Czech Republic
Supreme Audit Office

EU REPORT 2021

REPORT ON THE EU FINANCIAL MANAGEMENT
IN THE CZECH REPUBLIC

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Editor's note:

The editorial deadline for the *EU Report 2021* was set for 30 April 2021. The publication provides figures and related contextual information that were available to the authors before the deadline. Data published publicly after the editorial deadline are only included in the text in exceptional cases relating to significant events. These data are not subject to analysis or comparison, but are merely supplementary.

The authors of the publication requested information from the National Coordination Authority (NCA), which is part of the Ministry of Regional Development (MoRD), in order to provide objective information on key measures being taken in the Czech Republic (CR) to address the negative impacts of the Covid-19 pandemic. The authors also asked the Audit Authority (AA), which is part of the organisational structure of the Ministry of Finance (MoF), to provide them with a detailed summary of the results of its audit activities. The authors would like to express their sincere thanks to the staff of both Ministries for their exemplary cooperation.

Special thanks to Mr Jan Gregor for his passage on performance audits of budgets carried out by the European Court of Auditors (ECA).

LIST OF USED ABBREVIATIONS

3E	Economy, Effectiveness, Efficiency
AA	Audit Authority (MoF ´s Department)
AFCOS CCP	AFCOS Central Contact Point
AIS	SAO Audit Information System
AMIF	Asylum, Migration and Integration Fund
AMPR	Annual Management and Performance Reports
Annual Strategy	Annual Strategy for Sustainable Growth 2020
CAP	Common Agricultural Policy
CF	Cohesion Fund
CFP	Common Fisheries Policy
CMO	Common Organisation of the Markets
CNB	Czech National Bank
Cohesion Policy	Economic, Social and Territorial Cohesion Policy
Commission	European Commission
Council	Council of the European Union
Court of Justice	Court of Justice of the European Union
CR	Czech Republic
CRD	Centre for Regional Development of the Czech Republic
CSO	Czech Statistical Office
Cycling strategy	National Strategy for the Development of Bicycle Transport in the Czech Republic for 2013–2020
DAC	EU Directive on the mandatory automatic exchange of information in the field of taxation in relation to cross-border arrangements
DAS	Statement of Assurance (déclaration d’assurance)
DCP	Digitalisation of construction proceedings
DG HOME	Commission ‚s Directorate – General for Migration and Home Affairs
DG NEAR	The Commission‘s Directorate-General for Neighbourhood and Enlargement Negotiations
EAGF	European Agricultural Guarantee Fund
ECA	European Court of Auditors
ECB	European Central Bank
EDF	European Development Funds
EMFAF	European Maritime, Fisheries and Aquaculture Fund
EMFF	European Maritime and Fisheries Fund
EP	European Parliament
EP-CONT	European Parliament’s Committee on Budgetary Control
ERDF	European Regional Development Fund
ESF	European Social Fund
ESIF	European Structural and Investment Funds
EU	European Union
EU ETS	EU Emissions Trading Scheme
EU-27	27 EU Member States (after the UK leaves the EU)
EU-28	28 EU Member State
FA	Financial audit
Financial Regulation	Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 laying down financial rules applicable to the general budget of the European Union, amending Regulations (EU) No. 1296/2013, (EU) No. 1301/2013, (EU) No. 1303/2013, (EU) No. 1304/2013, (EU) No. 1309/2013, (EU) No. 1316/2013, (EU) No. 223/2014 and (EU) No. 283/2014 and Decision No. 541/2014 / EU and repealing Regulation (EU, Euratom) No. 966 / 2012 FI
GDP	Gross Domestic Product

General regulation	Regulation (EU) No. 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No. 1083/2006
IQE	Inclusive and Quality Education in Territories with Socially Excluded Localities
IROP	Integrated Regional Operational Programme
IS	Information System
ISF	Internal Security Fund
IT	Information Technology
MA	Managing Authority
MCS	Management and Control System
MFF	Multiannual Financial Framework
MFF14+	Multiannual Financial Framework for 2014–2020
MFF21+	Multiannual Financial Framework for 2021–2027
MLSA	Ministry of Labour and Social Affairs
MoA	Ministry of Agriculture
MoC	Ministry of Culture
MoD	Ministry of Defence
MoEYS	Ministry of Education, Youth and Sports
MoF	Ministry of Finance
MoI	Ministry of the Interior
MoIT	Ministry of Industry and Trade
MoJ	Ministry of Justice
MoRD	Ministry of Regional Development
MoT	Ministry of Transport
MS	EU Member State
NCA	National Coordination Authority (part of the MoRD)
NCISO	National Cyber and Information Security Office
NF	National Fund
NGfS	New Green for Savings
NRP	National Recovery Plan of the Czech Republic
NRP	National Reform Programme of the Czech Republic 2020
OECD	Organization for Economic Cooperation and Development
OLAF	European Anti – Fraud Office
OP	Operational Programme
OP EI	OP Enterprise and Innovation
OP EIC	OP Enterprise and Innovation for Competitiveness
OP PGP	OP Prague – -Growth Pole of the CR
OP RDE	OP Research, Development and Education
OP RDI	OP Research and Development for Innovation
OPEC	OP Education for Competitiveness
OPEm	OP Employment
OPEn	OP Environment
OPF	OP Fisheries 2014–2020
OPR21+	OP Fisheries 2021–2027
OPR7+	OP Fisheries 2007–2013
OPTA	OP Technical Assistance
PA	Partnership Agreement for the 2014–2020 Programming Period
PA	Priority axis
PA21+	Partnership Agreement for the 2021–2027 Programming Period
PCA	Paying and Certifying Authority

PP14+	Programming Period 2014–2020
PP21+	Programming Period 2021–2027
PP7+	Programming Period 2007–2013
PPO	Programme Performance Overview
RA	Responsible Authority
RDP	Rural Development Programme for 2014–2020
RDP7+	Rural Development Programme for 2007–2013
SAIF	State Agricultural Intervention Fund
SAO	Supreme Audit Office
SAO Act	Act No. 166/1993 Coll., on the Supreme Audit Office
SAPS	Single Area Payment Scheme
SFTI	State Fund for Transport Infrastructure
SME	Small and medium enterprises
SMS	Single Market Scoreboard
SSP	Supreme State Prosecutor
Temporary framework	Temporary Community framework for State aid measures to support the economy in the current spread of coronavirus COVID-19
TEN-T	Trans – European Transport Network
TEU	Treaty on European Union
TFEU	Treaty on the Functioning of the European Union
TOR	Traditional Own Resources
VAT	Value Added Tax

Abbreviations of EU Member States used in chart legends

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

SECTION I
PERFORMANCE EVALUATION OF BUDGETS

IS THERE STILL ROOM FOR IMPROVEMENT IN THE USE OF EU FUNDS IN THE CZECH REPUBLIC?

Miloslav Kala,
President of the Supreme Audit Office

Dear readers,

I am presenting the latest edition of the EU Report for your perusal, or for deeper study, or in any case for reflection. As in previous years, this publication mainly provides information on the results of audit work by the Supreme Audit Office (SAO), which I hope and trust serves as a mirror revealing the current reality. In order to illustrate the overall situation in the use of EU funds in the Czech Republic, the results of the SAO's audits are supplemented by outputs from the Ministry of Finance (MoF), findings from audit missions of the ECA and the European Commission (Commission) and selected statistical data.

It is not easy to assess in a few sentences the success or failure of the use of EU budget support by the relevant Czech institutions and to identify the causes of some persistent errors. The findings of the SAO audits completed last year indicate some improvements compared to previous years, for example **fewer suspicions of fraudulent behaviour, fewer findings in public procurement and fewer findings in the reimbursement of ineligible expenditure.** Conversely, there is **increasing criticism of weaknesses in the design and functioning of management and control systems (MCS), the setting of non-specific and non-measurable objectives for subsidy programmes** and the failure to carry out performance evaluation of programmes.

As the **shortcomings identified** by the SAO in its audit work are **often identical** or at least very similar, regardless of **the source of funding (EU or national budgets)**, here are some common examples.

In its audit reports, the SAO repeatedly stated that in some cases there were no obvious links between the national strategic and conceptual materials on the one hand and the programmes that are supposed to implement them on the other.

For example, in **audit No. 17/15 - *State funds earmarked for research, development and innovation***, we found that although the programmes refer to national strategic documents, their focus is quite general. There was a lack of specific sub-objectives and measurable indicators for their evaluation. It was not clear what progress the programme was intended to deliver and from what starting point. The responsible ministries, i.e. the Ministry of Education, Youth and Sports (MoEYS) and the Ministry of Agriculture (MoA), did not base their programmes on an analysis of the current situation and did not set out the desired situation to be achieved by the implementation of the programmes. There was no evident concrete progress that the programmes were supposed to have contributed towards in the implementation of the conceptual materials.

Similarly, in **audit No. 17/17** - ***State funds provided for the support of youth and children activities*** we stated that the conceptual and programme materials of the MoEYS do not set any measurable objectives or indicators that would enable any evaluation of the impact of the provided subsidies or the fulfilment of the strategic objectives of *state policy in the area of support for children's and young people's leisure time activities. The MoEYS also did not set specific indicators making it possible to evaluate the fulfilment* *of the objectives of state support programmes for work with children and youth for non-governmental non-profit organisations:* the only observable indicator was the volume of funds paid out from the state budget. Since *the Concept of Youth Support for the period 2014-2020* took effect, the MoEYS has not had a complete overview of all the implementation tools used for its implementation, nor of the volume of funds that annually flow from the state budget, the EU budget, or other public budgets into the area of youth support. The MoEYS did not have this complete overview even in 2017, i.e. in the middle of the concept's effective period even though the MoEYS is supposed to coordinate its implementation and the implementation of the state's policy in the field of work with children and youth.

The SAO noted the absence of a clear definition of specific and measurable objectives in programmes financed from public budgets and considers it necessary that the substance of these objectives be based on objectively identified needs. There is a lack of monitoring indicators to track and evaluate the benefits of the support provided, both for individual projects and for entire programmes. The SAO has been pointing this out for a long time.

In the audit report of **audit No. 18/20 - *State funds earmarked for crime prevention***, for example, the SAO stated that the audited ministries, i.e. the Ministry of the Interior (MoI), the Ministry of Justice (MoJ) and the Ministry of Defence (MoD), did not set specific measurable objectives when providing support for crime prevention. The ministries also did not set measurable indicators for the assessment of individual projects when providing and using the funds. Consequently, this system did not allow programme administrators to quantify the benefit of the provided support in terms of achieving crime prevention objectives.

Similarly, in **audit No. 17/01 - *State funds provided from the Programme of Architectural Heritage Preservation for the preservation and renewal of cultural monuments***, we found that the evaluations of *the Preservation Programme* carried out by the Ministry of Culture (MoC) were only formal in nature, taking the form of analyses of the use of the contribution for the preservation of cultural monuments in the relevant year, and could not objectively quantify the programme's benefits or other attributes for possible corrections. Without binding indicators, the MoC could not evaluate the benefit for the preservation and restoration of cultural monuments.

Furthermore, in **audit No. 16/01 - *EU and state budget funds earmarked for financing of interventions within the Operational Programme Enterprise and Innovation with the focus on the fulfilment of objectives*** the SAO found that the CZK 84 billion allocation of Operational Programme *Enterprise and Innovation* (OP EI) had a generally positive effect, but it was not possible to assess whether and to what extent the global objective was met. The global objective and some of the sub-objectives of the OP EI were not sufficiently specific and measurable, so it was not possible to assess the programme's overall benefits and effectiveness. Another shortcoming of OP EI was that in most cases the Ministry of Industry and Trade (MoIT) did not commit the beneficiaries to achieving real results and thus did not focus on maximising benefits.

In some audit reports, the SAO recommended that the programme approval process should be designed in such a way as to place greater emphasis on the programme administrators' responsibility for evaluating the effectiveness and efficiency of the funds spent and for putting in place the appropriate mechanisms.

This was the case, for example, in **audit No. 15/31, *Funds earmarked for arrangement of information support for the system of programme and subsidy financing, and for selected subsidies and programmes of asset replacement,*** where we pointed out weaknesses in the programme financing system. At the same time, the SAO repeatedly appealed to the MoF to take more effective and, in particular, systemic measures that would also have an impact on the necessary initiation of changes in legislation. The SAO recommended that the current programme approval process be modified to clearly establish a responsibility for programme administrators to evaluate the effectiveness and efficiency of the funds spent and to put in place the appropriate mechanisms.

Is there room for improvement in the use of EU funds in the Czech Republic, then?

Yes, there certainly is. It is the redesign of the programme approval process that I consider to be the right way to make the best use of the public resources and capacities invested. There is no need to invent something new and untried. **Performance evaluation of budgets, including sectoral budgets, with the emphasis on results, is already being successfully applied in a number of countries.** This, of course, **requires much more sophisticated budgeting and the selection of appropriate evaluation indicators focused on results and impacts. The performance achieved will need to be assessed over a longer time scale,** which should lead to a change of approach by some programme administrators, who are still beholden to the rule of utilising all the funds in the budget year at any cost.

Last year the European Court of Auditors (ECA) published a new part of its annual report devoted to the performance of the EU budget. As I see a need to improve the situation in the area of monitoring and evaluation of the performance of the Czech budget, I asked ECA member Mr Jan Gregor, who was the rapporteur for this ECA Annual Report, for more detailed information (see chapter B). The aim of my efforts is to help promote the possible application of this approach in the Czech public finances environment.

PERFORMANCE AUDIT OF EU FUNDS AT AGGREGATE LEVEL

Jan Gregor,
Member of the European Court of Auditors

One of the three objectives identified by the ECA in its 2021–2025 strategy is to provide a high level of assurance on all types of EU finances based on audits. ECA Czech member Jan Gregor was the rapporteur for the ECA's first Annual Report on the performance of the EU budget, which was published in November 2020. Background information on this pilot project, the approach adopted and the main topics covered in the report is provided below. The emphasis on performance at EU level could also inspire modernisation of the management of Czech public finances.

Sound financial management is predicated on compliance with principles...

A performance audit is an independent, objective and reliable assessment of whether a business, system, operation, programme, activity or organisation is operating in accordance with the principles of sound financial management. These principles are effectiveness, efficiency and economy, so they are related to concepts such as optimal use of resources, relevance, coherence and value added. *The Treaty on the Functioning of the European Union* (TFEU) explicitly states that the role of the ECA is to scrutinise the soundness of EU financial management. Regulation 2018/1046[1] (Financial Regulation) further specifies that the ECA's annual report must include an assessment of the soundness of financial management.

...the results of performance audits are presented in various ECA reports

We have considerable experience in conducting performance audits in the areas in which the EU operates, whether it is policy, legislation, legal instruments or the spending of EU budget funds. These audits usually focus on selected EU policy issues and we publish the results in separate reports. Audits of the reliability of the EU's consolidated financial statements and the legality and regularity of the underlying transactions are traditionally covered in our annual report.

In 2010 we expanded the way we report on performance, with one chapter of our annual report devoted to various aspects of performance. This chapter was entitled *Getting Results from the EU Budget,* and it has now become part of our annual report. The focus of the chapter has varied from year to year, but it always includes comments on the Commission's performance framework, a summary of the main conclusions of the ECA's special reports for the year, and the results of follow-up of actions taken in response to the previous years' recommendations.

Since 2015 our annual report has also included performance information in the sectoral chapters relating to the various areas of the multiannual financial framework (MFF), including the results of performance evaluation of individual operations selected for legality and regularity testing. This evolution of the content of the ECA reports is fully in line with the broadening of the Commission's commitment to a greater emphasis on performance. An example is the *Budget Focused on Results* initiative launched by the Commission in 2015 to progressively improve the performance framework of the EU budget.

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

In the **2016** Annual Report, we focused the results chapter on the performance reporting framework and how it compares with best practice in performance reporting by other entities (in Australia, Canada, France, the Netherlands, the United Kingdom and the United States, for example, or within international organisations including the Council of Europe, the Organisation for Economic Co-operation and Development (OECD), the United Nations Educational, Scientific and Cultural Organisation (UNESCO), the World Bank and the World Health Organisation).

This comparison showed that the Commission should streamline performance reporting by further reducing the number of targets and indicators it uses in its various performance reports and focusing on the targets and indicators that best measure the performance of the EU budget. Furthermore, it should focus on presenting financial information in a way that allows for comparison with performance information so that the link between expenditure and performance is clear, while at the same time streamlining performance reporting by explaining and improving the overall coherence between its two sets of targets and indicators for programmes on the one hand and the Commission's DG programme material on the other. The Commission should also report performance in a more balanced way, i.e. including negative results. It should guarantee that the performance information provided is of sufficient quality and ensure that the results of performance evaluations are used in practical decision-making on EU spending.

For **2017** we focused our report on whether the Commission is using the information obtained from performance reporting to manage activities, optimise results and adjust management systems and strategic planning processes etc. How this information is used has an impact on the long-term success of the organisation in managing performance. We recommended that the Commission ensure that programme performance information should be used more proactively in the management of programmes and that corrective action is taken where there is a risk of not fulfilling objectives.

In our **2018** annual report we assessed the quality and use of performance indicators. We concluded that a number of indicators were not well chosen – the indicators focused on inputs or outputs (over 60% of indicators) rather than outcomes and impacts. Some indicators were not clearly linked to EU spending, some programme objectives had no indicators or there was no up-to-date information on indicator performance. Some programmes even had deliberately minimalist targets. The ECA recommended that the Commission should improve the selection of performance indicators (more focus on results and impacts and a clearer link to programme objectives) and improve their measurement (establishing a baseline, quantifying milestones and targets).

Despite the ECA's increased focus on performance, performance reports on EU actions were not presented annually and did not have a comprehensive format covering all areas of the EU budget. There was also no assessment of framework performance reports such as the *Annual Management and Performance Reports* (AMPRs)[2]. The European Parliament (EP) and the Council of the European Union (the Council) have therefore asked the ECA to further develop its approach. In line with the ECA's strategy for the period 2018–2020, we have therefore decided to produce a **report on the EU budget performance for the period up to the financial year 2019** as a pilot project[3](the Report). This Report is part of the ECA's annual reporting cycle and is therefore one of the documents examined as part of the European Parliament's discharge procedure. The Report was published in November 2020.[4]

2 The Annual Management and Performance Report was first published in 2016 for the financial year 2015. It combines two previous reports: an evaluation report and a summary report, which summarize the annual activity reports of the Commission's Directorates-General for the previous year. The annual management and performance report is based on the program statements of operational expenditure attached to the draft EU general budget, the annual activity reports and other available performance information, such as evaluation studies and audit reports. Since 2019, it has also included an overview of program performance.

3 European Court of Auditors' report on the performance of the EU budget – status at the end of 2019 https://www.eca.europa.eu/Lists/ECADocuments/annualreport-Performance-2019/annualreport-Performance-2019_EN.pdf

4 Mixed results, while the quality of the information should be further improved: the information provided by the Commission on the performance of EU spending programs shows mixed results. On the one hand, the ECA welcomes the fact that the reports continue to improve and shift towards greater balance, but also points to a number of problems: the quality of the Commission's performance assessments for individual programs continues to fluctuate and reliable and informative indicators remain challenging. The ECA also recommends that the Commission work with Member States to increase the reliability of the data it uses in its budget performance reports.

Overview of the performance of EU policies

Our Report has three elements, one of which is new (see Diagram 1). **For the first time, we examine at an aggregate level whether the Commission's performance information provides convincing evidence of the soundness of the financial management of EU expenditure programmes.** We carried out this analysis on a sample of nine out of fifty-eight EU spending programmes. These nine programmes together account for around three quarters of all payments made up to the end of 2019 under MFF 2014–2020 commitments /MFF14+/.

Diagram 1: A new element in the ECA's report on the performance of the EU budget

Chapter 1	Chapter 2-6	Chapter 7
Performance framework	MFF headings 1a, 1b, 2, 3 a 4	Follow-up audit of measures of previous recommendations
Horizontal aspects related to the performance framework	Assessment of the cumulative performance of selected EU programmes by the end of 2019. Based on a critical analysis of the performance information provided by the Commission and the results of the ECA's own audits and reviews	Follow-up of previous recommendations in the ECA's special reports.
Annually changing main topics	Nine programmes (three quarters of the EU budget) were selected for the 2019 report	The 2019 report contains the recommendations set out in the ECA's 2016 reports and the 2015 recommendations, which have not yet been implemented, but are still relevant.
Topics of the report for 2019: Performance framework reports (AMPR and programme statements)		

Preparatory work included a review of available performance information such as indicators, assessments and framework performance reports. As far as possible, the quality of this information was also assessed, as well as the extent to which it was corroborated by the findings and conclusions of our audit work, i.e. both the performance audits that give rise to Special Reports and the assessment of the operations selected for legality and regularity testing. This analysis allowed us to assess the performance information available and, where the information allowed, the performance itself. The performance assessment was made in the light of the objectives (set out in the relevant legislation) that the programmes were intended to achieve.

Different areas of the MFF had different results. For example, **in the area of economic, social and territorial cohesion policy** (cohesion policy), performance data show that **programmes are not meeting initial expectations.** For the other flagship programme, the ***European Fund for Strategic Investment* (EFSI), the indicators show that the programme is on track to mobilise EUR 500 billion of investment.** In this context, however, we have found that **a certain proportion of these investments could be financed by the market. We also caution against overestimating multiplier calculations, which may lead to an overly positive assessment.**

For *Horizon 2020* and other major programmes under the Global Europe heading, audits have found that **there is insufficient information for a robust assessment of performance.** However, there are signs that **various aspects of these programmes are performing well.** As regards natural resources, the **Commission's reports on the performance of** the CAP **present an overly positive picture and do not focus on results.** The main shortcoming is that the performance indicators for 2014–2020 are not defined on the basis of detailed intervention logic for the provision of financial support under the CAP.

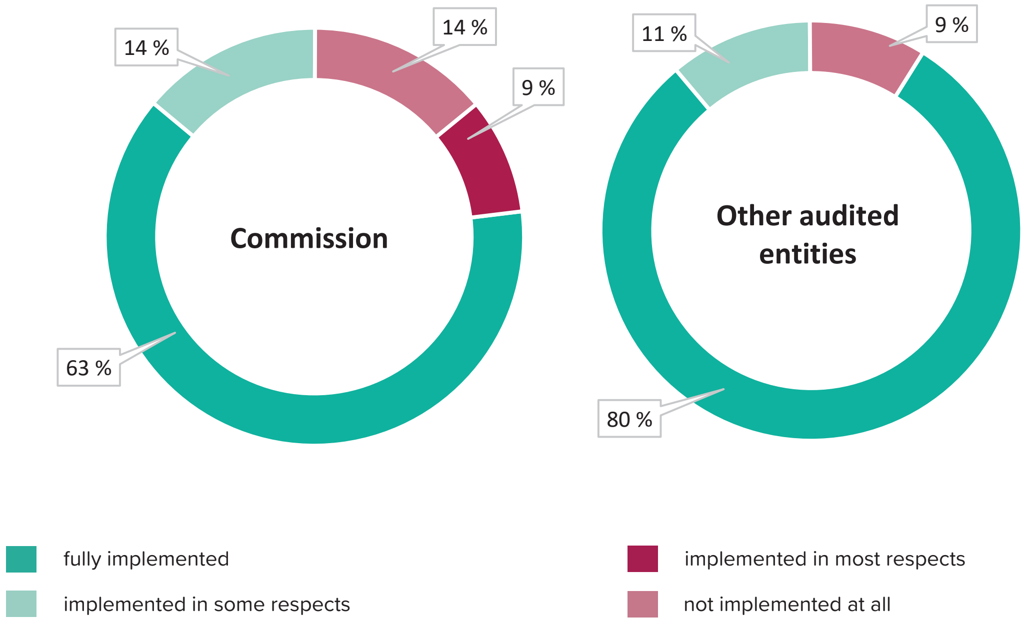
The Report also includes an assessment of one selected aspect of the Commission's performance framework, which used to be part of our annual report. It is standard practice to focus on a different aspect each year. The Report covers the Commission's key performance reports, including the Annual Management and Performance Report. As the Commission publishes the Annual Management and Performance Report later than the Financial Report, this pilot project has enabled us to provide a comprehensive report on it for the first time. We conclude that the **information provided by the Commission on the results of EU spending programmes through framework reports such as the Annual Management and Performance Report continues to improve and become more balanced. The Commission does not fully verify or guarantee the reliability of performance information, but it does take steps to mitigate the associated risks in specific policy areas. Despite recent progress, the quality of some performance indicators remains problematic.**

Finally, we discuss the follow-up to ECA audit recommendations from previous years, which is part of the audit cycle. We classify the recommendations as *fully implemented, implemented in most respects, implemented in some respects or not implemented at all.* The scope of the reports and the information provided on the follow-up of recommendations made in the ECA's special reports on performance have evolved over time. This reflected the ECA's objective to increase the impact of its recommendations in order to improve EU action. Now, in the follow-up phase, it is not only a sample that is being followed up, but all the relevant recommendations that were addressed to the Commission three years earlier.

In its 2019 annual report the ECA concluded that most of the recommendations from its 2016 performance audits had been implemented. The degree of implementation of recommendations was lower for the Commission than for the other audited bodies. In the case of those recommendations that were not implemented at all or only partially, there is room for improvement.

Our close cooperation with the Commission, in particular with the Commission's Directorate-General for Budget (DG BUDG) and the Commission's Secretariat-General (SG), played an important role in the preparation of this report. Numerous discussions on the methodology and content of the report took place at various levels. The Commission has been very assiduous and constructive in this context and has demonstrated its commitment to taking performance to the next level.

Chart 1: Implementation of the ECA's recommendations



Source: ECA Annual Report 2019

Assessing performance at the aggregate level raises new complex issues

The pilot has shown that the development of recurring performance audits is not without its problems. **Assessing performance at an aggregate level is difficult due to the large number of spending programmes and the multi-dimensional nature of performance.** Another element of complexity is the significant time lag between expenditure during the programme period and the actual delivery of results, which occurs mainly after the end of the programme period. **In fact, most of the results of expenditure in a given programming period are only visible in the following period.**

Moreover, assessing performance on an annual basis is challenging. By its nature, policy performance is something that can only be measured over longer periods of time. There is a risk that information in annual reports will be repeated. Given that changes in performance occur slowly, annual performance information should be seen as an insight into the changing situation rather than a picture of performance in a given year. The risk of repetition can be addressed, however, by focusing on different expenditure programmes each year, for example.

The second EU budget performance report is now under preparation

The pilot project will continue and will assess performance up to the end of the 2020 financial year. We will again assess whether the Commission's performance information provides convincing evidence of the soundness of the financial management of EU expenditure programmes. We are carrying out this analysis on a sample of five EU expenditure programmes that were not assessed last year. We have selected one spending programme for each MFF14+ heading.

The report will also include (as in previous years' reports) an assessment of one selected aspect of the Commission's performance framework. This year we are focusing our work on the key aspect that is lessons learnt. **We will analyse whether the lessons learnt from evaluations and audits of current and previous EU spending programmes have been used to improve the design of the next generation of these**

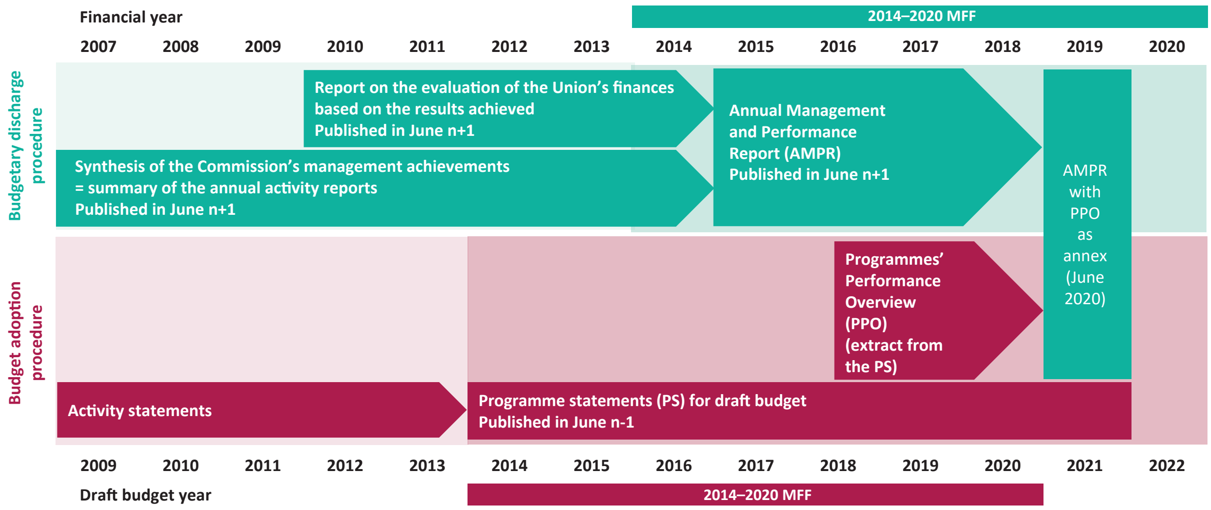
programmes for the 2021–2027 period. As in the previous year, the third part of the report will present the work we are doing on the follow-up actions taken in response to our previous recommendations in our Special Reports.

In parallel with this, from the end of 2020 we have started to evaluate this pilot internally and externally with key stakeholders. After the first wave of internal consultations, this process continues – through meetings and written contributions – in cooperation with the EP, the Council and of course our main audited entity, the Commission. This feedback will help us formulate proposals for the future design of this report and ensure that it remains useful to all stakeholders. The report has generated a great deal of interest from most of our stakeholder partners in the ECA's future work in this area. This is all the more reason why suggestions for changes and improvements to add to those we have already received are very welcome.

More emphasis on performance - inspiration for the Czech Republic?

The gradual development of performance assessment in the ECA annual reports has had a positive impact on the Commission's performance reporting system. For the financial year 2015, the Commission has introduced the above-mentioned Annual Management and Performance Report. The preparation of the 2019 budget brought an innovation in the form of the ***Programme Performance Overview*** (PPO), a material in which the Commission summarises the programme statements. **This document provides a brief presentation of all spending programmes based on a selection of indicators in the Programme Statements.** For the 2019 financial year, the *Programme Performance Overview* has become an annex to the Annual Management and Performance Report, thus creating a link between the budget approval and discharge process. These significant innovations are illustrated in the following diagram.

Diagram 2: Commission performance reports over time



During MFF14+ there was a significant increase in pressure on the performance of European public finances. The question is therefore whether this could have inspired improved budgetary policy planning in EU Member States. Let us reflect together on the case of the Czech Republic.

The budget system in the CR has traditionally focused on ensuring the efficiency of investments in state assets under the programme financing system (ISPROFIN, later EDS/SMVS). Accession to the EU brought a need to ensure monitoring of the performance of individual OPs co-financed from the EU budget. For this purpose, the Structural Funds monitoring system, currently MS2014+, was introduced. Despite long-standing efforts to link these systems, it has not been possible to find a solution that would qualitatively correspond to performance budgeting. **The Czech Republic is one of the more conservative OECD countries in terms of introducing modern elements of public finance management**[5].

5 *Budgeting and Public Expenditures in OECD Countries,* published by the OECD in 2019.

Based on audits of the EU performance reporting framework, possible measures to strengthen the performance orientation of Czech public finance management can be deduced:

- **set clearly measurable targets for the main impacts of individual government spending policies within sector-based policies;**
- **put in place a system of performance indicators to monitor the performance of these policies (necessary shift from input/output indicators to outcome and impact indicators);**
- **link the preparation of the state budget more consistently with sector-based policies – strengthen programme financing;**
- **conduct interim and ex-post performance evaluations of individual spending policies and take corrective action;**
- **strengthen the emphasis on performance in the preparation of the State Closing Account, or possibly introduce a new format for reporting on the performance of individual government policies at the aggregate level.**

Many countries that have reformed their budgeting to strengthen performance have experienced a degree of disappointment[6] as the new system has often fallen short of initial expectations. Reforms have had to be continuously adjusted and revised. **Alternatively, an increased focus on performance can be achieved by introducing regular expenditure reviews.**

Sooner or later, after the crisis triggered by the global Covid-19 pandemic has subsided, the Czech Republic will have to act to stabilise public budgets and ensure their long-term sustainability. This presents an opportunity for using performance budgeting or regular expenditure reviews to improve the performance of limited development resources.

6 *OECD Good Practices for Performance Budgeting,* published by the OECD in 2019.

SECTION II

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

C. AUDIT WORK BY THE SAO IN THE PERIOD UNDER REVIEW

The SAO's audit work is based on the provisions of Act No. 166/1993 Coll., on the Supreme Audit Office, as amended (the Act on the SAO). Each audit is closed upon the approval of its audit report by the SAO Board and the subsequent publication of this audit report.

The SAO has long paid particular attention to the Czech Republic's relationship with the EU budget, which is reflected in the fact that **more than one third of the SAO's reports concern the expenditure or revenue side of the EU budget.**

C.1 OVERVIEW OF APPROVED AUDIT REPORTS

From 1 April 2020 to 31 March 2021 (the period under scrutiny), the SAO Board approved a total of **ten audit reports** from audits concerning EU budget funds (the audits under scrutiny).

Chart 2: Breakdown of audits in the period under scrutiny by their focus

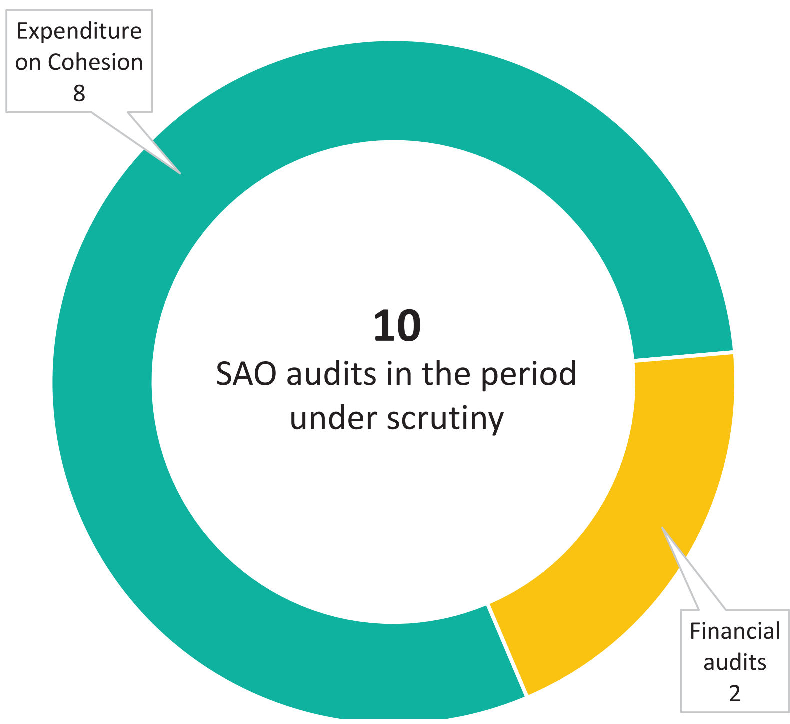


Table 1: Overview of audits in the period under scrutiny

Audit No	Audit title	Published in the SAO Bulletin (number/year)
19/10	*Repair and maintenance of bridges*	4/2020
19/14	*Introduction of electronic identification and enabling of electronic access to public administration services*	4/2020
19/15	*Support for the development of high-speed internet access provided from the Operational Programme Enterprise and Innovations for Competitiveness*	3/2020
19/19	*Funds from the EU and state budget alloted for common education of pupils*	4/2020
19/21	*Closing account of the state budget chapter „Ministry of Regional Development" for 2018, the Ministry of Regional Development´s financial statements for 2018 and the data submitted by the Ministry of Regional Development for evaluation of implementation of the state budget in 2018*	6/2020
19/23	*Support for employment of people over 50 and for the policy of positive ageing from the Operational Programme Employment*	4/2020
19/26	*Cyber security of eGovernment of the Czech Republic*	6/2020
19/31	*Closing account of the state budget chapter „Ministry of Education, Youth and Sports" for 2019, the Ministry of Education, Youth and Sports´s financial statements for 2019 and the data submitted by the Ministry of Education, Youth and Sports for evaluation of implementation of the state budget in 2019*	6/2020
20/05	*Support for energy savings in public buildings*	3/2021
20/11	*Construction, maintenance and repairs of cycling infrastructure*	3/2021

Note: The colour marking of the audits in the period under scrutiny corresponds to their focus according to the previous graph.

Within the framework of the above-mentioned audits completed in the monitored period, a total of **55** entities, the so-called **audited entities** were audited; some of them, especially ministries in the role of managing authorities (MAs) of the respective OPs, were audited in more than one audit. In view of this fact, such audits are counted more than once in the total. The SAO found **deficiencies in 41 audited entities,** i.e. 74.55%.

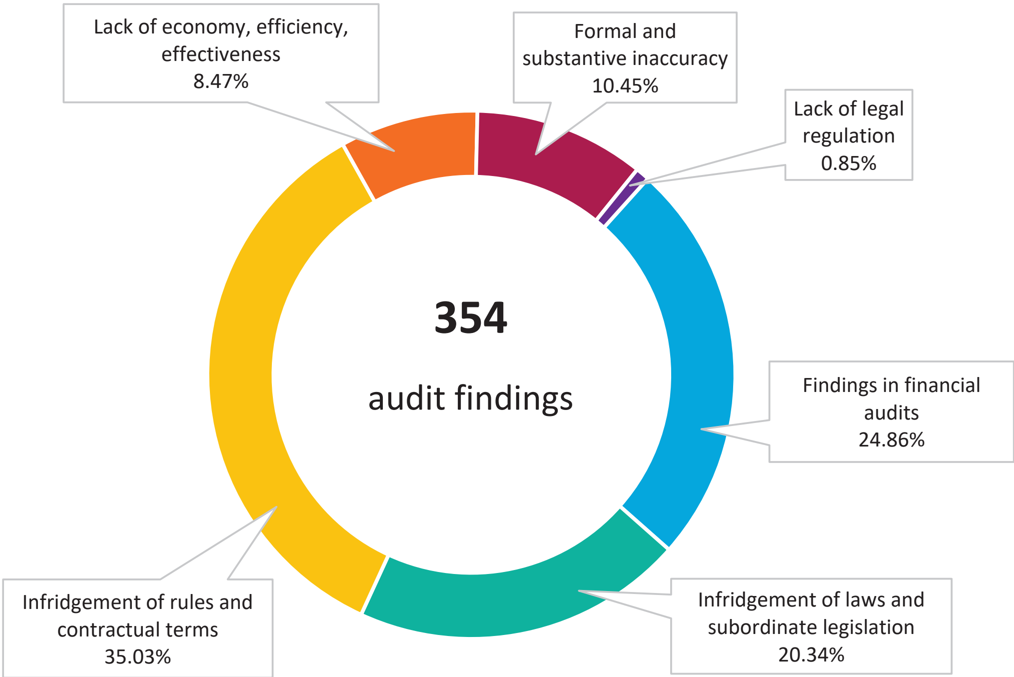
In these audits the SAO made a total of **354 audit findings, 16** of which were **quantifiable. The volume of identified deficiencies amounted to CZK 15,694.25 million,** with **the SAO quantifying CZK 12.96 million** of that amount **as transaction deficiencies,** i.e. shortcomings found in individual specific projects. A further **CZK 809.57 million** represented the value of irregularities found in financial audits[7] (FAs). A portion of these amounts was considered to be recoverable, so the SAO submitted a total of **six notifications[8]** to the relevant **tax administrator** for further action. **The total amount covered by these notifications was CZK 5.58 million.**

In one case (FA) a criminal complaint was filed.

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

8 The SAO submits notifications to tax administrators pursuant to Section 59 of Act No. 280/2009 Coll., the Tax Code. In the monitored period, the submissions concerned audits No. 19/14, No. 19/23 (one submission each) and No. 19/19 (four submissions).

Chart 3: Breakdown of audit findings by category



Note: All audit findings from financial audits are included in the category of findings in financial audits, although they typically fall into the category of infridgement of laws and subordinate legislation (accounting laws and decrees and, in one case, government resolutions).

