

ANNUAL REPORT 2015



THE SAO IN 2015

36

audits

207 auditees

564

submissions from
citizens

3 suggestions from
government and
parliament

12 criminal
complaints

35
notifications of
breach of budgetary
discipline

CZK 2,926,947,488

amount of money involved in notifications
of breach of budgetary discipline

State as at 31.12.2015

EVENTS OF 2015

AMENDMENT OF THE ACT ON THE SAO - ACT NO. 78/2015 COLL.

ON 1 APRIL 2015, THE PRESIDENT OF THE REPUBLIC SIGNED THE AMENDMENT OF THE ACT ON THE SAO. THE AIM OF THIS AMENDMENT WAS MAINLY TO ADAPT THE ACT ON THE SUPREME AUDIT OFFICE TO CHANGES IN SOCIETY AND THE LAW AFTER MORE THAN TWENTY YEARS OF APPLICATION. SOME PROVISIONS OF THE ACT ON THE SAO WERE NO LONGER CONSISTENT WITH CURRENT TRENDS IN THE PROCESSING OF INFORMATION IN AUDIT WORK, THE COMPUTERISATION OF THE AGENDAS OF THE PUBLIC AUTHORITIES OR THE CURRENT OPTIONS FOR REMOTE ACCESS TO THE RESULTS OF THE SAO'S WORK. THE AMENDMENT ALLOWS THE PRESIDENT OF THE SAO TO ATTEND GOVERNMENT MEETINGS AT WHICH AUDIT CONCLUSIONS ARE DISCUSSED AND WIDENS THE AUTHORISATION OF THE PRESIDENT OF THE SAO TO ATTEND SESSIONS OF THE CHAMBER OF DEPUTIES AND THE SENATE AND BOTH HOUSES' ORGANS WHERE AUDIT CONCLUSIONS AND MATERIALS LINKED TO THE SAO'S WORK ARE DISCUSSED.



THE AMENDMENT ALSO RESPONDS TO CHANGES IN TERMINOLOGY ENSUING FROM OTHER LEGISLATION.

AMENDMENT OF THE ACT ON THE SAO - PARLIAMENTARY PAPER 610

IN SEPTEMBER 2015, THE GOVERNMENT APPROVED AN AMENDMENT OF ACT NO. 166/1993 COLL., ON THE SUPREME AUDIT OFFICE, AND PUT IT BEFORE THE CHAMBER OF DEPUTIES OF THE PARLIAMENT OF THE CZECH REPUBLIC. THE AMENDMENT WIDENS THE SAO'S AUTHORITY TO INCLUDE FINANCIAL MANAGEMENT BY LEGAL PERSONS PARTLY OWNED BY THE STATE OR TERRITORIAL SELF-GOVERNING UNITS. THE DRAFT WAS DISCUSSED IN THE 1ST READING IN OCTOBER 2015; COMMITTEES OF THE CHAMBER OF DEPUTIES ARE CURRENTLY ISSUING OPINIONS ON IT. THE AMENDMENT IS A RESPONSE TO THE AMENDMENT OF THE CONSTITUTION WIDENING THE SAO'S POWERS. DEBATE OF THE AMENDMENT HAS BEEN ADJOURNED IN THE SENATE OF THE PARLIAMENT OF THE CZECH REPUBLIC SINCE JUNE 2014.



OPEN DATA AND PUBLISHING CONTRACTS ONLINE

TO IMPROVE TRANSPARENCY, SINCE JANUARY 2015, THE SAO HAS PUBLISHED ON ITS WEBSITE ALL CONTRACTS IT HAS CONCLUDED WITH A VALUE EXCEEDING CZK 50,000.

THE CONTRACTS ARE ACCESSIBLE IN PDF FORMAT BY CLICKING ON THE "CONTRACTS" BOOKMARK. THE SAO HAS ALSO MADE THE FIRST DATA AVAILABLE TO BOTH EXPERTS AND THE GENERAL PUBLIC. THE DATA INCLUDE, FOR EXAMPLE, AN OVERVIEW OF AUDITS OR AUDITED ENTITIES AND INFORMATION ON THE SAO'S FINANCIAL MANAGEMENT. THESE DATA HAVE BEEN ACCESSIBLE ON THE SAO'S WEBSITE SINCE APRIL 2015.



THE NATIONAL CATALOGUE OF OPEN DATA WAS LAUNCHED ON THE PUBLIC ADMINISTRATION PORTAL IN APRIL 2015. THE FIRST DATASETS PUBLISHED IN THE NATIONAL CATALOGUE WERE THOSE OF THE SAO.

CONFERENCE: FIVE YEARS OF STATE ACCOUNTING REFORM

AT THE END OF OCTOBER 2015, THE SUPREME AUDIT OFFICE HELD A CONFERENCE ENTITLED *FIVE YEARS OF STATE ACCOUNTING REFORM*. THE CONFERENCE LOOKED AT WHETHER THE 2010 REFORM OF THE STATE'S ACCOUNTING ACHIEVED ITS GOALS. ATTENTION WAS ALSO PAID TO PROBLEM AREAS IN THE STATE'S ACCOUNTING AND TO THE REFORM IN THE CONTEXT OF THE DEVELOPMENT OF REPORTING IN THE EU. LAST BUT NOT LEAST, THE FUTURE EVOLUTION OF STATE ACCOUNTING WAS DISCUSSED.



ROUND TABLE - COOPERATION BETWEEN INTERNAL AND EXTERNAL AUDIT

IN MAY 2015, THE SAO HOSTED THE FIRST EVER MEETING BETWEEN REPRESENTATIVES OF THE SAO, THE MINISTRY OF FINANCE, THE CHAMBER OF AUDITORS OF THE CR, THE PUBLIC AUDIT OVERSIGHT BOARD, AND THE CZECH INSTITUTE OF INTERNAL AUDITORS. THE PARTICIPANTS DISCUSSED COOPERATION BETWEEN EXTERNAL AND INTERNAL AUDITORS AND THE BENEFITS AND RISKS OF THIS COOPERATION. PART OF THE PANEL DISCUSSION FOCUSED ON THE NEW LEGISLATION GOVERNING INTERNAL AND EXTERNAL AUDIT.



EVENTS OF 2015



VISIT BY PRIME MINISTER BOHUSLAV SOBOTKA

Prime Minister Bohuslav Sobotka visited the SAO in September 2015. His discussion with the SAO President Miloslav Kala and Members of the Board mainly dealt with the future of the SAO's audit work, especially in the context of the planned widening of the SAO's powers to include the financial management of local governments and enterprises part-owned by the state. During his visit, Prime Minister Sobotka stressed that he had always supported widening the SAO's powers to include audit of municipalities, towns, regions, and firms part-owned by the state.

