



Audit Conclusion from Audit No.

18/08

Funds Spent to Support Animal Production

The audit aimed to review the management and support system in the animal production sector, including the setting of strategic objectives, and verify whether the funds provided contributed to the anticipated benefits and effects.

The audit was performed at the audited entities between March 2018 and October 2018.

The audited period was 2014-2017; both the previous and subsequent periods were also considered for contextual reasons.

Audited entities:

Ministry of Agriculture (hereinafter “MoA”);

Státní zemědělský intervenční fond, Praha (hereinafter “SZIF”);

SELMA a.s., Jihlava;

PROVEM a.s. Havlíčkův Brod, Kojetín;

LIPRA PORK a.s., Rovensko pod Troskami.

Summary and Evaluation

The SAO reviewed the system for the management and allocation of funds of the state budget and the European Union (hereinafter the "EU") to support the animal production sector, including the setting of strategic objectives, and verified whether the funds provided contributed to the anticipated benefits and effects. To this end, it assessed the provision of subsidies from the state budget (hereinafter the "national subsidies"), *the Rural Development Programme 2007-2013* (hereinafter "RDP 07-13"), *the Rural Development Programme 2014-2020* (hereinafter "RDP 14-20"), direct payments and extraordinary support to the animal production sector. It focused on the setting of this support, management and control activities of MoA and SZIF, and the reliability of monitoring and assessment of impacts of the support provided. The SAO verified applications for subsidies of a total of CZK 1.2 billion and audited three subsidy beneficiaries.

Overall Evaluation

The Czech Republic is one of the EU countries which intensively subsidizes animal production. A large number of various support and subsidies with a significant financial volume are allocated to this sector. This support is provided from both national and European sources.

The audit revealed major shortcomings in national subsidies. The MoA has set the subsidy conditions and control system in a way which shows a number of major shortcomings negatively affecting the effectiveness and economy of the public funds incurred. The SAO identified cases where the MoA reimbursed subsidy beneficiaries for expenses that were not substantiated by invoices or were in conflict with the subsidy conditions.

Apart from some partial deficiencies, the management system and conditions set by the MoA for the provision of support from European sources were found to be functional and effective. Deficiencies with a financial impact were identified in the case SZIF's unauthorised provision of a subsidy to a subsidy beneficiary.

The SAO states that the MoA is failing to meet the strategic objectives set in the animal production sector. At the end of 2017, the number of livestock (dairy cows and pigs) and the self-sufficiency rate of the Czech Republic to cover the consumption of beef and pork decreased compared to 2015, even though the subsidies to animal production have been increasing since 2012. The largest percentage increase in subsidies is reported by the pig and poultry sector.

The overall evaluation is based on the following deficiencies:

- The strategic objectives in animal production, e.g. to increase the number of dairy cows and pigs, have not been fulfilled. Five of the eight evaluated indicators showed a decrease at the end of 2017 compared to 2015, even though an increase had been envisaged.

- The aim of the subsidies from the national subsidy programme 19.A *Aid for the participation of producers and processors of milk in the Q CZ quality scheme*¹ is to support improvement in the quality of milk. The SAO has found out that:
 - The subsidies were allocated to cover ordinary operating costs of dairies with long-term profits. The MoA's assessment of the cost calculations demonstrating the operating costs was only formal and the MoA did not verify whether the costs were actually associated with the purpose of the support.
 - One of the main indicators of the Q CZ milk quality set by the MoA was the "*number of somatic cells per millilitre of milk*" with a value which significantly exceeds the average value of raw cow milk in the Czech Republic.
 - The applicant could also belong to the category of large enterprises. However, it had to prove that the support is essential to it and it has an incentive effect. The applicants submitted inadequate evidence based on which the MoA could not verify compliance with this condition. Yet, it provided support to these applicants.
- Subsidies from the national subsidy programme 8.F *Epidemic Fund* are intended for pig and poultry farmers to support selected activities aimed at stopping the spread of dangerous livestock diseases. The MoA granted these subsidies based on invoices with a generally formulated subjects of performance, without further specification, more detailed description and genuine link to the subsidy purpose. The scope of activities and the volume of work performed could not be verified from the documentation. The MoA thus did not assess the effectiveness and economy of the expenses.
 - An example of inefficiency is the case of a subsidy beneficiary who received, inter alia, a subsidy to cover professional supervision of cleaning of stables in the total amount of CZK 3.1 million between 2015 and 2017, where one hour of supervision cost CZK 2,600. Moreover, the same beneficiary paid a several time higher amount for the rental of cleaning disinfection machines than it would pay for new machines.
- The MoA annually administers more than two thousand applications for national subsidies. The MoA has not set a system to ensure that the applications are administered and checked properly. There have been cases where applicants were reimbursed for expenses which were not substantiated by invoices or which were not eligible.
- When checking the condition of the number of stabling places for the RDP 14-20 projects, SZIF does not create an adequate audit trail and it is not clear whether SZIF performs these checks. The subsidy amount to be granted to a recipient is subject to the fulfilment of this condition.
- In the case of RDP 07-13 projects, the MoA and SZIF approved procedures where beneficiaries divided investment agricultural projects into several subsidy applications. By dividing projects into multiple applications, the beneficiaries achieved a higher subsidy.
- The audit sample showed the following:
 - Due to insufficient control of subsidy applications by the MoA and SZIF, CZK 23.7 million was paid out from the 19.A subsidy programme which should not have been paid.
 - In the case of two RDP 07-13 projects, SZIF granted unjustified funds in a total amount of CZK 16.4 million and thus violated the budgetary discipline.

¹ It is a quality scheme which goes well beyond the standards defined for raw milk.

- The *Farm Accountancy Data Network's* (FADN) data analysis shows that the Czech Republic pays above-average subsidies to the animal production sector in comparison to other EU Member States. In 2016, the subsidies granted to all monitored production sectors increased compared to 2010, except for cattle breeding.