In audits of types other than financial audits, the SAO made a total of **266 audit findings**, 72 of which were classified as ***violations of laws and regulations*[9].**

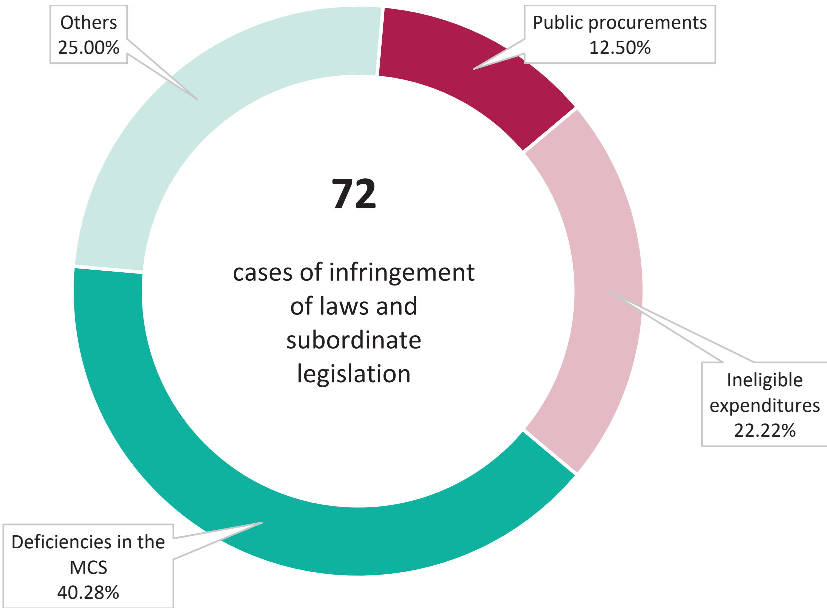
As regards the findings of **financial audits,** laws and regulations were violated in **88 cases.**

The following chart shows the distribution of audit findings in the category of *breaches of laws and regulations* (excluding financial audits), broken down into categories of such breaches[10].

9 This category includes violations of binding EU legal norms as well as laws, decrees and regulations or resolutions of the Czech government.

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

Chart 4: Type and rate of occurence of infringement of laws and regulations in the audits under scrutiny excluding t financial audits



Note: The other category includes violations of regulations, especially in the field of energy, cyber security, civil service and roads.

In contrast to the previous reporting period (see *EU Report 2020*), when most findings related to procurement shortcomings, in this reporting period **errors were most frequently found in the area of the MCS.** Together with the category of ineligible expenditure, these errors[11] account for **62.5% of all detected cases of infringement of legislation** (excluding financial audits).

The situation has constantly been different **in the case of FA**. Here, 76.1% were **breaches of the Act on Accounting**[12] and related regulations. In terms of their nature, the findings fell most often under the category of **accounting and reporting errors.**

11 In addition to the ineligible expenditure of individual projects themselves, this category also includes ineligible projects and ineligible beneficiaries.

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

C.2 AUDITS IN THE FIELD OF EXPENDITURE

This subsection provides information and highlights the main audit findings relating to the eight audits covering different areas of cohesion policy that were completed during the reporting period. **Some of the audit findings described below confirm the assessment of the President of the SAO presented in Chapter A and also bear out the validity of five recommendations made by ECA member Jan Gregor and presented at the end of Chapter B** (see also Diagram 3).

Diagram 3: Recommended measures to strengthen the performance orientation of Czech public finance management

I. SET CLEARLY MEASURABLE TARGETS FOR THE MAIN IMPACTS OF INDIVIDUAL GOVERNMENT SPENDING POLICIES WITHIN SECTOR-BASED POLICIES

II. PUT IN PLACE A SYSTEM OF PERFORMANCE INDICATORS TO MONITOR THE PERFORMANCE OF THESE POLICIES (NECESSARY SHIFT FROM INPUT/OUTPUT INDICATORS TO OUTCOME AND IMPACT INDICATORS);

III. LINK THE PREPARATION OF THE STATE BUDGET MORE CONSISTENTLY WITH SECTOR-BASED POLICIES – STRENGTHEN PROGRAMME FINANCING

IV. CONDUCT INTERIM AND EX-POST PERFORMANCE EVALUATIONS OF INDIVIDUAL SPENDING POLICIES AND TAKE CORRECTIVE ACTION;

V. STRENGTHEN THE EMPHASIS ON PERFORMANCE IN THE PREPARATION OF THE STATE CLOSING ACCOUNT, OR POSSIBLY INTRODUCE A NEW FORMAT FOR REPORTING ON THE PERFORMANCE OF INDIVIDUAL GOVERNMENT POLICIES AT THE AGGREGATE LEVEL.

Source: Mr Jan Gregor (Chapter B.).

The audit findings corresponding to the relevant recommendations are indicated graphically in the following text.

Audit No. 19/10 - ***Repair and maintenance of road bridges***

In previous years, the issue of road maintenance and repairs was covered by audits No. 13/27[13] and No. 17/09[14].

The aim of the audit was to verify whether the funding allocated for bridge repairs and maintenance is sufficient to maintain the bridges in a satisfactory condition and whether the funds are spent effectively, efficiently and economically. This audit took the form of a legality audit with elements of performance audit.

During the audit, the SAO examined the system of bridge maintenance on motorways and roads of 1st class to 3rd class from the point of view of ensuring the good operational and technical condition of bridges, including the financing of their repairs and maintenance. Using a sample of 27 projects on motorways and 1st class roads and 14 projects on 2nd and 3rd class roads, the SAO examined the audited entity's procedure when implementing selected bridge repair and reconstruction projects. The audit covered EU funds spent through the *Integrated Regional Operational Programme* /IROP/, funds paid as co-financing from national subsidy titles and funds provided from the State Fund for Transport Infrastructure (SFTI).

The SAO's audit findings

The SAO found that the **current method of bridge maintenance does not guarantee effective, efficient and economical use of public funds. There is insufficient coordination of the provision of support from different financial sources. There is no uniform system of bridge registration containing up-to-date, complete and reliable information on their condition and defects.**[15] During the audit of repairs of bridges co-financed with funds provided from the SFTI or IROP budget, the SAO found that at least **some bridges did not have all the defects identified during bridge inspections repaired by maintenance and timely repair work, as a result of which their condition gradually deteriorated and their subsequent repairs became more costly.**

Bridge reconstruction and repair work was mostly done as part of projects dealing with the reconstruction and modernisation of the road sections on which the bridges are located. **Road bridge reconstruction projects were not monitored separately in the IROP, so the MoRD did not set any specific target** or indicator to measure the effects of the support provided in this area.

Of the total 17,500 bridges on motorways and roads of all classes, the condition of 3,400 ranges from bad to critical. The **current insufficient care is leading to the gradual deterioration of bridges and no improvement can be expected at the current rate of repair.**

Based on a sample of ten projects focusing on repairs and reconstruction of bridges which were **supported by IROP and whose total eligible expenditure amounted to CZK 1,179 million,** the SAO found partial deficiencies in the procedure of the intermediate body (IB) **when checking and assessing applications for support in five projects.** In these cases, for example, the condition of the bridge was not sufficiently documented in the funding applications, options for alternative reconstruction solutions were not evaluated or the contracting authority's procedure for awarding certain public contracts was not sufficiently justified.

13 Audit No. 13/27 – Funds earmarked for road repair and maintenance.
14 Audit No. 17/09 – *Construction-like activity carried out with a view to modernising and developing the road network in selected regions which was co-funded from EU funds and national resources.*
15 The Directorate of Roads and Motorways of the Czech Republic publishes data on bridges on roads of 1st to 3rd class without guaranteeing their completeness and timeliness.

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

The aim of this performance audit **was to examine the economy and effectiveness of funds spent on the electronicisation of public administration,** particularly in connection with the introduction of electronic identification.

Among other things, **the audit covered the implementation of *the Citizen's Portal*** carried out within the framework of a project **co-financed by IROP** called *Public Administration Portal 2.0 - Citizen's Portal.* The total **eligible expenditure of the project was planned in the amount of CZK 76.95 million.** The project's output was supposed to be the creation of the transactional part of the Public Administration Portal, the so-called Citizen's Portal, which would enable citizens to make electronic submissions to public authorities. One of the project's monitoring indicators the number of electronic submissions made through the *Citizen's Portal.*

The SAO's audit findings

The SAO found that the **Ministry of the Interior acted contrary to the provisions of Section 45(2) of Act No. 218/2000 Coll., on the budgetary rules and amending certain related acts (Budgetary Rules), as it did not proceed in the most economical manner when determining the estimated value of the public contract.** The MoI had already calculated the estimated value of the public contract in the feasibility study for the *Public Administration Portal 2.0 - Citizen Portal* project, choosing a calculation method that did not consider the level of involvement of individual IT professional roles. In fact, the MoI's calculation used a simple arithmetic average instead of a weighted average, despite the fact that the level of involvement of the individual roles (i.e. the weightings) was specified in the document. If the MoI had taken the level of involvement of the roles into account in the calculation, the resulting value (after VAT) would have been **lower by CZK 48 million.** The MoI did not change the amount calculated in this way for the entire duration of the project and used it as the value of the framework contract concluded with the National Agency for Communication and Information Technologies. After the work was delivered, the MoI then paid this incorrectly determined amount on the basis of an invoice.

With regard to the EU co-financing, the SAO assessed the MoI's actions as an irregularity within the meaning of Article 2 of Regulation (EU) No. 1303/2013 (General Regulation)[16].

16 Regulation (EU) No. 1303/2013 of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No. 1083/2006.

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

The aim of the audit, which was a legality audit with elements of performance audit, **was to verify whether the support for the development of high-speed Internet access** provided by the OP *Enterprise and Innovation for Competitiveness* (OP EIC) **achieved the defined objectives and whether the funding was spent effectively and economically.**

The audit examined the **procedure** followed by the MoIT as the **OP EIC managing authority when preparing and providing support** for the development of high-speed Internet networks **through the *High-speed Internet* Programme.**

The audit also covered funds paid by the MoIT to external entities in connection with the preparation and implementation of the *High-speed Internet* programme and in connection with the preparation of the *National Plan for the Development of Next Generation Networks*. These funds were paid out of OP EIC under priority axis (PA) 5 – *Technical assistance* and out of the MoIT budget chapter.

The SAO's audit findings

IV.

The aim of the support provided under the *High-speed Internet* programme was to achieve a household high-speed Internet coverage rate of 77% in 2023. However, this target had already been met in 2017 through investments by electronic communications businesses, without any state support. **For almost five years the MoIT did not provide a single subsidy under the *High-speed Internet* programme out of the originally designated CZK 13.8 billion. At the request of the MoIT, in February 2019 the Commission therefore approved a reduction of the allocation for the *High-speed Internet* programme from EUR 521 million (CZK 13.8 billion) to EUR 281 million (CZK 7.4 billion) and the transfer of EUR 240 million (CZK 6.4 billion) to other OPs.**

I.

The reason for the zero drawdown was insufficient programme preparation and incorrect initial design of the support. The MoIT did not announce the first call for applications for subsidies until March 2017. **The cause of the significant delay was the fact that the *National Plan for the Development of Next Generation Networks*,** whose approval the Commission defined as a precondition for drawing support, **had not been approved by the Government by October 2016**. The Commission approved fulfilment of the precondition in December 2016.

The SAO found deficiencies in **the first call for proposals,** where the **MoIT** used outdated data, **did not accept comments from businesses and did not exclude from support some areas where high-speed internet networks had already been built. The Commission stated** that this approach **failed to protect private investment** and increased the **risk of distortion of competition** and recommended not to provide subsidies under the first call. **Moreover, there was minimal interest in the subsidies and the MoIT ultimately did not support any project under the first call.**

The MoIT consulted with the Commission on the conditions for the announcement of the second call for applications until January 2019. The **second call was announced** in February 2019, **almost two years after the first call and almost four years after the approval of OP EIC.** Compared to the first call, the second call saw an increased interest in subsidies, with 40 applications submitted. The total subsidies requested exceeded the amount of funds allocated for the call by 11%. At the time of the audit, the applications assessment process was ongoing and **no decision on the award of subsidies had been issued by the MoIT as of the date of the audit's completion.**

Other identified shortcomings concerned investment plans by electronic communications businesses to build high-speed Internet networks without support from the *High-speed Internet* programme. These businesses have promised to cover more than 240,000 residential addresses by the end of 2021 – under the Commission's rules, the MoIT had to exclude these addresses from receiving support under the *High-*

speed Internet programme. **But the businesses were not obliged to deliver on their investment plans.** It has happened in the past that businesses' plans were only half-fulfilled. **The SAO flagged up the risk that some of the businesses' promises would not be fulfilled and that some of the addresses would therefore not be covered.**

The SAO also found that, in order to boost interest in the subsidies, in 2017 and 2018 the MoIT extended the range of beneficiaries to municipalities and regions and organisations established by or subordinated to them and widened the subject of subsidies to include digital technical maps of regions. By the time the audit was completed, the MoIT had not issued any calls for applications for subsidies reflecting the changes made.

The economy and effectiveness of spending under the *High-speed Internet* programme could not be verified, as no funds had been spent by the time the audit was completed.

Proposals for and implementation of corrective measures

After the audit, the MoIT implemented measures linked to the verification and documentation of the execution of investment plans. The method for documenting the execution of these plans and the effectiveness of the measures taken can be verified by a follow-up audit of the SAO.

Since the end of the audit, the MoIT has assessed applications for subsidies under the second call and announced another call for building high-speed Internet networks. In the second call, the selection committee recommended projects applying for a total of CZK 835 million for funding; in the fourth call for proposals, the figure exceeded CZK 1 billion. It also announced a call for the creation of digital technical maps and registered interest in obtaining funding. The MoIT has thus put in place the right conditions for the use of at least part of the remaining funds allocated in the amount of CZK 7.4 billion for the *High-speed Internet* programme.

Audit No. 19/19 – ***Funds from the EU and state budget allotted for joint education of pupils***

The aim of audit No. 19/19, which was a legality audit with elements of performance audit, **was to examine how the managing authorities and intermediate bodies planned and managed calls for applications for support for inclusive education, how they selected and administered applications for subsidies, checked the fulfilment of subsidy conditions by applicants and monitored and evaluated the benefits of the supported projects.** The SAO assessed whether the **funds were spent effectively and economically** by the subsidy providers and thirteen beneficiaries.

The audit covered both EU funds spent under OP *Research, Development and Education* (OP RDE), *Prague – Growth Pole of the Czech Republic* (OP PGP) and IROP, as well as funds provided as co-financing from the state budget and the budget of the City of Prague. The audit scrutinised the design and functioning of the MCS for all three OPs and the implementation of individual supported projects selected for the audit sample, which included both non-investment and investment projects.

During the audit, the SAO also examined the implementation of the measures to remedy the shortcomings identified at the MoEYS in the previous audits No. 11/17[17], No. 14/24[18] and No. 15/06[19], which related to projects of a systemic nature supported with EU funds in the 2007–2013 programming period /PO7+/.

In audit No. 19/19 the SAO also conducted a **questionnaire survey** designed to obtain information on the state and impact of the inclusive education being introduced. A total of **4,164 primary schools** were contacted**.**

The SAO's audit findings

The SAO found that the **funds spent on joint (inclusive) education from the OP RDE and OP PGP were provided and used only partially effectively in the audited sample of projects,** especially in the case of the systemic project implemented by the Office of the Government of the Czech Republic and financed out of OP RDE.

In addition, the SAO found **shortcomings in the selection of projects.** It also identified deficiencies in the **control activities of the managing authorities of** OP RDE and OP PGP.

The SAO found that, as of 30 June 2019, the MoEYS, the City of Prague and the MoRD had provided **CZK 32.3 billion** to beneficiaries for projects and programmes concerning inclusive school education. To a significant degree, however, **OP RDE funds were used to support projects that do not guarantee the actual inclusion of pupils with special educational needs and socially disadvantaged pupils in mainstream schools, partly because of inappropriately defined objectives.**

The SAO also found that the **MoEYS did not stipulate sustainability**[20] as a requirement for activities and outputs in the OP RDE calls for **so-called systemic projects**, a shortcoming that the SAO had already found in previous audits. The **declared complementarity and interlinking of the OP RDE and OP PGP calls focusing on inclusive education was merely formal,** and the expected synergies between OP RDE and OP PGP projects were not delivered. A total of CZK 16.37 billion was allocated **in the OP RDE and IROP calls** directly aimed **at supporting inclusion in socially excluded localities**. However, the **absorption capacity** of OP RDE calls for these localities is **low;** only 51% of the total allocation was used in the four calls.

II.
III.

17 Audit No. 11/17 – EU and state budget funds earmarked under the Operational Programme Education for Competitiveness for the priority axis Initial Education.

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

19 Audit No. 15/06 – State budget funds and EU structural funds earmarked for financing of operational programmes with respect to projects sustainability.

20 This is not sustainability in the sense of „sustainability of operations" according to Article 71 of the General Regulation, but a guarantee of the use of outputs, the creation of which was financially supported by EU funds and the state budget.

Other **shortcomings** were identified **in the area of targets setting.** The objectives of the concept of inclusion to ensure equal access to quality education for all pupils in mainstream schools were defined by the MoEYS in very general terms in strategic documents at all levels.[21] The objective mentioned most frequently in the inclusion strategy documents was "support". **The non-specific and non-measurable objectives for this area were often reflected at the project level, where the SAO found specific shortcomings in the definition of goals and monitoring indicators** in projects supported with funding from OP RDE and OP PGP. In some projects, the impact of the provided support on the target groups was not monitored and evaluated in the case of the beneficiaries of support from OP RDE and OP PGP.

A systemic project called *Inclusive and Quality Education in Territories with Socially Excluded Localities* (IQE) was one project **supported by the MoEYS to the tune of almost CZK 230 million under OP RDE.** However, **this project's outputs and results were dependent on external influences rather** than on the project's implementing organisation[22]. In the IQE project, **direct support to target groups** from socially excluded localities accounted for only **0.8% of the project's budget.**

The SAO did not find any uneconomical provision and use of funds in the audited sample of projects under all three OPs. In several audited OP RDE projects and in one OP PGP project, however, the **beneficiaries spent funds in an ineffective manner**, thus committing a **breach of budgetary discipline.** The funds concerned were classified as recoverable and a **notification was filed with the tax administrator** on that basis.

In September **2016, the MoEYS launched the most significant legislative changes regarding the common education of pupils without having prepared teachers** in mainstream schools for working with children with special educational needs of various types in sufficient time. Funding for measures to ensure equal conditions for quality education for all pupils is largely dependent on funding from the European Structural and Investment Funds (ESIF). Over the last 10 years, the number of pupils with special educational needs has increased by more than half, and if the trend of annual increases in the number of such pupils continues, greater demands will be placed on the provision of resources to ensure equal access to quality education for all pupils.

Proposals for and implementation of corrective measures

The SAO's recommendations mainly concerned the stipulation of sustainability conditions for projects of a systemic nature in terms of the sustainability of their activities and outputs, so that the use of project activities and outputs intended to serve the development of national policies (e.g. the use of developed methodologies is not enforceable by beneficiaries or end users) is guaranteed after ESIF financing ends.

Another SAO recommendation relates to **ensuring the financial sustainability of professional services provided by a school psychologist or special educator** directly in mainstream schools in the form of support for pupils, parents and teachers (funding for these positions has so far been dependent on OP RDE resources). The MoEYS has declared that the implementation of measures to parameterise and finance pedagogical support positions in schools is currently part of the implementation of the *Czech Education Policy Strategy 2030+*.

21 Equal opportunities in education are a cross-cutting priority of the Long-term Plan for Education and Development of the Education System of the Czech Republic for the period 2015–2020, which is an implementation document to the Education Policy Strategy until 2020, approved in 2014 by a resolution of the Czech Government. Reducing educational inequalities is one of the three main priorities of this strategy.

22 Until 31 December 2019 Office of the Government of the Czech Republic – Department of the Agency for Social Inclusion, from 1 January 2020 Ministry of Regional Development – Department of Social Inclusion.

Audit No. 19/23 - ***Support for employment of people over 50 years of age and positive ageing policies from the Operational Programme Employment***

In previous years, this issue was mainly covered by audits No. 18/28[23] and No. 12/19[24].

This was a legality audit with elements of performance audit. Its **goal was to examine the management of funds spent in connection with supporting the employment of people over 50 years of age and in connection with the promotion of the positive ageing policy** under OP *Employment* (OP Em), and in particular the **performance of the role of the managing authority in the administration, implementation and evaluation of projects and the implementation of OP Em** (audit of the design and functioning of the MCS).

The audit scrutinised whether subsidies were provided in accordance with the OP Em documentation and whether the Ministry of Labour and Social Affairs verified that the purpose of the subsidy was fulfilled. In eight selected beneficiaries (a total of 12 projects were audited) the audit **verified compliance with the conditions under which the subsidy was awarded and the achievement of the project objectives.** The audit also covered the **design** of OP Em **support in relation to the strategic documents** of the policy for preparation for ageing **assessed the fulfilment of the tasks imposed by the government** on the labour and social affairs minister in connection with the policy for preparation for ageing. Beneficiaries were also checked to see whether **public procurement procedures were followed.**

In the overview of OP Em projects as of 29 February 2020 in which funds were provided to support employment of older persons, the MoLSA listed a total of **2,226 projects** with total eligible expenditure of **CZK 6,438,258,373** according to legal documents on the provision of support.

The SAO's audit findings

In the OP Em programme document, people aged 50 and over are included in the group of people most at risk on the labour market. However, OP Em did not define a separate specific objective to support the employment of older people and this target group could be supported under at least six different OP Em specific objectives. The MoLSA is therefore not obliged to monitor the amount of funds spent on the target group of people aged 50 and over under OP Em. I. II.

Six of the audited projects aimed at direct support for people aged 50 and over had been completed at the time of the SAO audit. Their total eligible expenditure amounted to CZK 28 million, of which the EU contribution was CZK 24 million. A total of 611 people participated in these projects[25], 339 of whom obtained retraining certificates and 115 were provided with subsidised jobs.

Upon termination of the supported person's participation in the project or upon termination of the project, however, the support beneficiary loses the chance of determining whether the support provided has improved the supported person's standing on the labour market, i.e. in particular whether the supported person has found employment as a result of participation in the project. The Labour Office of the Czech Republic, as one of the beneficiaries of the support, can only verify whether the person has returned onto the Labour Office's books. II. IV.

In the legal documents governing the provision of support, **the MoLSA did not specify how the impact of projects would be monitored and assessed or the criteria for verifying the achievement of the planned objectives.** The MoLSA also failed to take steps to improve the monitoring of effectiveness in projects supported by OP Em. II.

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

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

25 According to the OP Em rules, the participant in the projects was only a person who received support in the given project in the amount of at least 40 hours, with the proviso that at least 20 hours of the provided support did not have the character of electronic education.

I.

The SAO found **shortcomings in the administration of projects** by the MoLSA. These errors occurred mainly **in the area of preliminary checks** of planned and prepared operations before issuing the decision on the provision of subsidies (inaccuracies in the texts of the decision on the provision of subsidies) **and in the assessment of projects** (failure to ensure arbitration assessment for a project where the evaluators' assessments differed beyond the defined limit).

The audit also detected **partial breaches of the legal regulations by support beneficiaries.** In one project, the beneficiary reported the full amount of rent expenses as direct costs, even though the leased premises were not used exclusively for work with the target group, but also for other work within the scope of its activities.

The SAO found that **some key activities fell short of the scope of the *conditions of use of OP Em support*.**

The SAO also stated that **from 2018 onwards the Czech Republic did not have an approved strategic document on the policy of preparing for population ageing.** Although the Ministry of Labour and Social Affairs submitted a draft *Strategic Framework for Preparing for the Ageing of Society 2019–2025*, or 2020–2025, to the Government of the Czech Republic in August 2019, it had not been approved by the Government of the Czech Republic by the time when the SAO audit was closed.

Proposals for and implementation of corrective measures

The OP Em managing authority will continuously monitor the outputs of individual key activities and, if significant deviations are detected, will proceed in accordance with the OP Em methodology. The MoLSA will continue to seek to have the *Strategic Framework for Preparing for the Ageing of Society* included on the agenda of the Government of the Czech Republic. The SAO intends to continue monitoring this process.

Audit No. 19/26 - ***Cyber Security of eGovernment in the Czech Republic***

The aim of the audit was to examine whether the activities of the main entities involved in ensuring cybersecurity in the Czech Republic and the effectiveness of their mutual cooperation have led to improvements in terms of the objectives and activities defined by the *National Cybersecurity Strategy 2015–2020* and the *Strategy Action Plan 2015–2020*.

In audit No. 19/26 **the SAO scrutinised two projects co-financed from IROP funds,** specifically from call No. 10 *Cyber Security*. The first was a project called *Cyber Security Incident Detection System in Selected Public Administration Information Systems* with funding of CZK 107,361,302 (with IROP contributing CZK 86,815,570); the second was *Protection of the External Perimeter* with funding of CZK 31,372,892 (with IROP contributing CZK 25,369,062). Both projects were implemented by the National Cyber and Information Security Office (NCISO). **The SAO audit did not reveal any shortcomings in relation to these two projects.**

The SAO's audit findings

At the systemic level, it was found that ministries and other entities had the possibility to draw ESIF funds for projects in the field of cyber security via IROP call No. 10, whose allocation was CZK 1,340 million. CZK 799.6 million fell to projects implemented by public sector entities, with projects by the central state authorities accounting for CZK 121 million. Of that amount, CZK 112 million was spent on NCISO projects (see the aforementioned projects). **The MoI, despite its position within the state administration, did not draw down funding from call No. 10.** Although the MoI submitted two applications for support, this did not happen until more than two years after the call was issued. As applications exceeded the call allocation, however, these applications were rejected by the managing authority. The **largest volume of funds** from the total call allocation (approximately CZK 903 million) **went to projects of healthcare institutions, a large part of which**, based on the applicable criteria**, are not ranked as entities managing the KII[26], VIS[27] or ISZS[28] systems.**

In the course of call No. 10 the managing authority made to several adjustments of its settings. The main change was the **enlargement of the group of eligible applicants (initially limited only to operators of the KII and VIS systems) to include applicants who did not belong to this category.** Following this change, the number of applications for support increased dramatically.

The estimate of the total funds spent by ministries and the Office of the Government of the Czech Republic on cyber security between 2015 and 2019 was CZK 2,787 million. CZK**.**

Proposals for and implementation of corrective measures

The SAO recommended that the National Cyber and Information Security Office should, as part of its coordination role, examine the criteria for determining the providers of basic services in the healthcare sector and revise them if necessary. **The NCISO conducted** this **review** in early 2021 **and widened the range of essential service providers in the healthcare sector.**

26 The KII is a system in which the disruption of function would have a serious impact on the security of the state, the provision of basic living needs of the population, the health of persons or the economy of the state.

27 The VIS is a system in which a breach of information security may limit or significantly jeopardize the exercise of a public authority.

28 The ISZS is a system on the operation of which the provision of a basic service depends and the disruption of which could have a significant impact on securing social or economic activities in any of the following sectors: energy, transport, banking, financial market infrastructure, healthcare, water management, digital infrastructure, chemical industry.

Audit No. 20/05 – *Support for energy savings in public buildings*

In the previous years, energy saving issues were mainly addressed in audit No. 15/02[29].

Audit No. 20/05 was a legality audit with elements of performance audit. The SAO audit examined whether **funds to support energy savings in public buildings were spent in accordance with the legal regulations and whether they contributed to the achievement of the set objectives.** This involved the funds spent under OP *Environment* (OP En), which totalled CZK 2,971,818,830 in 2016–2020, and under the national programme *New Green for Savings* (NGfS), totalling CZK 533,672,054 in 2017–2020.

The SAO's audit findings

III.

The **funds** spent under OP En and the NGfS programme to reduce end energy consumption in public buildings **have contributed only to a small extent to meeting the 2020 targets** set by European and national regulations**.**

IV.

At the end of 2019, the commitment to achieve energy savings in buildings owned by the Czech Republic and used by its central institutions **was only 71% fulfilled.** According to the *Report on Progress in Meeting National Energy Efficiency Targets in the Czech Republic (2021),* **the commitment for the 2014–2020 period was not fulfilled (the report is based on data available up to 18 March 2021).**

III.

Revenues from the auctioning of emission allowances in the audited period **amounted to more than CZK 36 billion,** of which **CZK 14.6 billion should have been used via the NGfS programme** according to Act No. 383/2012 Coll.[30] However, as of 30 June 2020 **only CZK 5.3 billion** had been spent via this programme**,** of which **only about CZK 0.5 billion** was spent **on public buildings.**

The audit found that the State Environmental Fund of the Czech Republic, in contravention of the rules for OP En and its operational manual, failed to develop a standardised form for the final evaluation of the action for projects whose implementation report had been approved (**246 such projects** were registered in MS2014+ as of 30 June 2020). This standardised form is supposed to be completed within ten working days after the approval of the final implementation report. The administration of these projects has therefore not yet been closed.

The audit also drew attention to the length of the project approval process, which exceeds the defined time limit. **Only 60% of the supported projects were approved within the time limit.[31]**

Based on analysis of data from the MS2014+ system on the length of administration of the final implementation report, the audit pointed out that **delays in the administration of these final reports have an impact on the sustainability period of projects,** for the duration of which subsidy beneficiaries are obliged to monitor the projects' effects (5 years). Although the beneficiaries are obliged to submit documents for the final evaluation of the action on time under the threat of penalties, **the frequent delays in the administration of the final implementation reports limit the possibility of imposing penalties.**

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29 Audti No. 15/02 State budget funds provided for support of energy savings.

30 Act No. 383/2012 Coll., on the conditions for trading in greenhouse gas emission allowances.

31 For more than 40% of the projects in OP 5 of the OPIE, the seven-month deadline for the administrative process of approving applications for support was exceeded. For 14% of projects, the approval time for the aid application took or is taking more than one year.

Audit No. 20/11 – ***Construction, maintenance and repairs of cycling infrastructure***

In previous years, the issue of the construction and maintenance of cycling infrastructure was covered by audit No. 11/14[32].

The aim of audit No. 20/11, which was carried out as a legality audit with elements of performance audit, **was to scrutinise progress towards the objectives of the *National Strategy for the Development of Cycling Transport in the Czech Republic for the years 2013–2020*** (Cycling Strategy) **and the economy, efficiency and effectiveness of spending on the construction, maintenance and repair of cycling infrastructure.**

The SAO scrutinised the progress made towards the Cycling Strategy's objectives, the **coordination of support provided for the development of cycling infrastructure from state and EU funds,** specifically from IROP, **and examined the procedure followed by the Ministry of Regional Development, the SFTI and the Centre for Regional Development of the Czech Republic when selecting, approving and evaluating projects selected for support.** The SAO also **compared the unit prices of cycle paths and other cycling infrastructure.** In the case four beneficiaries, **the audit focused on the legality and the effectiveness, efficiency and economy of the use of state and EU funds. The total amount of funding provided in 2014–2020 from IROP for projects that included the construction, modernisation or renovation of cycling infrastructure was CZK 1,847 million.**

The SAO's audit findings

The SAO found that **significant shortcomings have long persisted** in the area of support for the development of cycling infrastructure **and that the objectives of the Cycling Strategy are not being achieved**. Neither the Ministry of Transport (MoT) as the main guarantor of the Cycling Strategy nor the SFTI and MoRD as the support providers had a comprehensive overview of the state of cycling infrastructure, the progress being made in its construction and its actual use. **Only the purpose of use of funding was monitored, not the actual results and benefits of the supported projects. The MoT, MoRD and SFTI did not proceed in a way that ensured economical, efficient and effective use of funding when they provided support for the construction, maintenance and repair of cycling infrastructure.**

II.

The **MoRD** supported the construction, modernisation and renovation of cycling infrastructure under IROP within the framework of multi-faceted projects. **Although in its role of managing authority it decided to provide support to projects in accordance with the conditions defined for their selection, in approving projects with non-specific objectives and without indicators enabling their actual results to be measured it did not put in place the right conditions for objective assessment of the effectiveness and efficiency of the use of funding.** At the same time, the MoRD **did not exert sufficient pressure for economical spending.** The audited projects were dominated by **expensive solutions and unit prices of cycle paths varied significantly[33].**

The SAO examined the monitoring of projects carried out by the Centre for Regional Development and found that the **beneficiaries' compliance with the output indicators was evidenced by a range of different documents.** In the case of two of the nine projects audited, **these documents did not sufficiently demonstrate that the defined indicators were fulfilled.**

32 Audit No. 11/14 - *Funds earmarked for the construction and maintenance of cycling infrastructure.*

33 Financial demands ranged in a very wide range from 746 CZK / m2 to 12 718 CZK / m2, respectively. from CZK 1,461,000 / km to CZK 31,215,000 / km .

C.3 FINANCIAL AUDITS LINKED TO EU BUDGET FUNDS

The remaining two audits completed by the SAO in the period under review and also relating at least partially to EU budget funds were financial audits.

FAs usually focus on verifying the preparation of the closing accounts of a state budget chapter, accounting and preparation of the financial statements and verification of the accuracy of data submitted for the assessment of the state budget implementation. Compared to legality audits or performance audits, FAs have their own specific features, which consist mainly in the fact that the amounts of money covered by the audit are many times higher. The nature of the audit findings is also different.

Audit No. 19/21 - ***Closing account of the Ministry of Regional Development state budget chapter for 2018, financial statements of the Ministry of Regional Development for 2018 and data submitted by the Ministry of Regional Development for the evaluation of the state budget implementation for 2018***

This audit was carried out as an ex-post financial audit. Its **aim was to verify whether the MoRD complied with the relevant legal regulations when drawing up the closing account, keeping accounts, preparing the financial statements and submitting data for the assessment of the implementation of the state budget for 2018.**

The audit covered the **closing account of the Ministry of Finance chapter, accounting, financial statements and data for the assessment of the state budget implementation for 2018** and the related compliance with Act No. 563/1991 Coll., Decree No. 410/2009 Coll., Czech Accounting Standards for Certain Selected Accounting Units, Decree No. 323/2002 Coll. and Decree No. 419/2001 Coll. A selected sample was used to examine compliance with other legal regulations.[34]The SAO also assessed the measures taken to remedy the shortcomings identified in audit no. 17/08[35].

The SAO also checked the accuracy of data reporting linked to EU funds, primarily IROP, OP *Technical Assistance* (OP TA) and OP PGP funds.

The SAO's audit findings

- In relation to **EU funds,** the SAO identified **risks and shortcomings of a systemic nature with a significant impact on the reported data**, namely:

- **The Ministry of Regional Development did not correctly report information on the structure of transfer costs** as it incorrectly distinguished in its accounting between the share paid from the state budget in connection with the provision of subsidies for OP TA and IROP projects and the share representing the pre-financing of transfers that should be subsequently reimbursed from the EU budget. This systemic **shortcoming was quantified at CZK 659 million.**

- **The MoRD did not report a qualified receivable from the EU** arising from the pre-financing of the state budget subsidy under OP PGP in the amount of **CZK 99 million.**

- The MoRD did not carry out an inventory in accordance with the Act on Accounting, as it did not account for the inventory differences in all cases in the accounting period for which the inventory verified assets and liabilities. This was the case, for example, with an inventory difference of EUR 14 million. This was due to the repeated (i.e. duplicate) de-reporting of a qualified receivable from the pre-financing of transfers.

- The MoRD's inventory did not identify that it was accounting for advances on transfers made even though they had been accounted for in the past.

Proposals for and implementation of corrective measures

The MoRD has responded to all the deficiencies identified in the audit report of audit No. 19/21. The effectiveness of the majority of the measures will only be verifiable by a follow-up audit.

34 These were mainly Acts No. 218/2000 Coll., On budgetary rules and on the amendment of some related acts (budgetary rules), No. 219/2000 Coll., On the property of the Czech Republic and its appearance in legal relations, No. 340/2015 Coll., on special conditions of effectiveness of certain contracts, publication of these contracts and on the register of contracts (Act on the Register of Contracts), No. 320/2001 Coll., on financial control in public administration and on amendment of certain acts (Act on Financial Control), and related implementing decree.

35 Audit No. 17/08 – Closing account of the state budget chapter of the Ministry of Regional Development for the year 2016, the financial statements and data for 2016 submitted for the assessment of fulfilment of the state budget 2016

Audit No. 19/31 - *Closing account of the Ministry of Education, Youth and Sports state budget chapter for the year 2019, financial statements of the Ministry of Education, Youth and Sports for the year 2019 and data submitted by the Ministry of Education, Youth and Sports for the evaluation of the implementation of the state budget for the year 2019*

This audit was carried out as an interim financial audit, where the MoEYS had the opportunity to respond to the identified risks before the audit was closed. The **aim** of the audit was to **check whether the MoEYS complied with the relevant legal regulations in the preparation of the closing account, in its accounting, when preparing the financial statements and submitting data for the assessment of the implementation of the state budget for 2019.**

The audit covered the **closing account, accounting, financial statements and data for the assessment of the implementation of the state budget for the year 2019** and the related compliance with Act No. 563/1991 Coll., Decree No. 410/2009 Coll., Czech Accounting Standards for Certain Selected Accounting Units, Decree No. 323/2002 Coll. and Decree No. 419/2001 Coll.

The operations selected for testing were checked **for compliance with other legal regulations** (in particular Act No. 218/2000 Coll., No. 219/2000 Coll., No. 320/2001 Coll. and related implementing decrees). The SAO also evaluated the measures taken to remedy the shortcomings identified in audit No. 15/35[36].

Due to the fact that the MoEYS is the managing authority of the OP RDE, the **correctness of the reporting of the operations under this OP in the closing account, financial statements and financial statements for 2019 was** also **examined.** The audit also looked at **receivables reported by** the MoEYS as of 31 December 2019 **from the National Fund** (NF) within the OP *Research and Development for Innovation* / OP RDI/ and within the OP *Education for Competitiveness* /OP EC/.

The SAO's audit of operations co-financed from EU funds under the above-mentioned OPs found **deficiencies affecting the data reported in the financial statements and financial reports:**

- In 2019, the MoEYS received **refunds of subsidies** from beneficiaries under OP RDE on the basis of calls from the managing authority to return the subsidy or part thereof in accordance with Section 14f(3) of Act No.218/2000 Coll. **The MoEYS reported CZK 19.1 million in subsidies spent in a manner contrary to the set conditions as an uncharged advance payment on a transfer and costs from the provided transfer.**

- For the reasons specified in Section 15(1)(d) of Act No.218/2000 Coll. the MoEYS decided to revoke the subsidy under OP RDE and decided in 2019 and on the basis of the entry into effect of the decision to withdraw the subsidy. It did not report the claim on the refunding of the subsidy already provided and incorrectly reported the reimbursed funds as revenue. The MoEYS incorrectly classified the subsidy repayments as other non-tax revenue not classified elsewhere, although according to Decree No. 323/2002 Coll. they were miscellaneous transfer repayments received.

- **As of 31 December 2019 the MoEYS reported outstanding receivables from the NF from aggregate payment applications from OP RDI and OP EC.** These OPs were co-financed from the EU budget under PP7+ and their funding was terminated in 2016. Under PP7+ the MoEYS spent state budget funds of CZK 632.5 million that were subsequently meant to be transferred back from the state budget into the EU budget, but this transfer had not been executed as of 31 December 2019. **The MoEYS should have stated in the notes to the financial statements that the receivables in the amount of CZK 632.5 million no longer had to be paid in full due to the financial closure of PO7+.** In 2020, the MoEYS received information from the NF that, in connection with the financial closure of PP7+, the Ministry of Finance discarded from its accounts the outstanding liabilities under OP EC and OP RDI due to the MoEYS in the amount of EUR 632.5 million in March 2020. The MoF further advised the MoEYS that it should remove from its accounts the outstanding receivables due from

36 Audit No. 15/35 Closing account of the state budget chapter the Ministry of Education, Youth and Sportsfor the year 2015, the financial statements of the Ministry of Education, Youth and Sports for 2015 and data submitted by the Ministry of Education, Youth and Sports for the assessment of state budget fulfilment for the year 2015.

the NF under OP EC and OP RDI. NF also advised that it would send the funds under these OPs to the MoEYS if they were generated in NF's account for the OP in question in consequence of their recovery, or in the case of additional funds received from the Commission.