The Prime Minister also mentioned that the results of the SAO's work are important to him. "I try to ensure that the government's discussion of the SAO's audit conclusions is not merely formal. I do not take the SAO's signals about financial management problems lightly," Bohuslav Sobotka said during his visit.

VISIT BY PRESIDENT OF THE EUROPEAN COURT OF AUDITORS VÍTOR MANUEL DA SILVA CALDEIRA

President of the European Court of Auditors Vítor Manuel da Silva Caldeira visited the Czech Republic in June.

As part of his four-day visit, on June 16, he opened the *eData - the future of audit* conference that was organised by the SAO and addressed the issue of "big data", open data, and data mining in state and public administration.

At the conference, President Caldeira spoke about the significance of data and data processing for citizens. "Audit institutions must transform big data into concrete information. Based on this information we must then provide citizens with sufficient knowledge about the results of their government's work and decision-making and also about the results of audit institutions' work," President Caldeira explained. In his opinion, it is this transformation of data into knowledge that is the biggest challenge faced by audit institutions.



VISIT BY PRESIDENT OF THE SENATE MILAN ŠTĚCH

President of the Senate Milan Štěch visited the Supreme Audit Office in January 2015.

The meeting was attended by Members of the Board and the top management of the SAO. The representatives of the two institutions mainly discussed the planned extension of the SAO's powers to include audit of the financial management of local government and enterprises part-owned by the state.

"If audit of local government will be done remotely, minimising the burden on town halls and municipal authorities, then I am confident that the widening of the SAO's powers will find support among my colleagues who have to date not agreed with this intention owing to concerns about excessive audits," President Štěch said during his visit.

President of the SAO Miloslav Kala also presented the latest trends in the Office's work to the president of the Senate. This includes a risks detection model which, combined with analysis of a huge quantity of data from the state's information systems, makes it possible to identify the highest-risk areas in the management of public funds.



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Foreword of the President of the SAO

Dear readers,

2015 was a very busy year for the SAO. We completed 36 audits, scrutinising 207 auditees. We found hundreds of irregularities, from one-off errors to systemic shortcomings, and presented 51 systemic recommendations. We filed 12 criminal complaints and 35 notifications of breaches of budgetary discipline with a total value of almost CZK 3 billion.

But that is not all you should know about our work in 2015...

Every audit conclusion is an opportunity: it depends how we respond to it. And I am pleased to be able to highlight some good examples.

For years, we have criticised the lack of clarity and the ambiguity of certain accounting regulations that entered into effect after 2010 in connection with the reform of the state's accounting. Distorting the data contained in accounts has serious consequences. It must be obvious to everyone that it is impossible to manage, plan, or measure the effectiveness of government policies without high-quality, accurate data. A Ministry of Finance's amendment of the legal regulations in question that eliminated the ambiguities we have criticised came into effect on 1 January 2015.

In our audits, the SAO has repeatedly come up against a shortcoming of the Act on State Enterprises. Neither state enterprises nor their management were required by law to behave economically and efficiently. That is unthinkable when public money is being used, and I consequently drew Prime Minister Bohuslav Sobotka's attention to this fact. In December 2015, an amendment of the Act on State Enterprises that should improve this flawed environment passed through the first reading.

In the past, we have written page after page about the lack of justification for the high cost of both road and rail construction projects. The State Fund for Transport Infrastructure has had price standards drawn up that should bring these huge investments under control. In 2015, the Ministry of Transport ordered that they must be used.

Another serious problem is the failure to keep in check the costs of all kinds of information technology. We found out that the state possesses more than 6,500 public administration information systems that cost over CZK 130 billion to acquire and over CZK 24 billion per year to run. The government recently resolved to start untangling this huge Gordian knot as well.

Our auditors have on several occasions focused on an area that affects every citizen: the construction and administration of water mains and sewers. We have repeatedly criticised the fact that municipalities do not collect sufficient funds to maintain and manage this infrastructure. That last audit in this field in September 2015 ended with the statement that the government had adopted a resolution requiring the Ministry of Agriculture to see to and monitor the creation of reserves for the renewal of water and sewerage networks.

Of course, there are numerous problems that remain unresolved. The biggest problems include Czech motorway tolls, renewable sources of energy, contentious projects financed out of European subsidies and difficulties with their sustainability, Environmental Impact Assessments and tax collection.

I hope that 2016 is a year of opportunities capitalised on and not wasted. Perhaps the report you are now reading could help achieve that objective.

Miloslav Kala,
President of the SAO

I. Status and powers of the SAO

1. General information about SAO's status and powers

The existence of the Supreme Audit Office (SAO) is directly established in the Constitution of the Czech Republic which guarantees its independence from the legislative, executive, and judicial power. The SAO therefore stands for one of the indispensable elements of the parliamentary democracy.

A detailed description of the position, powers, organisational structure, and activity of the SAO is laid down by the Act No 166/1993 Coll., on the Supreme Audit Office. Pursuant to the this legal provision, the SAO audits mainly the management of the state property and financial resources collected under the law in benefit of the legal persons, fulfilment of revenue and expenditure items of the state budget, and also the management of resources provided to the Czech Republic from abroad.

The bodies of the SAO are the President, the Vice-President, the Board, Senates, and the Disciplinary Chamber. To ensure an objective assessment of audited facts and in essential issues related to auditing activities of the SAO, its collective bodies (the Board and Senates of the SAO) take the decision.

The independence of the SAO guarantees that the SAO is not influenced either by the legislative, executive, or judicial power in planning, preparations, and carrying out its audit activity. Apart from its institutional independence, the SAO also has reasonable financial independence. The decisive body is, in this regard, the Chamber of Deputies of the Parliament of the Czech Republic that approves the state budget, part of which also forms a separate budget chapter "Supreme Audit Office".

The SAO carries out its audit activity in accordance with an audit plan. The audit plan is adopted by the SAO Board and then the President of the SAO submits it for information to Parliament and the Government of the Czech Republic. The audit plan is also published in the SAO Bulletin. The results of SAO's audit activity represent audit conclusions that summarize and assess the facts ascertained in the audit. Audit conclusions are adopted by the Board or respective Senates of the SAO.

Within the delegated powers, the SAO carries out an audit in compliance with the audit standards of the SAO that are built upon the International Standards of the Supreme Audit Institutions. The SAO carries out a compliance audit that includes legality audit and financial audit; furthermore it makes a performance audit.

The SAO performs legality audits to scrutinize whether the audited activities comply with the law and to review the factual and formal correctness of the audited activities to the extent necessary for achieving the audit goals.

