***Have the Member States and the Commission achieved value for money with the measures for diversifying the rural economy?*** Value for money was provided only to a limited extent. This was due to a lack of clear needs for intervention or specific objectives set in the RDP s, broad eligibility criteria adopted that did not limit the projects to those most likely to achieve diversification and selection criteria that did not choose the most effective projects. At the start of the programming period, the selection of projects was driven more by a need to spend the allocated budget than by the quality of the projects themselves. In some Member States, all eligible projects were funded where sufficient budget was available regardless of how the project was assessed.	😐
	AG	12/2013	***Can the Commission and Member States show that the EU budget allocated to the rural development policy is well spent?*** The objectives set for rural development expenditure were not sufficiently clear. There was insufficient information on monitoring and evaluation of the results, therefore the information provided by Member states is not reliable, consistent and relevant. Therefore, it is difficult to demonstrate the extent to which the objectives set have been met and that the EU's budget has been spent effectively and efficiently. Member states and EC focused too much on the budget drawdown and less on the efficient fulfilment of the objectives.	😐
	AG	18/2013	***The Reliability of the results of the Member States´ checks of the Agricultural expenditure*** The systems in place for administrative and on-the-spot checks were only partially effective in detecting irregular expenditure, thus seriously undermining the reliability of the information the Member States provided about the expenditure on agriculture. The work carried out at present by the certification bodies did not provide sufficient assurance either on the adequacy of the on-the-spot checks or on the reliability of the statistical reports. The information system at present available to the Commission does not effectively serve the Commission's needs. Some of the information currently made available is not fully relevant or is incomplete and inaccurate.	😐

Year	Area	Report No.	Findings	Result for the whole audit sample
2012	SP	3/2012	***Structural funds: Did the Commission successfully deal with deficiencies identified in the Member States´ management and control systems?*** The relevant authorities were requested (OP Industry and Enterprise in CR) to verify the expenditure related to specific problems (e.g. compliance with public procurement rules). EC audits focused on implemented measures concluded that verification systems in place are not reliable as several problems were not identified or inappropriate financial corrections were suggested. The authorities were requested to recalculate the error rate and take into account the EC findings.	😐
	SP	14/2012	***Implementation of EU hygiene legislation in slaughterhouse of countries that joined the EU since 2004.*** The audit showed that the overall system conception for the supervision of hygiene requirements by EC and Member states was sufficient. The audit revealed weaknesses in the application of the rules and procedures in the Member States visited. These weaknesses do not call into question the overall design of the systems but demonstrate the need for increased rigour in the application of checks at all levels. Apart from that, shortcomings related to sustainability and selection of the projects financed were revealed.	😐
	SP	21/2012	***Cost-effectiveness of cohesion policy investments in energy efficiency.*** The Court recommends that the Commission make the Cohesion Policy funding for energy efficiency measures subject to a proper needs assessment, regular monitoring and the use of comparable performance indicators as well as the use of transparent project selection criteria and standard investment costs per unit of energy to be saved, with a maximum acceptable simple payback period.	😐
	OFI	22/2012	***Do the European Integration Fund and European Refugee Fund contribute effectively to the integration of third-country nationals?*** Incoherent conception of EU funds and shortcomings in the management and control system make the funds ineffective. There is a lack of effective monitoring and evaluation systems, together with shortcomings in programme objectives. Moreover, there are missing indicators providing comparable figures.	😐
	SP	23/2012	***Have EU structural measures successfully supported the regeneration of industrial and military brownfield sites?*** The results of remediation works are not always appropriately certified and there are wide differences between national soil contamination screening values. While most projects achieved their objectives in terms of physical outputs, in many cases the intended future occupation of the redeveloped land and buildings has not materialised; job creation has been lower than expected. EC proposed a new directive for a land protection framework.	😐
2010	AG	6/2010	***Has the reform of the sugar market achieved its main objectives?*** The reform process has not fully ensured the future competitiveness of the EU sugar industry. Implemented measures had a limited impact on increase of competitiveness and the current quota system is similarly rigid as the previous one. It is expected that the EU sugar industry will be affected by external pressure in future.	😐

Year	Area	Report No.	Findings	Result for the whole audit sample
2009	SP	12/2008	***The instrument for structural policies for pre-accession (ISPA), 2000–06*** National strategy ISPA and coherent strategic framework proved to be a good programming instrument, but not all projects were well prepared by the beneficiaries. A reason for that was the delay in producing three important documents by EC very late. Projects were not implemented according to planning; there were significant delays and considerable changes in the financing plans.	😐
2008	AG	4/2008	***Special Report concerning the implementation of milk quotas in the Member States which joined the European Union on 1 May 2004 together with the Commission´s replies*** Most of the shortcomings and problems are a natural part of the initial phase of the system implementation.	😐

Source: ECA Special reports published at their official website:
http://www.eca.europa.eu/en/Pages/AuditReportsOpinions.aspx.
Note: Last column gives a subjective assessment of audit results for the whole audit sample not only for CR and its auditees.
Audited area – SP – structural policy, AG – agriculture and OFI – other financial instruments.