- In 2019, the MoEYS incorrectly classified CZK 455.5 million in expenditure on priority axis 4 projects – *Technical Assistance* for OP RDE as expenditure on miscellaneous education matters, although according to Decree No. 323/2002 Coll. it was expenditure on the MoEYS's own activities.

Proposals for and implementation of corrective measures

The MoEYS responded to all the deficiencies identified in the audit report of audit No. 19/31. The effectiveness of most of the measures will only be verifiable by a possible follow-up audit.

C.4 MEASURES TAKEN BY THE GOVERNMENT TO REMEDY DEFICIENCIES IDENTIFIED BY SAO AUDITS

The president of the SAO sends all audit reports approved by the SAO Board to the Chamber of Deputies, the Senate and the government in accordance with the Act on the SAO. According to the Rules of Procedure of the Government[37], the members of the government place the audit reports on the agenda of sessions of government, together with their opinions. The opinions usually contain the audited entity's comments on the SAO's findings and proposals for specific measures to remedy the deficiencies identified by the audit. The SAO is familiarised with the draft opinions and comments on the proposed measures prior to the actual government meeting. If, in its opinion, some measures are absent or if it has substantive reservations about proposed measures, they are resolved with the relevant ministries as differences of opinion. Major differences of opinion may take several rounds of discussion to be resolved. The SAO is thus in a position to directly influence the substance and quality of the proposed measures. Should the difference of opinion persist until the government meeting, the president of the SAO can comment on it directly, as he is entitled to attend the government sessions[38] at which the audit reports and opinions on them are discussed, and if he asks to speak, he is granted the floor.

Since 2015, the SAO has monitored the status of implementation of the corrective measures discussed by the government in the *SAO's Audit Information System* (AIS). At the end of the period under scrutiny, i.e. as of 31 March 2021, the AIS contained data on **86** SAO **audits** focused in whole or at least in part on programmes and projects co-financed with EU funds or linked to the EU budget. A total of **838 audit findings discussed by the government** were entered into the register. The implementation of the declared corrective measures is monitored for each audit. At the same time, the SAO's satisfaction with the measures is assessed. The assessments of corrective measures adopted in terms of their sufficiency are divided into four categories, as can be seen in the following chart.

Chart 5: Evaluation of measures adopted by the government to remedy ascertained deficiencies

Source: AIS, data as at 31 March 2021.

Note: The category „Measures no longer needed" includes, for example, measures taken to the SAO's findings at the same time as the end of the on-site audit or cases where the audited entity itself reported an irregularity. This also applies to the shortcomings identified in the programming documents of the previous programming period, which were no longer reflected in the existing management documents.

37 The Rules of Procedure of the Government approved by Resolution No. 610 of the Government of the Czech Republic of 16 September 1998, as last amended by Resolution No. 47 of the Government of the Czech Republic of 17 January 2018.

38 Provisions of Section 8, Paragraph 7 of the Act on the SAO.

Chart 5 shows that 74% of the measures were adopted in full or at least in most respects, while 26% were adopted only in some respects, or insufficiently, or were no longer needed. Compared to the results published in the EU reports over the last two years, the proportion of the total number of deficiencies recorded has remained consistent between the different categories in terms of corrective action taken or not taken.

Overall satisfaction with the measures adopted[39] increased slightly (by 0.4 percentage points) to 67.3%.

Based on the results of analyses that examined the nature, scope and standard of implementation of measures adopted in response to the results of the **86 audits** mentioned above**, the SAO discarded** a total of **288 cases** from continuous monitoring in previous years as **no longer relevant.** It thus continues **to monitor the implementation status of a total of 550 corrective measures.**

39 Total level of satisfaction of the SAO with the measures taken = (number of measures sufficient in full + 0.75 x number of measures sufficient in most respects) / total number of SAO findings x 100.

D. AUDIT ACTIVITIES OF OTHER AUDIT BODIES IN THE CZECH REPUBLIC IN 2020

D.1 OUTPUTS OF THE AUDIT AUTHORITY

D.1.1 PUBLIC ADMINISTRATION CONTROL AND AUDIT OF ESIF FINANCES

The Ministry of Finance acts as the audit authority for EU budget funds provided to the Czech Republic under the ESIF, i.e. the *European Social Fund* (ESF), the *European Regional Development Fund* (ERDF), the *Cohesion Fund* (CF) and the *European Maritime and Fisheries Fund* (EMFF), as well as the *Asylum, Migration and Integration Fund* (AMIF) and the *Internal Security Fund* [40](ISF).[41]

In 2020, the main activities of the AA were focused on the performance of audits of operations, audits of systems and audits of OP financial statements within the 2014–2020 programming period /PO14+/.

The completed audit work **for PP14+** to date makes it possible to conclude that **the MCS is working effectively and provides reasonable assurance that the statements of expenditure submitted to the Commission were correct and the related transactions were legal and regular – the only exception being OP EIC.**

For **PP14+,** the **main activities of the AA focused** on the work linked to the Annual Audit Report (AAR) for individual OPs, i.e. both **audits of operations** and **assessment of the functioning of the MCS** for individual OPs on the basis of audits of systems and audits of financial statements for the accounting period from 1 July 2019 to 30 June 2020. While the audits of operations focused on the operations' compliance with the EU and Czech legislation, with publicity rules, the proportionateness of the audit trail, fulfilment of the relevant monitoring indicators etc., the systems audits were mainly focused on the assessment of the functionality of the control systems set up by the respective MA or IB.

In view of the situation and the declaration of a state of emergency **due to the Covid-19 pandemic, the AA made a change to the *audit strategy*** during the reference period**,** as the state of emergency made it impossible to carry out audit work to the extent foreseen in *the audit strategy* applicable to 2020. The basis for this change was Regulation (EU) 2020/558[42]. In order to achieve a reduction in the extent of the audit work in line with the Regulation, **two planned audits[43]** were **postponed until 2021 and the audit of the Paying and Certifying Authority /PCA/ was put back until 2022[44].** In this context, the audit tasks for 2020 to 2022 were also updated, including the timetable of audit tasks for the current and the two following accounting periods.

Complete audit work for all OPs was carried out **in 2020**. **The AA performed a total of 401 audits, 384 of which were audits of operations, with 14 systems audits and three audits of financial statements covering nine OPs, the ISF and AMIF.** Data on the audits of each OP, further broken down into systems audits, operations audits and audits of financial statements, are presented in the table below.

The audits of expenditure operations reported to the Commission for a given financial year are based on a representative sample and statistical sampling methods. Detailed information on the audit work for the ISF and AMIF is presented in subsection D.1.2.

40 Internal Security Fund (ISF).
41 AMIF and FVB replaced the SOLID programme, which took place in the previous programming period.
42 Regulation (EU) 2020/558 of the European Parliament and of the Council of 23 April 2020 amending Regulations (EU) No. 1301/2013 and (EU) No. 1303/2013 as regards specific measures to ensure exceptional flexibility for the use of European Structural and Investment Funds in response to the spread of COVID-19.
43 Audit „Verification of activities provided by the NCA within the programming period 2014-2020" and „Audit of compliance with the indicators of the performance framework".
44 Audit „Verification of activities provided by the PCA within the programming period 2014-2020 (Key Requirement 9-13)".

Table 2: Overview of audits performed by AA in individual OPs in 2020

OP title	Acronym	System audits	Operational audity	Audit of financial statements
Integrated Regional Operational Programme	IROP	1	30	1
OP Enterprise and Innovation for Competitiveness	OP EIC	1	64	1
OP Employment	OP Em	1	31	1
OP Prague– Growth Pole CR	OP PGP	1	36	1
OP Research, Development and Education	OP RDE	1	38	1
OP Environment	OP En	1	34	1
OP Transport	OP T	1	23	1
OP Technical assistance	OP TA	1	17	1
OP Fisheries 2014–2020	OP F	1	31	1
Interreg V-A Czech Republic – Poland	INTERREG CR–PL	1	31	1
Interreg V-A Free State of Bavaria – Czech Republic	INTERREG BY–CR	1*	14	-
Interreg V-A Free State of Saxony – Czech Republic	INTERREG SN–CR	1*	17	-
Interreg V-A Austria – Czech Republic	INTERREG AT–CR	-	6	-
Interreg V-A Slovak Republic – Czech Republic	INTERREG SR–CR	-	6	-
Internal Security Fund	ISF	1	2	1
Asylum, Migration and Integration Fund	AMIF	1	4	1
Total		**14**	**384**	**3****

Source: AA´s information system, March 2021.

Note: * The audit of the INTERREG BY – CR system was conducted by the Free State of Bavaria and the audit of the INTERREG SN – CR system was conducted by the Free State of Saxony.
** Within the ESIF, one audit of financial statements was performed for the nine above-mentioned OPs; audits of the financial statements were performed separately for AMIF and FVB.

With regard to the relevant EU regulations and the Commission's methodological guidelines, the individual annual audit reports for the financial year, including the auditor's opinion for the relevant OP, were prepared and sent to the Commission by 15 February 2021 at the latest.[45]

The findings from the audit of operations were combined with the results of the systems audit to form the basis for defining systemic findings.

For all MAs, the AA assessed the MCS in terms of compliance with the requirements set out in the General Regulation, i.e. whether it functioned effectively and provided reasonable assurance that the statements of expenditure submitted to the Commission were correct and the related transactions were legal and regular, and this assessment of the MCS of each OP was reported by the AA in its *auditor's opinion*.

To evaluate the effectiveness of the MCS, the AA uses the following categories and the corresponding levels of reliability of the system:

45 Annual audit report for INTERREG CR – PL was sent on 24 February 2021 and annual audit report for OP EIC on 27 February 2021.

Table 3: Category and corresponding level of the MCS´s reliability

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

Source: AA, March 2021.

Table 4: Assessments of the MCSs of individual OPs according to performed system audits in 2020

OP title	Category of MCS	Findings in total	Findings gravity		
			High	Medium	Low
Integrated Regional Operational Programme	2	3	0	2	1
OP Enterprise and Innovation for Competitiveness	3	21	6	6	9
OP Employment	2	2	0	1	1
OP Prague– Growth Pole CR	2	2	0	2	0
OP Research, Development and Education	2	2	0	1	1
OP Environment	2	4	0	2	2
OP Transport	1	-	0	0	0
OP Technical assistance	1	-	0	0	0
OP Fisheries 2014–2020	2	9	0	3	6
Interreg V-A Czech Republic – Poland	2	3	0	3	0
Interreg V-A Free State of Bavaria – Czech Republic	2	4	0	1	3
Interreg V-A Free State of Saxony – Czech Republic	2	5	1	3	1
Total	–	**55**	**7**	**24**	**24**

Source: AA´s information system, March 2021.

A qualified opinion was issued in the case of two OPs and an unqualified opinion in the case of seven OPs. Qualified opinions were issued for INTERREG CR-PL and OP EIC. In these two OPs, shortcomings were identified mainly in the area of project control and ineligible expenditure.

The volume of audited funds selected by the Audit Authority as a sample for 2020 for all OPs amounted to approximately CZK 112.92 billion (16.77% of the expenditure reported to the Commission was audited). **The identified ineligible expenditure amounted to approx. CZK 169.58 million, which is roughly 0.89% of the audited expenditure.** Specific data for each OP is presented in Table 5.

Table 5: Počet provedených auditů za jednotlivé programy za rok 2020

OP title	Audits in total	Audits with findings		Audits without findings
		with financial impact	without financial impact	
Integrated Regional Operational Programme	30	10	6	14
OP Enterprise and Innovation for Competitiveness	64	23	8	33
OP Employment	31	9	0	22
OP Prague– Growth Pole CR	36	7	1	28
OP Research, Development and Education	38	10	19	9
OP Environment	34	9	1	24
OP Transport	23	0	1	22
OP Technical assistance	17	2	1	14
OP Fisheries 2014–2020	31	6	3	22
Interreg V-A Czech Republic – Poland	31	9	1	21
Interreg V-A Free State of Bavaria – Czech Republic	14	4	1	9
Interreg V-A Free State of Saxony – Czech Republic	17	7	3	7
Interreg V-A Austria – Czech Republic	6	3	0	3
Interreg V-A Slovak Republic – Czech Republic	6	1	1	4
Total	**378**	**100**	**46**	**232**

Source: AA´s information system, March 2021.

The results of audits of operations show that out of 378 audits of operations carried out, 100 audits (26.46% of the total number of audits) identified ineligible expenditure, i.e. the audit had a financial impact on the audited entity. A further 12.17% of the performed audits ended with no financial impact on the audited entity and 61.30% of the audits were completely without findings.

Table 6: Number of findings with financial and no financial impact for audits of 2020 operations.

OP title	Number of findings	Findings without financial impact	Findings with financial impact
Integrated Regional Operational Programme	26	11	15
OP *Enterprise and Innovation for Competitiveness*	46	15	31
OP *Employment*	21	10	11
OP *Prague– Growth Pole CR*	12	1	11
OP *Research, Development and Education*	55	43	12
OP *Environment*	11	1	10
OP *Transport*	1	1	0
OP *Technical assistance*	3	1	2
OP *Fisheries 2014–2020*	11	5	6
Interreg V-A Czech Republic – Poland	17	3	14
Interreg V-A Free State of Bavaria – Czech Republic	5	2	3
Interreg V-A Free State of Saxony – Czech Republic	13	4	9
Interreg V-A Austria – Czech Republic	3	0	3
Interreg V-A Slovak Republic – Czech Republic	2	1	1
Total	**226**	**98**	**128**

Source: AA´s information system, March 2021.

Tables 6 and 7 show that a **total of 226 findings were identified in 2020, of which 98 had no financial impact and 128 had a financial impact with a total value of CZK 169,583,640.**

Tabel 7: Areas of violation of financing conditions according to audits of operations for all OPs for 2020.

Areas of violation	Number	Share (%)	Financial impact (CZK)	Financial impact (%)
01.I Public procurement – contract notice, tender documentation	32	14.17	4,564,468	2.69
01.II Public procurement – evaluation of tender bids	16	7.08	68,458,477	40.37
01.III Public procurement – execution of the contract	8	3.54	31,946,588	18.84
01.IV Public procurement – others	22	9.73	8,207,450	4.84
02. Public support	3	1.33	0	0.00
03. Revenue-generating projects	1	0.44	1,327,349	0.78
04. Financial instruments	1	0.44	0	0.00
05. Missing background information or documentation	32	14.16	99,694	0.06
06. Ineligible project	3	1.33	34,561,917	20.38
07. Errors in accounting and project calculation	20	8.85	333,249	0.20
08. Other ineligible expenditure	60	26.56	7,988,899	4.71
10. Equal opportunities / non-discrimination	1	0.44	0	0.00
11. Information and promotion measures	2	0.88	1,936	0.00
12. Simplified cost reporting	1	0.44	0	0.00
13. Sound financial management (3E, sound financial manager)	18	7.96	591,558	0.35
15. Performance indicators	1	0.44	11,502,055	6.78
99. Others	5	2.21	0	0.00
Total	**226**	**100.00**	**169,583,640**	**100.00**

Source: AA´s information system, March 2021.

Table 7 provides an overview of the types of violation. The overview shows that, in order of frequency of occurrence, the main deficiencies identified were in public procurement, where the problems are primarily in the areas of *discriminatory and disproportionate qualification requirements for the award of the contract set out in the contracting notification or tender documentation*, *incorrect definition of the subject of the contract* (brands, names, technical specifications, non-specific definition), *failure to meet deadlines, in particular for additional information*, *failure to reject a bid/unjustified rejection of a bid*, *the making of fundamental changes after the conclusion of the contract*, *lack of transparency and unequal treatment during assessment* and *proportionality*.

In addition to procurement errors by beneficiaries, the main sources of ineligible expenditure were *accounting and calculation errors at project* level (19 findings with financial impact) and *uneconomical expenditure* (nine findings with financial impact). Next most frequent were errors in the category of miscellaneous findings, e.g. misreporting of payroll expenditure, ineligible expenditure – personnel costs, the application of salary compensation to gross salary, expenditure not incurred in accordance with the eligibility rules or ineligible expenditure in the area of VAT.

In 2020, the audit authority identified 26 findings of a serious nature concerning ineligible expenditure (findings whose value exceeds CZK 300,000) through audits of operations.

The findings with the largest financial impact for 2020 were identified in OP EIC, INTERREG CR-PL and OP En:

- failure of the winning candidate to demonstrate compliance with the technical qualification requirements for OP EIC;
- non-transparent procedure of the contracting authority in OP EIC;
- insufficient identification of the applicant's ownership situation in the application for support – with an impact on the determination of the size of a small and medium-sized enterprise (SME) in OP EIC;
- a fundamental change in a contractual obligation in a public contract in INTERREG CR-PL;
- failure to meet the target value of the indicator in OP EIC;
- failure to achieve the project objective in INTERREG CR-PL;
- bias and non-transparency affecting the outcome of the selection procedure, violation of the 3E principles (economy) in OP En.

In 2020, the AA also carried out audit work on the INTERREG CR-PL programme, where the MoRD is the managing authority. This included an audit of the MCS and 31 audits of operations with a total scope of CZK 429,308,228. **The audits of operations identified a total of 17 findings, of which 14 findings had a financial impact totalling CZK 35,298,597.**

In the area of cross-border and transnational cooperation, the following programmes were audited in 2020:

- INTERREG BY-CR, where a systems audit led by the Free State of Bavaria and 14 audits of operations totalling CZK 26,435,710 were carried out, identifying five findings, three of which had a financial impact totalling CZK 34,665;
- INTERREG SN-CR, where a systems audit led by the Free State of Saxony and 17 audits of operations totalling CZK 73,275,571 were carried out, identifying 13 findings, nine of which had a financial impact totalling CZK 357,117;
- INTERREG AT-CR, where six audits of operations with a total value of CZK 20,095,493 were performed, identifying three findings – all with a financial impact - totalling CZK 14,070;
- INTERREG SR-CR, where six audits of operations with a total value of CZK 43,536,445 were performed, identifying two findings, one of which had a financial impact of CZK 4,246,774.

Information on audits of financial statements:

An audit of financial statements is performed for every financial year and is intended to provide reasonable assurance regarding the completeness, accuracy and fairness of the amounts reported in the financial statements. In view of these requirements and in order to check compliance with the 3E principles (effectiveness, efficiency, economy), the results of the systems audits carried out at the PCA and MAs and the results of the audits of operations are considered when assessing the submitted financial statements. The results of audits carried out by the Commission and the ECA are also considered.

The audit authority carried out a total of three audits of financial statements in 2020, specifically for ESIF, ISF and AMIF programmes. No findings were identified in these audits. Details relating to the financial statements for the ISF and AMIF are presented in subsections D.1.2.

Audit of the financial statements of ESIF programmes for the financial year 1 July 2019 to 30 June 2020 no. ESIF/2020/U/003

The aim of the financial statements audit was to verify that all the elements required under Article 137 of the General Regulation are properly presented in the financial statements and are consistent with the underlying accounting records kept by all the relevant authorities or entities and beneficiaries. No findings were identified in the audit of the financial statements. The audit was completed by the writing of the *summary report on the audit of financial statements* on 26 February 2021.

Table 8: Overview of the occurrence of irregularities at individual programmes according to the AA annual audit report in 2020

Programme	Annual audit report		Audits of operations			
	Opinion	Projected error rate	Certified (mil. EUR)*	Audited (mil. EUR)	Sample (%)	Irregularity (EUR)**
IROP	Unmodified	0.48%	849.16	36.28	4.27	92,720
OP EIC	Qualified	4.21%	1,158.19	220.81	19.13	4,403,058
OP Em	Unmodified	0.08%	354.80	20.64	5.81	31,247
OP PGP	Unmodified	0.70%	50.37	16.36	32.33	45,494
OP RDE	Unmodified	0.21%	573.35	54.54	9.50	34,621
OP En	Unmodified	1.77%	581.39	68.62	11.79	372,840
OP T	Unmodified	0.00%	677.49	213.30	31.47	0
OP TA	Unmodified	0.00%	35.69	5.09	14.22	130
OP F	Unmodified	0.66%	13.74	5.23	37.95	38,035
INTERREGG ČR–PL	Qualified	5.96%	43.66	16.27	37.27	1,339,582
Total			**4,337.82**	**657.14**	**15.32**	**6,357,727**

Source: AA annual audit reports.

Note: * This amount represents the certified expenditure from which the sample was selected (so-called positive population).
** Amount of ineligible expenses in a random sample according to annual audit reports.

D.1.2 AUDITS FOCUSING ON MISCELLANEOUS FINANCES PROVIDED TO THE CZECH REPUBLIC FROM THE EU BUDGET

Asylum, Migration and Integration Fund and ***Internal Security Fund*** for PP14+

The MoF is the Audit Authority not only in relation to the ESIF, but also in relation to funds provided out of the **AMIF and ISF**, and these funds were also audited in 2020. The work on the financial statements was completed so that the opinion could be issued by the deadline of 15 February 2021. **No findings were identified in these two audits of financial statements.**

Based on the audit work carried out, an **unqualified opinion was issued** on the AMIF and ISF financial statements – the financial statements present a true and fair view and the EU expenditure that the Commission was requested to pay was legal and regular.

Systems audits were also carried out at the responsible authority (RA) in 2020: one audit for the AMIF and one for the ISF. **In the case of the AMIF, a total of four findings were identified, including one finding of medium gravity and three findings of low gravity. A total of six findings were identified for the ISF, including one finding of medium gravity and five findings of low gravity.**

The finding of medium gravity relates to the out-of-date nature of the documentation and procedures actually carried out by the responsible authority.

Table 9: Evaluation of MCS according to performed system audits for 2020.

OP title	Opinion	Category of MCS	Findings in total	Findings gravity	
				Medium	Low
ISF	Unmodified	2	6	1	5
AMIF	Unmodified	2	4	1	3
Total			**10**	**2**	**8**

Source: AA annual audit reports.

The AA carried out **four audits of AMIF operations and two audits of ISF operations** in 2020.

As regards the **AMIF**, the audits of operations identified a **total of eight findings, three of which were of medium gravity, i.e. with a financial impact for the beneficiaries (findings up to CZK 300,000),** and five findings without financial impact. One audit of operations was without findings.

A total of five findings were identified by the audits of operations pertaining to the **ISF, all with a low level of gravity, i.e. no financial impact.**

Table 10: An overview of the error rate and values of expenditure certified, audited and ineligible for individual programmes for the year 2020.

Title	Opinion for the programme	Certified (CZK)	Audited (CZK)	Sample (%)	Irregularities (CZK)	Error rate (%)
FVB	Unmodified	314 209 907	86 520 130	51,6	0	0,0
AMIF	Unmodified	105 441 266	54 413 140	27,5	238	0,0
Celkem		**419 651 173**	**140 933 270**	**33,5**	**238**	**0,0**

Source: AA annual audit reports.

Information on audits of financial statements:

Audit of ISF financial statements for 2020:

The aim of financial statements audit no. ISF/2020/U/001 was to verify that all the elements required by Regulation (EU) No. 514/2014[46], Article 59(5) of Regulation (EU, Euratom) No. 966/2012[47] and Article 63(5) of Regulation (EU, Euratom) 2018/1046[48] were properly presented in the financial statements and are consistent with the underlying accounting records maintained by the responsible authority and beneficiaries. **No findings were identified during the audit.**

Audit of AMIF financial statements for 2020:

The aim of financial statements audit no. AMIF/2020/U/001 was to verify that all the elements required by Regulation (EU) No. 514/2014, Article 59(5) of Regulation (EU, Euratom) No. 966/2012 and Article 63(5) of Regulation (EU, Euratom) 2018/1046 were properly presented in the financial statements and are consistent with the underlying accounting records maintained by the responsible authority and beneficiaries. **No findings were identified during the audit.**

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

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

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

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

D.2.1 DAS AUDITS

The ECA issued the ***Annual Report on the Implementation of the EU Budget for the 2019 Financial Year*** and the ***Annual Report on Activities Financed by the Eighth, Ninth, Tenth and Eleventh European Development Funds for the 2019 Financial Year***. The **Czech Republic was mentioned twice** in these reports**,** firstly in the context of its disagreement with the shortcomings identified by the Commission in the area of traditional own resources (TOR) and secondly in the context of the AMIF-related report.

Shortcomings in follow-up audits of irregularities concerning TOR

In 2019 the Commission closed 15 of the 54 long-standing open ECA audit sample cases related to deficiencies identified in Member States in the area of TOR. Seven of these 15 cases were assessed and closed by the Commission between ten months and two years after the Member States fully resolved the identified irregularity. This thus distorts the picture of open TOR cases that have not yet been resolved. The ECA noted that **in four out of five open cases the Member State disagrees with the Commission's position, but the Commission has still not decided whether to initiate infringement proceedings.** One of these cases concerns Greece and was identified in 2011 during an audit following up the 2002 TOR audit report. The other cases concern deficiencies identified in 2014 in the Czech Republic, the Netherlands and Greece.

Review of the Commission's annual audit reports

The ECA reviewed the individual compliance assessments relating to the annual audit reports of the audit authorities prepared by the Commission's Directorate-General for Migration and Home Affairs (DG HOME). The goal of the ECA's audit was to verify how these reports were used by DG HOME for the purpose of approving the 2018 national financial statements relating to the AMIF and ISF.

The ECA selected 12 reports for this purpose. The Czech Republic's report was related to the AMIF. The ECA also reviewed the corresponding DG HOME audits. Overall, the ECA found that the individual assessments were well structured, very carefully drawn up and covered all relevant legal issues. **DG HOME duly used the information from the audit reports for its approval decisions.**

However, the audit identified **two deficiencies that could limit the extent to which the Commission can rely on the annual audit reports of individual Member States:**

The responsible audit authorities have different definitions of "interim payments"[49].

The Commission has not issued guidance to audit authorities on how to calculate the minimum 10% audit coverage[50] when using sample sets. In some cases, the Commission found that the work of the audit authorities was inadequate.

49 The model request for payment of the annual amount from AMIF and FVB defines interim payments as reimbursement of expenses incurred by the beneficiary for an ongoing project. Some MS also consider advances as interim payments and other MS have paid several interim payments without first clearing the advances, according to ECA findings.

50 Article 14(4) of Commission Delegated Regulation (EU) 2018/1291 of 16 May 2018 amending Delegated Regulation (EU) No 1042/2014 supplementing Regulation (EU) No 514/2014 of the European Parliament and of the Council as regards the designation of the responsible authorities and their management and control responsibilities and the status and duties of audit authorities.

D.2.2 ECA SPECIAL REPORTS

In its Special Reports the European Court of Auditors presents the results of performance and compliance audits focusing on specific expenditure areas or issues linked to budgets or management. In the period under scrutiny, the ECA published a **total of 24 special reports** covering various areas of activity within the EU. The **Czech Republic** was included in the audit **sample in four cases in the period** under scrutiny. The results of the audits were published in the following Reports.

Special Report 7/2020 ***Implementing Cohesion policy: comparatively low costs, but insufficient information to assess simplification savings***

The implementation of Cohesion policy funds through operational programmes entails a number of activities, which generate costs for the Commission, Member States and beneficiaries. The auditors examined whether the Commission's and Member States' costs of implementing Cohesion policy funds are comparable to other similar schemes, whether they are based on complete, consistent and coherent information, and whether the cost information allows for analysis and decision-making on legislation such as simplifying rules.

Five of the Member States pre-assessed by the Commission as being advanced in the collection and use of cost information were selected – the Czech Republic, Poland and Portugal (physical audit visits), and Latvia and Austria (videoconferences and desk reviews).

The auditors found that the **administrative costs** associated with the operation of the **ESIF are lower compared to other** European and international programmes**.** They concluded, however, that the **underlying cost data** collected by the Commission **are not sufficiently complete, consistent and coherent,** making it difficult to use when assessing the impact of simplifying EU rules on the administrative costs of implementing Cohesion policy funds. For example, the Commission estimates that administrative costs in PP14+ should decrease after the introduction of several simplification measures. By contrast, Member States indicated in the survey that they expect them to increase. In this respect, the auditors noted that the **estimated cost savings resulting from simplification measures** for PP14+ and the programming period 2021–2027 (PO21+) **may not be achieved,** as the final impact depends to a large extent on national and regional administrative procedures.

The **auditors recommended that the Commission** focus on **identifying further potential savings** by assessing the administrative practices in Member States and subsequently, in close cooperation with them, checking whether the estimated cost savings actually materialised. Specifically, they recommended:

- improving access to administrative cost studies by announcing what will be studied and when;
- assessing whether estimated administrative cost savings have materialised;
- examining administrative practices in Member States.

The SAO has not yet performed a thematic audit with the equivalent focus.

Special Report No. 09/2020 ***The EU core road network: shorter travel times but network not yet fully functional***

The auditors assessed the progress made and the Commission's role in the completion of the TEN-T core road network[51]. They also audited Member States' contribution to road maintenance. They visited Bulgaria, the Czech Republic, Poland and Spain.

EU funding and Commission action are a major contributor to the development of TEN-T, but most Member States in the Central and East European region are lagging behind, and only around 400 kilometres of new TEN-T roads have been built with EU support since 2014. The Commission aims to complete almost 50,000 kilometres of motorways and express roads in the nine corridors of the TEN-T core network and on all major transport routes in the EU by 2030. Since 2007, it has provided Member States with around EUR 78 billion for the construction of new roads and the upgrading of existing roads, of which EUR 40 billion is for TEN-T roads.

In 2016, when the latest available data was collected, **the completion rate of the core network at EU level was 77%.** At the time of the audit, the **completion rate** in the countries visited was 46% in Bulgaria, around 75% in Poland, **around 78% in the Czech Republic** and 100% in Spain. According to the OECD, average road maintenance spending by Member States fell by almost half between 2007 and 2017, and **of the four MS visited, only Spain is considered to have a generally good network condition.**

Unfinished cross-border sections, poorly coordinated parking infrastructure and alternative fuel infrastructure hamper seamless travel on the TEN-T network**. Inadequate maintenance by Member States** is a risk to the network in the long term. That is despite the fact roads account for the largest share of passenger and freight traffic in the EU.

The auditors recommended that:

- **the Commission should prioritise investment in the core network, improve monitoring and strengthen its approach to maintenance.**

This ECA audit topic is linked to some audits by the SAO, in particular the SAO audit No. 19/10[52] (see subsection C.2), which sought to examine whether the funds allocated for bridge repairs and maintenance (on various categories of roads) are sufficient to keep them in satisfactory condition and whether the money is spent efficiently, effectively and economically. The results of the audit confirmed the findings of the long-term monitoring of this area, consisting in insufficient maintenance of road bridges and delays in starting repairs on most of the bridges that were scrutinised.

In 2021, the SAO plans to perform another similarly focused SAO audit No. 21/37[53].The aim of this audit is to examine whether the funds earmarked for the modernisation of the D1 motorway were spent efficiently, economically, effectively and in compliance with the legal regulations, with particular regard to ensuring the quality of motorway modernisation.

51 TEN-T (Trans-European Transport Networks) is the main Trans-European transport network.
52 Audit No. 19/10 - Repair and maintenance of road bridges.
53 Audit No. 21/37 - State and EU funds earmarked for the modernisation of the D1 motorway.

Special Report 11/2020 *Energy efficiency in buildings: greater focus on cost-effectiveness still needed*

Buildings consume the largest share of energy for heating or air conditioning, and have the greatest potential for energy savings. The EU has allocated approximately EUR 14 billion for energy efficiency improvements in buildings in PP14+, EUR 4.6 billion of which is for residential buildings. Member States budgeted a further EUR 5.4 billion for national co-financing for all buildings, about EUR 2 billion of which is for residential buildings.

The auditors assessed whether EU co-funded energy efficiency investments in buildings had cost-effectively helped the EU towards its 2020 energy saving target. They audited EU-funded programmes in five Member States (Bulgaria, Czechia, Ireland, Italy and Lithuania) that allocated a total of EUR 2.9 billion to the implementation of the projects concerned. Typical EU co-funded projects in this area include building insulation, energy-efficient windows, thermal control systems and heating system upgrades.

The auditors concluded that the OPs and the selection of projects were not guided by the logic of cost-effectiveness. Although the Member States required building renovations to aim to achieve a certain minimum level of energy savings and improved energy ratings, this was sometimes at a high cost. As there was no comparative assessment of project results or of minimum and maximum cost-effectiveness values, projects that provided greater energy savings or other benefits at lower cost were not prioritised.

Despite better guidance from the Commission, EU-funded projects still do not focus on achieving the best possible savings per euro invested. The auditors noted that it **is not clear to what extent EU funding has contributed overall to meeting the EU's energy efficiency targets.**

The auditors criticised authorities in the Member States for not targeting EU funds at projects where energy savings are most likely to be achieved. When designing EU-funded programmes, the authorities do not always consider initial energy consumption, potential energy savings and the investment needed. Furthermore, they do not incentivise deep renovations by, for example, allocating higher levels of support for them. The auditors pointed out that in fact **most national authorities provide a 100% grant regardless of the amount of expected energy savings.** As a result, some projects finance simple upgrades (such as the installation of LED lighting) that would have been carried out without EU support. National authorities generally require energy audits and **energy performance certificates** to assess investments. **They do not use** them **when selecting projects**, however. In most cases, **they allocated grants to projects on a first-come first-served basis,** without assessing relative costs and benefits. This increases the risk that projects whose costs exceed the potential energy savings are funded, especially if there are no ceilings per unit of energy saved. As the **cost-effectiveness of the investments** is **moreover not monitored, it is impossible to know how much energy will actually be saved by investing EUR 6.6 billion of public funds** earmarked for residential buildings in PP14+**.**

The auditors recommended **improving the planning and targeting of investments, improving project selection and monitoring of progress towards sustainable energy targets** to improve the cost-effectiveness of spending.

The issue covered by this ECA audit is related to two audits included in the SAO's audit plan for 2020:

- audit No. 20/05[54] (see subsection C.2), which sought to examine whether the funds earmarked for the support of energy savings in public buildings were spent in accordance with the legislation and whether they contributed to the objectives set by EU and national regulations. The audit found that the funds spent from Op En and the national NGfS programme contributed to a reduction in final energy consumption in public buildings, but contributed only to a limited extent to meeting the 2020 targets set by EU and national legislation. The reported reduction in final energy consumption represented about one fifth of the energy savings that are supposed to be achieved through OP En.

54 Audit No. 20/05 - Promotion of energy savings in public buildings.

- audit No. 20/19[55], focused on support from IROP and the NGfS programme. Its aim was to verify whether the audited entities provide and use funds intended for reducing the energy performance of residential buildings efficiently, effectively and in compliance with legal regulations. This audit was not completed by the editorial deadline (its audit report had not been approved).

Special Report 18/2020 ***The EU's Emissions Trading System: free allocation of allowances needed better targeting***

The EU Emissions Trading System (EU ETS) is one of the EU's key climate change mitigation policies and the world's first carbon market. Its purpose is to provide an efficient mechanism to reduce emissions.

Under the EU ETS, industry, energy and aviation must receive sufficient allowances to cover their carbon emissions. To do this, free allocation of allowances may be used temporarily in addition to the standard auctioning method. This system was set up in 2005. Per capita emissions in the EU have fallen since then, but are still above the global average. The auditors consulted the relevant national authorities in the CR, Germany, Poland and Sweden, as well as representatives of industry, energy and aviation and NGOs. They investigated whether the free allowances[56] have succeeded in modernising electricity generation and whether the allocation of free allowances has been targeted to incentivise reductions in greenhouse gas emissions. At its special meeting in July 2020, the European Council invited the Commission to submit a proposal for a revision of the EU ETS.

The auditors found that in both Phase 3 and Phase 4 of the EU ETS (i.e. since 2013), free allowances still account for more than 40% of available allowances under cap-and-trade. These **free allowances were not well targeted**. In addition**, the speed of decarbonisation in the energy sector has fallen sharply. The Commission needs to update the process** by which it allocates free allowances to reflect the ***Paris Agreement*** **and recent developments.**

The auditors found that **decarbonisation in the energy sectors had progressed significantly slower in those Member States that allocated free allowances to channel investment into modernising the sector** than in other Member States. I**n Bulgaria, Czechia, Poland and Romania in particular, investments were often used to upgrade existing lignite and coal-fired power plants rather than to switch to fewer polluting fuels.** The auditors noted that the Commission has tightened the rules for the energy sector for the 2021–2030 period.

The auditors recommended that the Commission should:

- target the allocation of free allowances better;
- improve the methodology for benchmarks.

Audit No. 20/05 (see subsection C.2), which also touched upon the issue of auctioning emission allowances in the Czech Republic, is related to this audit topic.

The SAO's audit found that, among other things, the proceeds from these auctions were not being used to the appropriate extent required by law to achieve energy efficiency targets for public buildings.

55 Audit No. 20/19 - Measures to reduce the energy consumption of residential buildings.
56 These allowances are allocated to the industrial sector, aviation and, in eight MS (with GDP per capita below 60% of the EU average), to the electricity generation sector to allow it to modernise.

D.3 COMMISSION AUDIT MISSIONS IN RELATION TO THE CZECH REPUBLIC

D.3.1 AUDIT OF COMPLIANCE WITH CONFLICT OF INTEREST'S LEGISLATION

The **Commission carried out a thematic audit** no REGC4114CZ0133 **in the Czech Republic between** 8 January and 15 February 2019 on the compliance of **the MCS of selected programmes financed by the ESIF with the legal framework consisting of measures to prevent conflicts of interest.** The goal of the audit was to obtain reasonable assurance, in relation to the support provided to companies forming part of the AGROFERT, a.s.,[57] holding group, that in the period between June 2011 and July 2018 (i.e. prior to the entry into force of Financial Regulation (EU, Euratom) 2018/1046[58]), the MCS of the programmes mentioned below was designed in accordance with the legal framework in force at that time and was functional.

The Commission's auditors examined the fulfilment of key requirements for management and control systems according to the criteria for assessing their functioning[59], **and concluded that Prime Minister Ing. Andrej Babiš continues to control the AGROFERT, a.s., holding group and is thus in breach of EU and domestic legislation. Despite a number of steps taken by the relevant Czech authorities, this opinion remains valid.**

The Commission followed up this audit **with an audit in the agricultural sector to verify whether subsidies had been wrongfully paid**, not only in the narrow time period since 2 August 2018 (when the new EU Financial Regulation on conflict of interest came into force), but throughout the entire period of A. Babiš's tenure in government posts. The audit focused on the design of conditions and procedures for the provision of subsidies from the *Rural Development Programme for 2014-2020* (RDP) through the State Agricultural Intervention Fund (SAIF) in relation to the applicability of the provisions of Section 4c of Act No. 159/2006 Coll.[60] effective from 9 February 2017 and at the same time in relation to the Financial Regulation effective from 2 August 2018.

The Commission found a violation of Section 4c of the Act on Conflict of Interests. In response, the SAIF suspended the payment of subsidies approved after 9 February 2017 to the AGROFERT group companies with immediate effect. Although payments were resumed after the legal analysis was prepared, they were again withheld by the SAIF in response to the Commission's decision to suspend the disbursement of interim payments relating to the RDP due to the ongoing audit investigation. Amounting to approximately CZK 6.3million, these interim payments were to be made to projects of AGROFERT group companies.

At the end of January 2020, a meeting on the preliminary findings of the Commission's audit took place between representatives of the Ministry of Agriculture, SAIF and representatives of the Commission's Directorate-General for Agriculture and Rural Development (DG AGRI)[61]. The discussion concerned three areas in particular: the prime minister's conflict of interest, the design of the rules for the provision of RDP subsidies and the possible conflict of interests of the Czech agriculture minister, Miroslav Toman. During the meeting, the **parties reached a convergence of views regarding the reimbursement of RDP subsidies through the SAIF and agreed to unblock payments to AGROFERT, a.s., with the exception of one project in the amount of CZK 1.6 million.**

The second **audit reached the same conclusion as the first audit, namely that A. Babiš was in a conflict of interests for at least part of his time in government.** He exerted an influence on subsidy policy and at the same time benefited financially from it thanks to his continuing links with AGROFERT, a.s., which, according to the Commission, is against the rules.