In financial audit, the SAO reviews whether the auditee's financial statements give true and fair view of the accounts in accordance with the law. Such audit is a way of verifying information contained in the closing accounts of state budget chapters that the SAO uses to formulate its opinion on the state closing account.

In performance audit, the SAO assesses the economy, efficiency, and effectiveness of used state budget funds, state assets, and/or other funds that the SAO audits in the scope of its authority.

2. The Board of the SAO

The SAO Board consists of the President, the Vice-President, and Members of the SAO. The SAO Board adopts the audit plan, audit conclusions, the draft budget submitted to the Chamber of Deputies of the Parliament of the Czech Republic, the closing account of the SAO budget heading, and the financial statement of the SAO set at the balance day. The Board also adopts the Annual Report, rules of procedure of the SAO Board and Senates, organizational rules and their changes, and the disciplinary rules. It decides on appeals contesting rulings on objections filed against audit protocols and on objections to bias.



Members of the SAO Board: (upper line) Mr Josef Kubiček, Mr Jiří Adámek, Mr Pavel Hrnčíř, Mr Rudolf Kufa, Mr Antonín Macháček, Mr Jan Vedral, (lower line) Mr Petr Neuvirt, Mr Jan Stárek, Ms Jaromíra Steidlová, Mr Jiří Kalivoda, Ms Zdeňka Horníková, Mr Miloslav Kala, Ms Zdeňka Profeldová, Ms Hana Hykšová, Mr Karel Sehoř, Mr Daniel Reisiel

The SAO Members carry out audits and draw up audit conclusions. They manage the audit process from the warrant issue to the adoption of an audit conclusion. In the following overview, there are presented finished audits (in blue) whose audit conclusions were published and/or approved in 2015. The unfinished audits are marked in green.¹

In 2015, Ms Eliška Kadaňová ceased performing her office as she reached the age limit stipulated by law. The Chamber of Deputies of the Parliament of the Czech Republic appointed Mr Jan Stárek the Members of the SAO.

¹ In this Annual Report, audits are referred to by the number given to them in the audit plan for the year in question. The texts of audit conclusions published and/or approved in 2015 can be found in the various volumes of the SAO Bulletin or, in the electronic version of the annual report, by clicking on the number of the given audit highlighted in blue.

Table No 1: Overview of audits performed in 2015

SAO Member	Member since	Number of audits managed by the Member till the end of 2015	Audit No. managed by the Member in 2014	
			Finished	Unfinished
Mr Jiří Adámek	25. 4. 2001	37	14/21 14/30 15/01	15/14 15/22
Mr Pavel Hrnčíř	11. 12. 2009	14	14/36 15/05 15/37*	15/18
Ms Hana Hykšová	13. 2. 2014	3	14/40 15/03	15/21 15/24
Ms Eliška Kadaňová	4. 6. 1998	38	–	–
Mr Jiří Kalivoda	17. 9. 1993	59	14/11 14/24 14/33	15/09 15/11*** 15/20 15/33
Mr Josef Kubíček	10. 6. 2014	2	14/41 15/08	15/36 15/39
Mr Rudolf Kufa	15. 9. 2009	12	14/35 15/04	15/28
Mr Antonín Macháček	9. 12. 2005	26	14/22 14/28 14/31** 15/06	15/17 15/25
Mr Petr Neuvirt	21. 12. 2010	16	14/15 14/23 15/02	15/16*** 15/23 15/27
Ms Zdeňka Profeldová	18. 4. 2002	40	14/14 14/17 14/34	15/15
Ms Hana Pýchová	24. 10. 2014	1	14/29	15/40
Mr Daniel Reisiegel	30. 4. 2010	14	14/20 14/25 14/26	15/13 15/30 15/31
Mr Karel Sehoř	15. 9. 2009	12	14/27 14/32	15/10 15/29
Mr Jan Stárek	4. 6. 2015	0	–	15/38
Ms Jaromíra Steidlová	16. 11. 2006	19	14/19 14/37 15/07	15/32 15/35
Mr Jan Vedral	25. 4. 2001	41	14/12 14/18 14/38	15/12 15/19 15/26 15/34

* Audit No. 15/37 was discharged from the audit plan by the SAO Board resolution No. 7/III/2015 on 16. 2. 2015.

** The audit conclusion of audit No. 14/31 was not published in 2015, because the criminal justice authorities have not given their permission to publish it yet.

*** The audit conclusion was approved on 18. 1. 2016.

3.The management of the SAO

The management of the SAO consists of employees subordinated directly to the President of the SAO – namely the Senior Director of the Audit Section, the Senior Director of the Administrative Section, the Director of the President’s Office, the Secretary to the SAO Board, the Director of the Security Department, and the Director of the Internal Audit Department.



From left: Mr Stanislav Koucký, Senior Director of the Audit Section; Ms Jana Ermlová, Director of the Security Department; Ms Alena Fidlerová, Secretary to the SAO Board; Mr Miloslav Kala, President of the SAO; Ms Zuzana Čandová, Director of the President’s Office; Ms Zdeňka Horníková, Vice-President of the SAO; Ms Ladislava Slancová, Director of the Internal Audit Department; Mr Radek Haubert, Senior Director of the Administrative Section

II. Assessment of Audit Work Undertaken in 2015

1. Audit Plan for 2015

The audit plan is the basic document guiding the SAO's implementation of its audit powers. It determines the focus and timing of audits beginning in the budgetary year in question. The SAO compiles its audit plans on the basis of the independence guaranteed by the Constitution of the CR and the Act on the SAO. The SAO's independence is also consistent with best audit practice as applied by Supreme Audit Institutions. This practice is set out by the basic principles of INTOSAI². The Constitution of the CR, the Act on the SAO, and international practice are the fundamental pillars underpinning the exercise of the SAO's powers. The only restriction from the perspective of international practice is that the SAO's mandate does not cover scrutiny of all public money.

The SAO is authorised to choose the areas and goals of its audits, the auditees, the audit methods, the content of outputs and the organisation of audits. Its plan is transparent and is made public, including any changes to it. Every year, the SAO pays meticulous attention to the compilation of its audit plan. In doing so, it is fully cognisant of the fact that the results of its audits represent irreplaceable and objective information on the actual state of affairs that parliament, the government and the public can draw on. Therein lies the irreplaceable role and benefit of the SAO founded on its independent status and competence.