Appendix 3 – Overview of OP drawdown in the programming period 2007–2013 as of 31. December 2014

Operational Programme	Fund	Allocation 2007–2013	Spent from allocation		Amount to be spent until the end of programming period	
		€ million	€ million	%	€ million	%
OP *Transport*	ERDF	1,217.9	965.5	79.3%	252.3	20.7%
	CF	4,603.6	2,438.8	53.0%	2,164.9	47.0%
OP *Environment*	ERDF	602.1	455.9	75.7%	146.1	24.3%
	CF	4,041.1	2,939.2	72.7%	1,101.9	27.3%
OP *Enterprise and Innovation*	ERDF	3,120.7	2,409.7	77.2%	711.0	22.8%
OP *Human resources and Employment*	ESF	1,896.8	1,387.8	73.2%	509.1	26.8%
OP *Research and Development for Innovation*	ERDF	1,828.2	1,259.4	68.9%	568.8	31.1%
Integrated Operation Program	ERDF	1,615.2	1,062.4	65.8%	552.8	34.2%
OP *Education for Competitiveness*	ESF	1,661.5	1,223.9	73.7%	437.6	26.3%
OP *Technical Assistance*	ERDF	145.7	118.3	81.2%	27.4	18.8%
ROP *North-West*	ERDF	708.1	500.6	70.7%	207.5	29.3%
ROP *Moravia-Silesia*	ERDF	751.0	557.2	74.2%	193.8	25.8%
ROP *South-East*	ERDF	720.4	557.8	77.4%	162.6	22.6%
ROP *Central Moravia*	ERDF	672.2	525.4	78.2%	146.8	21.8%
ROP *North-East*	ERDF	671.3	513.9	76.6%	157.4	23.4%
ROP *South-West*	ERDF	633.7	471.2	74.4%	162.4	25.6%
ROP *Central Bohemia*	ERDF	571.7	437.8	76.6%	133.9	23.4%
OP *Prague – Competitiveness*	ERDF	243.2	188.1	77.3%	55.1	22.7%
OP *Prague – Adaptability*	ESF	114.5	83.4	72.9%	31.1	27.1%
OP Cross-Border Cooperation CR–PL	ERDF	219.5	169.4	77.2%	50.1	22.8%
OP *Fisheries 2007–2013*	ERF	27.1	19.0	70.0%	8.1	30.0%
ERDF		**13,720.7**	**10,192.6**	**74.3%**	**3,528.1**	**25.7%**
ESF		**3,672.8**	**2,695.0**	**73.4%**	**977.8**	**26.6%**
CF		**8,644.8**	**5,378.0**	**62.2%**	**3,266.8**	**37.8%**
ERF		**27.1**	**19.0**	**70.0%**	**8.1**	**30.0%**
Total		**26,065.4**	**18,284.6**	**70.1%**	**7,780.8**	**29.9%**

Source: MoF, department National Fund, 2015; MSC2007, 31 March 2015

Note: Total allocation was reduced by the automatic cancellation of commitment for 2013 for OPE, OPHRE (goal 2), IOP (goal 2), OPEC and OPTA.
For OPRDI, OPTA, ROPNW, OPPA and IOP (goal 2) was the allocation also reduced by the automatic cancellation of commitment for 2014.