57 AGROFERT, a.s., is a Czech holding company operating primarily in the agricultural, food, chemical and media industries, which includes more than 250 subsidiaries. The founder of the holding is the current Prime Minister Andrej Babiš.

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

59 Guidelines for the Commission and the Member States on a common methodology for evaluating management and control systems in the Member States; EGESIF_14-0010, final of 18 December 2014.

60 Act No. 159/2006 Coll., on Conflicts of Interest.

61 Directorate-General for Agriculture and Rural Development.

From 26 to 28 February 2020, a **fact-finding mission of MEPs from the European Parliament's Committee on Budgetary Control** (EP-CONT) **took place in the Czech Republic**. Six members of EP-CONT took part in the fact-finding mission to **obtain information on the distribution of EU funds** in response to reports from the Commission on possible irregularities in the management of the ESIF and, in particular, to suggestions of the prime minister's possible conflict of interests. The MEPs met with representatives of ministries, the SAO, civil society, associations, journalists and NGOs.

D.3.1.1 DESCRIPTION OF THE LEGAL STATE OF AFFAIRS

According to the case-law of the Court of Justice of the European Union (the Court of Justice), ***a "conflict of interests constitutes, objectively and in itself, a serious irregularity without there being any need to qualify it by having regard to the intentions of the parties concerned and they were acting in good faith."***[62] If the impartiality and objectivity of financial actors is jeopardised, it is a conflict of interests. **Any expenditure affected by a conflict of interests is illegitimate and constitutes an irregularity** to be dealt with within the meaning of Article 143 et seq. of the General Regulation or other rules (e.g. the CAP). **Financial corrections then represent a significant risk for the state budget, especially when the public authorities are unable to enforce repayment of the unjustified advantage.**

New Financial Regulation (EU, Euratom) 2018/1046 (effective from 2 August 2018)

Article 61 of the Financial Regulation provides, inter alia, that: "*Financial actors within the meaning of Chapter 4 of this Title and other persons, including national authorities at any level, involved in budget implementation under direct, indirect or shared management, including any acts preparatory thereto, audit or control,* ***shall not take any action which may bring their interests into conflict with those of the European Union. They shall also take appropriate measures to prevent a conflict of interests from arising in the functions under their responsibility*** *and to address situations which may objectively be perceived as a conflict of interests…* ***A conflict of interests exists where the impartial and objective exercise of the functions of a financial actor*** *or other person, as referred to in paragraph 1, is compromised* ***for reasons involving family, emotional life, political or national affinity, economic interest or any other direct or indirect personal interest.***"

Act No. 159/2006 Coll., on Conflict of Interests[63]

Section 2 of the Conflict of Interest Act defines the concept of a public official. A public official is obliged to refrain from any action in which his personal interests may influence the performance of his duties. **For the purposes of this Act, a personal interest is defined as an interest which brings to a public official, a person close to a public official, a legal person controlled by a public official or by a person close to a public official an increase in wealth,** a property-related or other benefit, the avoidance of a possible decrease in wealth or other benefit or any other advantage; this does not apply if the benefit or interest is otherwise generally obvious in relation to an unlimited number of recipients. A **public official may not jeopardise the public interest** by using his position, authority or information acquired in the exercise of his function to obtain a property-related or other advantage or benefit for himself or another person.

Title Three of the Act on Conflict of Interests provides, inter alia, that a company in which a public official referred to in Section 2(1)(c)[64] or a person controlled by him owns a share representing at least a 25% stake in the company **may not participate in procurement procedures** (Section 4b of the Act on Conflict of Interests) under the legislation governing public procurement as a participant or subcontractor through which the supplier demonstrates qualification. The contracting authority is obliged to exclude such a company from the tender procedure. The contracting authority may not award a small-scale public contract to a company referred to in the first sentence; such an action shall be null and void.

62 Ismeri Europa Srl v Court of Auditors, judgment of 15 June 1999. T-277/97, ECLI:EU: T:1999:124.
63 As amended by Act No. 14/2017 Coll.
64 A member of the government or head of another central administrative authority, not headed by a member of the government.

It **is prohibited** (Section 4c of the Conflict of Interest Act) **to provide** a **subsidy** pursuant to the legislation governing budgetary rules or an investment incentive pursuant to the legislation governing investment incentives to a company in which a public official referred to in Section 2(1)(c) or a person controlled by him owns a share representing at least a 25% stake in the company.

Register of beneficial owners

On 19 January 2021, the Parliament of the Czech Republic passed a law on the registration of beneficial owners[65]. The provision of the government's draft of this law, which stipulated that if a share of a business corporation is managed in a trust fund (domestic or foreign), the beneficial owner of this business corporation will be determined according to the rules for determining the beneficial owner of a business corporation, not a trust fund, was not approved. This law became effective on 1 June 2021.

The act on the registration of beneficial owners replaced part five of Act No. 304/2013 Coll., on public registers of legal and natural persons.

In some cases, beneficial owners can only be identified when the act on the registration of beneficial owners enters into effect, i.e. from June 2021.

Central register of notifications

Under the Act on Conflict of Interests, a *Central Register of Notifications* has been established as a public administration information system. It is administered by the Ministry of Justice. Electronic documents submitted by public officials are stored in the register. Obliged persons submit notifications of their assets, income, gifts and liabilities. The register authority keeps the notification in the register for five years after the end of the public official's term of office. Upon request, citizens have the right to consult the register and to obtain copies and extracts therefrom, either in person or via a public data network. Access is free of charge, but is not always anonymous.

On the exclusion of subsidies provided by the SAIF from the scope of the Act on Conflict of Interests

Section 4c of Act No. 159/2006 Coll., on conflict of interests, provides: "*It is prohibited to provide a subsidy **under a legal regulation governing budgetary rules** or an investment incentive under a legal regulation governing investment incentives to a company in which a public official referred to in Section 2(1)(c) or a person controlled by him owns a share representing at least a 25% stake in the company.*" It can be inferred from this provision that the provision does not cover cases where subsidies are granted under a regulation other than the budgetary rules. **One example of the impact of the rule formulated in this way are subsidies granted** under Act No. 256/2000 Coll. **by the State Agricultural Intervention Fund**[66]. The SAIF does not feel bound by the rule of Section 4c and does not address the issue of a conflict of interests.

It is not just a question of the SAIF, though, as subsidies are also provided from public sources under regulations other than the budgetary rules.

Section 4c of Act No. 159/2006 Coll., on conflict of interests, allows for an interpretation that excludes from the material scope of this Act the provision of subsidies under regulations other than budgetary rules, which is contrary to the meaning of Regulation (EU, Euratom) 2018/1046.

65 Act No. 37/2021 Coll., on the registration of beneficial owners.

66 Since January 2020, national subsidies to agriculture have not been provided by the Ministry of Agriculture, but by the SAIF.

D.3.1.2 FACTUAL STATE OF AFFAIRS – RISK OF CONFLICT OF INTERESTS

The SAO's audits of MCS scrutinise the fulfilment of a number of key requirements for these systems. As part of these audits, it checks the eligibility of beneficiaries of EU budget support. It regularly draws attention to the identified system deficiencies in its audit reports and in EU reports.

The existence of a conflict of interests for the prime minister has been established by the Commission, the European Parliament and the Senate of the Parliament of the Czech Republic.

On 19 June 2020, MEPs voted overwhelmingly in favour of a resolution critical of the Czech prime minister's possible conflict of interests and called on the Commission to have zero tolerance for conflicts of interests and on the Czech authorities to establish a reliable system for detecting and combating conflicts of interests[67].

In February 2021, the Court of Justice received an action by AGROFERT, a.s., the holding company in the trust fund of A. Babiš, challenging the suspension of subsidies. The written phase of the proceedings is currently underway and the court has yet to decide on the admissibility of the action.

According to the MoIT, the audit is not a decision that could be challenged in court. The MoIT therefore paid the subsidies to Fatra, a.s., and asked the MoF for extraordinary certification in order to obtain a decision of the Commission against which an action can be brought before the Court of Justice and thus obtain certainty in the matter of A. Babiš's conflict of interests. The Court of Justice's judgment would then have legal consequences.

The prime minister's conflict of interests is also being investigated by the Czech police. They are investigating whether a crime may have been committed due to the use of subsidies or public contracts by AGROFERT. The newly established Office of the European Public Prosecutor will supervise the proceedings.

D.3.2 QUANTIFYING THE FINANCIAL IMPACT OF CONFLICTS OF INTERESTS

In general, the Act on Conflict of Interests prohibits the provision of subsidies and participation in public contracts in cases where the public interest could come up against a private interest.

ESIF subsidies

Conflicts of interests within the meaning of the Financial Regulation may affect funds administered under the Partnership Agreement. According to the server dotaceeu.cz, 344,114 projects were approved and CZK 408.04 billion was paid under the Partnership Agreement in PP14+.[68]

The entry into effect of the Act on Conflict of Interests as of 1 September 2017 and the Financial Regulation as of 2 August 2018 should be considered here, as prior to their effect the rules on conflicts of interests may have been interpreted differently by the implementing structures. The *EU Report 2018* (subsection B.2.2.2) states that in the fifth year of the programming period the volume of funds in interim payment applications amounted to 12.30% of the main allocation. It is clear that a major part of the funds was paid after 2018. The volume of funds potentially affected by conflicts of interests within the meaning of the Act on Conflict of Interests and the Financial Regulation should be restricted to transactions that were approved and paid after the above-mentioned effective date of the regulations. It is also significant that the majority of applicants are undoubtedly eligible as regards the existence of absence of a conflict of interests.

67 European Parliament Resolution 2019/2987 (RSP).
68 https://www.dotaceeu.cz/cs/uvod (data comes from 2 May 2021, the situation is still changing).

The SAO is not able to scrutinise tens of thousands of transactions a year. It only audits a selected number of transactions (a very small proportion of the basic set) to check whether the financial management system is working properly.

Agricultural subsidies

Primary data on total agricultural subsidies are kept by the SAIF in an information system which the SAO does not have access to, and the data can only be obtained on the basis of an enquiry submitted to the SAIF. The situation is complicated by the fact that agricultural subsidies are provided according to the Act on the SAIF, not according to the budgetary rules (see subsection D.3.1.1).

These subsidies take the form of either **project measures** or **entitlement-based measures.** While there would be no doubt about the application of the conflict of interest law in the case of the former, in the case of entitlement-based measures (area payments and direct payments) the national authorities have very little room for administrative discretion, as the regulation is set at the level of the EU institutions' regulations and anyone who fulfils the conditions of an entitlement payment is eligible for support. On the other hand, **there is a risk that some financial actors may be involved in budgetary management, e.g. in the EU institutions. The issue is currently under discussion;** see the reply of Commissioner Wojciechowski[69] to the European Parliament of 20 July 2020 on conflicts of interests (on the application of Article 61 of Regulation (EU) 2018/104) to direct payments (P-003297/2020)).

Quantifying the impact of the conflict of interests in the case of A. Babiš

According to a Commission spokesman, no financial correction is necessary because the Czech authorities did not declare any expenditure for any of the operations covered by the audit report. The risk remains the possible harm to the state budget of the CR.

In the case of the projects concerned by the Commission's audit, after the Act on Conflict of Interests came into force (1 September 2017), the managing authority (OP EIC only) issued decisions on support in the total amount of CZK 288,476,234, beneficiaries were paid CZK 65,939,651 in pre-financing and CZK 5,117,680 was certified. **According to the MoF, a total of CZK 3.1 million was paid in violation of the Act on Conflict of Interests** (CZK 2,561,445 to Cerea, a.s., and CZK 547,590 to Fatra, a.s. This figure also corresponds to the analysis of the MS2014+ data, considering the changes that have occurred over time.

According to the CEDR[70] database, in the period from 31 August 2017 to 2020 support with a legal document that is not in the nature of entitlement-based payments was provided in violation of the Act on Conflict of Interests to AGROFERT, a.s., group companies from the budgets of the Ministry of Agriculture, the Ministry of Labour and Social Affairs, the Ministry of Health, the Ministry of the Interior, the Technology Agency of the Czech Republic and the Grant Agency of the Czech Republic in the total amount of CZK 1,514,768,349, of which CZK 1,436,556,966 was provided from the MoA chapter in accordance with the MoA's principles.

As regards subsidies paid under the RDP in the agricultural sector, the SAO only has available summaries of transactions (i.e. area-based payments and individual projects) without the amounts paid. Out of a total of 190,499 transactions under the RDP, 654 transactions (i.e. 0.34%) were executed by beneficiaries belonging to the AGROFERT, a.s., holding group (according to their consolidated annual reports for 2019). This comprised **623 area measures** (entitlement-based payments) and **31 individual projects** (non-entitlement-based payments).

The SAO does not have data on direct payments to AGROFERT group companies.

According to an overview of public contracts, or the parts thereof awarded in 2017–2021, for which companies linked to A. Babiš (AGROFERT, a.s., and SynBiol, a.s.) were the winning contractor (but not the sole contractor), the total value of these contracts is **CZK 42,095,112,269.**

69 https://www.europarl.europa.eu/doceo/document/P-9-2020-000460-ASW_EN.html: „For direct payments, there is very limited discretion at national level concerning decisions on the disbursement of these funds. The eligibility conditions for direct payments are set out in EC law, there is no selection procedure or award decision (like for investment projects), and the allocation of payments to beneficiaries is directly linked to the area farmed (or, in some cases, to the number of eligible animals)."

70 The CEDR information system as a whole is a tool especially for the provision, registration and control of subsidies and for the performance of a number of related agendas.

SECTION III

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

E. EU BUDGET

E.1 EU BUDGET AND ITS RELATIONSHIP TO THE CR

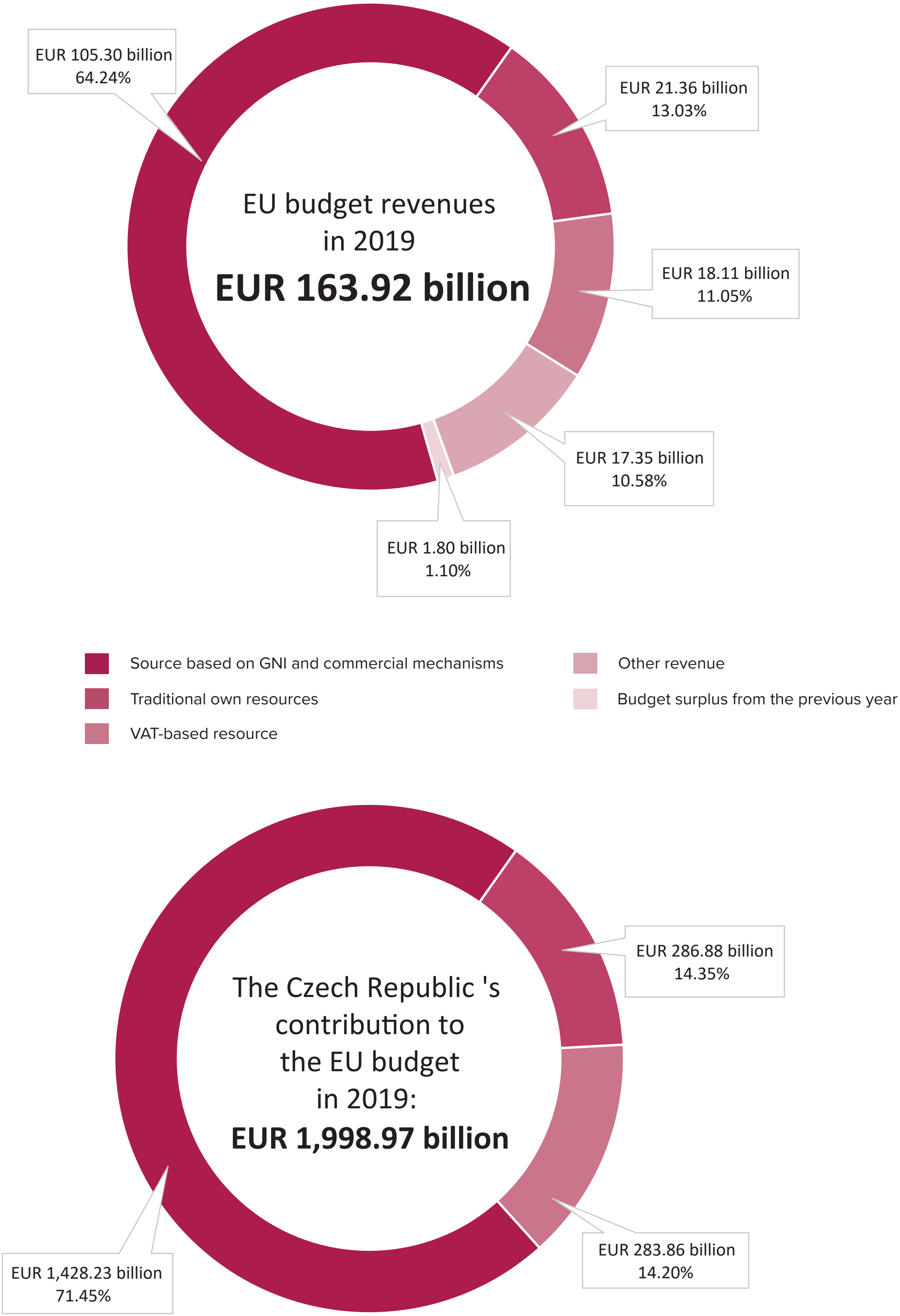
The source of the data used for the charts in this subsection was data published on the websites of **the Commission**[71], **Eurostat and the MoF.**

Notes to Chart 6: Revenue side of the EU budget in 2019 and its relation to the Czech Republic

- The **source based on gross national income** (GNI) is a variable source. Since 1988 it has been used to make up the difference between revenue and expenditure of the EU budget so that the budget as a whole is balanced. It is financed from Member States' national budgets.
- **Correction mechanisms** are instruments whereby some Member States pay reduced payments to the EU budget. These reductions are mainly made to compensate for significant budgetary imbalances between EU budget contributions and EU budget receipts or some Member States' non-participation in selected EU policies. The costs of these measures are borne by the other Member States.
- **Traditional own resources** include customs duties collected on imports of products from non-EU countries, as well as sugar levies. TOR are collected on behalf of the EU by the Member States themselves, which pay 80% of the funds thus collected into the EU budget and retain the rest to compensate for the costs of collection.
- **The VAT-based resource** is created by applying a uniform rate to all Member States, which is applied to the harmonised VAT assessment base. The total volume of the harmonised base is limited to 50% of a Member State's GNI.
- Other revenue includes income from fines imposed for infringements of competition rules or other regulations, income taxes and other levies on staff of EU institutions, or contributions from non-EU countries to EU programmes.
- The smallest part of the EU budget's revenue by volume comes from the transfer of the budget surplus from the previous year.

71 Specifically : https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2014-2020/spending-and-revenue_en.

Chart 6: The revenue side of the EU budget in 2020 and its relationship with the CR



Notes to Chart 7: EU budget expenditure in 2019 and its relation to the Czech Republic

- The ***Smart and Inclusive Growth*** heading (policy area) has two sub-headings. The first, ***Competitiveness for Growth and Jobs*****,** encompasses resources mainly in the areas of research, innovation and technological development, lifelong learning, support for SMEs or the development of transport, energy and digital networks. The ***Economic, Social and Territorial Cohesion*** sub-heading includes funds to be invested in building new infrastructure, training programmes and cross-border cooperation, with the aim of strengthening economic, social and territorial cohesion and boosting the growth and development of regions that are lagging behind.

- The heading ***Sustainable Growth: natural resources*** cover expenditure in the areas of agriculture, food, rural development, fisheries and environmental protection.

- Spending under the ***Security and Citizenship*** heading contributes to fighting terrorism and crime, managing migration flows and creating a common asylum system, as well as protecting EU consumers and promoting European culture.

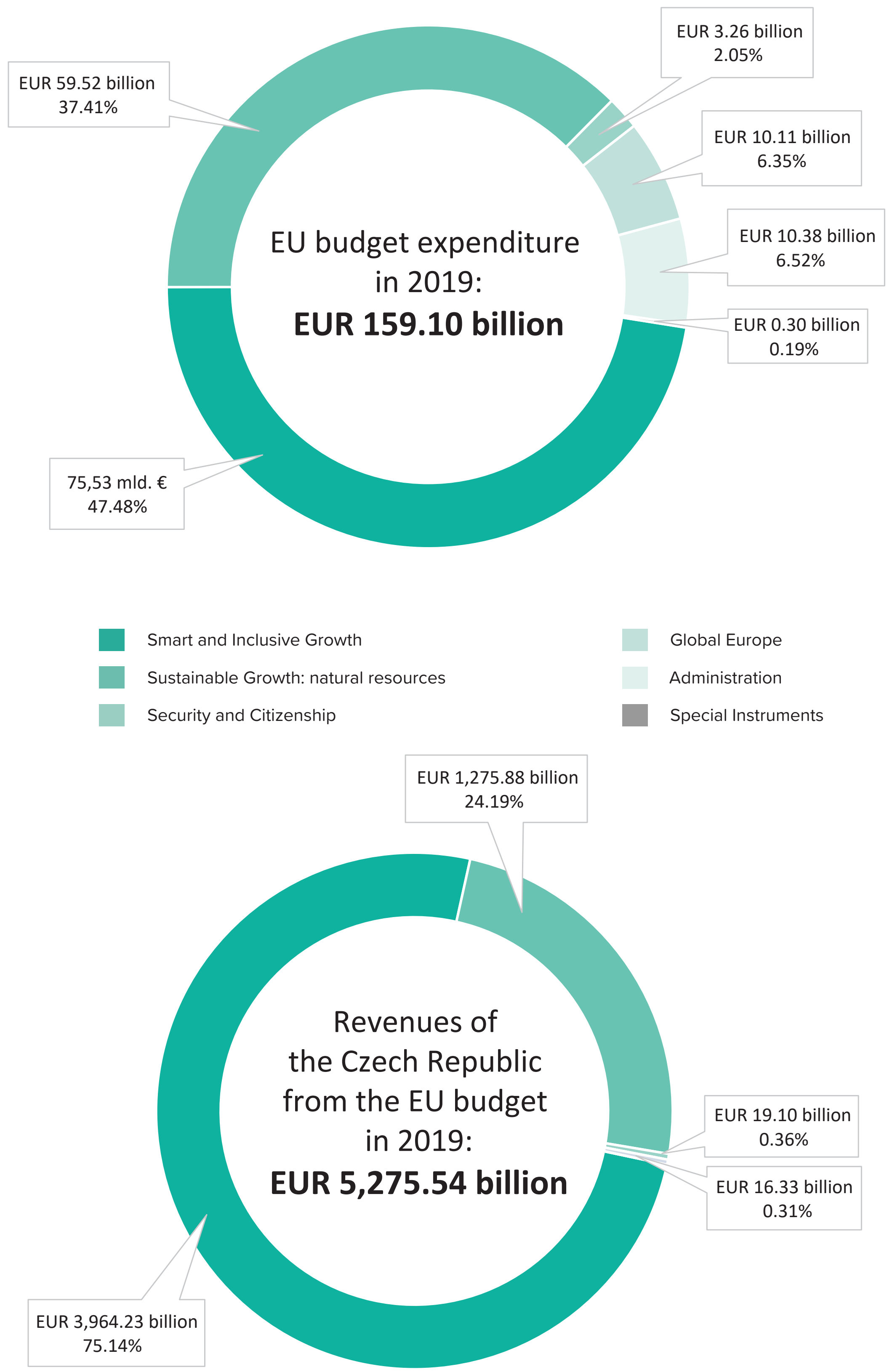
- The ***Global Europe*** heading finances the EU's external policy: spending on the EU's cross-border activities, EU enlargement, bilateral relations and humanitarian or development aid.

- The ***Administration*** heading covers expenditure mainly financing staff salaries and the management of EU institutions' buildings.

- **Special Instruments** consist of the *Emergency Aid Reserve*, the *European Globalisation Adjustment Fund*, the *European Union Solidarity Fund* and the *Flexibility Instrument*.

- Outside of the EU budget and the MFF14+ structure is the ***European Development Fund***, which is intended to finance development cooperation and aid implemented by the EU towards the ACP group of countries (Africa, Caribbean, Pacific).

Chart 7: Expenditure side of the EU budget in 2019 and its relation to the Czech Republic



Notes to Chart 8: Payments by the Czech Republic to the EU budget (EUR million) and their year-on-year changes (%) between 2007 and 2019

- The chart shows a clear upward trend in contributions to the EU budget. This trend is mainly determined by the gradual growth of the Czech Republic's GNI.
- Fluctuations in the amount of the levy are due to circumstances such as the Czech National Bank's adjustments to the exchange rate of the Czech koruna in the form of direct interventions on the foreign exchange market or methodological adjustments by the Czech Statistical Office in the national accounts and in the method of determining GNI.

Notes to Chart 9: EU budget revenue of the Czech Republic (EUR million) and their year-on-year changes (%) between 2007 and 2019

- The evolution of EU budget revenue follows the evolution of ESIF revenue, as the other components of this revenue are more or less constant or negligible.
- The trend curve follows the course of the programming periods (slow start of payments in the first years and large-scale absorption of the remaining allocation at the end of the period).
- The fluctuations in the level of EU budget revenue are due to external influences such as the prolonged suspension of funding by the Commission (2011) or the exchange rate corrections of the Czech koruna described above.

Chart 8: Payments of the Czech Republic to the EU budget (EUR million) and their year-on-year changes (in%) in 2007–2019

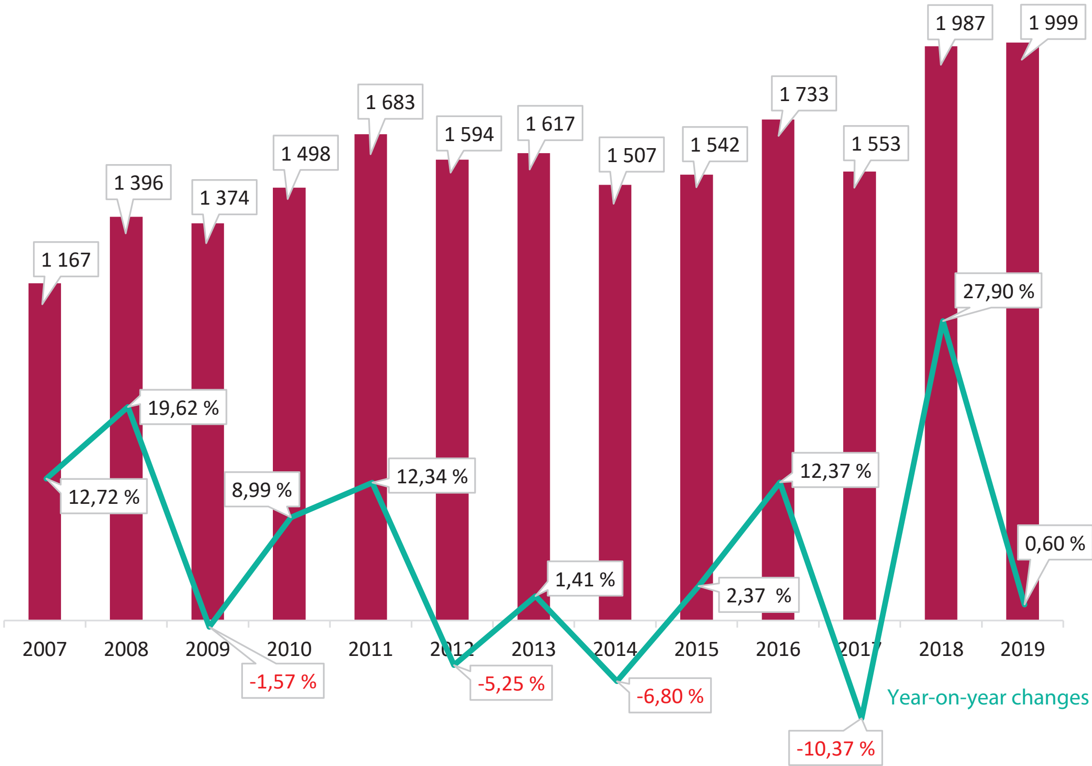


Chart 9: Revenues of the Czech Republic from the EU budget (EUR million) and their year-on-year changes (%) in 2007–2019

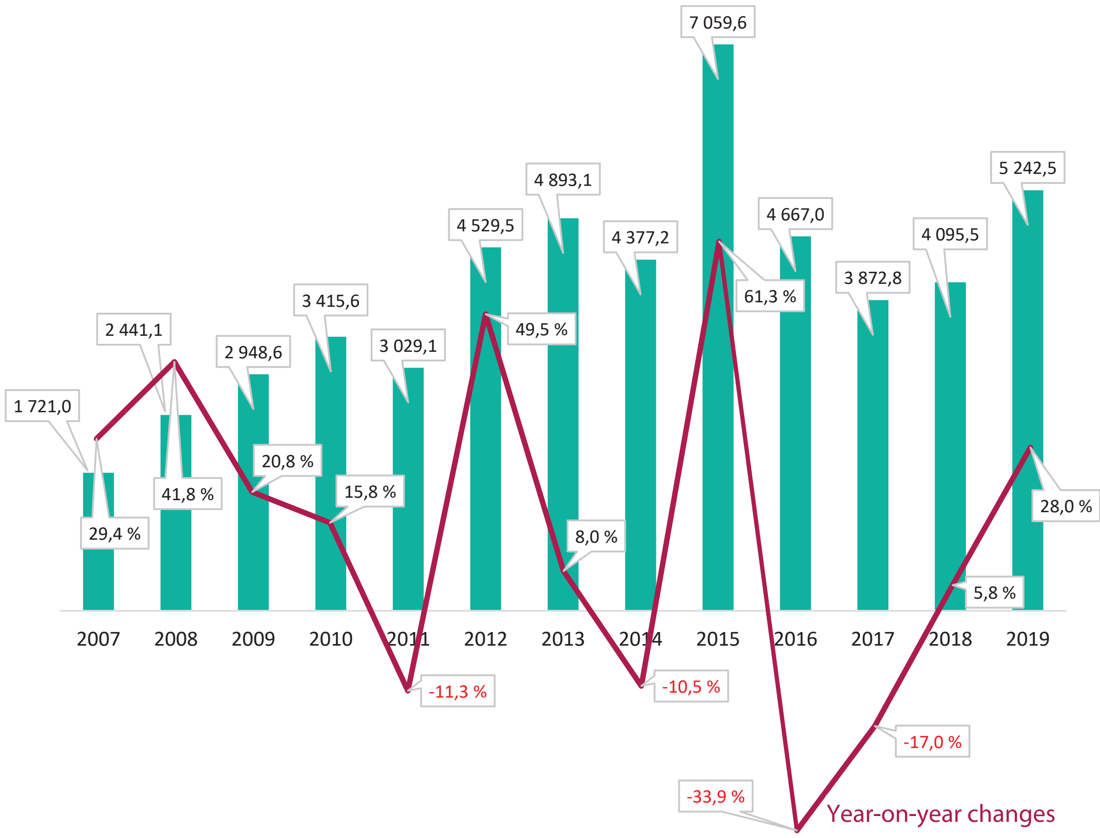


Chart 10: The net position of the Czech Republic in the years 2004–2019 (EUR million), supplemented by the data of the Ministry of Finance for 2020

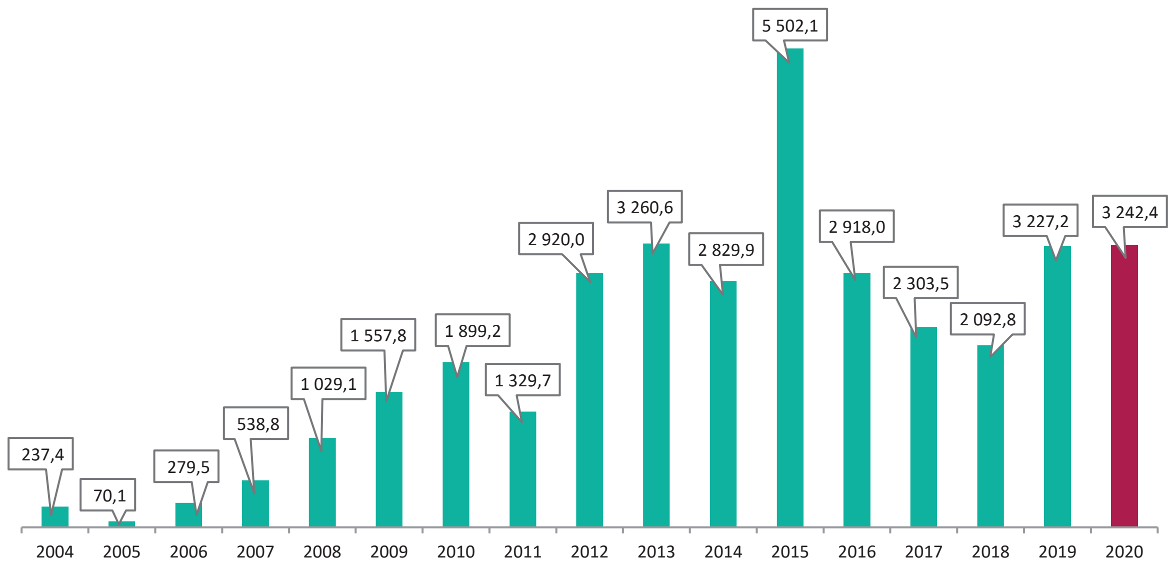
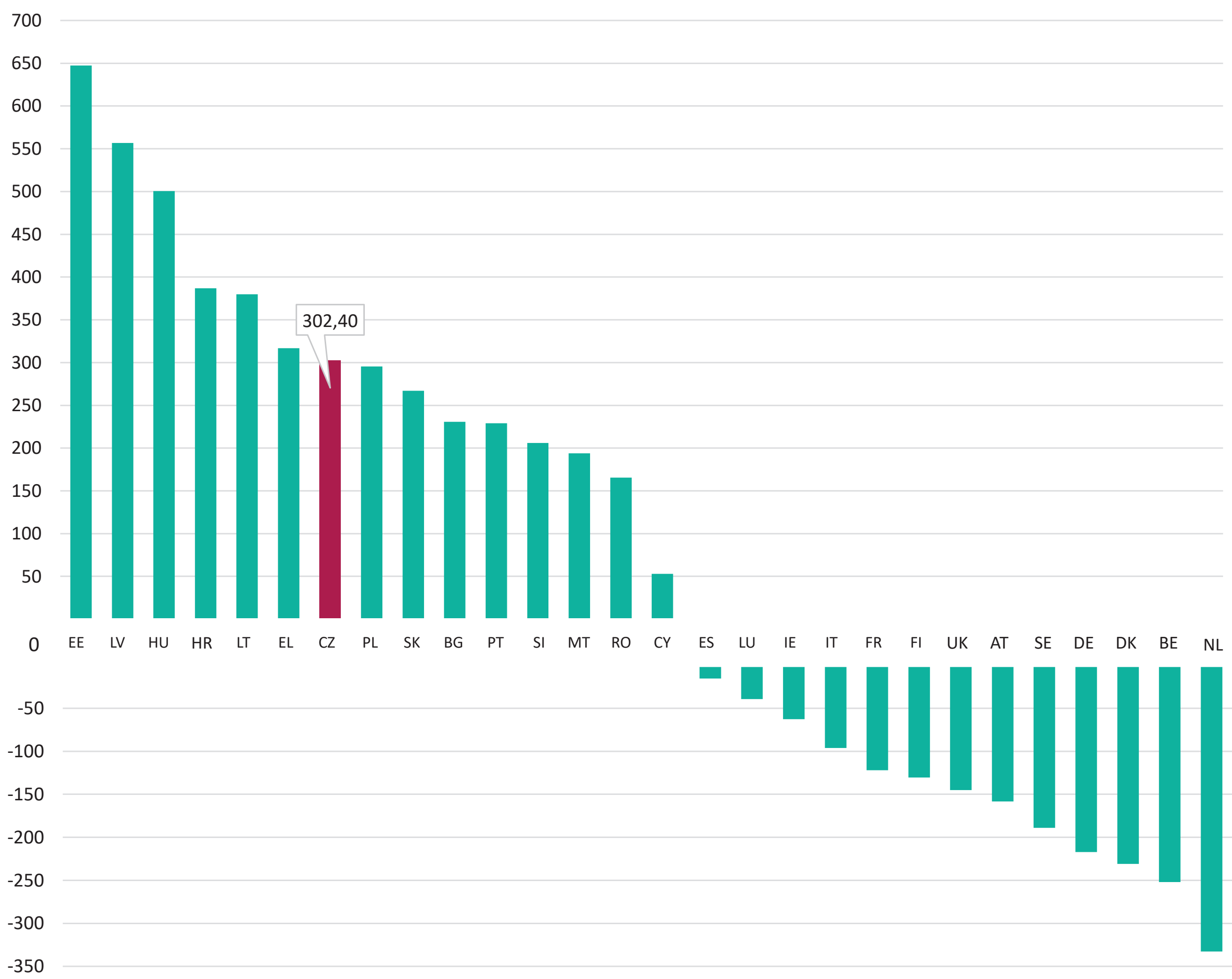


Chart 11: Net position per capita in 2019 (in EUR)



Notes to Chart 10: Net position of the Czech Republic in 2004-2019 (EUR million) with the addition of MoF data for 2020

- According to the Commission's data, the **net position of** the Czech Republic in 2019 **was EUR 3.23 billion**, the fourth highest in the EU-28, with only Poland, Hungary and Greece having a higher net position.[72] Historically, this value is the third highest for the CR (after 2015 and 2013).

- The evolution of the net position basically follows the evolution of the Czech Republic's revenues from the EU budget (see Chart 9), i.e. it is strongly dependent on the cycle of the programming period. This fact also influenced the sharp year-on-year **increase** in the net position by **54.20%.**

- On 2 February 2021, the Ministry of Finance published a press release: the *Czech Republic's net position vis-à-vis the EU reached +85.7 billion last year, the second-best result ever*. According to this press release**, the CR's net position for 2020 reached the aforementioned CZK 85.7 billion, which corresponds to CZK 3,242.41 million.**[73] The press release states that this value is the second highest ever (after 2015). According to SAO data based on Commission figures, this would be the third highest value. The difference is due to the different calculation methodology, the time of publication of the data (Commission data are published later and may consider additional corrections) and the use of different conversion rates (the Czech National Bank (CNB) rate used by the MoF is different from the European Central Bank[74] (ECB) rate used by the Commission).

Notes to Chart 11: Net position per capita in 2019 (EUR)

The acceleration of ESIF drawdown was reflected not only in the increase in the net position of the Czech Republic itself, but also in the Czech Republic's shift in the ranking of the Member States in terms of per capita net position. In 2018, it was only 11th in this ranking of the EU-28 with a figure of EUR 197.25 per person. In 2019, it jumped to 7th place with a figure of **EUR 302.40 per person.**

72 https://ec.europa.eu/info/strategy/eu-budget/long-term-eu-budget/2014-2020/spending-and-revenue_en.
73 CNB annual exchange rate for 2020: CZK 26,444 / €.
74 ECB annual exchange rate for 2020: CZK 26,455 / €.

E.2 AUDIT OF THE EU BUDGET (DAS 2019)

The European Court of Auditors (ECA) is an EU institution[75] and the external auditor of EU funds[76]. In this capacity, it acts as an independent guardian of the financial interests of all EU citizens, in particular by helping to improve the EU's financial management. The ECA's position and tasks are defined in Section 7 of the TFEU[77]. Under the provisions of Article 287 TFEU, the ECA is required to provide the EP and the Council with a Statement of Assurance (DAS), which verifies the reliability of the EU's annual accounts and the legality and regularity of the underlying transactions.