The most important requirement when compiling the plan for 2015 was to ensure the audits again targeted the highest-risk areas and weakest points of the state's financial management. The SAO was motivated in this regard by an effort to look for the causes of the current state of the management of public property and money, to recommend solutions for eliminating shortcomings and thus to help improve the state of public finances and management of state property. At the same time, the SAO was guided by the endeavour to make its audit work more effective. That endeavour was implemented by means of the measures and organisational changes that the SAO undertook in 2015. These were designed to make the system of continuous monitoring and analytical work more effective and to develop new tools to identify wastefulness in the use of public funds. Another goal was to strengthen checks seeking to assess how economically, efficiently, and effectively state resources are used. The SAO is thereby implementing its strategy for the years 2014-2017 that was defined in 2014.

The audits included in the Audit Plan for 2015 were based largely on suggestions arising out of the results of the SAO's own independent monitoring and analytical work. In drawing up the plan for 2015, three suggestions sent by the Committee on Budgetary Control of Parliament of the CR in 2014 were used. During 2015, the SAO received a total of three suggestions from the Chamber of Deputies of Parliament of the CR and its Committee on Budgetary Control, two of which it used when drawing up the audit plan for the following year 2016.

The Audit Plan for 2015 was adopted by the SAO Board at its 20 October 2014 session. A total of 38 audits was approved. In the course of 2015 one audit was discarded from the plan and two more audits were added, making a total of **39 audits**.

The audits included in the audit plan implement the powers which the SAO exercises under the provisions of Sections 3 and 4 of the Act on the SAO. In line with these powers, the audits were targeted at the following priority areas that were defined as relevant and financially and societally significant on the basis of the identified risks:

² INTOSAI is the International Organisation of Supreme Audit Institutions; the SAO is a member of INTOSAI. The central principles of independence are set out by the *Mexico Declaration on SAI Independence* approved by the XIX Congress of the International Organisation of Supreme Audit Institutions in Mexico in 2007 as ISSAI 10.

- **Implementation of state budget revenues and the administration thereof**

The audits targeting revenues were mainly a response to the introduction of new legislation and its impacts on state budget revenues, the timeliness of the practical implementation of the new mechanisms, the continuing existence of large amounts of unpaid tax and the risks linked to both tax evasion and fraud in the field of excise duties.

- **Spending on government debt and administration of the state's ownership interests**

Government debt is resulting in a growing number of Ministry of Finance (MoF) operations linked to servicing the debt, and the related spending accounts for a significant portion of state budget expenditure. An audit scrutinising the issue of the state's ownership interests spotlighted transparency and the exercise of the state's ownership functions.

- **Modernisation, streamlining and transparency of public administration**

Audits in this area targeted selected activities of public administration with regard the need to make public administration more effective, achieve savings and improve the accessibility and transparency of public administration services. Another central focus of the audits was the risk involved in the computerization of public administration and the efficiency and economy of major projects.

- **Financial management of selected organisations**

The goal in auditing the financial management of selected organisations was to scrutinise selected costs with particular regard to their efficiency and economy. The principal risk areas are contracts for external services, property leasing and letting, the disposal of excess assets, and also the efficiency, and economy of the use of assets and the purchasing of selected commodities.

- **State subsidies policy**

Audits linked to the state's subsidies policy targeted instruments and programmes with significant social impact through which the state tries to contribute to the economic and social development of the CR in the field of employment policy, to the development of public services in passenger rail transport, to energy savings and to support for research and development.

- **Utilisation of financial resources from EU funds**

The utilisation of EU finances has repeatedly been judged to be a problem area, as shown by the unsatisfactory state of drawdown of finances and the losses of part of the allocated funding in high-risk operational programmes. The audits sought to assess compliance with the EU's financing terms, the efficiency and economy of the use of finances, and the degree to which the goals of selected programmes and policies were achieved.

- **Major state investment programmes and projects**

Numerous audits looked at the funding of major state investment programmes and projects. The audits aimed to scrutinise the state's systemic support and the achievement of objectives in the context of the importance transport infrastructure for roads and railways, the infrastructure of water and sewer mains and other infrastructure, housing policy and the clear-up of environmental damage.

- **State reporting**

In connection with the accounting regulations introduced under the reform of the state's accounting, audits were aimed at verifying financial statements, closing accounts and data submitted for evaluating the implementation of the state budget in selected accounting units. Another goal was to assess how the accounting regulations are designed; in some areas this design was evaluated as a risk in terms of the reliability of data for monitoring and managing public finances.

Appendix No. 1 contains an overview and timetable of the audits included in the Audit Plan for 2015. The audits were commenced during 2015 in line with the timetable. Depending on the start date and the duration of the audits, the planned completion dates, i.e. when the audit conclusions are approved, fall in 2015 and 2016.

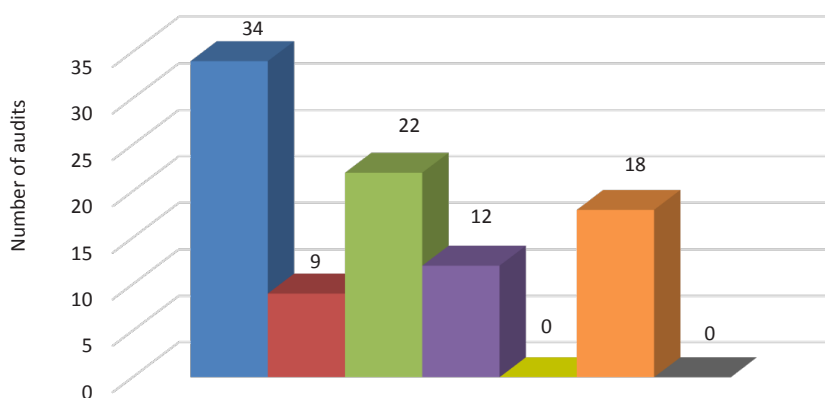
2. Results of Audits and Analytical Work in 2015

The assessment of the SAO’s work presented in this chapter is based mainly on the results of audits completed in 2015, on the findings ensuing from the SAO’s opinion on the report on the implementation of the state budget and opinion on the draft state closing account, on the report on the financial management of European Union finances in the CR (*the EU Report*), and on other findings from the SAO’s analytical work.

In total, **36 audits** were completed in 2015. In line with the audit plan 28 of the audits were commenced in 2014 and eight in 2015. Under the completed audits and in line with the subject and goal of the audits, property and finances were scrutinised in **207 auditees** and their internal organisational components. Audit protocols were drawn up with respect to all the auditees and underpinned the subsequent audit conclusions. The number of auditees is consistent with the focus of audits: primarily management and control systems. An overview of the audits completed in 2015 is given in Appendix No. 2.

The SAO exercised its statutory powers through the performed audits. Graph No. 1 shows the structure of the audits completed in 2015 in terms of their focus as defined by Section 3 (1) and (3) of the Act on the SAO. It should be added, though, that every audit touched on more than one segment of the SAO’s competence.