Appendix 4 – Overview of the ECA audit missions in 2013 and 2014

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

Year		Date of execution	Audit subject (programme)	Audit type (DAS/ Performance audit)	Audit form (on-the-spot/ /survey)
2014	1	17.–21. 2.	*Cohesion Fund*, OP *Transport*	DAS	on-the-spot
	2	May–June	OP *Prague – Competitiveness*	DAS	on-the-spot
	3	16.–27. 6.	OP *Education for Competitiveness*	DAS	on-the-spot
	4	June–October	OP *Research and Development for Innovation*	DAS	on-the-spot
	5	18.–22. 8.	*European Agriculture Guarantee Fund*	DAS	on-the-spot
	6	23.–26. 9.	*Are the Commission and the Member Statres taking appropriate and effective actions to address the problem of public procurement errors in the Cohesion area?*	Performance audit	on-the-spot
	7	29. 9.–3. 10.	*European Agricultural Fund for Rural Development*	DAS	on-the-spot
		10.–13. 11.	Excessive Deficit Procedure	Performance audit	on-the-spot
		24.–28. 11. 8.–9. 12.	Performance audit on EU rail freight transport interventions (2007–2013 programming period)	Performance audit	on-the-spot
		December-January	*European Social Fund, OP Education for Competitiveness*	DAS	on-the-spot
		February	Survey of the effects of microfinincing in the European market conducted within an performance audit of the ECA		survey
		April	*Performance audit of railway projects coofinanced in the programming period 2007–2013 and Cohesion fund*		survey
		April	Survey of educational infrastructure projects coofinanced from ESF and ERDF		survey
		May	Survey within a performance audit of technical assistance in agriculture and rural development		survey
		June	Questionnaire related to unfulfilled implementation of financial instruments within the articles 50–52 of EC provision No 1974/2006 EAFRD		survey

Appendix 5 – Overview of Commission´s audit and verification missions in 2013 and 2014

Year	Audit mission	Operational programme	Auditees	Audit subject	Final report
2013	DG Empl	OP *Prague – Adaptability*	MA, AA	MCS system audit/ /operations audit	Yes Correction 10% for expenditure on calls of interest contracted until 15.3.2014 and 5% for the remaining expenditure approved by MA before 1.7.2012
	DG Regio	ROP *Central Bohemia*	MA, AA	MCS system audit/ /operations audit	Yes Correction 5% for all payments between 1.1.2007 and 31.8.2012
	DG Regio	ROP *North-West*	MA	MCS system audit	Yes
	DG Empl	OP *Prague – Adaptability*, OP *Education for Competitiveness*, OP *Human Resources and Employment*	PCA	System audit	Yes individual correction
	DG Regio DG Mare	OP *Enterprise and Innovation*, ROP *North-West*, ROP *South-East*, *Integrated Operational Programme*, OP *Transport*, OP *Environment*, OP *Fisheries 2007–2013*	PCA	System audit	Yes
	DG Regio	ROP *North Moravia*	AA	System audit	Yes
	DG Regio	All OP, in detail OP *Transport*, OP *Prague – Competitiveness*, ROP *North Moravia*	Horizontal audit		Yes individual plan approved
	DG Regio	OP *Enterprise and Innovation*			No All area correction required
	DG Mare	OP *Fisheries 2007–2013*	All entities involved in OP implementation	System audit	Yes
	DG Mare	OP *Fisheries 2007–2013*		System audit	Yes
2014	DG Regio	ROP *South-West*	AA	System audit	No
	DG Empl DG Regio	-		Public procurement for broadcasting services	No inadequate EU directive transposition
	DG Empl	OP *Education for Competitiveness*	MA		No
	DG Regio				No
	DG Regio	OP *Education for Competitiveness*			No

Appendix 6 – Overview of the SAO audits completed between 15 April 2014 and 31 March 2015 focused partly or completely on EU funds

Audit No.	Audit subject	Published in the SAO Bulletin (Issue/Year)
13/17	EU and state budget funds earmarked for the implementation of the Operational Programme Enterprise and Innovation	2/2014
13/21	Funds of the Operational Programme Environment earmarked for wastewater treatment	2/2014
13/28	Support for fisheries in the Czech Republic in accordance with Operational Programme Fisheries in 2007–2013	2/2014
13/32	Funds earmarked for the development of tourism	3/2014
14/03	Funds earmarked for development and modernisation of waterways and harbours, and for the support of multimodal cargo transportation	4/2014
14/06	Management of funds earmarked for the support of energy production from the renewable energy resources	4/2014
14/07	EU and state budget funds earmarked for the implementation of the axis V of the Rural Development Programme	4/2014
14/09	EU and state budget funds earmarked for the implementation of the Operational Programme Prague – Competitiveness	4/2014
14/13	EU and state budget funds earmarked for the implementation of the project „Revitalisation of the pond Jordán in Tábor“	1/2015
14/16	Funds earmarked for the development and reconstruction of regional health-care facilities within the Regional Operational Programme – South-East for the period 2007–2013	1/2015
14/17	Value added tax administration and the impacts of legislative amendments for the state budget revenues	2/2015
14/39	EU and state budget funds earmarked for financing of projects of regional and supra regional centres for popularisation of science and development within priority axis 3 – Commercialisation and Popularisation of R&D of the Operational Programme Research and Development for Innovation	1/2015