In accordance with the provisions of Article 287 of the TFEU, Article 258 of the Financial Regulation and Article 43 of Council Regulation (EU) 2018/1877[78], the ECA adopted, inter alia, the *Annual Report on the Implementation of the EU Budget for the 2019 Financial Year* at its session on 20 July 2020[79] and the *Annual Report on the Activities Funded by the 8th, 9th, 10th and 11th European Development Funds for the 2019 Financial Year* at its session on 24 July 2020. These annual reports, together with the responsible authorities' and institutions' responses to the ECA's comments, were sent to the discharge authorities as well as to the other institutions and bodies. The **Annual Report on the Implementation of the EU Budget for the 2019 Financial Year confirms that the Commission has performed its duties properly when implementing the EU budget.**

Clean opinion on the reliability of the EU's financial statements for 2019: "*In our opinion, the consolidated accounts of the European Union for the year ended 31 December 2019 present fairly, in all material respects, the EU's financial position as at 31 December 2019, the results of its operations, its cash flows and the changes in its net assets for the year then ended, in accordance with the Financial Regulation and with accounting rules based on internationally accepted accounting standards for the public sector.*" The ECA has issued a clean statement continually since 2007.

Clean opinion on the legality and regularity of revenues: "*In our opinion, the revenue underlying the financial statements for the financial year 2019 is legal and regular in all material respects*."

Adverse opinion on the legality and regularity of the expenditure: '*In our opinion, owing to the significance of matter described under 'Basis for adverse opinion on the legality and regularity of the expenditure', the expenditure accepted in the accounts for the year ended 31 December 2019 is materially affected by error."*

Basis for adverse opinion on the legality and regularity of expenditure: "*Our estimated overall level of error for expenditure accepted in the accounts for the year ended 31 December 2019 is 2.7%. A substantial proportion of expenditure – more than half – is materially affected by error. This concerns mainly reimbursement-based expenditure, in which the estimated level of error is 4.9%. Due largely to a rise in 'Cohesion' spending, such expenditure increased to 66.9 billion euros in 2019, representing 53.1% of our audited population. The effects of the errors we found is therefore both material and pervasive to the accepted expenditure of the year."*

75 The ECA was established as an institution by Article 13 of the Treaty on European Union, also known as the Maastricht Treaty (Official Journal of the European Union, C 191, of 29 July 1992). However, it was originally set up in 1977 by the Brussels Treaty as the new Community body responsible for the function of external auditor (Official Journal of the European Communities, L 359 of 31 December 1977).

76 Art. 285 to 287 TFEU (Official Journal of the European Union, C 326 of 26 October 2012).

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

78 Council Regulation (EU) 2018/1877 of 26 November 2018 on the Financial Regulation applicable to the 11th European Development Fund and repealing Regulation (EU) 2015/323.

79 See https://www.eca.europa.eu/Lists/ECADocuments/annualreports-2019/annualreports-2019_EN.pdf.

E.2.1 REVENUES

Overall, the revenue-related systems reviewed were **assessed as effective, with the exception of key internal controls for TOR** in the Commission and some Member States. These **controls were assessed as partially effective.** Significant **weaknesses were** also **found in the controls** that Member States have put in place **to reduce unpaid customs duties.** In this respect the ECA concludes that "*these weaknesses require EU action*".

Main ECA findings on revenue:

- Revenue-related systems have generally been effective.
- The main internal controls of the TORs that were assessed at the Commission and in some Member States were partially effective. Significant weaknesses to be addressed at EU level were found in the controls carried out by the Member States aimed at reducing unpaid duties.
- A number of weaknesses in the administration of duties levied but not yet collected have been identified in Member States. These mainly included delays in the notification of customs debts or delays in the recovery of these debts. It took the Commission a long time to resolve the shortcomings identified in relation to own resources derived from VAT and TOR in the Member States.
- For the fourth year running, the Commission has expressed reservations in its annual activity report on the accuracy of the value of the selected TOR. This reservation considers cases of undervaluation of textiles and footwear imported by certain importers from China and detected in the United Kingdom. As the UK refused to pay the estimated losses of EUR 2.1 billion, the Commission referred the case to the Court of Justice of the European Union in March 2019. This case is ongoing.
- In April 2020, the Commission completed its multiannual verification cycle of Member States' GNI and stated a number of reservations on the way MS compile their GNI data.

ECA recommendations to the Commission on revenue:

- provide Member States with regular support in selecting the riskiest importers for post-release audits, in particular by collecting and analysing relevant import data at EU level and sharing the results with the Member States;
- establish more robust monitoring and follow-up procedures, including setting deadlines for addressing TOR-related deficiencies identified in the Member States.

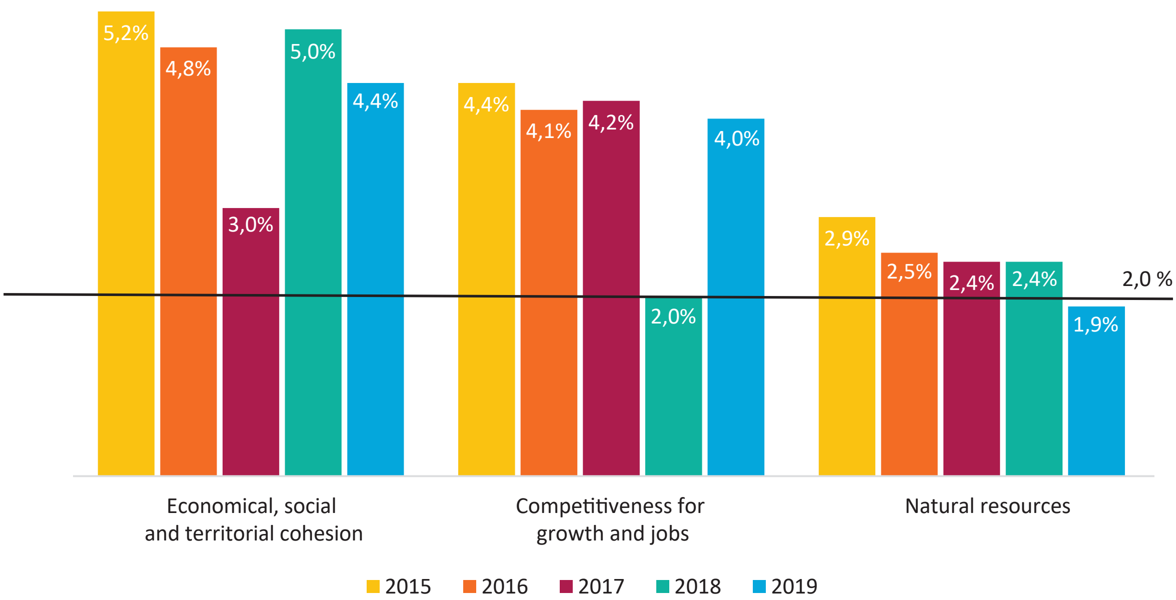
E.2.2 EXPENDITURE

In the 2019 financial year, it was again confirmed that the way in which expenditure was paid had a direct impact on the risk of error. In this context, the ECA distinguishes between high-risk expenditure, mainly for reimbursement of costs[80], and entitlement-based payments[81], which are associated with a low level of risk.

For expenditure as a whole, the estimated level of error ranged from 1.8% to 3.6%. The mid-point of this range, the so-called **most likely level of error,** was **2.7%,** remaining above the materiality threshold but without **a large impact.** However, compared to the figures for the previous two years, this represents a **year-on-year increase** (2017: 2.4%, 2018: 2.6%).

The ECA also assesses the level of error by individual selected expenditure areas (irrespective of whether the expenditure is for entitlement-based payments or reimbursement-based payments). A comparison of the estimated levels of error for the different expenditure areas between 2015 and 2019 is illustrated in Chart 12.

Chart 12: Comparison of the estimated error rates for EU spending areas in 2015–2019



Source: *EU audit at a glance – Presentation of the European Court of Auditors' 2019 annual* reports .[82]

Note: The horizontal line represents the specified significance threshold of 2%.

80 Payments to cover costs reimburse the EU for eligible costs for eligible activities (which are subject to more complex rules). This category includes research projects (under Competitiveness), investment in regional and rural development (Cohesion and Natural Resources) and development aid projects (Global Europe).

81 Entitlement payments are payments based on the fulfillment of certain (less complex) conditions by the beneficiaries. Such payments include student and research scholarships (under Competitiveness for Growth and Employment), direct support to farmers (Natural Resources) and salaries and pensions of EU staff (Administration).

82 See https://www.eca.europa.eu/lists/ecadocuments/auditinbrief-2019

The **most common errors** identified by the ECA for high-risk expenditure[83] were**:**

- **ineligible projects** and **breaches of internal market rules** (in particular non-compliance with public procurement rules) under the *Cohesion heading*;
- **ineligible beneficiaries, activities or costs** under the *Rural Development, Market Measures, Environment, Climate and Fisheries* heading, which account for 30% of payments under the *Natural Resources* heading;
- **ineligible expenses** for *Research*, linked to programmes accounting for around 55% of payments under the *Competitiveness* heading;
- **non-compliance with procurement procedures,** incorrect **grant award** procedures**,** lack of supporting documents and **ineligible costs** under the *Global Europe* heading.

Slower drawdown of ESIF than in the previous MFF

At the end of 2019, the overall absorption rate of the ESIF was lower than in the previous MFF, with only 40% of the total ESIF allocation (EUR 465 billion) for the current MFF having been disbursed. By the end of 2012, the corresponding year of the previous MFF, the figure was 46%. **Only nine MS showed a higher absorption rate in the current MFF than in the previous period. These were** Finland (66.2% disbursed), Ireland (60.6%), Luxembourg (57.0%), Austria (56.5%), Cyprus (48.1%), France (44.8%), the **Czech Republic (40.4%)**, Bulgaria (36.6%) and Romania (35.6%). MS with lower absorption rates in the current MFF than in the previous period include Estonia (48.8% disbursed), Portugal (47.0%), Sweden (46.6%), Slovakia (33.4%), Spain (32.8%) and Italy (30.7%).

Key ECA findings under the heading *Competitiveness for growth and jobs*:

- The ECA estimates that the **overall level of error** under the *Competitiveness* heading **is material**. Of the 130 operations examined in 2019, 51 were affected by errors. **Most of the errors related to ineligible costs such as** overestimated personnel costs or reimbursement of travel costs that were either unrelated to the EU project audited or not actually incurred. There were also cases of **discriminatory criteria for the selection of tenderers.**
- *Horizon 2020*: despite efforts to simplify the **rules for reporting personnel costs, they are still complex.** In particular, the calculation of personnel costs remains a major source of error and the calculation methodology is in some respects more complex than in previous research programmes. In almost all research operations affected by errors, the hourly (or monthly) rate was incorrectly calculated. **Projects carried out by SMEs are more likely to be affected by errors,** suggesting the need for better information and further guidance.
- **Assessment of the work of other auditors:** the ECA reviewed audits carried out both by the Commission and by external auditors engaged by the Commission. In some files, deficiencies were found in **the documentation of audit work, inconsistent sampling procedures, weaknesses in the reporting of information and also in the quality of audit procedures.** In the past two years, the Commission could therefore not rely on the conclusions of 17 of the 40 audits reviewed by the ECA.

83 EU audit at a glance – Presentation of the European Court of Auditors' 2019 annual reports.

ECA recommendation to the Commission under the heading *Competitiveness for Growth and Jobs*:

- conduct more targeted checks on cost claims submitted by SMEs and improve awareness of the *Horizon 2020* funding rules and strengthen the related guidance, with particular focus on SMEs;

- carry out an information campaign to remind all *Horizon 2020* beneficiaries of the rules for calculating and declaring personnel costs;

- further simplify the rules on personnel costs under the next research framework programme (*Horizon Europe*);

- for *Horizon 2020*: address weaknesses related to the documentation of audit work performed, the of sampling and the quality of audit procedures and take appropriate measures to ensure that auditors are fully aware of the applicable *Horizon 2020* rules, and verify the quality of their work.

Main ECA findings under the heading *Economic, social and territorial cohesion:*

- Overall, the evidence suggests that the **level of error in** *Economic, social and territorial cohesion* **spending is material**.

- 236 operations were tested, of which 220 had already been checked by the audit authorities in the Member States before the related expenditure was declared eligible to the Commission. For 29 of these transactions, errors were found which were not detected by these checks. After adding these to the 64 errors previously identified by the audit authorities and considering the relevant financial corrections subsequently applied by the managing authorities (totalling EUR 334 million for PP7+ and PP14+ combined), the ECA estimates the **residual level of error to be 4.4%.**

- **Ineligible projects and infringements of internal market rules** (in particular non-compliance with **public procurement** rules) contributed most to the estimated level of error, **followed by ineligible expenditure.** The number and impact of errors detected shows that there is a **high inherent risk of error** in this area and that the **managing authorities' checks** to prevent and detect irregularities in expenditure declared by beneficiaries **often remain ineffective.**

ECA recommendations to the Commission under the heading *Economic, social and territorial cohesion*:

- clarify what is meant by "*physically completed*" and/or "*fully implemented*" operations. This would help Member States verify that operations comply with Article 65(6) of the General Regulation and avoid the non-detection of ineligible operations;

- analyse the main sources of undetected errors and, together with the audit authorities, develop the necessary measures to improve the reliability of the reported residual level of errors.

Main ECA findings under the heading *Natural Resources:*

- The **level of error** in *Natural Resources* **is close to the materiality threshold**.

- **For direct payments,** which are mainly based on the area of agricultural land declared by farmers and represent 70% of expenditure in the *Natural Resources* area, the **level of error was not material**. The ECA audited 95 direct payments, of which 81 were free from error. Minor errors were detected in the remaining operations.

- **In the remaining areas** (rural development, market measures, fisheries, environment and climate action) a **material level of error was found.** Of the 156 operations examined, 30 were affected by errors. The main sources of error were **ineligibility of beneficiaries, activities, projects or costs.**

ECA recommendation to the Commission under the heading *Natural Resources*:

- update the CAP fraud risk analysis more frequently;
- perform an analysis of Member States' fraud prevention measures;
- disseminate best practices in the use of *ARACHNE*[84] to further encourage its use by decentralised **agencies.**

Main ECA findings under the heading *Security and citizenship:*

- All the **audit authorities** scrutinised **have developed and implemented detailed and sufficient quality procedures** to enable them to provide the information required by the applicable regulations. **In certain cases,** such as the minimal coverage of sub-samples, the ECA found that the **work of the audit authorities was insufficient.** Several other weaknesses were found in their work, but these were not material.
- Some **audit authorities use different definitions of "*interim payment*".** This has an **impact on the comparability** of their audit results.

ECA recommendations to the Commission under the heading *Security and Citizenship*:

- issue guidance to the Member States' audit authorities on sampling and on how to calculate the level of error;
- require that the work of the Member States' audit authorities is adequately documented.

Main ECA findings under the heading *Global Europe:*

- **Eleven quantifiable errors** were detected which had a financial impact on the amounts charged to the EU budget. 11 **other cases** of non-compliance with legal and financial provisions were also detected.
- **Budget support operations and projects implemented by international organisations under the notional approach** (where part of the costs not eligible for EU funding may be financed by other donors under a co-financed action) **were less prone to error.** No errors were detected in these areas in 2019.
- A review of the 2019 Annual Activity Report of the Commission's Directorate General for Neighbourhood Policy and Enlargement Negotiations (DG NEAR)[85] did not find any information that contradicted the ECA's findings. However, DG NEAR did not mention in the Annual Report the limitations of the residual error rate study, which is an important element on which the Director-General's declaration of assurance is based.

ECA recommendation to the Commission under the heading *Global Europe*:

- disclose the limitations of the residual error rate study in the 2020 DG NEAR Annual Activity Report and future Annual Activity Reports;

84 ARACHNE is an integrated data mining and enrichment tool developed by the Commission. The tool makes it easier for managing authorities to carry out administrative and management checks in the field of ESIF.

85 Directorate-General for Neighbourhood and Enlargement Negotiations.

- increase the confidence level DG NEAR uses in its methodology for calculating the grant rate to the same level applied to the rest of the residual error rate population to reflect more accurately the higher risk in the area of direct management grants;

- identify recurrent types of errors, such as VAT and time-recording errors, and check them more thoroughly.

Main findings of the ECA under the heading *Administration:*

- Selected supervisory and control systems of the European Economic and Social Committee, the Committee of the Regions and the European Data Protection Supervisor were examined. 45 operations were also audited by the ECA. As in previous years, it estimates that the **level of error is below the materiality threshold**. No specific weaknesses were found for the Council, the CJEU, the European External Action Service, the Committee of the Regions, the European Ombudsman, the European Data Protection Supervisor and the ECA.

- Errors in a payment to a European political party have been revealed in the European Parliament. The European Economic and Social Committee has not yet developed a policy for sensitive functions as required by its internal control standards. It has not defined sensitive posts or functions, nor has it carried out a risk analysis to establish risk mitigation controls and, subsequently, an internal mobility policy. The European Economic and Social Committee has not carried out a comprehensive risk assessment since 2014.

- Between 2012 and 2018, total personnel costs increased by 15%. Payroll costs for permanent and temporary staff increased by 12% and payroll costs for contract staff increased by 59%. The main reasons for this were an increase in the total number of staff, annual salary indexation, promotions and increases in steps within grades. The proportion of contract staff at higher grades also increased.

ECA recommendations to the Commission under the heading *Administration*:

- the European Economic and Social Committee should develop a policy for sensitive functions, based on a comprehensive risk assessment leading to the identification of mitigating controls that consider the Committee's size and the nature of its work.

Main ECA findings on European Development Funds (EDF):

- **The 2019 financial statements present fairly the financial position of the EDF, the results of their operations, cash flows and changes in net assets.**

- **EDF revenue was not materially affected by errors.**

- As in previous years, **there were more errors on the part of the Commission and its implementing partners in operations related to programme estimates, grants, contribution agreements with implementing organisations and delegation agreements with Member States' agencies than in other forms of support** (such as building work, supply and service contracts). Of the 65 operations of this type, 25 (i.e. 38%) were affected by quantifiable errors, representing 71.7% of the estimated level of error. In two areas, the operations audited contained no errors. These were budget support (seven operations audited) and operations where "notional support" is applied to multi-donor projects carried out by an implementing international organisation.

- During on-the-spot checks, the ECA found **cases where the effectiveness and efficiency of the action had been compromised** because the procured goods, services or works were not being used as planned or project sustainability had not been ensured.

ECA recommendations to the Commission in the EDF area:

- improve the methodology and manual for the residual error rate study to address the issues raised by the ECA in order to make the error rate reported in the study more reliable;
- issue reservations for all areas identified as high risk, regardless of their share of total expenditure and their financial impact.

E.3 PROTECTION OF THE EU'S FINANCIAL INTERESTS

E.3.1 ANNUAL REPORT ON THE PROTECTION OF THE EU'S FINANCIAL INTERESTS IN 201 9

In line with Article 325 TFEU, the Commission published its 31st annual report on the protection of the EU's financial interests – Fight against fraud in September 2020[86] (the Annual Report). The Annual Report was issued in cooperation with Member States, as they manage about 74% of the EU budget expenditure and collect TOR as part of their revenue.

The Annual Report states, inter alia, that **on 29 April 2019 the Commission adopted a new anti-fraud strategy**[87] built on a risk-based approach to the evaluation of the Commission's internal policies, prioritising improvements in the collection and analysis of fraud data and cooperation and coordination between Commission departments. Later that year, the Commission made substantial progress in establishing the **European Public Prosecutor's Office, with the appointment of Ms Laura Codruta Kövesi**[88], following an agreement between the Council and the EP. By June 2020, a total of **22 Member States, including the Czech Republic, had transposed into national law the measures set out in the Directive on the fight against fraud affecting or threatening the financial interests of the EU**[89]. **Directive 2019/1937**[90] **was issued** on 23 October 2019. The aim of this Directive is to **ensure a high level of protection for persons who report infringements in areas where such infringements may cause serious damage to the public interest** and where such infringements can be or are best detected by insiders.

Under the shared management of EU budget expenditure, Member States are obliged to report irregularities[91], both fraudulent and non-fraudulent (other irregularities), to the European Anti-Fraud Office (OLAF). To do this, they use the IMS irregularity management and analysis system[92]. Irregularities relating to expenditure under direct management of the EU budget are reported by the Commission through the ABAC accounting system[93].

The annual report states that a **total of 11,726 irregularities of both fraudulent and non-fraudulent nature** were notified to the Commission in **2019**, representing a slight decrease (2%) year-on-year. The value of irregularities totalled **approximately EUR 1.6 billion,** 34% **less than in 2018. Fraudulent irregularities** accounted for **939** reported cases (8% of the total), representing a **significant decrease** (by around 19%) year-on-year. The related financial **amount was EUR 461.4 million.** The value of irregularities was **EUR 466 million** (28% of the total), a **decrease of 62% compared to 2018.**

The numbers of irregularities of a fraudulent and non-fraudulent nature reported by Member States, including the UK, for 2019 and the related amounts are shown in the following summary. The figures do not include irregularities detected in non-member countries (pre-accession aid policy area) or direct expenditure managed by the Commission and are therefore not identical to the totals presented in the previous paragraph.

86 Report from the Commission to the European Parliament and the Council: 31st Annual Report on the Protection of the European Union's Financial Interests – Fight against Fraud - 2019, COM (2020) No 363 final of 3 September 2020.
87 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions and the Court of Auditors: The Commission's anti-fraud strategy: further measures to protect the EU budget, COM (2019) 196 final of 29 April 2019.
88 L. C. Kövesi L. Kövesi is a former Chief Prosecutor of the Romanian National Anti-Corruption Directorate.
89 Directive (EU) 2018/1673 of the European Parliament and of the Council of 23 October 2018 on the fight against money laundering in criminal matters.
90 Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on the protection of persons reporting breaches of Union law.
91 Member States are required to notify the Commission of any suspected fraud and any irregularity in excess of EUR 10,000 from EU resources.
92 Irregularities Management System.
93 Accrual Based Accounting.

Table 11: Numbers and amounts of suspected fraud and other irregularities reported in 2019 by EU Member States and their year-on-year change (%).

Budget sector (expenditures/revenues)		Number of fraud suspicions		Volume of fraud suspicions		Number of other irregularities		Volume of other irregularities	
		2019	Change	2019 (EUR mil)	Change	2019	Change	2019 (EUR mil)	Change
Agriculture	EU	235	–6%	24.62	–61%	2 798	–2%	206.08	26%
	out of which CR	11	1,100%	4.52	2 160%	91	325%	2,43	80%
Cohesion policy and fisheries	EU	187	–48%	338.81	–64%	1 812	–3%	502.44	–16%
	out of which CR	46	164%	18.61	2%	132	–28%	16.00	–78%
Internal policy total	EU	1	–	0.00	–	9	–58%	2.15	–38%
	out of which CR	0	–	0.00	–	1	–50%	0.22	–
Pre accession policy	EU	4	100%	0.00	–	4	–82%	0.08	–58%
	out of which CR	0	–	0.00	–	0	–	0.00	–
Total expenditures	EU	427	–31%	363.43	–65 %	4 623	–2%	710.75	–7%
	out of which CR	57	96%	23.13	26 %	224	5%	18,65	–75%
Total revenues	EU	425	–10%	79.75	–52 %	4 237	4%	397.12	–12%
	out of which CR	0	–	0.00	–	51	–46%	4,32	–8%
Total	EU	852	–22%	443,18	–63%	8 860	1%	1 107,87	–9%
	out of which CR	57	96%	23,13	26%	275	–11%	22,97	–71%

Source: Report from the Commission to the European Parliament and the Council: 31st Annual Report on the Protection of the European Union's Financial Interests – Fight against Fraud - 2019, COM (2020) No 363 final of 3 September 2020.

Note: Change: year-on-year change represents the deviation compared to 2018 expressed in%.

A comparison of the data **reported by the MS** for 2019 with the results of 2018 shows, among other things, a **significant decrease in the total number of suspected fraudulent cases (852 compared to 1,088) and an even more significant reduction in their financial impact (EUR 443.18 million compared to EUR 1,188.52 million).** This development was due not only to the substantial year-on-year **decrease in fraudulent activities affecting expenditure on EU policies, but also to the reduction in suspected fraud in the area of revenues.**

In the category of **other irregularities**, **the number of cases reported remained approximately the same** year-on-year **(8,860 compared to 8,804) and the volume decreased only slightly (EUR 1,107.87 million compared to EUR 1,217.24 million).** Although both the revenue and the expenditure sides of the budget registered **a decrease in the volume of other irregularities reported**, **the budget revenues side contributed slightly more to the decrease.**

In terms of expenditure in 2019, the area with the highest number of reported **suspicions of fraud** reported was **agriculture,** which **replaced Cohesion policy** at the **top of the list of** reported cases after many years**. In terms of reported volumes of fraudulent activity, Cohesion policy maintained its lead** by a wide margin**.**

The Annual Report notes that the number and volume of reported irregularities of a fraudulent nature are decreasing year-on-year. In terms of the areas they occur in, the Annual Report ranks “research and technological development” first in terms of numbers reported, followed by “increasing the adaptability of workers and firms, enterprises and entrepreneurs” and “improving access to employment and sustainability”. In terms of financial amount, “research and technological development” was again in the priority position, followed by “transport” and “urban and rural regeneration”.

The Annual Report identifies the introduction of AFIS[94], a set of IT applications operated by the Commission to combat fraud, as an important measure to reduce the number of fraudulent irregularities. The aim is to enable the secure and timely exchange of information between EU and national administrations and the storage and analysis of relevant data. OLAF coordinates joint customs operations involving operational partners from third countries in addition to EU countries. In 2019, 13 joint customs operations took place, among them Operation *SCORPION*, which resulted in the seizure of more than 15 million cigarettes, 4,245 kg of raw tobacco and 233 kg of shisha tobacco.

The Annual Report also states that the decrease in the number and reported amounts of non-fraudulent irregularities since the beginning of PP14+ may be related to the introduction of new rules (e.g. the introduction of the annual accounts), which may have led to a strengthening of Member States’ internal control work.

According to the Annual Report, fraud and other irregularities on the revenue side in 2019 mainly involved undervaluation of textile goods and footwear imported into the EU from China via the UK.

Table 11 also shows how the Czech Republic contributes to the total data on reported irregularities for 2019 within the EU. The data presented in the table, together with the year-on-year change, shows that the **CR has seen a relatively significant increase in the number and related amounts of reported irregularities with suspected fraudulent behaviour in the expenditure area. This was mainly driven by the agriculture sector; Cohesion policy and fisheries also showed an increase in the number of cases, but the amounts involved were flat year-on-year.**

Agriculture in the CR also showed a significant increase in the number and amounts reported in the category of other irregularities. In contrast, Cohesion policy and the Fisheries and Internal Policies areas show a relatively significant decrease in the number and especially in the financial amounts reported.

The Czech authorities communicate with OLAF on two basic levels, in the form of regular reports on **criminal irregularities** and reports on **administrative or, more precisely, legal irregularities.** Communication takes place within the **AFCOS network**[95].

The **Supreme State Prosecutor’s Office** is the sole contact point of the AFCOS network for criminal irregularities. The SPPO’s Serious Economic and Financial Crime Department cooperates with OLAF in the reporting of criminal irregularities or in other communication and exchange of information. **Reporting is done by the SPPO in the form of regular quarterly reports,** which contain information on ongoing criminal proceedings in cases where EU financial interests have been or may have been harmed or jeopardised. In carrying out this role, the SPPO performs work as part of its standard powers as a criminal justice authority and sees to information exchange between Czech criminal justice authorities and OLAF’s investigative bodies.

The reporting of administrative and legal irregularities is handled by **the Ministry of Finance** (Department 69 - Analysis and Reporting of Irregularities), which **acts as the AFCOS central contact point** (AFCOS CCP). The **AFCOS CCP collects information** from individual contact points **and reports to the Commission and OLAF on cases of irregularities** detected in the implementation of CAP, Cohesion policy, CFP and internal policies.

94 The legal basis is Regulation No. 515/97, as amended by Regulation No. 1525/2015.
95 Anti-Fraud Coordinating Structure.

E.3.2 REPORTING OF IRREGULARITIES IN THE CR IN 2019

In 2019, the managing authorities and the Ministry of Finance carried out **1,875 public audits** of finances provided from EU funds, of which:

- 1,433 were carried out by the managing authorities in the context of PP14+;
- 442 were carried out by the MoF (AA and PCA).

The control authorities carried out 81% of the public administration audits on the basis of the audit plan and 19% outside the inspection plan. A total of **CZK 42,808,647,435 was audited.**

The authorities identified a total of **983** findings and proposed corrections **amounting to CZK 366,137,264, i.e.** 0.85% of the total audited funds.

Of that, the AA audited funds amounting to **CZK 23,478,915,174** and identified irregularities amounting to **CZK 208,369,292,** i.e. 0.89% of the total audited funds.

A comparison of the year-on-year evolution of the level of error resulting from audits of ESIF funds carried out by the Audit Authority over the last three years shows a downward trend.

Table 12: Development of error rate resulting from audits performed by the Audit Authority

Year	Volume of audited funds (CZK)	Identified irregularity (CZK)	Error rate (%)
2017	16,981,182,192	460,397,988	2.71%
2018	14,658,449,347	165,805,687	1.13%
2019	23,478,915,174	208,369,292	0.89%

Source: Report on the Results of Financial Controls in Public Administration for 2019, which was discussed at the meeting of the Government of the Czech Republic on 18 May 2020.

When auditing provided from the ESIF, the audit authorities detected deficiencies consisting primarily in:

- failure to comply with the purpose of the public financial aid;
- failure to comply with public procurement rules;
- non-compliance with state aid rules.

Non-compliance with public procurement rules is one of the most frequent and regularly occurring findings of the audit bodies, alongside non-compliance with the conditions laid down in a decision or public contract and incorrect reporting.

In 2019, the AFCOS CCP passed on a total of **281 cases of new irregularities** detected within the framework of the ESIF implementation onto the Commission or OLAF via the IMS information system, with a value of **EUR 41,785,853.** For PP7+ operations, a total of 132 reports of irregularities were sent to OLAF in 2019, involving an amount of EUR 35,070,867. For PP14+ operations, a total of 149 new irregularities were reported to OLAF with an affected amount of EUR 6,714,985. Compared to 2018**, the total number of new cases reported increased by 12% year-on-year.** On the other hand, the **total amount affected decreased by 55%, with** the average amount affected per irregularity more than halving.

Table 13: Development of reporting irregularities in 2017–2019.

Year	Number of irregularities reported	Amount affected by the irregularity (EUR)
2017	348	69 136 252
2018	251	93 151 692
2019	281	41 785 853

Source: CKB AFCOS activity report for 2019 .

The AFCOS CCP received one formal request for documentation and two requests for additional information from OLAF in 2019. **In relation to OLAF's requests for documentation from previous years, the AFCOS CCP received a total of two final reports in 2019, one with a financial recommendation (to exclude a project from EU co-financing) and one with a financial and judicial recommendation, which OLAF sent directly to the Supreme State Prosecutor's Office**, merely informing the AFCOS CCP of this step.

Under Government Resolution No. 941 of 20 July 2009, the MoF also acts as the liaison point responsible for sending information to the CED[96] (*Central Exclusion Database*) database in accordance with Regulation No. 1302/2008[97]. In January 2016, this database was replaced by the introduction of the Early Detection of Risks and Exclusion of Economic Operators system, which was set up by and is operated by the Commission. In accordance with this Regulation, the **AFCOS CCP passes on to the Commission information on persons with legally effective convictions for offences relating to the financial interests of the EU,** specifically under the provisions of Article 260 of the Criminal Code[98] (the Code), including information on the overturning of criminal convictions. **In 2019,** the AFCOS CCP received **11 cases of legally effective convictions** from national courts**.** From the perspective of the Code, the **most frequent cases** were **violations of Section 260** (harming the financial interests of the European Union) **or concurrent violations of Section 260 of the Code in conjunction with Section 212 of the Code** (subsidy fraud) or other provisions. In terms of the areas in which harm to the EU's financial interests occurred in 2019, these were mainly **fictitious acquisitions of equipment or services or fictitious creation of new jobs and training.** Most commonly this involved not paying wages (at all or only partially), not paying public health and social security contributions and state employment policy contributions, not staging training events or staging them in other ways, and submitting fictitious documents as evidence of training events. Last but not least, second-hand machinery/equipment was passed off as new, and unexecuted or ineligible actions were included in costs for reimbursement.

96 *The Central Exclusion Database*.

97 Commission Regulation (EC, Euratom) No. 1302/2008 of 17 December 2008 concerning a central exclusion database.

98 Act No. 40/2009 Coll., Criminal Code.

E.4 MEASURES FOR IMPLEMENTING THE EU BUDGET IN 2020

E.4.1 COORDINATED MEASURES OF EU ECONOMIC POLICY

The Commission launched the European Semester 2020 with the publication of the Autumn Package of documents[99] setting out the EU's economic priorities. The flagship document is the ***Annual Sustainable Growth Strategy 2020***[100] (Annual Strategy), which replaced the annual growth surveys published in previous years. According to this new strategy, the EU economy must be transformed to become sustainable and help the EU and its Member States achieve the UN Sustainable Development Goals they have committed to. The **new long-term growth strategy is the *European Green Deal***[101], which seeks to transform the EU into a fair and prosperous society with a modern, competitive and resource-efficient economy which produces no greenhouse gas emissions in 2050 and in which economic growth is decoupled from resource use. The following dimensions are **at the heart of the growth strategy**:

1. Environmental sustainability

Transforming Europe into a climate-neutral and environmentally friendly continent by 2050.

2. Productivity growth

Delivering the *European Green Deal* through digital technologies that are key to its technological sovereignty, such as cyber security, artificial intelligence and 5G technologies.

3. Macroeconomic stability

Completing economic and monetary union and improving financial stability in Europe by reinforcing the international role of the euro.

4. Fairness

Ensuring an economic agenda that leads to a just and inclusive societal transition, with special attention to the regions, sectors and workers facing the greatest changes.

In the conclusions of the Annual Strategy, the Commission called for the combined action and commitment of all European actors. **Member States should take account of the identified priorities** in their national policies and strategies, most notably in **their Stability and Convergence Programmes or in their National Reform Programmes.**

In the context of Covid-19, the World Health Organization officially declared its spread a global pandemic on 11 March 2020.

99 The 2020 package includes, inter alia, the Annual Strategy for Sustainable Growth 2020, the Single Market Performance Report accompanying the Annual Strategy, the European Semester: Alert Mechanism Report including the Annex, the Euro Area Recommendations including the Annex and the draft Joint Employment Report.

100 Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of the Regions and the European Investment Bank: Annual Strategy for Sustainable Growth 2020, COM (2019) 650 final of 17 December 2019.

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

On 13 March 2020, the Commission adopted a Communication[102] **calling for a coordinated economic response to the crisis triggered by the global pandemic**, involving all actors at national and EU level. The Commission set out ways to ensure solidarity within the Single Market, proposed measures to activate the EU budget and the European Investment Bank Group, and allowed Member States to develop sufficient support measures in line with the state aid rules. At the same time, in view of the expected impact of the pandemic, it prepared the application of the Temporary Community Framework for state aid measures improving access to funding for national measures (the Temporary Framework)[103], in accordance with Article 107 TFEU. The Commission also recommended targeted fiscal support measures to mitigate the economic downturn, including e.g. tax deferrals or guarantees to banks for working capital assistance to protect workers from loss of income. Within the framework of *the Stability and Growth Pact,* it decided to take into account targeted emergency expenditure, while allowing Member States to temporarily deviate from the required fiscal adjustment.

On 20 March 2020, the **Commission adopted a Communication on the activation of the general escape clause** ***of the Stability and Growth Pact*** [104]. The Commission judged that the crisis triggered by the Covid-19 pandemic represents an event beyond the control of governments and has a serious impact on public finances. In view of the expected sharp economic downturn, the Commission concluded that the conditions for triggering the general escape clause have been met for the first time since its introduction in 2011 and asked the Council to confirm this conclusion in order to provide Member States with clear information.

In line with the Commission's recommendations contained in the core documents, the Czech Republic prepared its conceptual documents, ***the Convergence Programme of the Czech Republic (April 2020)***[105] (CP) and the ***National Reform Programme of the Czech Republic 2020***[106] (NRP). The Czech Republic submitted the CP to the Commission for approval on 30 April and the NRP on 7 May 2020. **Given their interconnectedness, the Commission assessed both programme documents simultaneously,** and noted that in the CP the Czech government envisaged a public finance deficit of 5.1% of GDP in 2020, with a deficit of 4.1% of GDP forecast for 2021 and the debt ratio projected to rise to 37% of GDP in 2020. According to the Commission's forecast, the public finances balance (assuming no policy change) is projected to reach -6.7% of GDP in 2020 and -4.0% in 2021, with the CR planning to exceed the 3% of GDP deficit benchmark for 2020, although this criterion in the TFEU and Regulation 1467/97[107] is not met. **Overall, the Commission concluded that the measures adopted in the CP are in line with the guidance set out in the Commission Communication on a coordinated economic response to Covid-19.**

It rated the labour market as robust and **described the government's response to the spread of Covid-19 as swift, with many income and employment protection measures introduced at the same time, and with a particular focus on businesses and the self-employed.**

In the Commission's view, **education outcomes continue to be strongly affected by socio-economic inequalities and low investment.** It considers it particularly important to help develop digital skills, including through support and ongoing training for teachers and trainers.

The Commission believes that the **digital transformation will require major support through targeted investment,** particularly in industry and services. While full fixed broadband coverage has been achieved, mobile broadband is still relatively expensive. The relatively low level of skills remains an obstacle to the integration of new digital technologies. The **CR lags behind the leading Member States in terms of research and patenting activities** involving AI-based solutions.

102 Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Investment Bank and the Eurogroup: Coordinated economic response to the COVID-19 Outbreak COM (2020) 112 final of 13 March 2020 .

103 Communication from the Commission: Temporary framework for State aid measures to support the economy in the current COVID-19 outbreak (2020 / C 91 I / 01).

104 Communication from the Commission to the Council on the activation of the General Escape Clause under the Stability and Growth Pact, COM (2020) 123 final of 20 March 2020.

105 The Convergence Programme of the Czech Republic (April 2020) prepared by the Ministry of Finance was approved by the Government of the Czech Republic by Resolution No. 448 of 30 April 2020 within the Budget Strategy of the Public Institutions Sector of the Czech Republic for 2021–2023.

106 The National Reform Programme of the Czech Republic 2020 was approved by Government Resolution No. 517 of 7 May 2020.

107 Council Regulation (EC) No. 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure.

In the area of energy and climate, the CR envisages significant investment requirements for a successful climate and energy transition and the transition to climate neutrality, in particular by promoting renewable energy sources, increasing energy efficiency and investing in energy infrastructure. **However, the energy sector remains dominated by coal** and the transition to zero or low greenhouse gas emission technologies will have significant socio-economic implications. **Renewable energy generation is still below the EU average,** lacking effective financial incentives and an adequate legal and institutional framework to support further development. The **Commission regards the transition to electromobility as relatively slow,** with road transport gradually becoming one of the main energy consumers. At the same time, the Commission finds that taxes are not consistently responsive to the production of CO_2 emissions.

The Commission rates access to standard forms of financing for businesses as better than the EU average, but funding for venture capital and equity remains very low.

The Commission finds that systemic reform is necessary for the development of research and innovation in the Czech Republic. **Although private investment in science and research is growing, this growth is slow.** It has been repeatedly stated that there is substantial fragmentation in the research sector, which leads to **R&D funding being spread too thin.**

Restrictions on the free movement of people due to the Covid-19 pandemic have put pressure on supply chains, leaving many businesses without liquidity reserves. Interest in national schemes providing government guarantees to businesses quickly exceeded available capacity. The **Commission believes that there is scope for better analysis of the data needed to take rapid and informed decisions on targeted measures to support economic recovery.**

According to the Commission, the **administrative burden**, especially for start-ups, in relation to licensing and authorisations is **problematic**. **The Czech Republic is one of the least developed Member States in the use of digital public services.**

The **Commission rated the CR's public sector performance and public administration efficiency below the EU average**, despite relatively favourable international indicators in the area of accessibility to public administration-related information for policy-making. On the other hand, it assessed the **situation in public administration transparency and control of corruption** as **worse,** with several anti-corruption measures still to be adopted, such as the draft acts on lobbying or whistleblower protection.