Graph No. 1: Number of audits by segment of the SAO’s competence in 2015



Section 3 (1) of the Act on the SAO provides that the Supreme Audit Office audits:

- a) management of state property and finances collected by law in favour of legal persons, with the exception of finances collected by municipalities or regions under their independent competence
- b) state closing accounts
- c) implementation of the state budget
- d) management of finances provided to the Czech Republic from abroad and finances for which the state assumed guarantees
- e) the issuance and redemption of state securities
- f) the awarding of state contracts

■ Section 3 (3) of the Act on the SAO provides that the SAO audits the financial management of the Czech National Bank in the area of expenditure on property acquisition and expenditure on the operation of the Czech National Bank.

The graph shows that almost all the completed audits in 2015 touched on the audit competence under letter a) - management of state property, and that most audits also touched on the audit competence under letter c) - implementation of the state budget. Half the audits touched on the segment of competence concerning the awarding of state or public contracts under letter f). This clearly reveals the priority focus of the audits. Not one audit concerning the issuance and amortisation of state securities under letter e) or targeting the Czech National Bank pursuant to Section 3 (3) of the Act on the SAO was conducted in 2015. These are specific areas the SAO scrutinises at greater intervals.

How did 2015 shape up in terms of the results of the SAO's work? As mentioned above, our Office's principal duty is to provide an objective and independent picture of the state's financial management. The SAO's work can be deemed successful in this regard - judging by its many systemic findings, recommendations and other outputs published in 2015, the SAO managed to identify and demonstrate significant causes of the state's lack of economy. The SAO thereby provided important feedback enabling the necessary steps to be taken wherever the state falls short in its irreplaceable role in providing state services for the benefit of citizens.

Problems were found in the state's management of public finances in all segments that were scrutinised in line with the SAO's powers. Evaluation of last year's results and comparison with the results of previous years reveal that certain negative phenomena in the state's financial management are constantly repeated. It is evident from the long-term point of view that there are significant systemic shortcomings causing the state to be unable to achieve better value for citizens' money. As subsequent sections of the annual report will elaborate, the biggest shortcomings and their reasons can be found in the following activities:

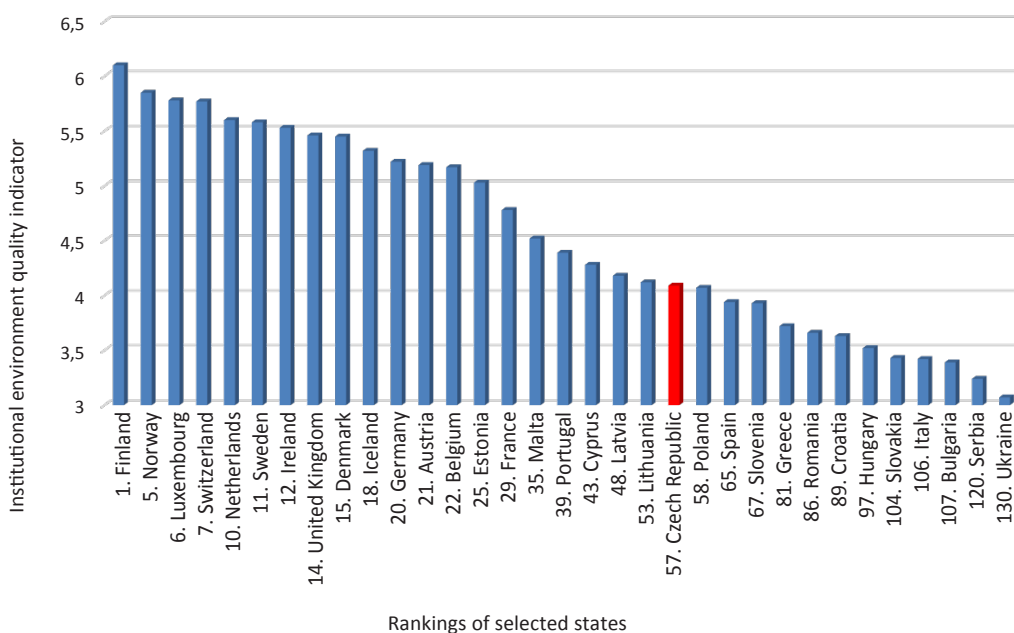
- **state budgeting;**
- **implementation of state revenues;**
- **planning, coordinating, managing, and checking the achievement of policy goals;**
- **the functioning of programme instruments with regard to the achievement of policy goals;**
- **assessing economy in the management of public funds;**
- **caring for state property;**
- **exploiting the economic potential of public procurement;**
- **utilising sources of financing, especially foreign ones;**
- **implementing measures to remedy shortcomings.**

For a long time, the state has been particularly unsuccessful at planning budgets, implementing their revenues and expenditures, and executing policies that are supposed to achieve the state's necessary objectives in areas where the private sector cannot satisfy these requirements. There is an inadequate culture of compliance with rules and of effective management and control that would ensure that all money spent by the state is spent sensibly, i.e., providing sufficient value for money. In a number of cases, the reason for the failure to achieve the desired goals and effects is the failure to comply with fundamental legal rules and good practice for the management of public finances. It is also evident that the relevant individuals are insufficiently held accountable. The SAO's audits also reveal that certain negative phenomena recur often. These cases are evidence of a formalistic approach to the adoption of measures to remedy shortcomings after the completion of audits: these measures are ultimately not implemented either effectively or at all.

It is clear that the long-term deficiencies in the state's financial management are detrimental to the CR and hold back its further development. This can be documented by, for example, the CR's

current standing in international rankings of competitiveness, which is partly influenced by the effectiveness of the exercise of public administration. In 2015, the CR occupied 31st place out of 140 countries rated in the World Economic Forum’s global competitiveness index. And it is the CR’s institutional environment that is regarded as one of its weaknesses. In this area, the CR came 57th in 2015 according to the relevant indicator (see Graph No. 2). According to the World Economic Forum, the most problematic factors are corruption and the considerable inefficiency of the government bureaucracy.

Graph No. 2: Standings of selected European countries when ranked according to the quality of the institutional environment



Source: *The Global Competitiveness Report 2015–2016; World Economic Forum 2015.*

The following sections of the annual report therefore primarily flag up significant systemic shortcomings which, in the SAO’s opinion, are the main reasons for the persisting deficiencies in the state’s financial management that need to be tackled.

2.1 The state’s budget policy - causes and consequences of the low motivation for economical conduct

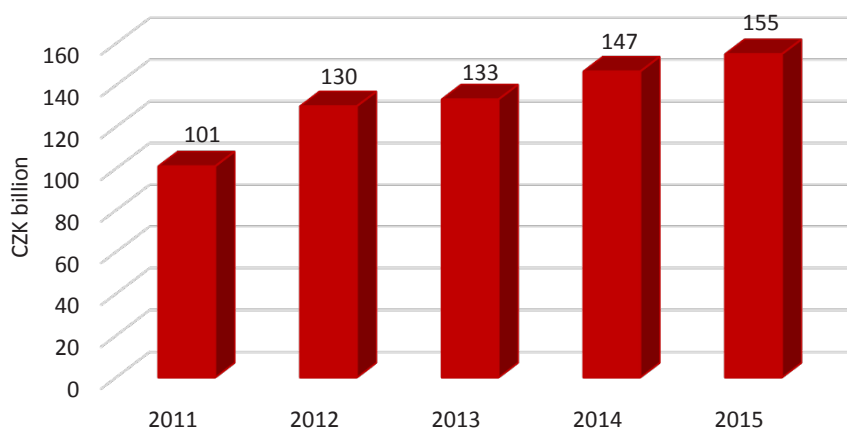
The main factors influencing the current state of the management of public finances can be found in the way state revenues and expenditures are budgeted and how resources are utilised. In its opinion on the report on the implementation of the state budget and its opinion on the draft state closing account, the SAO repeatedly drew attention to certain problems associated with budgetary policy. For example, the SAO’s opinion on the state closing account for 2014 flagged up the following problems:

- the large number of changes to the budget, demonstrating an insufficient ability in some budget heading administrators to plan requirements and resources properly;
- shortcomings in the collection of certain taxes, the large amount of unpaid tax and the insufficient efforts to combat tax evasion;

- the growth in claims from unused expenditure, which does not help reduce state budget expenditure and the state budget deficit;
- the low functionality of programme financing systems for key policies of the state impacting on how effectively goals are achieved and the budget implemented;
- significant deficiencies in the drawdown and utilisation of finances provided to the CR out of the EU budget that have a negative impact on the state budget;
- non-compliance with the budgetary rules, impacting on the effectiveness, efficiency, and economy of state budget expenditure.

One reflection of the shortcomings in the compilation and implementation of the budget is the growing state of claims from unused expenditure from previous years. These claims amounted to almost **CZK 155 billion** as at 1 January 2015 and present a risk for the utilisation of state budget expenditure in subsequent years. The development of these claims from 2011 to 2015 is shown in Graph No. 3. According to the SAO, one cause of their annual growth is the lack of coordination in the process of drafting the state budget, where budget headings' actual spending requirements are overestimated in parallel with the option of including claims from unused expenditure in the given budgetary year. Additionally, actual expenditure savings (resulting from the optimisation of operating costs, a fall in bid prices in public procurement tenders, revitalisation of real estate or energy savings) in state budget headings become part of new claims from unused expenditure without being created for the purpose of securing specific expenditure for the following budgetary year. It is obvious that the savings thus achieved, especially in non-profiling expenditure, should contribute more to more efficient use of budget finances in the sense of reducing state budget spending and the state budget deficit. In reality they have the opposite effect.

Graph No. 3: Development of claims from unused expenditure as at 1 January of the given year



Source: Draft state closing account of the CR for 2014

As the following sections of the annual report will document in greater detail, on the revenues side of the budget the SAO draws attention to long-term problems associated mainly with the collection of value added tax (VAT) and excise duties and with the ability to reduce unpaid tax in ways other than writing it off as irrecoverable.

The following sections of the annual report will present a number of examples where expenditure budgeting and implementation is not effectively tied to policy goals in a way that would be motivating for budget heading administrators. In a number of cases, the budget is merely a formal framework.

The SAO has repeatedly pointed this out, e.g., in audits covering programme financing. The use of EU finances is described in a separated chapter. Here, the complicated implementation system and only partially effective management and control systems of certain programmes result in a considerable portion of the allocation not being utilised or ineffective and uneconomical projects being executed, which has a negative impact on the state budget (e.g., in the form of full financing instead of co-financing out of the state budget, returned money etc.).

There are frequent changes in programme budgets as a result of deficient design, planning, management and control of policies, but also in consequence of frequent changes in decisions negating previous steps or because of non-transparent procedures. Public money is not always disbursed in programmes on the basis of an assessment of the most cost-effective solution. And the awarding of public contracts is not always a tool for achieving the most advantageous solution for the state. Ineffective and uneconomical services or unnecessary assets are repeatedly purchased.

Numerous signs of an institutional approach to budgeting, tied preferentially to the defrayal of costs and not to the payment of properly substantiated, planned, and realised requirements, can thus be found in the compilation and implementation of the budget. The budget is not performance-based, and this, in the SAO's opinion, is one of the principal causes of inefficient administration.

Every year, non-compliance with the budgetary rules is reflected in the significantly large amounts the SAO reports in notifications on breaches of budgetary discipline to the appropriate tax administrators. The amount involved in notifications for the year 2015 was as much as **CZK 3 billion**.

The deficiencies identified in audit no. 14/14, which targeted the MoF's procedure when compiling the budget of heading 398 - General Treasury Administration (GPA), including the making of changes to the budget and the drawdown of selected expenditure in this chapter, is one example of a formal approach to budgeting, non-transparent decision-making and violation of the rules for state budget expenditure.

- With regard to finances worth CZK 2.3 billion, the SAO declared that they did not satisfy the requirement of generality and should have come under the authority of the administrators of other state budget headings. Additionally, with regard to **CZK 443 million** released from the government budgetary reserve the SAO discovered that these funds did not match the purpose of the budgetary reserve as defined by the relevant provisions of the budgetary rules or that, before releasing the funds, the MoF did not check whether the heading administrator could have covered its requirements by performing measures within its budget heading. The SAO found similar deficiencies in its audit no. 06/24³, however, meaning that the MoF failed to remedy the situation adequately in the eight years since this audit was completed.

In the case of two programmes financed out of the GTA budget heading the SAO also found that the expenditure exceeded the **CZK 5 billion** limit, so the state budget's involvement in funding these programmes should have been approved by the government in line with the budgetary rules. Furthermore, the content of one of the programmes meant it belonged under a different heading of the state budget. The MoF approved the documentation of the other programme in a manner contravening the rules defined by the Committee on Budgetary Control of the Chamber of Deputies of Parliament because the use of the finances could be decided by the finance minister himself, which the SAO regards as non-transparent.

The SAO ascertained that the MoF's budgetary measures transferring funds from other state budget headings increased GTA expenditure by a total of **CZK 2.8 billion**. The MoF transferred the largest sum, **CZK 2 billion**, from the *State Debt* budget heading. Given the amount of money released from the GTA budget heading, the SAO judged the increasing of the expenditure budget

³ The audit conclusion of audit no. 06/24 - *State Budget Funds Involved in the General Treasury Administration Heading* was published in volume 2/2007 of the *SAO Bulletin*.