On the basis of the above assessments, the Commission made recommendations to the Council on the NRP and a draft opinion on the CP[108].

It recommends that in 2020 and 2021 the Czech Republic should:

1. **In accordance with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Ensure the resilience of the health system, strengthen the availability of health workers, primary care and the integration of care, and deployment of e-health services.**

2. **Support employment through active labour market policies, the provision of skills, including digital skills, and access to digital learning.**

108 Recommendation for a COUNCIL RECOMMENDATION on the National Reform Programme 2020 of the Czech Republic and a Council Opinion on the Convergence Programme of the Czech Republic, COM (2020) 503 final of 20 May 2020 .

3. **Support SMEs by making greater use of financial instruments to ensure liquidity support, reducing the administrative burden and improving e-government. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on high-capacity digital infrastructure and technologies, clean and efficient production and use of energy, and sustainable transport infrastructure, including in the coal regions. Ensure access to finance for innovative firms and improve public-private cooperation in research and development.**

In accordance with the Commission's recommendation, **the Council issued a Recommendation on the NRP on 20 July 2020 and a Council Opinion on the CP,** which was published in the *Official Journal of the European Union* (2020/C 2782/03) on 26 August 2020.

From next year, the European Semester will also include the EU's *r**ecovery plan*** (*Next Generation EU*), with whose help EU countries will work together to reboot and modernise their economies in response to the pandemic. However, due to a significant number of comments from stakeholders involved in the preparation process, the Czech government did not submit the draft ***National Recovery Plan*** (NRP) to the Commission by the deadline: it only did so on 17 May, when it approved the draft after adding an additional CZK 7 billion to combat climate change[109].

The SAO considers the biggest risk of the NRP to be that at least 70% of the allocation must be distributed by the end of 2022 through the concluded legal relations on support and the full 100% of the allocation by the end of 2023. With OPs in both previous programming periods, the Czech Republic lagged behind other Member States in terms of the speed at which it concluded legal relations with beneficiaries. In addition, in the light of disproportionately long-time limits for issuing construction permits, it can be assumed that projects will not be prepared and launched in time to be completed by 2026. Overstretched contractor capacity requirements may also play a negative role in meeting the deadline.

Another risk, in the SAO's opinion, **concerns the provision of an information system for monitoring the performance of the NRP.** The individual components will be provided by the ministries (the components' owners) using their existing information systems. On top of these IS, an IS managed by the MoIT will be set up to collect data, aggregate data, prepare summary requests for disbursement of funds and prepare reports on the progress of the NRP. This system should include standardised data needed for effective financial management and monitoring of milestones and targets. The main risk will be incompatibility of data tracked at the level of the component owners and data tracked at the MoIT level.

The state of readiness of meaningful projects, including the inappropriate definition of indicators measuring the results and impacts of support, also appears to be a significant **risk** that will have a negative impact on the evaluation of the overall implementation of the NRP.

109 Government Resolution No. 467 of 17 May 2021.

E.4.2 IMPLEMENTATION OF THE CONVERGENCE PROGRAMME AND THE NATIONAL REFORM PROGRAMME OF THE CZECH REPUBLIC IN 2020

On 14 December 2020, the government (or specifically its Committee for EU) approved the *Report on the Implementation of the National Reform Programme of the Czech Republic for 2020*[110].The report states that the **economic development of all countries in the world was significantly affected by the impact of the Covid-19 pandemic in 2020**. In the area of fiscal policy, both the planned measures set out in the NRP and those related to limiting the impact of the Covid-19 pandemic on business were implemented.

In order to simplify the contributions duties of and the administrative burden on self-employed entrepreneurs, a **flat-rate tax was introduced** and the **provision of meal allowances through a meal voucher lump sum** was simplified**. The obligation to keep sales records was suspended until 2022.** During 2020, **entrepreneurs were allowed to claim tax losses** incurred in personal and corporate income taxes for two tax periods preceding the tax period in which the loss occurred, and the **tax on the acquisition of real estate** was **abolished.** In the tax area, **changes to road tax** (reduction of tax for selected trucks) **and value added tax** (extension of the application of the second VAT rate reduction of 10%) were also adopted. To support business, the **June advance payments** on personal and corporate **income tax and fines and surcharges in specific cases were waived.** The process of approving the **abolition of the super gross wage** has been completed, which means an increase in businesses' available resources as of 1 January 2021.

Following the declaration of states of emergency in the spring and autumn of 2020, so-called **liberalisation packages** came into force**,** mainly providing for the **deferral of tax obligations** for those businesses whose activities were directly restricted in the context of the Covid-19 pandemic.

Compensation bonuses of up to CZK 500 were paid to self-employed persons, members of small limited liability companies and persons working under non-employment agreements for each day of closure of the establishment or direct prevention or restriction of business.

Following the Council's specific recommendations for the CR for 2019 and 2020**, the Fair Pensions Commission continued its work** on the overall sustainability of the pension system, including potential pension reform. In the context of the pandemic's impact on the income and social situation of pensioners, the government approved **an extraordinary pension supplement of CZK 5,000**, which was paid to pensioners in December 2020.

Other measures of a programme nature on the expenditure side of the state budget **are described in subsection F. 5.**

110 Report on the Implementation of the National Reform Programme of the Czech Republic 2020, Office of the Government of the Czech Republic, 14 December 2020.

F. SECTOR MATTERS

F.1 REVENUES LINKED TO THE EU BUDGET

In the wake of the crisis triggered by the Covid-19 pandemic and the significant impact of restrictions on the movement of people within European countries, in May 2020 the Commission published proposals[111] to revise the Multiannual Financial Framework for 2021–2027 (MFF21+). These proposals included a **total MFF allocation of EUR 1,100 billion** and the **creation of a *Next Generation EU* financial instrument** to support the European economic recovery[112] with **EUR 750 billion** (in 2018 prices). The Commission proposed to borrow up to EUR 750 billion on international markets to finance the revised MFF and the *Next Generation EU* facility **by issuing bonds with maturities ranging from 3 to 30 years**. **In December 2020, the** Council adopted a **Regulation establishing the *European Union Recovery Instrument***[113] which, in addition to setting a time limit for the use of the funds, also determines their allocation to the various EU programmes. Of this amount, EUR 390 billion is set to be spent on provisioning for budgetary guarantees and related expenditure, non-repayable support or repayable support through financial instruments. The remaining EUR 360 billion will be used to provide loans to Member States.

To this end, the Commission has also tabled **amendments to the forthcoming decision on the EU's own resources system, which was adopted in December 2020**[114]. For this decision to enter into force, it must first be approved by all Member States in accordance with their respective constitutions. This decision **will increase the maximum amount of resources that can be requested from Member States** to finance EU spending **from the current 1.20% of the sum of EU-27 GNI to 1.40%** in any one year. This increase reflects not only the impact of the UK's withdrawal as a net contributor to the EU budget, but also the integration of the EDF into the EU budget. The Decision also **simplifies the calculation of the VAT-based EU own resource** and introduces a **new EU own resource,** Member States' contribution **based on non-recycled plastic packaging waste, with effect from 1 January 2021. The cost of customs duty collection retained by Member States is increased from 20% to 25%.**

This decision authorises the Commission to borrow up to EUR 750 billion (in 2018 prices) temporarily on the EU's behalf on the capital markets. In order to cover all the EU's obligations arising from these borrowings, the **own resources ceiling** will be **exceptionally and temporarily increased by a further 0.6% until all the borrowed funds have been repaid.**

A new agreement[115] between the EP, the Council and the Commission was also reached in December 2020, setting out the roadmap for the introduction of new own resources for 2021–2027. In line with the principle of universality, the revenue from the new own resources must be sufficient to repay the *Next Generation EU* recovery instrument and the revenue going beyond the facility should finance the EU budget. The binding timetable requires the **Commission** to present **proposals by June 2021 for new own resources based on a carbon border adjustment mechanism, a digital tax and a revised emissions trading scheme** (both to be in place by 1 January 2023) and to present **proposals by June 2024 for additional own resources,** which could include a financial transaction tax and a financial contribution related to the business sector (possibly a new common corporate tax base).

111 Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions: The EU budget, powering the European Recovery Plan, COM (2020) 442 final of 27 May 2020.

112 Proposal for a Council Regulation establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 pandemic, COM (2020) 441 final of 28 May 2020.

113 Council Regulation (EU) 2020/2094 of 14 December 2020 establishing a European Union Recovery Facility to support the recovery in the aftermath of the COVID-19 crisis.

114 Council Decision (EU, Euratom) 2020/2053 of 14 December 2020 on the system of the European Union's own resources and repealing Decision 2014/335 / EU, Euratom.

115 Interinstitutional Agreement between the European Parliament, the Council of the European Union and the European Commission on budgetary discipline, cooperation on budgetary matters and sound financial management, and new own resources, including the plan for the introduction of new own resources of 16 December 2020, Official Journal of the European Union, LI 433/28, December 22, 2020.

At the beginning of 2020, the Commission adopted an **Implementing Regulation on administrative cooperation and combating VAT fraud**[116] and an **Implementing Regulation laying down details on the operation of the simplified administrative point of sale** (*Mini One Stop Shop*) for online sales of goods[117]. The aim of these implementing regulations is to ensure that VAT is paid in the Member State of the final consumer, leading to a fairer distribution of tax revenue between Member States. Due to the crisis caused by the Covid-19 pandemic, these new rules for e-commerce will only apply from 1 July 2021, instead of 1 January 2021 when these implementing regulations were due to enter into force.[118]

In 2018, the Commission proposed new VAT rules, building on both the *VAT Action Plan - Towards a single VAT area in the EU* and the "fundamental principles for completing the single VAT area in the EU". The new rules were also intended to address the problem of small businesses engaging in cross-border trade having 11% higher tax compliance costs compared to businesses that only trade domestically. SMEs represent 98% of companies in the EU and the Commission therefore proposed that more businesses should be allowed to apply the simplified VAT rules. The **Council adopted**[119] **the simplified VAT rules for small enterprises in February 2020**. Under the adopted reform, **VAT exemptions** will also be available to **small businesses established in other Member States,** whereas the current system provides that VAT exemptions for small businesses are only available to domestic operators. In addition to a better exemption scheme and the resulting reduction in VAT compliance costs, **the updated rules will also offer the possibility of encouraging voluntary compliance.** This should also contribute to reducing revenue losses due to fraud and non-compliance with VAT rules. Small businesses should be eligible for the simplified VAT compliance rules if their annual turnover does not exceed the threshold set by the Member State concerned. This threshold cannot be higher than EUR 85,000, however. In addition, small enterprises from other Member States that do not exceed this threshold will also be eligible for the simplified scheme under certain conditions, provided that their total annual turnover in the EU as a whole does not exceed EUR 100,000. The above new rules should apply from 1 January 2025.

In February 2020, the Council also adopted a set of rules aimed at facilitating the detection of e-commerce tax fraud in cross-border transactions. These measures will now allow member states to collect records made available electronically by payment service providers. A new central electronic system will be set up, inter alia, for the storage of this payment information and its further processing by national anti-fraud officials. The legislative acts are an amendment to the VAT Directive introducing requirements for payment service providers[120] and an amendment to the regulation on administrative cooperation in the field of VAT[121]. The latter sets out the modalities for cooperation between national authorities in checking compliance with VAT obligations and in detecting VAT fraud. These measures will apply from 1 January 2024.

116 Commission Implementing Regulation (EU) 2020/21 of 14 January 2020 amending Implementing Regulation (EU) No. 79/2012 laying down detailed rules for the application of certain provisions of Council Regulation (EU) No. 904/2010 on administrative cooperation and the combating fraud in the field of value added tax.

117 Commission Implementing Regulation (EU) 2020/194 of 12 February 2020 laying down detailed rules for the application of Council Regulation (EU) No 904/2010 as regards the special schemes for taxable persons supplying services to non-taxable persons, making distance sales of goods and certain domestic supplies of goods.

118 Commission Implementing Regulation (EU) 2020/1318 of 22 September 2020 amending Implementing Regulations (EU) 2020/21 and (EU) 2020/194 as regards the dates of application in response to the COVID- 19 pandemic.

119 Council Directive (EU) 2020/285 of 18 February 2020 amending Directive 2006/112 / EC on the common system of value added tax, as regards the special scheme for small enterprises, and Regulation (EU) No 904 / 2010 as regards the administrative cooperation and exchange of information for the purpose of monitoring the correct application of the special scheme for small enterprises.

120 Council Directive (EU) 2020/284 of 18 February 2020 amending Directive 2006/112 / EC as regards introducing certain requirements for payment service providers.

121 Commission Implementing Regulation (EU) 2020/21 of 14 January 2020 amending Implementing Regulation (EU) No 79/2012 laying down detailed rules for the application of certain provisions of Council Regulation (EU) No 904/2010 on administrative cooperation and the combating fraud in the field of value added tax.

In February 2020, the Council revised the EU's list of non-cooperative tax jurisdictions.[122] As part of this revision, the Cayman Islands, Palau, Panama and the Seychelles were added to the list, having failed to meet the required standards like the eight jurisdictions[123] already on the list. The list[124], which was first issued in 2017, is part of the EU's external tax strategy as set out by the Council and is intended to contribute to ongoing efforts to promote good global tax governance. The Council's Code of Conduct Group on Business Taxation monitors whether jurisdictions adopt legislation to implement the necessary reforms within the agreed timeframes. The Commission not only provides technical assistance to third countries where needed, it also supports third countries in their fight against tax system abuse.[125] **For the countries concerned, inclusion on the list does not only mean that their reputation is damaged, it also makes them subject to certain "defensive" measures at EU and Member State level.** At EU level, this concerns allocation of EU funds, and at national level the Member State concerned should then apply certain countermeasures, in accordance with the coordinated approach they have agreed.

Further changes to the 2020 EU list of non-cooperative tax jurisdictions were published by the Council on 6 October 2020. Anguilla and Barbados were added to the list. Conversely, the Cayman Islands and Oman were removed following the adoption of necessary reforms to improve tax policy in these countries. That leaves a total of 12 jurisdictions on the blacklist at the end of 2020[126].

In July 2020, the Council adopted a directive[127] **to update the rules**[128] **governing excise duties on alcohol within the EU.** The aim is to reduce the distortion of the single market that is currently occurring by modernising the way alcoholic beverages are taxed. **National legislation implementing the directive should be in force from 1 January 2022.** The reform includes changes to encourage **consumers to prefer lower alcohol drinks** to stronger alcoholic beverages in order to reduce overall alcohol consumption, while **encouraging breweries to innovate and create new lower alcohol products.** In addition to the introduction of a common EU certification system[129], other changes include clarifying the conditions for applying the rules exempting denatured alcohol from excise duty and extending the special scheme of reduced excise duty rates for small producers of beer and alcohol to producers of other fermented beverages.

The DAC 6 Directive[130] **on the exchange of information on tax planning in cross-border arrangements came into force in 2020.** The first information was due to be communicated by 31 October 2020. The Covid-19 pandemic caused the implementation of DAC 6 in the legislation of individual Member States to be delayed. **In June 2020 the Council therefore adopted tax-related amendments and provided longer deadlines for compliance with the rules on cross-border reporting and exchange of information and on VAT for e-commerce**[131]. The adopted Directive provides that the Council may adopt an implementing decision to extend the postponement of the above implementation deadlines by three months if serious public health risks, problems and economic disruption caused by the Covid-19 pandemic persist and Member States apply measures restricting the free movement of persons.

122 Council Conclusions on the revised EU's list of non-cooperative jurisdictions in the field of taxation, Official Journal of the European Union, C 64/3, 27 February 2020.

123 These include US Samoa, Fiji, Guam, Samoa, Oman, Trinidad and Tobago, Vanuatu and the US Virgin Islands.

124 During the compilation of the list, jurisdictions are assessed on the basis of three main criteria. These are tax transparency, fair taxation and real economic activity. Those jurisdictions that do not meet any of the above three criteria must then undertake to remedy the deficiencies identified within a specified period. The priority is to monitor those countries that have been removed from the list. The aim is to ensure that they apply good tax governance in practice.

125 This is particularly beneficial for developing countries, where illegal financial flows and abuse of the tax system are disproportionate.

126 These are American Samoa, Anguilla, Barbados, Fiji, Guam, Palau, Panama, Samoa, Seychelles, Trinidad and Tobago, the US Virgin Islands and Vanuatu.

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

128 Since 1992, EU Member States have introduced common rules that, in particular, minimum rates of excise duty can be introduced to ensure that excise duties are applied in the same way and to the same products anywhere in the EU.

129 For the purpose of certifying the status of independent small producers, which is recognizable in all member states.

130 Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16 / EU as regards the mandatory automatic exchange of information in the field of taxation in relation to cross-border arrangements to be notified.

131 Council Directive (EU) 2020/876 of 24 June 2020 amending Directive 2011/16 / EU to address the urgent need to postpone certain deadlines for the submission and exchange of information in the field of taxation following the pandemic covid-19.

In July 2020, the Commission adopted a new tax package[132] **whose main pillars are fair and simple taxation.** It is designed to help Europe's economic recovery and long-term growth while making tax fraud more difficult. The package is made up of three separate but interlinked initiatives:

- a tax action plan comprising 25 different measures - e.g. a plan for single VAT registration in the European Union;
- a proposal on administrative cooperation (DAC 7) - e.g. extension of tax transparency rules to digital platforms;
- Communication on Tax Good Governance - with the focus on promoting fair taxation and combating unfair tax competition among Member States and globally.

132 Communication from the Commission to the European Parliament and the Council: An action plan for fair and simple taxation in support of the recovery strategy, COM (2020) 312 final of 15 July 2020; Proposal for a Council Directive amending Directive 2011/16 / EU on administrative cooperation in the field of taxation, COM (2020) 314 final of 15 July 2020; Communication from the Commission to the European Parliament and the Council: Good Governance in the EU and Beyond, COM (2020) 313 final of 15 July 2020.

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

F.2.1 DEVELOPMENT OF THE ECONOMIC, SOCIAL AND TERRITORIAL COHESION POLICY AND OTHER PROGRAMMES FINANCED BY THE ESIF IN THE CZECH REPUBLIC

F.2.1.1 ALLOCATION ACCORDING TO COMMISSION DATA

Entities from the Czech Republic can benefit from EU funding in PP14+ through ten national programmes, five cross-border cooperation programmes and six transnational and interregional cooperation programmes.

The following section will present the SAO's comments on the facts concerning only those programmes whose managing authority is located in the territory of the Czech Republic, i.e. the ten national programmes and the *INTERREG V-A Czech Republic-Poland* cross-border cooperation programme (INTERREG CR-Poland).

According to the data available on the Commission's website at the time of the editorial deadline, a total of **EUR 24.70 billion of ESIF funding has been allocated to these 11 programmes. EUR 8.42 billion was made available in national funding**, making a **total of EUR 33.12 billion.** The updated budget is shown in the following tables (excluding INTERREG CR-PL, as the area of territorial cooperation is monitored separately by the Commission).

F.2.1.2 ALLOCATION BY FUND

The European Regional Development Fund accounts for the dominant share of the total allocation for the ESIF, amounting to 52.99%. The *Cohesion Fund* accounts for 21.82% and the *European Social Fund* and *European Agricultural Fund for Rural Development* together account for 24.98% of the funding. The remainder of the allocation is made up of the *European Maritime and Fisheries Fund* and the *Youth Employment Initiative*, together accounting for only 0.21%.

Table 14: Total allocation for the Czech Republic and its division into individual EU funds (EUR million)

Název fondu	Abbreviation	EU allocation	National resources	Total
European regional development fund	ERDF	12, 535.04	5,013.05	17,548.09
Cohesion Fund	CF	6,143.95	1,084.23	7,228.17
European social fund	ESF	3,656.83	843.87	4,500.70
European Agricultural Fund for Rural Development	EAFRD	2,305.67	1,465.38	3,771.05
European maritime and fisheries fund	EMFF	31.11	10.05	41.16
Youth Employment Initiative	YEI	27.20	2.40	29.60
Total		**24,699.80**	**8,418.98**	**33,118.77**

Source: https://cohesiondata.ec.europa.eu/countries/CZ, dates of March 31, 2021 .

Note These data do not include the allocation of cross-border cooperation programs, which the Commission reports separately.
The value of the YEI allocation is increased by a contribution from the ESF.

F.2.1.3 ALLOCATION TO PROGRAMMES ACCORDING TO THE CZECH IMPLEMENTING AUTHORITIES

The Czech Republic, represented by the MoRD (NCA), submitted a draft revision of the *Partnership Agreement for the 2014-2020 Programming Period* to the Commission at the end of January each year, in accordance with the arrangements under Articles 15 and 16 of the General Regulation and incorporating any changes to the programmes approved by the Commission in the previous year. The last mandatory annual revision of the PA was approved by the Commission on 24 April 2020. This was the **sixth revision of the PA.** [133]This revision also reflected the reallocations to the OPs approved by the Commission in 2019.

Following the amendments to the General Regulation in response to the impact of the Covid-19 pandemic, known as CRII and CRII+ in the first half of 2020, **Member States are no longer revising their PAs.** The amendments were and are intended to allow Member States to also use EU funds to address the negative impacts of the pandemic. To this end, **many allocation rules at Member State level are no longer required and the obligation to revise PAs has been dropped.**

The implementation of the PA, including the revisions of the OPs and the reallocations contained therein made in 2020 are described in Chapter 3 of the *Annual Report on the Implementation of the Partnership Agreement for 2020* of April 2021[134].

During 2020, the **CR sent a total of 11 requests for programme revisions to the European Commission, 10 of which had been approved by the editorial deadline.** The most significant changes were transfers of funds within and between programmes. A number of revisions were mainly necessitated the need to respond to the crisis caused by the Covid-19 pandemic.

F.2.1.4 REALLOCATION BETWEEN PROGRAMMES135

On the basis of the intention approved by Government Resolution No. 811 of 27 July 2020 and after the approval of the related applications by the Commission (during December 2020)**, funds amounting to approximately CZK 6.45 billion were transferred from OP EIC (from ERDF) to OP Em (to ESF).** The reallocation of the available OP EIC funds allowed for the refinancing of part of the state budget expenditure incurred in the original national *Antivirus A* programme, which was intended to help employers pay compensatory wages to employees. Additionally, reallocation in OP Em made it possible to increase the allocation of the call *Support for employees at risk of redundancy II* by CZK 3.1 billion (EU share + national funding) to a resultant allocation of CZK 3.6 billion.

Withdrawal of reallocation to ***digitalisation of construction proceedings*** (DCP)

In the context of the need to use OP EIC funds to rapidly support entrepreneurs in the context of the crisis caused by the Covid-19 pandemic, the **application submitted to the Commission for approval to reallocate funds from OP EIC to IROP** to finance the DCP **was withdrawn in March 2020**. DCP projects will nevertheless be implemented with IROP funds.

REACT-EU

The Commission prepared an instrument to support the fight against the crisis caused by the Covid-19 pandemic. The additional funding for 2021 and 2022 is intended for **operations supporting the crisis response and preparing for a green, digital and resilient economic recovery by investing in operations contributing to the transition to a digital and green economy.** Government Resolution No. 811 of 27 July 2020 decided to **allocate funds to the IROP, through which the *REACT-EU* Investment Facility funds will be distributed**. Subsequently, by its resolution no. 1042 of 14 October 2020, the government specified in more detail the funds' **use to support the health sector, the integrated rescue system and social infrastructure. For 2021, an allocation of EUR 835 million,** i.e. approximately CZK 21.73 billion, **was proposed for the CR.** The allocation for 2022 will be published in autumn 2021.

133 https://www.dotaceeu.cz/Dotace/media/SF/FONDY%20EU/2014-2020/Dokumenty/Dohoda%20o%20partnerstv%c3%ad/Partnership--agreement-technical-revision-approved-by-the-EC-on-13-April-2016.pdf

134 See https://www.dotaceeu.cz/getattachment/98c0b246-e3a3-42b2-ae07-705c3ebf1969/Vyrocni-zprava-o-implementaci-Dohody-o--partnerstvi-za-rok-2020.pdf.aspx?lang=cs-CZ&ext=.pdf.

135 The text of point F.2.1.4 was freely taken from *the Annual Report on the Implementation of the Partnership Agreement for 2020, Ministry of Regional Development, April 2021.*

F.2.1.5 ALLOCATION BY TOPICS

The structure of the EU budget allocation was adjusted by the sixth revision of the Partnership Agreement approved by the Commission on 24 April 2020.

Table 15: ESIF allocation by topics (EUR million)

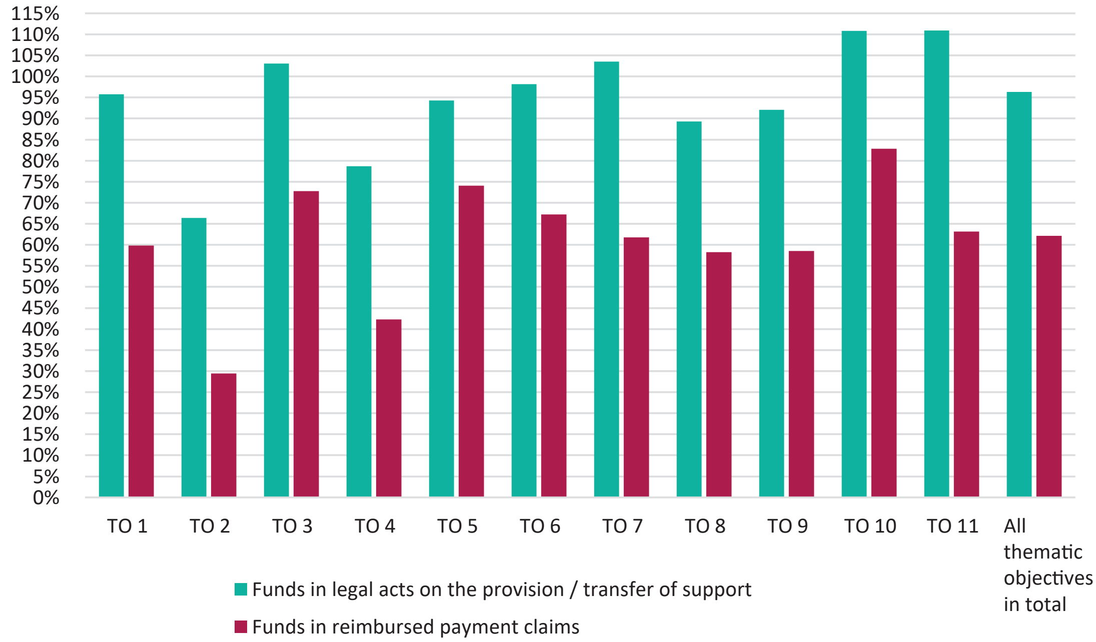
Topics	EU allocation	National resources	Total
7. *Promoting sustainable transport and key network infrastructures*	5,592.93	1,191.61	6,784.54
1. *Strengthening research, technological development and innovation*	2,424.37	1,763.43	4,187.80
6. *Protecting the environment and promoting resource efficiency*	3,066.31	783.73	3,850.04
4. *Support towards a low carbon economy*	2,328.37	1,494.29	3,822.66
10. *Investments in education, vocational education, including vocational training to obtain skills and lifelong learning*	2,142.08	517.10	2,659.18
9. *Promoting social inclusion and combating poverty*	2,095.95	422.15	2,518.10
3. *Increasing the competitiveness of small and medium-sized enterprises, the agricultural sector (in the case of the EAFRD) and the fisheries and aquaculture sector (in the case of the EMFAF)*	1,631.31	870.16	2,501.47
8. *Promoting sustainable and quality employment and promoting labour mobility*	1,580.64	361.32	1,941.96
5. *Promoting climate change adaptation, risk prevention and risk management*	1,249.71	462.01	1,711.72
2. *Improving ICT access, use and quality of ICT*	749.12	332.33	1,081.45
11. *Increasing the institutional capacity of public authorities and improving the efficiency of public administration*	141.41	30.25	171.66

Source: MoRD documents, see https://cohesiondata.ec.europa.eu/countries/CZ.

The MoRD states[136] that **for PP14+ the Czech Republic has a total allocation of CZK 598 billion** [137] **for investments in 11 thematic objectives (TO)**. All the absorption data are related to the total allocation. **As of 31 December 2020, projects[138] with a value of CZK 575 billion (EU contribution) have been supported, which represents 96% of the total allocation,** with most thematic objectives above this average. **Slower drawdown has long been registered** for two TOs, namely **enhancing access to and use and quality of ICT (**TO 2) and **low carbon economy** (TO 4).

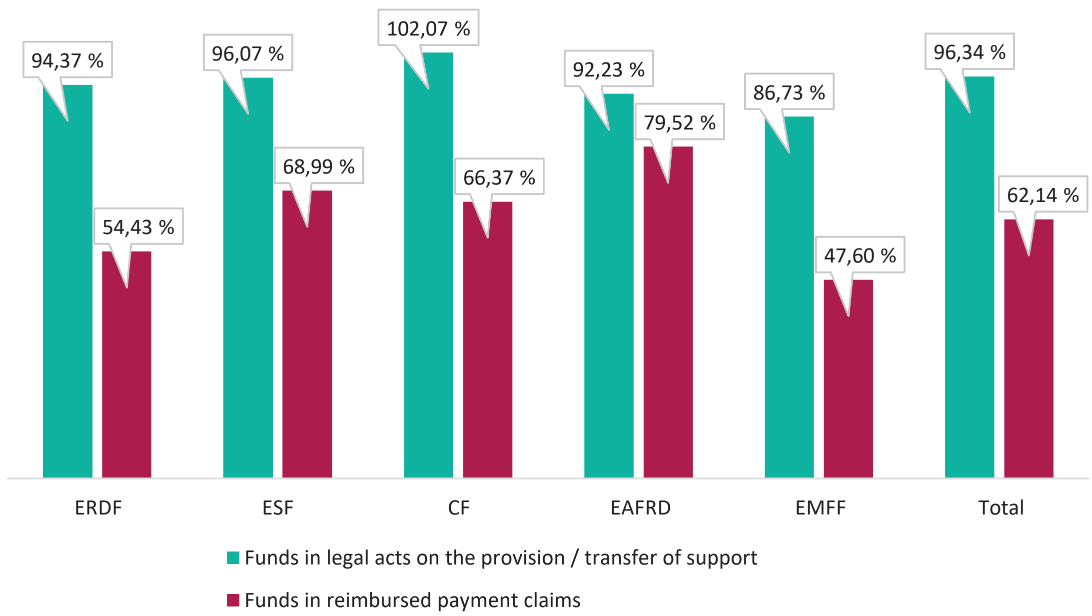
136 Annual Report on the Implementation of the Partnership Agreement 2020.
137 This is the total allocation, including the performance reserve and the allocation for old commitments for the EAFRD, but excluding the allocation for technical assistance for individual programmes.
138 Projects covered by a legal act .

Chart 13: Drawdown of funds according to individual thematic objectives (TO) as at 31 December 2020



Data source: Annual Report on the Implementation of the Partnership Agreement for 2020, MoRD, April 2021.

Chart 14: Drawdown of funds as at 31 December 2020



Source: Annual Report on the Implementation of the Partnership Agreement for 2020, MoRD, April 2021. **Note:** The total allocation for all funds is given without technical assistance. In the case of the EAFRD, the allocation of the contribution to the Early Cessation of Agricultural Activity is not included.

In the *Annual Report on the Implementation of the Partnership Agreement for 2020,* the MoRD presented a detailed overview of the implementation of the ESIF in the Czech Republic. This report states, among other things:

Progress in the disbursement of funds to beneficiaries largely follows the situation in the ratio of funds in concluded legal documents to the total allocation. **CZK 104 billion was disbursed in 2020[139]; the amount since the beginning of the programming period was CZK 371 billion (EU contribution), representing 62% of the funds allocated to the eleven TOs.** TO 10 on education and lifelong learning continues to have the highest share of reimbursed funds, with almost 83% of the allocation already paid to beneficiaries. The largest increase in disbursements was recorded in TO 7, where more than CZK 47 billion was disbursed for transport infrastructure. The two TOs with the lowest share of funds disbursed are those with problems that already materialised in legal documents issuance phase. In TO 2 almost 30% of the allocation has been paid. TO 4 stands at 42%, a significant improvement compared to 2019, but the figures are also affected by the reallocations that have taken place here.

The overall figures for the **ERDF** in 2020 show **94% of the total allocation in legal documents** (almost CZK 280 billion) **and just under 55% of the total allocation paid** (CZK 161.3 billion, CZK 53 billion of which was paid in 2020). The best performing areas for the ERDF spending are education and lifelong learning (TO 10) and support for SME competitiveness (TO 3), where spending was significantly affected by the launch of calls to increase the liquidity of firms affected by restrictive measures in response to the Covid-19 pandemic.

The situation of ESF uptake (including the *Youth Employment Initiative*) has long been favourable. Compared to last year, the overall figures for the ESF are significantly affected by the reallocation carried out, where funds from ERDF objectives were transferred to TO 8. Even after the increase in the total **ESF** allocation, **96% of the allocation is committed in legal documents and almost 70% of the funds have been disbursed** (CZK 62 billion, almost CZK 12 billion of which in 2020).

The **CF** is intended for larger-scale investments, mainly in infrastructure. Support is directed towards the low-carbon economy (TO 4), climate change adaptation and risk management (TO 5), environmental protection (TO 6) and sustainable transport and network infrastructure (TO 7). At the end of 2020, **more than 100% of the allocation was covered by signed legal documents.** The largest share of the allocation is covered by legal documents in the environmental protection (TO 6) and sustainable transport (TO 7) objectives. The other objectives have also managed to accelerate uptake. **Under the CF, CZK 100 billion has been disbursed since the beginning of the programming period, more than CZK 28 billion of which in 2020,** representing an increase of almost 20 percentage points year-on-year.

The **EAFRD** contributes to the support for eight TOs, with the funds provided to beneficiaries from the RDP. The largest share of the approximately CZK 40 billion allocation goes to PA 4 *Restoration, conservation and improvement of ecosystems related to agriculture and forestry*. This includes two objectives, namely *climate change adaptation* and *risk management and environmental protection*, each accounting for CZK 20.4 billion[140] and together representing 68% of the EAFRD allocation. These two objectives are being implemented in the **form of horizontal measures,** which **make up 96% of the drawdown of the total allocation.** In the other objectives project measures are implemented. **Under the RDP, CZK 11 billion was paid from the EAFRD in 2020.**

The Czech Republic has almost CZK 0.80 billion available from the EMFF. The support through **OP *Fisheries 2014-2020*** /OP F/ is designed to achieve two objectives, namely SME competitiveness (TO 3) and environmental protection (TO 6). The programme accounts for **87% of the total allocation in the legal acts issued.** In 2020, **approximately CZK 100 million** has been **disbursed** from the EMFF.

139 This amount does not include technical assistance funds. After offsetting these funds, over CZK 107 billion was paid in 2020.
140 The exchange rate for December 2020: CZK 26.213 / € was used for the conversion into crowns in the following text.

F.2.1.6 UTILISATION OF THE MAIN ALLOCATION ACCORDING TO THE COMMISSION

The Commission monitors progress in the absorption of Member States' allocations and publishes the data on its website (https://cohesiondata.ec.europa.eu). In this way, the Commission publishes, inter alia, data on the volume of funds covered by a grant decision or similar legal document, as well as data on the volume of funds paid by the Commission to Member States on the basis of interim payment applications submitted.

According to the **Commission's data** published on its website **at the end of the first quarter of 2021, the vast majority of EU-28 countries exceeded 90% in terms of the volume of funds covered by a legal document**, and a few exceeded 100%. Tracking and comparing this figure is therefore no longer as informative as it was in the earlier years of the programming period, so the *EU Report 2021* data will be restricted the volume of funds disbursed.

In order to facilitate comparisons between the Member States in terms of the progress made in the absorption of their allocations, a Member States ranking **according to the volume of funds disbursed by the Commission for the individual years 2018-2020** was created and these rankings were summed[141]. As can be seen from Table 16, the **Czech Republic is in the lower half of the ranking of EU-28 countries in terms of the speed of absorption of funds disbursed by the Commission over this period**.

Table 16: Ranking of the Member States according to the speed of implementation in terms of the funds reimbursed by the Commission for the period 2018-2020.

Ranking	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.
State	FI	IE	LU	AT	SE	FR	PT	EE	LT	CY	NL	DE	LV	MT
Points	3	7	9	11	15	20	21	27	30	30	31	32	37	44

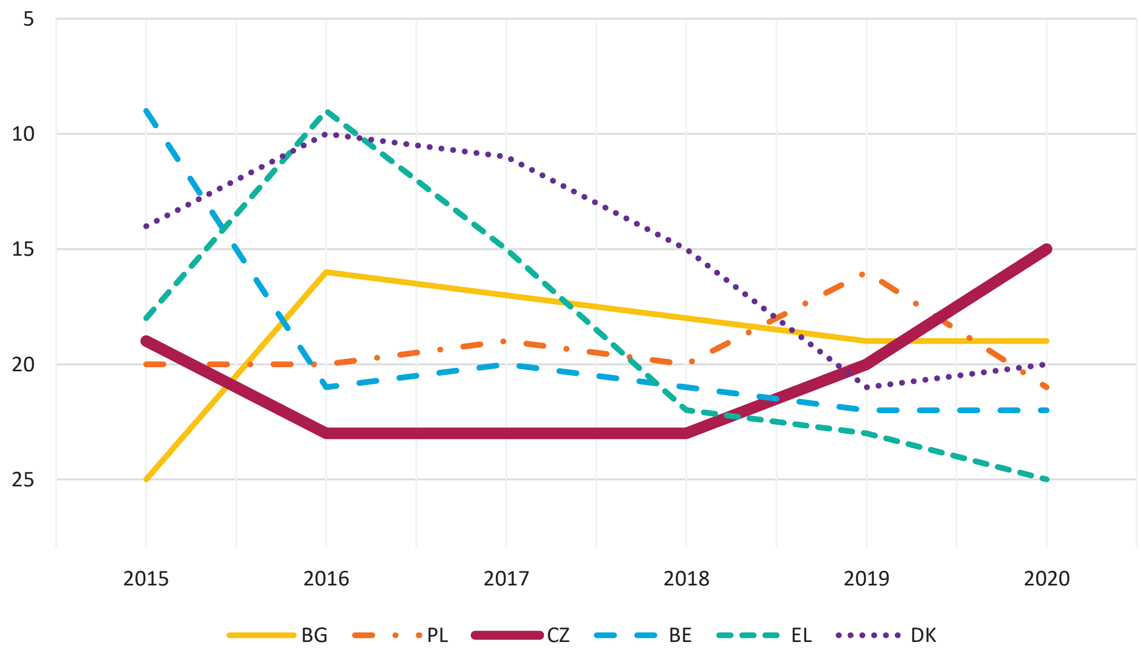
Ranking	15.	16.	17.	18.	19.	20.	**21.**	22.	23.	24.	25.	26.	27.	28.
State	SI	HU	UK	BG	DK	PL	**CZ**	BE	EL	RO	IT	HR	SK	ES
Points	49	51	51	56	56	57	**58**	65	70	72	75	80	80	81

Source: https://cohesiondata.ec.europa.eu/overview, March 2021.

Chart 15 compares the evolution of drawdown in six Member States, comprising the Czech Republic and the countries closest to it in terms of their score in Table 16. The figures show where the Member State ranked in the EU-28 in terms of the total cumulative volume of funds paid by the Commission in each year (the higher the value, the worse the ranking among Member States and the slower the absorption in a given year).

141 The better the ranking of the Member States, the lower its score.

Chart 15: Development of disbursements in the five Member States, in order of the amount reimbursed by the Commission in 2015-2020.



Source:https://cohesiondata.ec.europa.eu/overview, March 2021.

It is evident that the **CR has managed to accelerate its drawdown over the last three years.** Denmark, Greece and Bulgaria are on a gradual downward trend. Poland has maintained a stable trend, as has Belgium (after a dip in 2016).

As regards the **comparison of Member States by the volume of funds paid by the Commission as of 31 December 2020,** as reported by the Commission on its website at the end of the first quarter of 2021, the **CR was in 13th-15th place** (58% of the allocation[142]), together with Cyprus and Hungary. Although the CR's position of the Czech Republic can be rated average, there is a **clear positive development compared to** previous years**.** The CR was in 23rd place in 2018 and 20th in 2019.

Table 17: Ranking of the Member States according to the percentage reimbursed for 2020.

Ranking	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	**13.**	14.
State	FI	LU	IE	AT	SE	FR	PT	EE	LT	NL	LV	DE	**CZ**	CY
%	82	76	75	74	70	66	66	64	62	62	62	61	**58**	58

Ranking	15.	16.	17.	18.	19.	20.	21.	22.	23.	24.	25.	26.	27.	28.
State	HU	MT	SI	UK	BG	DK	PL	BE	RO	HR	EL	IT	SK	ES
%	58	57	57	56	55	55	53	51	51	50	49	49	45	43

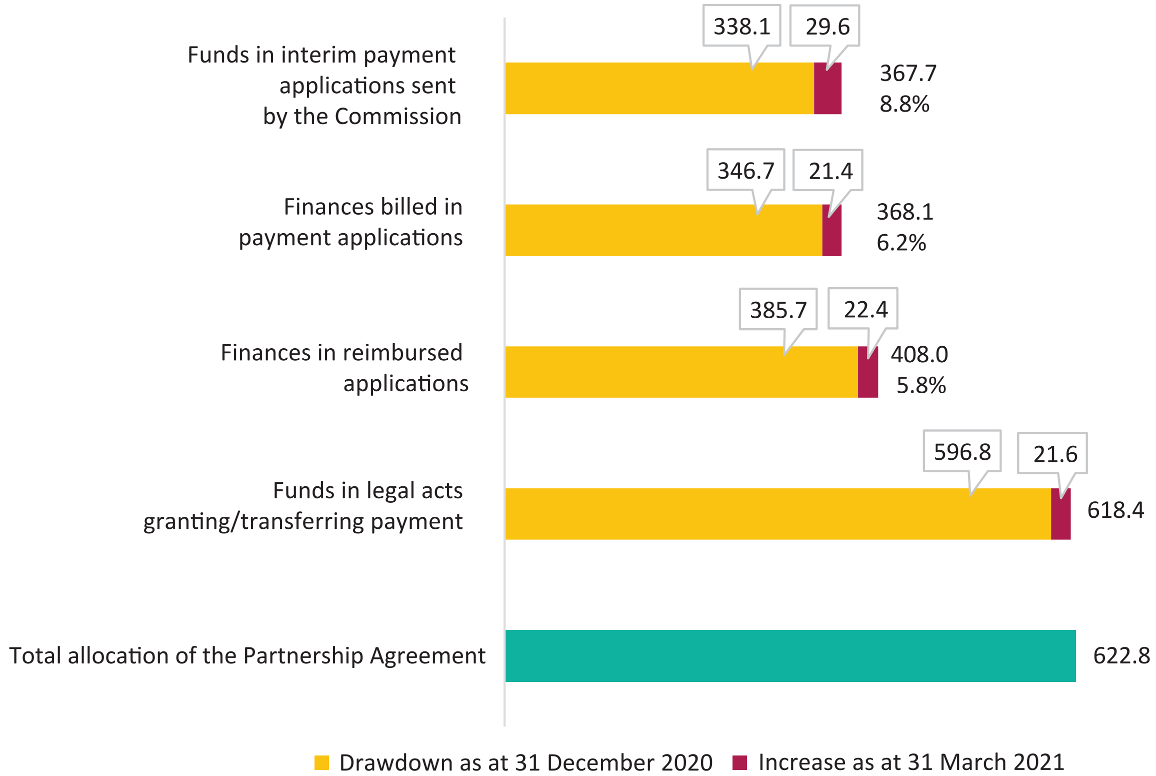
Source: https://cohesiondata.ec.europa.eu/overview, March 2021.

142 According to the NCA, the amount reimbursed by the Commission as at 31 March 2021 was as high as 61.70%.

F.2.1.7 ALLOCATION DRAWDOWN ACCORDING TO MS2014+

At the national level, the NCA prepares reports on the absorption of funding in programmes co-financed by the ESIF on a monthly basis[143] and, in a more detailed breakdown, also on a quarterly basis[144]. The relevant reports are published on the website of the Ministry of Regional Development[145]. The values of the individual "absorption categories" presented in this point are further based on data from the *Quarterly Report on the implementation of ESI Funds in the Czech Republic in the 2014-2020 Programming Period, 1st Quarter 2021*, published on 14 May 2021.[146] This document presents information on territorial cooperation programmes (i.e. also on the INTERREG CR-PL programme) separately from other programmes.

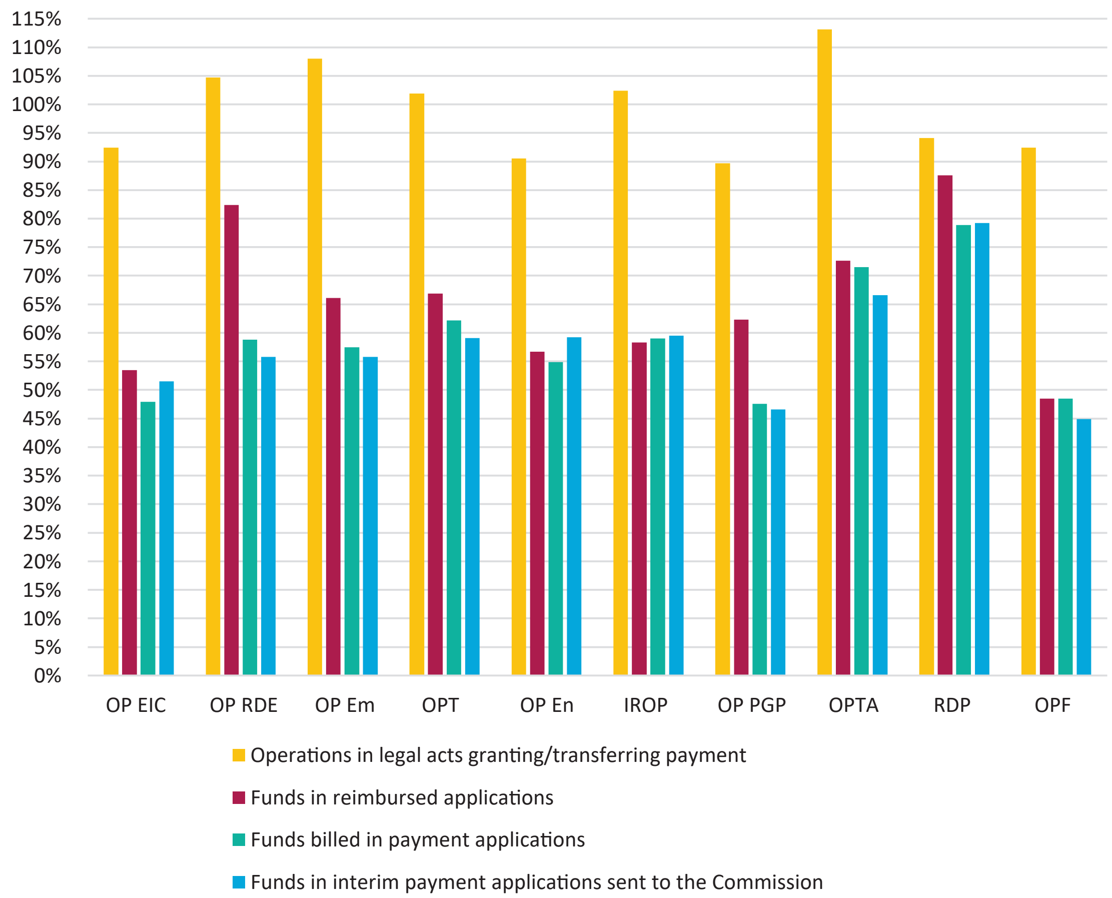
Chart 16: The state of drawing ESIF funds (EU contribution) in billions of CZK as at 31 December 2020 and the increase for the first quarter of 2021 (%.)



Source: Quarterly Report on the Implementation of ESI Funds in the Czech Republic in the Programming Period 2014–2020, Q1 2021, NCA, 14 May 2021.

143 Monthly information on the implementation of ESI funds in the Czech Republic in the programming period 2014–2020.
144 Quarterly report on the implementation of ESI funds in the Czech Republic in the programming period 2014–2020.
145 https://www.dotaceeu.cz/en/statistiky-a-analyzy/cerpani-v-obdobi-2014-2020
146 These values are valid as at March 31, 2021.

Chart 17: Drawdown of ESIF funds in % of total allocation as at 31 March 2021 by programmes



Source: Quarterly Report on the Implementation of ESI Funds in the Czech Republic in the Programming Period 2014–2020, Q1 2021, NCA, 14 May 2021 .

Note: Funds billed in payment applications also include programme contributions to financial instruments, but only funds provided to final beneficiaries, not a simple contribution to financial instruments.
Funds in interim payment applications sent to the Commission also include programme contributions to financial instruments. The entire contribution to the financial instruments may be included in the application, regardless of whether the funds have already been provided to the final beneficiaries. .

As stated by the NCA in its quarterly report, the **managing authorities issued a total of 1,131 calls with an allocation of CZK 834.2 billion**[147] **in PP14+**. This represents 133.9% of the total allocation for PP14+, which amounts to CZK 622.8 billion[148].

By **31 March 2021, legal documents** on granting/transferring support **amounting to CZK 618.4 billion, i.e. 99.3% of the total allocation, had been issued.** The largest share of funds in legal documents in relation to the total allocation was registered by OP TA, OP Em, and RDE.

The volume of funds billed in payment applications at the end of March 2021 amounted to CZK 368.1 billion, i.e. 59.1% of the total allocation. The largest amount of funds in relation to the total allocation was found in the RDP, OP TA and OP T.

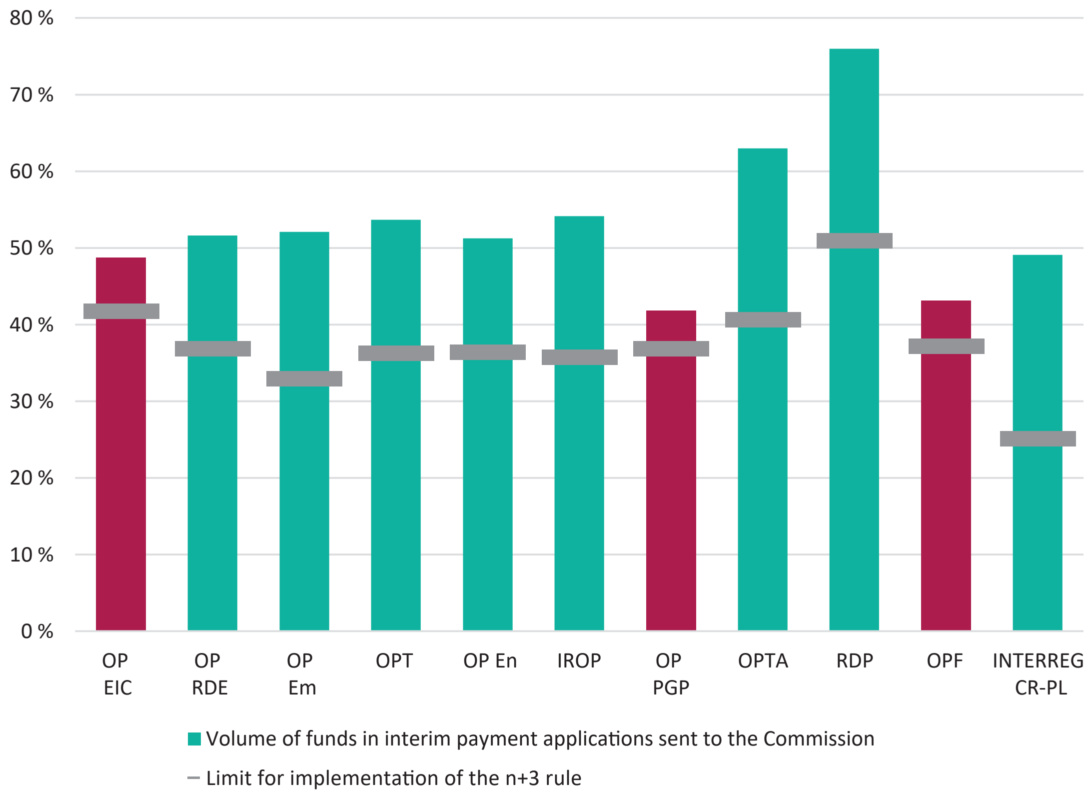
147 The value of the EU contribution.
148 The value of the EU contribution.

F.2.1.8 COMPLIANCE WITH THE N+3 RULE

The n+3 rule is regarded as a control tool used by the EU to ensure the smooth implementation of ESIF funding. In practice, this means that the allocation for year "n" must be spent by the end of year "n+3". Failure to meet this condition risks the loss of unutilised funds, known as "automatic decommitment" by the Commission (decommitment), which is a reduction of the allocation of year "n" by the unutilised funds and rules out their subsequent use within the framework of the Member State's absorption of the ESIF or a specific programme. **Compliance with the rule is assessed at programme level.**

At the end of Q4 2020, the n+3 requirement was complied with by all programmes. The CR has not lost any funds as a result. The percentage of funds in interim payment requests sent to the Commission for each programme and its comparison with the percentage threshold for compliance with the n+3 rule for 2020 is shown in Chart 18.

Chart 18: Funds in interim payment applications sent to the Commission (as a percentage of the main allocation) and comparison with the limit for meeting the n + 3 rule in 2020.



Source: Quarterly Report on the Implementation of ESI Funds in the Czech Republic in the 2014–2020 Programming Period, IV. Quarter 2020, NCA, 19 February 2021, as at 31 December 2020.

The threshold was exceeded by the biggest margin by the RDP (threshold exceeded by 25.03%), INTERREG CR-PL (by 24%) and OP TA (by 22.36%). On the other hand, OP PGP (threshold exceeded by 4.96%), OP F (by 5.90%) and OP EIC (by 6.96%) were not far above the threshold. These three programmes (shown in red in Chart 18) already had among the slowest drawdown rates in 2019. [149]

According to the information of the NCA, the majority of OPs had already complied with the n+3 rule for 2021 by 31 March 2021. The exceptions were OP EIC, OP PGP and OP F.

149 See EU Report 2020.

F.2.1.9 INVOLVEMENT OF THE ESIF IN ADDRESSING THE ECONOMIC CONSEQUENCES OF THE PANDEMIC COVID-19 IN THE CZECH REPUBLIC[150]

Following a series of measures taken during 2020 to address the consequences of the Covid-19 pandemic at EU level (see subsection F.5.1), national authorities responded with their own measures (see subsection F.5.2).

Following the announcement of the state of emergency and after evaluating the possible negative impacts on the implementation of the ESIF**, the managing authorities moved to make partial adjustments to the rules** so as not to jeopardise implementation and the achievement of project objectives. Adjustments were made **in management documentation** (mostly adjustments to expenditure eligibility, project sustainability conditions, online meetings of the assessment committee) **or in the design of calls** (most notably, deadline extensions for receipt of applications for support, extensions of the latest date for completion of physical implementation of the project, adjustment of deadlines for completion of applications). The managing authorities provide regularly information about the changes and updates on their websites.

F.2.1.10 STATUS OF FULFILMENT OF THE REQUIREMENTS FOR THE START OF DRAWDOWN OF THE ALLOCATION IN PP21+[151]

The start of drawdown in the new programming period, which formally started on 1 January 2021, is affected by the overall delay in the negotiation of the legislative package for Cohesion policy at the EU level, similarly to the launch of the PP14+.

The Cohesion policy legislation for PP14+ entered into force on 17 December 2013, two weeks before the start of eligibility as defined in the EU legislation. **The legislation for PP21+ had not yet been approved at the time of the *EU Report 2021* editorial deadline, so it was clear that the delay in drawing down the allocation would reach several months after the eligibility start date[152].**

This is linked also to the **time lag in the finalisation, negotiation and approval of the new Partnership Agreement for the 2021–2027 period** (PA21+) **and new programmes by the Commission.** Approval of the programmes is expected on a gradual basis, with the first one due in late 2021/early 2022. For programmes not approved in 2021, the 2021 allocation will be shifted in quarters to the four following years. In their case, the first n+3 rule deadline will thus be postponed from 2024 to 2025.

Disbursement, i.e. the first payments to project beneficiaries in individual programmes, can then realistically be expected in the first half of 2022 at the earliest.

Since November 2019, working versions of PA21+ have been repeatedly discussed in working groups and platforms with the participation of ministries, social, territorial and other partners. In mid-October 2020, the draft PA21+ was submitted to the government for its information as part of a material entitled *Information on the preparation of documents for PP21+*. PA21+ was also repeatedly consulted with the Commission in the framework of what are known as “informal negotiations”.

On 1 March 2021, the government issued resolution no. 233 approving the distribution of the Czech Republic’s PP21+ allocation among OPs and set deadlines for the completion and submission of key documents for the use of funds to the government, in particular PA21+ and the programme documents of individual OPs.

At the end of March 2021, PA21+ was sent to the Commission for informal consultation, followed by an inter-ministerial PA21+ consultation process. Once all the comments from the national and Commission level have been addressed, PA21+ will be submitted to the Ministry of the Environment for environmental impact assessment and the issuance of the Strategic Environmental Assessment (SEA) consent opinion[153]. **PA21+ will be submitted to the Czech government by 31 August 2021 and the final formal negotiations will begin.** According to the provisions of the EU regulation, the Commission has up to four months

150 The information presented in this point is the MoRD’s response to the SAO’s questions.
151 The information presented in this point is the MoRD’s response to the SAO’s questions.
152 The cohesion policy regulation package for OP21+ was agreed and entered into force on 1 July 2021, six months after the eligibility start date.
153 Strategic Environmental Assessment.

after the submission of PA21+ to approve it. After PA21+ has been approved, the Commission can also be expected to approve individual OPs on a gradual basis (within five months after the OPs are submitted to the Commission for approval).

The processes described above suggest that the **approval of PA21+ and OPs by the Commission will take place in autumn 2021 and probably in Q1 2022. The first calls will be issued after that.**

F.3 EXPENDITURE ON THE COMMON AGRICULTURAL POLICY

F.3.1 RECENT DEVELOPMENTS IN THE COMMON AGRICULTURAL POLICY[154]

Changes and adjustments to the Common Agricultural Policy for PP21+ within the EU

The Common Agricultural Policy has undergone major reforms throughout its existence, the latest of which, due to apply from 2021, was still being actively prepared at the time of the *EU Report 2021* editorial deadline. The first discussions on the shape of the CAP for the post-2021 period started in 2016, and in June 2018 the Commission published the relevant legislative proposals. **The new CAP has not yet been finalised (agreed on) and will be delayed by at least two years.**

Significant changes and progress were made in addressing CAP issues in 2020. After a long negotiation

process, agreement was reached on the MFF21+[155], which also encompasses the CAP budget.

While the EU budget for 2021–2027 was approved in 2020, **the CAP reform was not completed by the end of 2020 and a two-year transition period had to be agreed on.** The creation of a transition period was also advocated at European level by the Czech Republic. Thanks to the transition period**, farmers will be able to draw money from the EU budget regardless the pending legislation.** Subsidies will be used under the same conditions and on the basis of the strategic plans and programming documents that were in force for the 2014–2020 period.

The transitional period was imposed on the basis of Regulation 2020/2220[156], which extends, with certain changes, the existing rules for two years, i.e. until 31 December 2022. The changes to the existing system include:

- Reduction of the threshold for compensation for income reduction and for climate-related or disease-related losses from 30% to 20% under risk management measures;
- Inclusion of an additional EUR 7.5 billion in the agricultural component of the EU's support and recovery plan. At least 37% of these funds must be earmarked for organic farmers and environmental and animal welfare measures, and 55% must go towards investment in resilient, sustainable and digital recovery and start-ups for young farmers.

The transitional period should give the Commission more time to finalise the necessary legislation and Member States sufficient time to draw up the relevant national strategic plans and set up the administrative structures necessary for the successful implementation of the new CAP. Negotiations for a new European regulation on the CAP strategic plans are currently underway (spring 2021).

154 Sources of information:
https://eagri.cz/public/web/en/mze/archiv-2019/subsidies/;
https://www.europarl.europa.eu/factsheets/en/sheet/113/spolecna-zemedelska-politika-po-roce-2020;
155 https://www.consilium.europa.eu/cs/press/press-releases/2020/12/17/multiannual-financial-framework-for-2021-2027-adopted/
156 Regulation (EU) 2020/2220 of the European Parliament and of the Council of 23 December 2020 laying down certain transitional provisions on support from the European Agricultural Fund for Rural Development (EAFRD) and the European Agricultural Guarantee Fund (EAGF) in 2021 and 2022, and amending Regulations (EU) No. 1305/2013, (EU) No. 1306/2013 and (EU) No. 1307/2013 as regards their sources and uses in 2021 and 2022 and amending Regulations (EU) No. 1308/2013 as regards the sources and distribution of such support in 2021 and 2022.

The new CAP legislative proposals will allow a flexible response to future challenges. The basic principles are aimed at supporting European farmers and ensuring food security in Europe, while operating a resilient, sustainable and competitive agricultural sector. At the same time, CAP support has been merged into a single strategic document, which will allow it to be better managed to achieve its objectives.

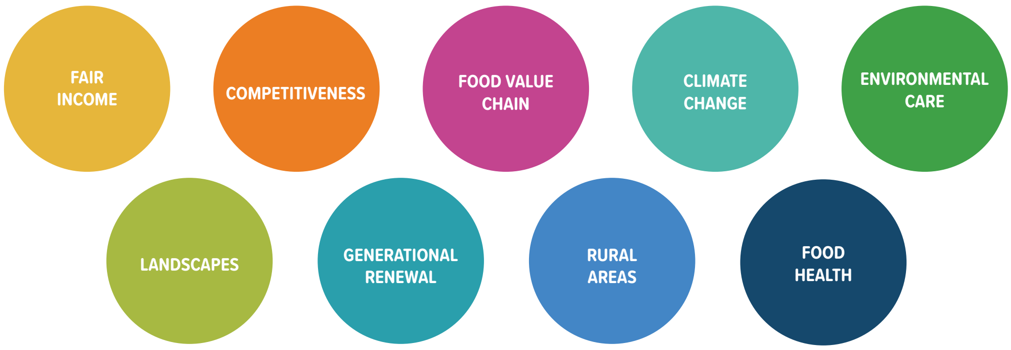
The Commission's proposals aim to promote a sustainable and competitive agricultural sector that can make a significant contribution to the implementation of the ***European Green Deal*****,** in particular "farm-to-fork" and the biodiversity strategy. The Commission actively seeks to influence the development of the national strategic plans through recommendations, and its recommendations particularly emphasise the integration of the *European Green Deal*.

The proposals main focus is:

- ensuring fair conditions and a stable economic future for farmers;
- higher environmental and climate ambitions;
- preserving the role of agriculture as a fundamental component of European society.

The **future CAP should focus on nine objectives** to reflect its economic, environmental and socio-territorial multifunctionality (see Diagram 4).

Diagram 4: 9 CAP objectives



Source: https://ec.europa.eu/info/food-farming-fisheries/key-policies/common-agricultural-policy/future-cap/key-policy-objectives-future-cap_cs.

The **new CAP is to retain** both its **two pillars** and **both agricultural funds,** which are to support national programmes following a range of measures selected under the integrated approach.

The CAP spending budget is constantly shrinking. While in the early 1980s the CAP budget represented 66% of the total EU budget, in the 2014–2020 period the CAP accounted for just 37.8%. For the upcoming 2021–2027 period, a total of EUR 350.4 billion (in fixed 2018 prices) is proposed for the CAP and maritime policy and this, together with EUR 22.8 billion for environment and climate change, represents just 20.5% of the total EU budget. **The CAP budget alone is EUR 336.4 billion** (in 2018 prices, not taking inflation into account). This is around **EUR 40 billion less than in PP14+.**

The **first pillar** is **direct payments and CMOs**. This pillar retains its privileged position, although its available funding is **reduced by 10%. The *European Agricultural Guarantee Fund*** (EAGF) is given a budget of **EUR 258.6 billion**, i.e. **76.8% of the CAP budget.** The **second pillar**, however, which focuses on **rural development and is financed by the EAFRD**, has registered a major loss, with a **19% reduction.**

It has been allocated **EUR 77.8 billion,** or **23.2% of the total CAP budget** for 2021–2027.

Changes and adjustments to the CAP for PP21+ in the Czech Republic

As the **CAP does not yet have a clear legal framework and no strategic plan has been approved at EU level, the Czech Republic has not yet prepared a strategic plan at national level.** The CR has prepared a draft strategic plan for the CAP, which it sent to the Commission for informal consultation. This draft is still incomplete and lacks financial allocations. Informal internal consultations between representatives of the CR and the Commission were launched in spring 2021 and the CR subsequently received comments on the draft strategic plan. The **CAP Strategic Plan at the level of the Czech Republic has to be submitted to the Commission by 1 January 2022** and its finalisation is affected by the legislation not yet approved at the Commission level and the need to complete the ex-ante and SEA environmental impact assessments of concepts and spatial planning documents and to properly discuss the document at the national level.

The prevailing disagreement and uncertainty about the Commission's requirements will make negotiations with the Commission complicated, and there is a risk that Member States, including the Czech Republic, will not be able to devise their strategic plans correctly. **The main disputes are over the size of the budget, the capping of direct payments, the redistributive payment**[157] **or the definition of a "real farmer".** The Czech Republic is generally against the capping of direct payments, which it sees as disadvantageous for the country. It might restrict large agricultural businesses' drawing of subsidies from European funds and, in the opinion of the MoA, would not bring the effects the Commission has declared. The **CR advocates voluntary capping and supports an increase in payments for the first hectares.** Furthermore, **the CR does not agree with the proposed eco-schemes system,** which, according to the MoA, will lead to considerable bureaucracy. The Czech agrarian sector mainly advocates soil and landscape protection and balanced relations in the agricultural and food sector. **As regards the "real farmer" condition, the CR proposes that it be voluntary and requests that the Commission not define "real farmer" but leave it to the flexibility of Member States.** Although the Commission has declared its desire for administrative simplification, the MoA believes that the proposals to modify the subsidy conditions under the EU legislation for the new CAP do not leave sufficient room for simplification.

The **Czech Republic should receive EUR 7.7 billion** (around CZK 200 billion) for the CAP **in the post-2020 period**, of which **EUR 5.9 billion for direct payments and EUR 1.8 billion for rural development.** However, this is a **decrease compared to PP14+,** when the Czech Republic had EUR 8.2 billion available. Thanks to the transitional period, farmers will still be able to draw subsidies from the PP21+ budget under the existing conditions and rules applicable to PP14+.

Another source of funding is the *National Recovery Plan*[158], which aims to use a total of **CZK 199.9 billion** (EU funding is CZK 172 billion) to kick-start the economy after the downturn caused by the Covid-19 pandemic. The EU requires at least 37% of this fund's investments to be channelled into climate measures. The funding has to **be implemented by 2023, with 70% of the funds to be implemented by the end of 2022. The MoA will decide on the CZK 15 billion earmarked for green architecture** and expects to use these funds mainly for forest restoration, to address water scarcity in the landscape and for land improvement.

157 Given that the size of most EU farms is less than 28 hectares and that farmers are thus unable to benefit from economies of scale, Member States may reallocate direct aid to address this handicap through an additional payment per first hectare.

158 The National Recovery Plan was approved by the Government of the Czech Republic in its Resolution No. 467 of 17 May 2021.

F.3.2 STATE OF DRAWDOWN OF CAP FUNDS ALLOCATED TO THE CZECH REPUBLIC IN 2020

In 2020, according to SAIF data[159], **CZK 39.98 billion** was paid out in the Czech Republic **under the CAP** (including the *Horizontal Rural Development Plan of the Czech Republic with* **EU funding amounting to CZK 33.27 billion** and state budget funding of CZK 6.71 billion. The largest item was direct payments.

Table 18: Overview of the funds paid in the main areas of the CAP for 2020 (CZK million)

Expenditure area	EU´s contribution	CR´s contribution	Celkem
Direct payments	22,109	599	22,708
Common organisation of the markets (CMO) *	417	420	837
Rural development **	10,736	5,679	16,415
Horizontal plan of the rural development in the CR	14	10	24
Total	**33,276**	**6,708**	**39,984**

Source: SAIF documents – CAP and marketing budget for 2020 and its use as at 31 December 2020, table Total use of common agricultural policy resources in 2020.

Note: * Part of the item „common organization of the markets“ is the repayment of the loan for intervention purchases in the amount of CZK 21 million.
**This is the sum of funds from the *Rural Development Programme of the Czech Republic for the period 2007-2013* (CZK 96 million) and the RDP.

F.3.2.1 DIRECT PAYMENTS

Direct payments are **entitlement-based payments paid to farmers depending on compliance with defined farming conditions.** They have been granted to farmers since the Czech Republic joined the European Union in 2004. They are a secure source of money for farmers, almost regardless of their agricultural production. Direct payments account for the **largest share of subsidies paid out in agriculture** and are granted according to CAP rules. They are part of the first pillar of the CAP, financed by the EAGF.

The structure of direct payments changed significantly in the 2015–2020 period. Most notably, this has involved a switch to a multi-component payment, which includes both compulsory and voluntary payments.

In 2020, the SAIF paid out a **total of CZK 22.71 billion in direct payments,** which is almost the same amount as in 2019. This amount includes the financial discipline adjustment paid under Regulation 2018/1848[160], where the total amount to be returned was CZK 294.99 million, and the transfer of the forfeited portion of subsidy refunds amounting to CZK 4.07 million.

The basic direct payment and at the same time the most widespread agricultural subsidy is the **single area payment (SAP),** which **is** paid to farmers per hectare of cultivated agricultural land evidenced in the *Land Parcel Identification System* (LPIS). **SAP payments make up at least 50% of the annual envelope**[161] and are **fully covered by EU funds.** In 2020, 30,162 applications were submitted for a total area of 3.54 million ha of agricultural land, which is almost identical to 2019. The subsidy rate was set at CZK 3,644.19/ ha of agricultural land. A total of **CZK 11.66 billion** was paid out in SAPs in 2020**.**

Another mandatory component of direct payments is the **payment for agricultural practices that are beneficial to the climate and environment-friendly, known as greening, which accounts for 30% of the direct payment envelope.** This payment is paid to farmers depending on the SAP award. The subsidy rate in 2020 was CZK 2,013.64/ha of agricultural land. Applications for this payment totalled 30,162, the same number as the SAP applications submitted in the same year. This means that every farmer receiving the SAPS basic payment farmed his agricultural land in ways that are favourable to the climate and the environment, i.e. sufficient crop rotation, maintaining permanent grassland and using the land in an ecological interest. A total of **CZK 6.56 billion was paid in 2020** for greening.

159 The source of data is the Budget of the Common Agricultural Policy and Marketing for 2020 and its drawing as of 31 December 2020, compiled by the State Agricultural Intervention Fund .
160 Commission Implementing Regulation (EU) 2018/1848 of 26 November 2018 on the reimbursement of appropriations carried over from the 2018 financial year in accordance with Article 26(5) of Regulation (EU) No. 1306/2013 of the European Parliament and of the Council.
161 Annual indicative allocation for direct payments.

Another component of direct payments is the **payment for young farmers,** which is a 25% premium on top of the SAPS payment. The payment is provided for a maximum area of 90 ha of agricultural land. The rate has been set at CZK 1,822.09/ha. Under this facility, 5,504 claims were paid in **2020**, totalling **almost CZK 0.21 billion. Compared to 2019,** this represents an **increase of** approximately **CZK 27 million in** subsidies paid.

A voluntary component of direct payments, also fully funded by the EU, is **support coupled to production** of selected livestock and crop commodities that face certain difficulties. It is up to Member States to decide which commodities are supported. For 2020, **12 commodities were selected and a total of CZK 3.39 billion** was paid. Compared to 2019, this was **an increase of CZK 0.44 billion** in the payment of this support**.**

Transitional national support is paid to farmers **from national resources** to compensate for the support of selected commodities that are disadvantaged for the Czech Republic under the single area payment scheme. This payment **replaces the previously granted national additional payment (*Top-Up*). Almost CZK 0.60 billion was paid** in transitional national support in 2020**.** This payment has been on a **steady downward trend** since 2016, when CZK 0.88 billion was paid**.**

F.3.2.2 COMMON MARKET ORGANISATION

CMO **is applied by the EU to selected agricultural commodities,** for which **it sets certain binding production and trade conditions, and supports them through certain intervention purchases/sales, subsidies, licensing policy for imports and exports** of agricultural commodities from and to third countries**, adjustment of terms of trade etc.** CMOs serve to regulate the supply of the agricultural market, to stabilise the price for the final consumer and, at the same time, to secure farmers' incomes. CMO is a minor area within the CAP expenditure budget. **CMO support is part of the first pillar of the CAP** and is financed by the EAGF.

In 2020, a total of EUR 837.31 million was paid out under CMO, of which CZK 420.18 million came from the state budget and CZK 417.13 million from the EU budget. The total amount includes the repayment of a loan for intervention purchases worth CZK 21 million. The disbursed funds represent a **decrease of CZK 154 million compared to 2019.** CMO expenditure has been falling steadily since 2016, when almost CZK 1.99 billion was disbursed.

In 2020, the largest share of CMO comprised financial support provided in the amount of CZK 697.63 million. These funds were mainly paid to support school programmes, namely the *Fruit and vegetables for schools'* programme (CZK 287.92 million) and the *Milk for schools'* programme (CZK 244.57 million). In addition, the programmes entitled *Improved production and marketing of apiarian products* and *Support for fruit and vegetable producer organisations* were financed. Other amounts paid as subsidies under the CMO were used to support the restructuring and conversion of vineyards and to support the wine market, totalling CZK 68.75 million. Promotional programmes were also implemented in 2020 to promote agriculture as a whole, focusing on selected commodities such as milk, meat, fruit and vegetables, oils and wine. A total of CZK 5.17 million was paid for promotion, exclusively from EU funds.

F.3.2.3 RURAL DEVELOPMENT PROGRAMME

EU rural development policy was introduced as the second pillar of the CAP during the *Agenda 2000* reform. This policy is financed by the EAFRD.

Rural Development Programme of the Czech Republic for the 2007-2013 period (RDP7+)

A **total of CZK 96.36 million** was paid out under **RDP7+ in 2020**, CZK 37.50 million of which came from the state budget and CZK 58.86 million from the EU budget. These are **final payments to beneficiaries or commitments from previous years under non-project measures** in axes I and II of RDP7+. In axis I, entitlement-based payments for early termination of agricultural activity amounting to CZK 47.08 million were paid to farmers. In axis II, a total of CZK 43.78 million was paid to farmers in entitlement-based payments for afforestation of agricultural land, *NATURA 2000* payments in forests, payments for forestry-environmental measures and agri-environmental measures. Subsidies for tourism support under axis III amounting to CZK 5.50 million were also paid out in 2020.

RDP7+ has been implemented very successfully, with the Czech Republic utilising EUR 2.85 billion from the EAFRD, i.e. 99.84% of the EU budget allocation for the whole programme.

Rural Development Programme 2014–2020

Within the framework of the RDP, the Czech Republic can draw EUR 3.55 billion (approximately CZK 91.66 billion), of which the European share is EUR 2.31 billion (approximately CZK 59.52 billion) and the state budget share is EUR 1.24 billion (approximately CZK 32.07 billion).[162] **Most of the allocation (approx. 65%) is for area/non-project measures.**

As of 31 December 2020, a total of 249,908 legal documents granting support amounting to CZK 51.92 billion (EU contribution) had been concluded under the RDP[163], which represents approximately 87% of the allocation of the European contribution. **As of the same date, CZK 47.93 billion had been paid to beneficiaries, i.e. 80% of the approved EU contribution. When compared to other programmes co-financed by the ESIF, the RDP is the most successful programme** (also due to its specific features) **in terms of the rate of absorption of the allocation.** As of **31 May, 2021**[164], the **share of disbursed funds in the total allocation of the programme was already 90%.** This is mainly driven by the payment of area-based support, which farmers are entitled to if they meet certain conditions for farming and which are paid to them at regular intervals on the basis of a single application.

In 2020, a total of CZK 16.32 billion was paid out for the **RDP,** of which the EU share amounted to CZK 10.68 billion and the national share CZK 5.64 billion. The amount in 2020 is similar to 2019, when the SAIF paid out a total of CZK 16.12 billion. **CZK 5.80 billion was disbursed from the RDP for project measures,** with the largest number of subsidies paid for investments in tangible assets, amounting to CZK 3.43 billion, which is **59% of the funds earmarked for project measures.**

162 Converted at the ECB exchange rate of CZK 25.82 / EUR valid on 5 May 2021.
163 Source of information: Quarterly Report on the Implementation of ESI Funds in the Czech Republic in the Programming Period 2014–2020, IV. quarter 2020.
164 https://www.dotaceeu.cz/en/statistiky-a-analyzy/cerpani-v-obdobi-2014-2020

Table 19: Overview of the funds payed out under the RDP for 2020 (CZK millions)

RDP´s non-project measures		Disbursements (CZK millions)		
		EU´s contribution	CR´s contribution	Total
M8.1	*Forest investments*	6 011	2 004	8 015
M10	*Agro-environment climate*	2 417 142	805 716	3 222 858
M11	*Organic farming*	1 080 067	360 023	1 440 090
M12	*Natura 2000*	11 187	3 729	14 916
M13	*Payments for areas facing natural or other constrains*	3 737 300	1 245 767	4 983 067
M14	*Animal welfare*	378 141	385 781	763 922
M15	*Forest-environmental and climate-friendly forestry and forest protection*	62 797	20 932	83 729
Neprojektová opatření celkem		**7 692 645**	**2 823 952**	**10 516 597**

RDP´s project measures		Disbursements (CZK millions)		
		EU´s contribution	CR´s contribution	Total
M1	*Knowledge transfer and information actions*	4 513	4 605	9 118
M4	*Investments in physical assets*	1 698 740	1 733 059	3 431 799
M6	*Farm and business development*	222 480	226 975	449 455
M8	*Investments in forest area development and improvement of the viability of forest (without M8.1)*	182 782	186 475	369 257
M16	*Cooperation*	362 409	369 730	732 139
M19	*Rural Development Programme LEADER*	496 595	279 335	775 930
M20	*Technical assistance*	16 930	17 271	34 201
Project measures in total		**2 984 449**	**2 817 450**	**5 801 899**

Total RDP	**10 677 094**	**5 641 402**	**16 318 496**

Source: SAIF documents on funds payed out from RDP for 2020.

Between the beginning of PP14+ and 31 December 2020, a total of almost CZK 63.44 billion had been paid to beneficiaries under the RDP, of which CZK 20.50 billion was for project measures and CZK 42.93 billion for area/non-project measures. Compared to 2019, this represents a small increase in the volume of subsidies paid out (approximately CZK 200 million more).

Due to the two-year transition period based on Regulation 2020/2220, the implementation period of the RDP has been extended until 2025. As can be seen from the *Annual Report on the Implementation of the Partnership Agreement for 2020* (April 2021), the RDP had already met the drawdown threshold under the n+3 rule for 2021 as of 31 December 2020.

F.4 EXPENDITURE ON THE COMMON FISHERIES POLICY

The main objective of the Common Fisheries Policy (CFP) is to ensure sustainable fisheries and competitive aquaculture and to guarantee income and stable employment for fishermen. Since 2007, the CFP has been implemented in the Czech Republic through the Operational Programme Fisheries, which aims to develop sustainable fish farming in the Czech Republic and ensure a steady supply of freshwater fish to the domestic market throughout the year in the required range, including diversification of aquaculture.