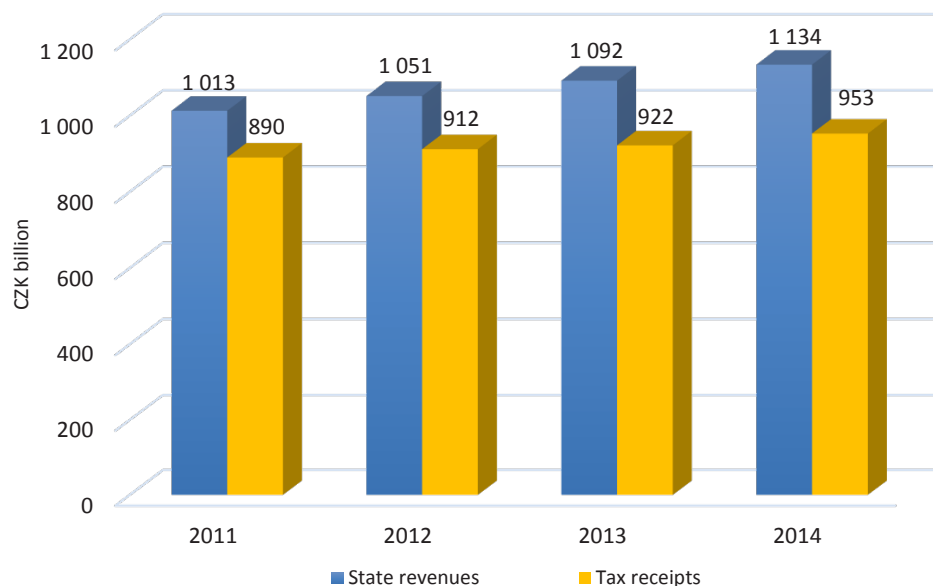
as superfluous, especially the transfer of **CZK 2 billion** from the *State Debt* heading, which the MoF consequently did not use to bring down the state budget deficit.

2.2 Government revenues - shortcomings in tax collection and administration

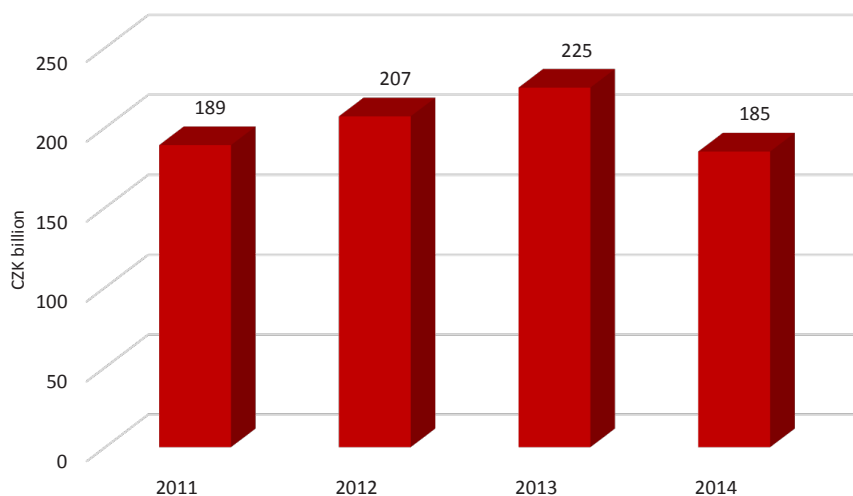
For the state to be able to fulfil its role in providing services to citizens, it has to have the available funds. There is long-term evidence that tax receipts are one of the most problematic areas in achieving government revenues. The large amounts of unpaid tax and problems in the fight against tax evasion and fraud have been repeatedly flagged up by the SAO both in its audit conclusions and in its opinions on the draft state closing accounts.

Graph No. 4 shows the development of state budget revenues and tax receipts in the years 2011 to 2014. It is clear that tax receipts represent the biggest share of state budget revenues (over 80%) and that the amount of unpaid tax has been persistently high. Graph No. 5 shows the cumulative volume of unpaid tax from 2011 to 2014.

Graph No. 4: State budget revenues and tax receipts 2011-2014



Source: *Draft state closing account of the CR for 2014*

Graph No. 5: Cumulative volume of unpaid tax 2011-2014

Source: Draft state closing account of the CR for 2014

According to the draft state closing account for 2014, unpaid tax amounted to **CZK 185 billion** at the end of 2014, which was a fall of almost **CZK 40 billion** from the previous year's figure. However, writing off receivables as unrecoverable was the biggest factor in the reduction. In the case of the bodies of the Financial Administration of the CR registering the largest amounts of unpaid tax, the biggest impact on the reduction came from the writing off of almost **CZK 72 billion** as unrecoverable, which was **CZK 47 billion** more than in 2013. According to the draft state closing account, Financial Administration bodies collected and recovered unpaid tax worth **CZK 11 billion** in 2014, with enforcement actions accounting for **CZK 3.8 billion** of that amount.

The administration of value added tax and excise duties was mainly influenced by the following factors:

- **some new measures did not deliver the expected effects for the administration of these taxes;**
- **some measures designed to deliver more effective collection of value added tax were put into practice late and the effectiveness of certain measures was undermined by insufficient control;**
- **the assessment of the effectiveness of the new instruments was inadequate.**

In 2015, two audits targeting the most problematic area of tax receipts that has been linked in recent years to the largest amounts of unpaid tax, tax evasion, and unlawful conduct were completed. These were an audit of the administration of value added tax and the impacts of legislative changes concerning VAT on state budget incomes (audit no. [14/17](#)) and an audit of the administration of excise duties on liquor and tobacco products (audit no. [14/28](#)).

- In audit no. [14/17](#) the SAO declared that the new mechanisms launched in VAT administration by means of legislative changes did not deliver the expected effects of increased VAT collection, reduced tax evasion and thus a shrinking of the VAT gap, i.e., the difference between theoretical and actual VAT collection, in the audited period of 2011-2013. According to the SAO's calculations, the rate of tax evasion in the CR in 2013, expressed in terms of the VAT gap, was 25.7%, representing a sum of **CZK 105 billion**. The VAT gap has been growing constantly since 2011 and is above the European average, according to European Commission data. Both external factors and the actual work of the Financial Administration had a negative impact on achieving the expected effects. The methodological and technical preparation of new measures was negatively influenced, for

example, by the fact that the amendments of the Act on VAT entered into effect a few days after they were adopted. For example, the setting of short time limits for verifying payers' bank accounts resulted in not all accounts, of which there were 518,000, being published by the set deadline.