F.4.1 OP FISHERIES 2007–2013

Operational Programme *Fisheries 2007–2013* (OPF7+) was implemented on the basis of the CFP and with financial support from the *European Fisheries Fund*. In 2020, no more funds were disbursed from OPF7+ as the programme was terminated at the end of 2015. Beneficiaries had to receive payment for projects by 31 December 2015. Throughout the seven-year implementation period of OPF7+, a total of 20 rounds of receipt of grant applications took place. In total, more than **EUR 32.5 million** was paid out from the *European Fisheries Fund to* fisheries businesses.

F.4.2 OP FISHERIES 2014–2020

Operational Programme *Fisheries 2014–2020*, which is funded by the EMFF, was approved by the Commission in June 2015. The Czech Republic's priority is to support freshwater aquaculture and boost its competitiveness. The **allocation for the entire PP14+ amounts to EUR 41.2 million.** (approx. CZK 1.064 billion[165]), of which **EUR 31.1 million** (approx. CZK 803 million) **is the EU contribution** and EUR 10.1 million (approx. CZK 261 million) is financed from national sources.

According to the *Annual Report on the Implementation of the Fisheries Operational Programme 2014–2020 for 2020*[166], a **total of 546 payment requests amounting to CZK 504.2 million had been paid as of 31 December 2020.** This is 47% of the total programme allocation. Of these projects, public expenditure for a total of 523 projects amounting to CZK 461.8 million has been certified. This represents approximately 43% of the total programme allocation. For certified projects, the share of EU expenditure amounts to CZK 346.5 million in total. CZK. As in previous years, the largest volume of funds was spent under Priority 2, which receives the largest allocation of OP F funds.

OP F is currently the last programme in terms of the rate of absorption of the allocation. As of **31 May, 2021**[167]**, the share of disbursed funds in the total allocation of the programme was only 50.7%.** Uptake improved slightly in 2018 and 2019, so the Czech Republic avoided decommitment. At the same time, it was assigned a performance reserve of EUR 2 million. However, subsidy disbursements decreased by around CZK 17 million in 2020 compared to 2019. The long-term lower allocation absorption rate will result in payments accumulating at the end of the programming period.

165 Converted at the ECB exchange rate on 5 May 2021 of CZK 25.82/EUR.
166 The Annual Report was discussed by the OPR Monitoring Committee on 20 May 2021 and subsequently approved by the Commission on 22 June 2021.
167 https://www.dotaceeu.cz/en/statistiky-a-analyzy/cerpani-v-obdobi-2014-2020.

The MoA is trying to speed up and improve uptake of the programme. As of 31 December 2020, OP F had launched the highest volume of calls of all programmes in relation to the total programme allocation.

In 2020, applications for support were received under three rounds of calls for proposals, while the continuous receipt of applications for support went ahead. A total of 246 applications for subsidies were registered and the MoA issued 186 decisions on granting subsidies. A total of CZK 127 million was disbursed from OP F in 2020, with CZK 95 million representing the EU share and CZK 32 million the national share.

F.4.3 PREPARATION OF THE 2021–2027 PROGRAMMING PERIOD[168]

As part of the preparation of PA21+, individual programmes were defined and approved by the Czech government by its resolution no. 94 of 4 February 2019. Among the programmes under preparation was the OP *Fisheries 2021–2027* (OPF21+). The MoA is the managing authority responsible for the preparation and implementation of OPF21+.

OPF21+ is the instrument for utilisation of the *European Maritime, Fisheries and Aquaculture Fund* (EMFAF) in PP21+ and is intended to contribute primarily to the objectives of the CFP, the *European Green Deal* and the *Multiannual National Strategic Plan for Aquaculture*. The **EMFAF should have simpler rules and provide flexibility for Member States by allowing them to focus support on their strategic priorities instead of having to choose from a list of eligible measures.**

The EMFAF budget as proposed by the Commission would amount to EUR 6.14 billion in current prices. **An allocation of EUR 0.03 billion is earmarked for the Czech Republic.**

The draft programme document was submitted by the MoA to the Czech government on 26 October 2020. This draft was prepared on the basis of the draft Regulation No 508/2014[169] and in accordance with the NCA timetable for the preparation of PP21+.

The draft OPF21+ will be further updated on the basis of the results of several informal consultations with the Commission and partners, and possibly on the basis of the requirements of the SEA. Prior to formal submission to the Commission, OPF21+ will be submitted to the Czech government for approval.

In the context of OP F, OPF21+ will have a shift in focus. The main change will prioritise projects that contribute to the delivery of key EU horizontal priorities and EU environmental objectives, in particular *the European Green Deal* and its follow-up strategies: *The Farm-to-Fork Strategy* and *Biodiversity Strategy*. Preference will be given to projects targeting adaptation to climate change, including mitigation measures, and to projects aimed at reducing the climate footprint of aquaculture through support for resource efficiency or renewable energy activities (e.g. solar panels, hybrid vehicles etc.). Projects improving the energy efficiency of aquaculture and its digitalisation will also be favoured.

In April 2021, the MoA started the preparation of evaluation criteria and eligible expenditure for the core OPF21+ measures. These measures are *Innovation*, *Investment in aquaculture*, *Investment in intensive aquaculture systems* and *Product processing*. In this context, the MoA invited potential applicants and beneficiaries to participate in the preparation of the OPF21+ evaluation criteria and eligible expenditure, mainly based on their experiences of OP F implementation in the previous programming period. During the consultation process, applicants could apply the new evaluation criteria respecting the new direction of OPF21+ or modified criteria valid for OP F, or they could identify problems with the current evaluation criteria and eligible expenditure.

168 Source of information: https://eagri.cz/public/web/en/mze/archiv-2019/subsidies/; https://eur-lex.europa.eu/legal-content/CS/TXT/?uri=CELEX%3A52018PC0390.

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

F.5 MEASURES TAKEN TO ADDRESS THE IMPACT OF THE COVID-19 PANDEMIC

In 2020 and 2021, the Czech Republic, and essentially all the countries of the world, face a new and to a large extent completely unexpected situation. The Covid-19 pandemic has caused the temporary restriction or even complete shutdown of many businesses and a significant decline in the performance of most countries' economies.

State aid has become an oft-mentioned term in this bleak economic situation**.** Well-directed support measures can not only help entrepreneurs overcome the immediate effects of the 'coronavirus shutdown' and keep their businesses alive, but also help the restart and contribute to the recovery of the declining economy.

As **state aid within the EU is under the almost exclusive control of the Commission, the provision of aid in Member States depended to a large extent on the speed of institutions in Brussels.** Even in this exceptional situation, it was **necessary to preserve the integrity of the EU internal market,** which control of state aid contributes to. **The Commission adopted a regulation known as the Temporary Framework at the very beginning of the coronavirus crisis** (see also subsection F.5.1). This regulation allows Member States to address difficulties related to government measures taken in the context of the pandemic. **It provides the opportunity to ensure liquidity and access to finance for the affected enterprises in accordance with the rules on state aid.** Thanks to the Commission's proactive approach, the Temporary Framework enabled the approval of hundreds of support programmes in Member States within the space of a few months.

F.5.1 MEASURES TAKEN AT EU LEVEL

On **13 March 2020, the Commission published** on its website **a press release entitled *COVID-19: The Commission sets out European coordinated response to counter the economic impact of the Coronavirus***[170], **announcing the adoption of** its **first coordinated response** as an "economic response" to the Covid-19 outbreak. At the same time, the **Commission's Communication entitled *Coordinated economic response to the COVID-19 outbreak*** was published[171]**, containing concrete options and procedures for dealing with (mitigating) the consequences of the pandemic.** As regards state aid, in this document the Commission stated that the existing state aid rules already allowed Member States to adopt a range of measures to support economies affected by the pandemic. First and foremost, these could take the form of **wage subsidies, social contributions or deferred payments of tax obligations.** If applied to all enterprises, these measures would not constitute state aid. It was and still is possible to use one of the exemptions from the ban on state aid to provide financial (and non-financial) aid. Member States could provide aid under the *de minimis* rules or aid making use of the General Block Exemption Regulation – GBER[172]. However, the application of the GBER rules may have caused some problems with application, as it was not and is not possible to grant aid to firms in difficulty on the basis of the GBER rules, bar some exceptions.

In cases where a **planned measure could not be considered a general measure** (i.e. a measure not involving state aid) **and none of the exemptions listed above could be used, a positive Commission decision was required, preceded by notification** of the measure by the **Member State.** The Commission also indicated in the document that it was preparing a **specific legal framework.**

170 COVID-19: Commission sets out European coordinated response (europa.eu).

171 Communication from the Commission to the European Parliament, the European Council, the Council, the European Central Bank, the European Investment Bank and the Eurogroup: Coordinated economic response to COVID-19, COM (2020) 112 final of 13 March 2020 .

172 Commission Regulation (EU) No. 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in accordance with Articles 107 and 108 of the Treaty.

Temporary Framework

Subsequently, on **16 March 2020**, the Commission asked Member States to urgently consult on a proposal for a **temporary framework for state aid measures to support the economy in the current context of the Covid-19 outbreak.** The Commission proposed the temporary framework as a special legal framework for assessing the compatibility of aid under Article 107(3)(b) TFEU. According to that article, aid to remedy a serious disturbance in the economy of a may be declared compatible with the internal market. However, the disturbance must affect the whole economy. This very rapid consultation took place over two days, during which Member States sent the Commission their comments on the draft temporary framework. The **final version of the Temporary Framework was adopted on 19 March 2020.** The Temporary Framework serves as the **legal basis for the "authorisation" of aid granted by Member States to businesses** facing a shortage or unavailability of liquidity as a result of measures taken in the context of Covid-19. The first version of the Temporary Framework contained three main categories of aid. These could be granted **in the form of direct grants, refundable advances or tax benefits, in the form of loan guarantees and in the form of subsidised interest rates for loans.** As regards the limit of aid granted under point 3.1 of the Temporary Framework, the Commission's proposal indicated a maximum amount of EUR 500,000 per undertaking. Following consultation with the Member States, this amount was increased and the first version of the Temporary Framework thus set the **aid limit at EUR 800,000 per undertaking** in point 3.1**.** This limit was not been changed by subsequent amendments to/revisions of the Temporary Framework.

At the **end of March 2020,** in response to developments regarding the spread of the Covid-19 pandemic, **the Commission sent a proposal to** Member States **for a first amendment to the Temporary Framework.** Again, this was an urgent consultation. The amendment proposal **clarified some of the provisions of the Temporary Framework still in force, while introducing additional categories and forms of aid.** First and foremost, these were categories of aid that would allow Member States to support R&D projects dealing with Covid-19. In addition, there was support for investments related to the production of medical products and the acquisition or modernisation of infrastructure for testing Covid-19 related products**. The amended Temporary Framework was adopted by the Commission on 3 April 2020.**

In early April 2020, a **second draft amendment** was presented. This concerned the **recapitalisation of non-financial corporations** and the extension of the Temporary Framework's scope to this category of aid. The draft amendment was **adopted on 8 May 2020** and, in addition to the **recapitalisation aid**, allowed for the provision of **subordinated debt aid**[173] to companies facing financial difficulties as a result of the pandemic.

A further amendment to the Temporary Framework was proposed and discussed with Member States during June. The **final version** was published and **entered into force on 29 June 2020.** In addition to minor adjustments to some of the existing provisions, one major change was made, namely the **relaxation of the conditions for granting aid under the Temporary Framework in relation to firms in difficulty.** Previously, bar exceptions, it was not possible to grant aid to firms that were already in difficulty at the end of 2019. This condition was relaxed in relation **to micro and small enterprises**[174], with it now possible to grant aid to those micro and small enterprises which, although in difficulty at the end of 2019, were not subject to collective insolvency procedure under national law and have not received rescue aid or restructuring aid (within the meaning of the EU state aid rules). For the sake of completeness, it should be added that, for some categories of aid, the definition of a firm in difficulty does not need to be checked at all[175]. Another significant change was the modification of the transparency obligation, i.e. the **obligation to register aid** into the electronic TAM system[176]. Whereas the previous version required **all aid** granted under the Temporary Framework **to be entered into the TAM system** (bar isolated exceptions), this obligation now only applies (again bar exceptions) to **aid exceeding EUR 100,000, and in the agriculture and fisheries sectors to aid exceeding EUR 10,000.** The obligation to register such aid within twelve months after it is provided was retained. In the case of aid in the form of recapitalisation, any such aid must be registered within three months of the recapitalisation.

173 This is a debt that is not repaid in the event of liquidation of the company before the senior debts are fully repaid.
174 According to the definition of an SME contained in Annex I to Commission Regulation No. 651/2014.
175 For example, points 3.9 and 3.10 of the Temporary Framework.
176 Transparent Award Module.

The **last amendment so far** to the Temporary Framework **was done at the beginning of October 2020,** when the Commission presented its **fourth amendment proposal.** This proposal was made in the context of the Temporary Framework's approaching expiry, which was due to fall at the end of 2020. In the case of the recapitalisation measures, the end date was set at 30 June 2021. The Commission did so in line with Section 91 of the Temporary Framework. According to that section, the Commission may review the Temporary Framework before its expiry *"... on the basis of important competition policy or economic considerations"*. In this context, prior to the publication of the proposed amendments, the Commission sent a questionnaire to Member States to ascertain how the existing rules of the Temporary Framework were helping Member States provide aid to undertakings in need and whether the Member States wished to extend the Temporary Framework for a further period. If they request an extension, what other rules or adjustments should be included in the Temporary Framework. In the days following the circulation of the questionnaire, the Commission presented an amendment proposal that would extend the **Temporary Framework for six months, i.e. until the end of June 2021**. In addition, the Commission proposed to **introduce a new category of aid which would cover part of the "uncovered" fixed costs**, i.e. fixed costs not covered by an undertaking's income. The last major proposed change was to **modify the conditions for recapitalisation aid** as regards the way in which the state's participation in undertakings in which it was a shareholder before the recapitalisation would be terminated. The fourth amendment to the temporary framework entered into force **on 13 October 2020.** One of the Member States' most frequent requests in relation to the Temporary Framework, i.e. to extend it, was thus accommodated. The Temporary Framework is now applicable until 30 June 2021[177]. The second most frequent request, which was to increase the limit in point 3.1, was not incorporated into the final version (and was not even included in the proposal to amend the Temporary Framework). In their comments on the proposal, Member States asked for the possibility to extend already approved support programmes in the simplest possible way and with minimum bureaucracy. The Commission fulfilled this request and **inserted a table in the annex to the Temporary Framework allowing Member States to extend the duration of their existing programmes as a block.** It should be noted that only the extension of programmes' duration can be done in this simple way. Any other changes (with the exception of certain changes under point 3.11) must be notified separately to the Commission. The **new category of aid - aid for uncovered fixed costs of an undertaking** - will allow aid to be granted to undertakings whose turnover has fallen by **at least 30%** over a certain period compared to the same period in 2019. Aid may be granted for an undertaking's fixed costs that are not covered by its revenue, up to a maximum of **EUR 3 million.**

The Temporary Framework and aid granted under Article 107(2)(b) TFEU[178] are undoubtedly the most frequently used legal basis for assessing the compatibility of aid to undertakings that have been affected or restricted in their activities as a result of government measures taken in response to the Covid-19 pandemic.

The **Czech Republic has used the Temporary Framework** procedure for most of its support measures.[179] The first notification followed immediately, at the beginning of April 2020, for investment support for the production of products to combat Covid-19.

Number of anti-coronavirus measures approved by the Commission

The Commission reacted as early as **in mid-March 2020** to the developing coronavirus pandemic and, following the approval of the Temporary Framework**, started to approve individual public aid measures notified by Member States on a significantly accelerated timetable.**

The Temporary Framework has been the most widely used legal basis for "anti-Covid" aid by Member States. The Commission had issued **around 400 decisions** under it by the end of March 2021[180]. A total of **56 additional support measures** were approved under Article 107(2)(b) TFEU. A total of **23 decisions** were issued under Article 107(3)(b) and **four** under Article 107(3)(c) TFEU.

177 With the exception of recapitalization measures, where aid can be granted until 30 September 2021.
178 „The following shall be compatible with the internal market: ... aid to make good the damage caused by natural disasters or exceptional occurrences."
179 Only one measure was approved by the Commission under Article 107 (2) (a). b) TFEU.
180 https://ec.europa.eu/competition-policy/state-aid/coronavirus/temporary-framework_en, https://ec.europa.eu/competition/state_aid/what_is_new/State_aid_decisions_TF_and_107_2b_107_3b_107_3c.pdf.

F.5.2 MEASURES TAKEN AT NATIONAL LEVEL

Measures taken in the Czech Republic in connection with the utilisation of ESIF funds

In the context of the crisis caused by the spread of Covid-19, **the Commission adopted the *Coronavirus Response Investment Initiatives* (CRII and CRII+) through amendments to the legislation** governing Cohesion policy for PP14+. These changes **gave Member States considerable leeway in the use of the remaining ESIF funds.** Several OPs in the Czech Republic made use of the new possibilities, such as the **temporary possibility of increasing the EU co-financing rate by 100% was used by OP En** in PA 4 *Nature and landscape protection and care*, **OP PGP** for the whole OP and **INTERREG CR-PL** also for the whole programme. The possibility of 100% co-financing was also expected to be used by **O RDE** for PA 3 *Equal access to quality pre-school, primary and secondary education* in the category of more developed regions.[181] Furthermore, the modified conditions were used for financial instruments, in particular the option of operational support.

As regards the specific response of individual OPs, **OP EIC reallocated unutilised funds in to the *Expansion* programme,** under which the managing authority, together with the CMGDB, prepared two support programmes for entrepreneurs and self-employed persons affected by the government measures taken to prevent the spread of the Covid-19 pandemic. The management authority also launched two thematic calls to combat Covid-19 (*Innovation Vouchers* and *Technology*).

OP PGP launched the *Covid Prague* programme designed to compensate Prague entrepreneurs. The parameters of the *INFIN* loan programme, which was aimed at innovative entrepreneurs in Prague, were also **modified**. Reallocation was performed within the programme (known as "internal reallocation").

An **internal reallocation was prepared in OP F and measures were added to compensate** aquaculture enterprises and fish processors **for losses incurred as** a result of government measures in response to the pandemic. The compensation will not be implemented until 2021.

In 2020, the **RDP added an extraordinary summer 10th round of calls** funded by national Top-up funding to foster the competitiveness of agricultural enterprises: the measures are *Investments in agricultural enterprises* and *Processing and marketing of agricultural products*.

The more flexible rules for ESIF in response to the Covid-19 pandemic made it possible to **reallocate funds between programmes and financing funds** in 2020**.** This involved a transfer of **EUR 240.42 million from OP EIC (ERDF) to OP Em (ESF).** The funds were used to retroactively finance part of the state budget expenditure expended in the original national programme *Antivirus A*, which helped employers pay workers' wage compensation costs. Furthermore, the reallocation allowed OP Em to increase the allocation of the call for support for employees at risk of redundancy by EUR 118.72 million (EU share + national financing). The *Outplacement* programme was supported under this call.

The European Union also prepared the ***REACT-EU*** instrument**.** This involves **additional resources for the ESIF for 2021 and 2022.** These resources are **intended to finance projects helping reduce the impact of the Covid-19 pandemic. The CR received an allocation of EUR 835 million for 2021.** Based on a decision of the Czech government, the funds will be **used under IROP and the supported areas are health, the IRS and social infrastructure with increased energy efficiency.** The submission of the related revision of the IROP to the Commission and the announcement of the first calls are planned to take place after this report's editorial deadline.

The NCA continuously evaluates the development of the implementation of individual OPs within the risk management system. Based on the absorption data and information from the managing authorities, **the Covid-19 pandemic did not have a significant impact on ESIF absorption in the Czech Republic.**

181 The MEYS plan to use the possibility of 100% co-financing for PO3 was implemented by the revision of the OP RDE, which was approved by the Commission on 1 July 2021.

G. LEGAL MATTERS

G.1 SAO RECOMMENDATIONS ON CHANGES TO THE LEGAL ENVIRONMENT IN 2020

Section 6 of the Act on the SAO provides that both chambers of the Parliament of the Czech Republic and their bodies are entitled to request the SAO's opinions on draft legislation concerning budgetary management, accounting, state statistics and the performance of audit, supervisory and inspection activities. These bodies did not make use of this power in 2020 by submitting a formal request for an opinion. The SAO's findings in relation to the necessary legislative amendments were presented in connection with the discussion of audit reports at the meetings of the Control Committee of the Chamber of Deputies of the Parliament of the Czech Republic.

In the inter-ministerial consultation procedure according to the *Government Legislative Rules*, **the SAO commented on draft legal regulations related to its competence or concerning it as an organisational unit of the state. In 2020, the SAO received a** total of **143 legislative proposals** and other materials related to legal regulations for its assessment. The **SAO made specific comments on 56 proposals** based mainly on its audit findings**.**

In 2020, the SAO commented on the **government's draft law amending Act No. 134/2016 Coll., on public procurement,** as amended, sent out for consultation by the Ministry of Regional Development. The **draft amendment of this Act was mainly a response to the content of the Commission's opinion concerning the inadequate transposition** of certain rules laid down in the European procurement directives. The SAO's comments on the draft were largely accepted. The draft law was submitted by the government to the Chamber of Deputies in November 2020, but its debate in the Chamber of Deputies had not been completed by the editorial deadline of *the EU Report 2021*.

Issues of the financial management of EU funds were also covered by the **draft amendments of government regulations submitted by the Ministry of Agriculture, which aimed to ensure the implementation of the new EU regulations on the CAP in the context of the new PP21+.**

In April 2020, the SAO also participated in the consultation organised by the Ministry of Finance on the **draft updated version of the *National Strategy for the Protection of the European Union's Financial Interests*, which considers the new legislation adopted in this area at both national and EU level.**

There are still **unresolved legislative proposals which the SAO commented on in previous periods:** these are mainly **the government's draft act amending Act No.166/1993 Coll., on the Supreme Audit Office,** as amended, and other related acts providing for the extension of the SAO's competence to include audit of the management of public funds and funds provided from public budgets, as well as audit of the management of the property of territorial self-governing units (regions and municipalities with extended competence) and the property of legal entities in which the state or a territorial self-governing unit holds the majority of registered capital or is a controlling person (parliamentary print 360). This proposal, as well as a parliamentary draft act addressing the same issue (parliamentary print 230), were debated by the Chamber of Deputies at second reading in January 2020. A **related proposal for an amendment to the Constitution of** the Czech Republic (parliamentary print 229) was approved by the Chamber of Deputies at third reading on 12 February 2020. The third reading of the draft acts amending the Act on the SAO was adjourned by the Chamber of Deputies until the draft amendment to the Constitution in is debated the Senate. The draft amendment to the Constitution was discussed in the Senate committees in the first half of 2020 and then in January 2021. The Senate Standing Commission on the Constitution of the Czech Republic and Parliamentary Procedures discussed it in December 2020, but it had not been debated in the Senate by the end of March 2021.

Of the draft acts commented on by the SAO in previous periods that were **related to EU issues, the legislative process was completed in 2020 for the Act amending Act No. 218/2000 Coll., on the budgetary rules** and amending certain related acts (budgetary rules), as amended, and other related acts (Act No. 484/2020 Coll.). This relatively extensive amendment to the Act on Budgetary Rules contains a number of changes, including the extension of the budgetary system of programme financing to encompass records of non-investment subsidies and repayable financial assistance provided from the state budget, the reduction of penalties for late payment of the levy for breach of budgetary discipline, more precise rules on withdrawal of a subsidy or repayable financial assistance and additional rules on the NF.

By the end of the period under scrutiny, i.e. 31 March 2021, **the legislative process for the government draft amending Act No. 248/2000 Coll., on support for regional development,** as amended, and other related acts **had not been completed**. The draft act envisages, inter alia, the abolition of regional councils of cohesion regions and the transfer of their powers to the MoRD. The regional councils were established to implement support for regional development through the provision of subsidies from the ERDF. In the situation when the provision of subsidies was carried out through other managing authorities (in PP14+ there was only one regional OP administered centrally from the position of the MoRD), the activity of the regional councils has dwindled to focus mainly on activities related to monitoring the sustainability of projects financed under PP7+.

G.2 IMPLEMENTATION AND TRANSPOSITION OF EU LAW IN THE CR

G.2.1 TRANSPOSITION DEFICIT

Upon joining the EU the Czech Republic assumed the obligation to fulfil all the commitments of a Member State. These include obligations based on Article 4(3) of the *Treaty on European Union* (TEU), which requires **the CR to take all appropriate measures to fulfil its obligations arising out of the Treaties or legal acts of the EU institutions. If the nature of EU law so requires, it must be transposed into national law properly and in good time.** Implementation and monitoring thereof are carried out in different ways depending on the kind of EU law involved. **In the case of EU directives, both the transposition thereof by the Member States and the subsequent communication of national transposing legislation to the Commission are monitored.**

Member States' transposition activities are monitored by the Commission and the results are compiled into interim evaluations called *Single Market Scoreboard* (SMS) which are published twice a year on the Commission's website. Data for the Czech Republic are published in the annual government report on the transposition of the legislative obligations arising from the Czech Republic's EU membership [182](Transposition Report).

The first of the two assessments issued in 2020 was **published by the Commission on 3 July 2020.** It focused on internal market directives whose transposition deadline fell on 30 November 2019. Fully transposed directives for which the transposition regulations were communicated by 10 December 2019 were not reflected in the transposition deficit. **Compared to the previous assessment period, the number of non-transposed, or non-communicated directives, in the CR increased by one. This represents a transposition deficit of 0.8%, ranking the Czech Republic between 21st and 25th place compared to the other Member States.**

The second interim SMS evaluation by the Commission, which has not been published separately, asseses the transposition of internal market directives with a transposition deadline of 31 May 2020. The deadline for this evaluation was set at **10 June 2020.** As of that date**, the Czech Republic had 13 fully untransposed directives and one fully transposed directive for which the Commission decided to proceed with the infringement procedure despite full notification. The Czech Republic's transposition deficit thus reached 1.4% as of 10 June 2020.**

182 The Government Report on the Assumption of Legislative Obligations Arising from the Czech Republic's Membership in the European Union for 2020 was last published, which was approved by Government Resolution No. 40 of 18 January 2021.

The SMS also monitors the **number of proceedings brought for failure to communicate transposition regulations or for improper transposition of internal market directives. Here, the Czech Republic ranked 16th** among the Member States **with 29 ongoing procedures in** the latest officially published ranking.

The above results of the SMS evaluation published in 2020 show that the **transposition deficit increased significantly in the period under scrutiny** (compared to 1 May 2019, when it was 0.5%)**.**

G.2.2 INFRINGEMENT PROCEDURES

As stated in Section V of the EU Legislation Adoption Report, the **infringement procedure is the mechanism through which the Commission exercises its duty to monitor the application of EU law** (see Article 17(1) TEU). If the Commission considers that there is an infringement of EU law by a Member State, it has the possibility under Article 258 TFEU to initiate a procedure divided into several stages, which may lead to an action being filed with the CJEU.

Infringement procedures may be initiated for failure to transpose an EU directive or to communicate the national transposition legislation for the directive in question (non-communication procedure) or for improper transposition of an EU regulation or application of regulations contrary to EU law (substantive procedure).

If the Commission finds an infringement or if an infringement is reported to the Commission in a complaint, it tries to reach agreement on eliminating the cause through a structured dialogue with the Member State (*EU Pilot*). The Member State may provide additional factual or legal information on the case at this stage. The aim is to find a quick solution in line with EU law and to avoid infringement procedure. **If the Member State disagrees with the Commission's opinion or fails to take corrective action, the Commission may open formal infringement procedure.** In doing so, it proceeds as follows:

The Commission will invite the government of the Member State concerned to give its opinion on the case within two months.

If the Commission does not receive a reply, or if the reply is unsatisfactory, the Commission will issue an opinion setting out the reasons why it thinks that the Member State has infringed EU law. The Member State's government has two months to remedy the situation.

If the Commission does not receive a reply, or if the reply is unsatisfactory, the Commission asks the CJEU to initiate legal proceedings. The matter is usually resolved sooner, however. If the Member State fails to communicate the measures to implement a directive, the Commission may at this stage ask the CJEU to impose a lump sum fine and/or penalty payment.

The CJEU decides, usually within two years, whether or not the Member State has broken EU law. The Member State's government is obliged to adapt the national legislation or practices and resolve the problem as soon as possible.

If the Member States continues to fail to remedy the situation, the Commission sends a further notice. If the Commission does not receive a reply or if the reply is unsatisfactory, the Commission may refer the case back to the CJEU and propose the imposition of a lump sum fine and/or penalty payment.

In the period under review, the Commission decided to withdraw one action against the Czech Republic and decided to bring a different action and the Court of Justice of the European Union issued a judgment against the Czech Republic.

In procedure no. **2016/2131** (action in case C-305/19, coming under the authority of the MoIT) concerning the incorrect transposition and application of certain provisions of Directive 2010/31/EU[183], the action brought by the Commission was withdrawn.

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183 Directive 2010/31 / EU of the European Parliament and of the Council of 19 May 2010 on the energy performance of buildings.

The Commission decided to bring an action against the Czech Republic in procedure no. **2018/2287** (coming under the authority of the MoEYS) concerning the second phase of the compatibility check of the national implementation of Directive 2005/36/EC[184].

On 2 April 2020, the CJEU handed down its judgment in procedure no. **2017/2092** (action in case C-719/17, coming under the authority of the MoI) concerning the inadequate implementation of Council Decisions 2015/1523[185] and 2015/1601[186] on relocations. These were linked cases, as the Commission's action was brought jointly against the Republic of Poland (C-715/17), the Republic of Hungary (C-718/17) and the Czech Republic (C-719/17). The Commission asked the CJEU to determine that, by failing to communicate, at regular intervals and at least every three months, the appropriate number of applicants for international protection who could be rapidly relocated to their territory, Poland, Hungary and the Czech Republic had failed, as from 16 March 2016, to fulfil their obligations under Article 5(2) of Decision No 2015/1523 and Article 5(2) of Decision No 2015/1601, and by extension their other obligations relating to relocation under Article 5(4) to (11) of those decisions. By the judgment referred to above, the CJEU upheld the Commission's action in its entirety.

Overall, there were 70 infringement procedure against the Czech Republic as of 30 November 2020, 11 more than in the previous year. As of the same date, 16 procedures were being conducted against the Czech Republic under the *EU Pilot* system, 2 more than in the previous year.

According to updated data **as of 31 March 2021, 71 infringement procedures were being conducted against the Czech Republic, 57 of which were at the formal notice stage and 14 at the reasoned opinion stage. In terms of the** type of infringement of EU law, **34 procedures concerned the failure to communicate transposition regulations, incorrect transposition was found by the Commission in 13 procedures, application errors were the subject of 12 procedures and non-compliance with the requirements of regulations, treaties and decisions was the subject of 12 procedures.**

The Czech Republic's transposition deficit and the number of infringements were around the EU average in the period under scrutiny.

The SAO has repeatedly reminded the Czech Republic of the risks this poses. The consequences of non-transposition or inadequate transposition of EU directives include the "direct application" of the directives, the risk of liability for damages caused to natural and legal persons by non-transposition or inadequate transposition and procedures for breach of the TFEU with possible financial consequences.

184 Directive 2005/36 / EC of the European Parliament and of the Council of 6 July 2005 on the recognition of professional qualifications.

185 Council Decision (EU) 2015/1523 of 14 September 2015 laying down temporary measures in the field of international protection in favour of Italy and Greece.

186 Council Decision (EU) 2015/1601 of 22 September 2015 laying down temporary measures in the field of international protection in favour of Italy and Greece.

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ATTACHMENTS

- Overview of ECA audit missions carried out in the Czech Republic in 2019 and 2020
- Overview of Commission audit and verification missions to the Czech Republic in 2019 and 2020
- Commission decisions issued to the Czech Republic under the temporary framework in the context of pandemic Covid-19

Attachment 1: Overview of ECA audit missions carried out in the Czech Republic in 2019 and 2020

Year		Date	"Audit subject (programme)"	Audit type	Audit form
2019	1	"1 July 2018 – 1 June 2019"	"OPT - to gather sufficient and appropriate evidence to contribute to the overall Statement of Assurance for 2018 and to the concrete assessment of the EU budget under MFF 1b Economic, social and territorial cohesion. Reperformance of eight audits of OPT operations. "	DAS	on-the spot
	2	18 March – 22 March	IROP, OPEn - Audit of cost-effectiveness of EU-funded investments in the sector of energy efficiency of buildings.	DAS	on-the-spot
	3	21 June	"OPT - to gather sufficient and appropriate evidence to contribute to the overall Statement of Assurance for 2018 and to the concrete assessment of the EU budget under MFF 1b Economic, social and territorial cohesion. Reperformance of 8 audits of OPT operations. "	DAS	on-the-spot
2020	1	27 Jan. – 5 Feb.	Performance audit related to ERDF financing. Do the Commission and Member States effectively address the challenges of cross-border regions in internal cross-border cooperation programmes? - Audit Task No. 19CH2009.	Performance audit	on-the-spot
	2	15 June	AAR 2019/remote mission	DAS	quastionnaire
	3	16 June	Verification of the correctness of the EU contribution EUR 704,068,107.54 according to AAR 2019, the system and a sample of operations are verified.	DAS	quastionnaire

Zdroj: AA´s information, March 2021.

Attachment 2: Overview of the Commission‘s audit and verification missions carried out in the Czech Republic in 2019 and 2020.

Year	DG	Date of implementation	Audit subject	Audit No	Audit subject	State of contradictory proceedings
2019	DG REGIO	24 June – 28 June	OP EIC	REGC414CZ0145	Thematic audits in the period 2014-2020 - follow-up to the action plan to verify the SME status of applicants.	Finished
	"DG REGIO DG EMPL"	8 Jan. – 15 Feb.	Chosen Ops	REGC414CZ0133	Conflict of interest	Ongoing
	DG EMPL	4 June – 21 June	OPEm	EMPG314CZ0243	Review of the work of audit authorities / compliance audits 2014-2020	Ongoing
	DG MARE	15 July – 19 July	OPF	2019/CZ/Compliance/MARE/E1	Review of the work of the audit authority	Finished
2020	"DG REGIO DG EMPL"	June	OP PPA, OP RDE, OPEm	REG/C414CZ10153	Procurement	Ongoing
	DG REGIO	21 Sept.	IROP	REGC414CZ0157	Review of the work of the audit authority - obtain reasonable assurance that there are no significant deficiencies in the MCS that have remained undetected and uncorrected	Ongoing
	DG EMPL	23 Nov.	OP RDE	EMPG314CZ0706	Review of the work of the audit authority - obtain reasonable assurance that there are no significant deficiencies in the MCS that have remained undetected and uncorrected	Ongoing

Zdroj: AA´s information, March 2021.

Pozn.: DG EMPL = Commission Directorate - General for Employment, Social Affairs and Inclusion.
DG MARE = Directorate - General for Maritime Affairs and Fisheries.
DG REGIO = Directorate - General for Regional and Urban Policy.

Attachment 3: Commission Decisions issued for the Czech Republic according to the Temporary Framework in connection with the covid-19 pandemic

Approved amending Commission Decisions		Date of Commission Decision
SA.59705	Amendments: SA.56961, SA.57071, SA.57149, SA.57195, SA.57358, SA.58018, SA.58167 a SA.58398	16 Dec. 2020
SA.62040	Amendments: SA.58213, SA.59536, SA.58167, SA.57149, SA.57358, SA.57195, SA.58198, SA.61234, SA.59118 a SA.57094	5 Mar. 2021

Commission Decision number and programme title		Date of Commission Decision
Approved according to point 3.1. of the Temporary Framework:		
SA.57464	COVID Rent	2 June 2020
SA.57475	Operation 2020 - Reduction of loan principal (programme PGRLF, a.s.)	3 June 2020
SA.57506	COVID Moravian-Silesian Region - RESTART voucher and free entry to tourist attractions	26 June 2020
SA.57149	Relief for the payment of social contributions for the self-employed (measures 1 and 2); extended by Commission Decision SA.59705; programme modification approved by Commission Decision SA.62040	6 July 2020
SA.58213	Support Programme for businesses in the cultural sector - COVID Culture; programme modification approved by Commission Decision SA.62040	19 Aug. 2020
SA.58167	OP Employment; extended by Commission Decision SA.59705; programme modification approved by Commission Decision SA.62040	24 Aug. 2020
SA.58398	COVID accommodation; extended by Commission Decision SA.59705	27 Aug. 2020
SA.58018	COVID spa; extended by Commission Decision SA.59705	7 Aug. 2020
SA.57358	Deferment of health insurance payments - measures 2 and 3; extended by Commission Decision SA.59705; programme modification approved by Commission Decision SA.62040	8 Sept. 2020
SA.58198	"Support facilities with in-patient spa medical rehabilitative care in the Karlovy Vary Region; programme modification approved by Commission Decision SA.62040"	21 Oct.2020
SA.59118	COVID Rent– Call II; programme modification approved by Commission Decision SA.62040	30 Oct. 2020
SA.59336	AGRICOVID – Aid to mitigate the effects of SARS COV-19 on agricultural and food production	11 Nov. 2020
SA.58430	COVID-19 – City of Pilsen support programme	13 Nov. 2020
SA.59536	COVID-19 – Continuation of the support programme for businesses in the cultural sector - COVID Culture II; programme modification approved by Commission Decision SA.62040	25 Nov. 2020
"SA.59340 and SA.59353"	COVID Sport II	22 Dec. 2020
SA.59899	Antivirus Plus	12 Jan. 2021
SA.61234	COVID – Gastronomym and closed establishments, programme modification approved by Commission Decision SA.62040	27 Jan. 2021
SA.61358	Compensation bonus for self-employed and partners of small limited liability companies	12 Feb. 2021
SA.61361	COVID Rent – Call III	23 Feb. 2021
SA.62044	Aid to mitigate the effects of SARS-COV 19 on agricultural and food production. (AGRICOVID II)	1 Mar. 2021
SA.61808	COVID – sport III – ski resorts	5 Mar. 2021
SA.61912	COVID Spa 2	9 Mar. 2021
SA.60280	COVID – Travel agencies II	19 Mar. 2021
SA.61948	COVID – Accomodation II	6 Apr. 2021

Commission Decision number and programme title		Date of Commission Decision
Approved according to point 3.2. of the Temporary Framework:		
SA.57094	Guarantee COVID 2020; programme modification approved by Commission Decision SA.62040	5 May 2020
SA.57195	COVID III; extended by Commission Decision SA.59705; programme modification approved by Commission Decision SA.62040	15 May 2020
SA.58015	Guarantee COVID 2020 – expansion of sectors	20 July2020
SA.60374	Guarantee COVID 2020 – programme modification	23 Dec. 2020
SA.61824	Guarantee COVID 2020 – third programme modification SA.57094	29 Mar. 2021
SA.61470	COVID Invest	29 Mar. 2021
Approved according to point 3.6. of the Temporary Framework:		
SA.57071	Rise-up programme;extended by Commission Decision SA.59705	7 May 2020
Approved according to point 3.8. of the Temporary Framework:		
SA.56961	Technology COVID-19; extended by Commission Decision SA.59705	14 Apr. 2020
SA.57063	Technology COVID-19 – extended	21 Apr. 2020
Approved according to point 3.9. of the Temporary Framework:		
SA.57149	Relief for the payment of social contributions for the self-employed (measure 3); extended by Commission Decision SA.59705; programme modification approved by Commission Decision SA.62040	6 July 2020
SA.57358	Deferment of health insurance payments - measures 1 and 4; extended by Commission Decision SA.59705; programme modification approved by Commission Decision SA.62040	8 Sept. 2020
Approved according to point 3.10. of the Temporary Framework:		
SA.57102	Antivirus (Kurzarbeit)	27 July 2020
SA.59334	Antivirus – programme modification	12 Jan. 2021
Approved according to point 3.12. of the Temporary Framework:		
SA.59401	COVID Trade fairs	29 Mar. 2021
SA.62477	COVID uncovered fixed costs	26 April 2021

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Supreme Audit Office