Introducing the reverse charge mechanism for selected commodities had a positive impact on reducing tax evasion where the supplier did not declare or did not pay tax and the recipient claimed a tax deduction. Inadequate control reduced the effectiveness of this mechanism, however. For the reverse charge mechanism, which had already been introduced for one commodity back in 2006, the General Financial Directorate (GFD) only installed in the ADIS information system an automated system for comparing data from the records in 2013 and did not ensure that the tax offices made use of the system. The SAO found discrepancies of as much as **CZK 14 billion** in the values of taxable supply reported by recipients and suppliers in the period from April 2011 to June 2014. Another fundamental fact from the SAO's point of view is that the GFD did not undertake any analysis of the effectiveness of the new mechanisms and did not assess the degree to which they were used in tax administration. In its annual reports on the work of the Financial Administration of the CR and commentaries on the state closing account the GFD merely declared the positive impact of the mechanisms without backing this up with data. The government and parliament therefore had no feedback enabling them to respond appropriately and in good time.

- Shortcomings in the effectiveness of the legislation and tax administrators' procedures when collecting and administering excise duties on liquor and tobacco products were identified by audit no. **14/28**. The SAO focused on the period from 2011 to 2014 and found that the administration of excise duties on liquor fell short of its goal to identify and prescribe tax correctly. According to calculations by the General Directorate of Customs (GDC), the tax gap meant that the collection of excise duties on liquor fell short by approx. **CZK 1-2 billion** per annum. The SAO stated that the cause was unsatisfactory legislation, deficiencies in checks of liquor denaturing and shortcomings in the internal control system of the Customs Administration of the CR.

Similarly, regarding the collection of excise duties on tobacco products, the SAO judged that the legislation on the distribution of tobacco products in the event of a change in the tax rate was unsystematic, and remained so until the amendment of the Act on Excise Duties took effect in December 2014. The previous legislation made it possible to pre-stock tobacco products with the "old" excise duty rate, which resulted in expected state budget revenues being decreased by **CZK 1.4 billion** in 2012-2014, according to the SAO's qualified estimate. What is more, the Customs Administration of the CR did not check whether the application of the old (lower) excise duty rate was justified.

Measures rolled out after the "methanol affair", i.e., after 2012, did not ensure only safe and taxed spirits were sold and are still not fully effective. For example, the launch of a new control strip specimen for labelling spirits was not a fully effective tool for controlling the use of liquor and ensuring only safe liquor was sold. The new control strip's function in protecting consumers is limited, as tax subjects are not obliged to keep records of the codes of all control strips. The control strips register is pointless because it does not keep records of the codes of all control strips designated as lost or destroyed. According to the GDC's records, there were **3.9 million** such control strips in March 2015. These control strips pose a risk as they can be abused to sell spirits made from untaxed alcohol. Other tools that did not deliver the expected effect were the blanket obligation to equip spirits labelling sites with monitoring devices and the classification of the sale of spirits as a licensed trade. According to the SAO, the customs authorities did not have a complete overview of legal points of sale of spirits at the time of the audit.

The outputs from the SAO's audits represent an independent and critical view of the tax and customs administrations' largely positive assessments of their own work, as presented, for example, in their remarks in the draft closing state account for 2014. The outputs should



contribute to the adoption and implementation of adequate measures by the appropriate bodies of the financial, tax, and customs administrations to improve their work in delivering a significant portion of government revenues. Although the government did not discuss the audit conclusions from these audits by the end of 2015, the SAO welcomes the fact that the MoF, in its response to the audit conclusion from audit no. 14/17, announced certain steps for discussion by government that should help make the administration of tax receipts more effective and strengthen the fight against tax evasion. These include introducing VAT “control statements”, tightening the criteria for designating unreliable payers and improving methodological work.

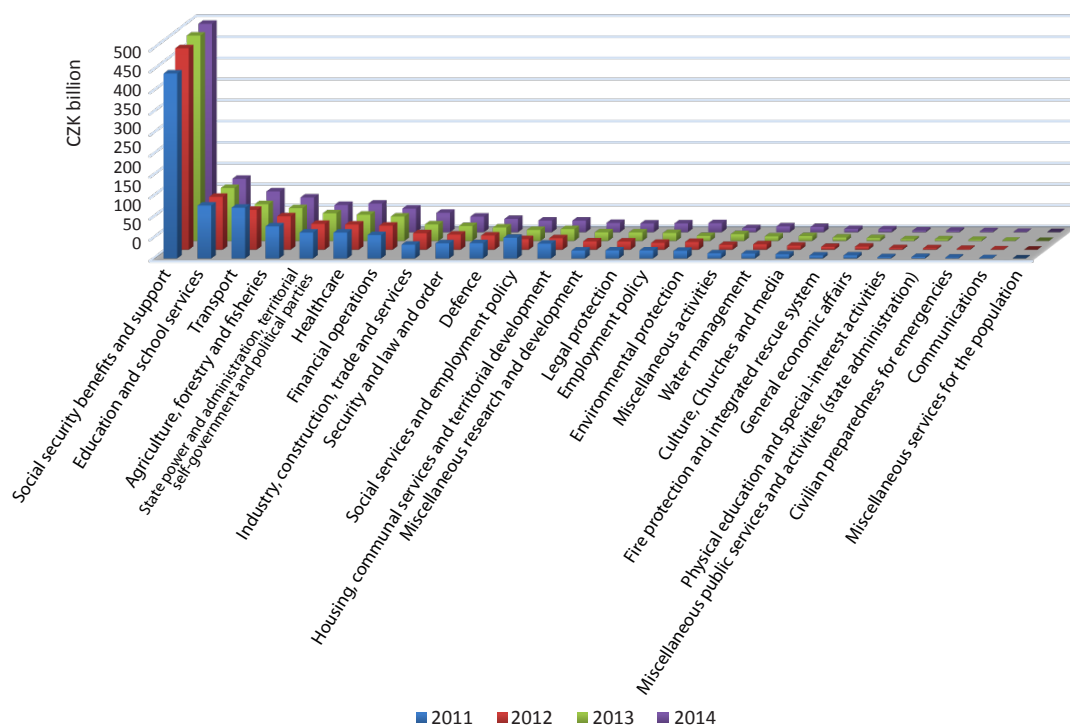
In the area of VAT, the fight against tax evasion has been stepped up since the start of 2015 by the adoption of a number of measures. The number of types of supply to which the reverse charge mechanism is applied has been increased. Starting in 2016, all VAT payers have been obliged to send the tax offices selected data on their businesses in “control statements”. It is a reasonable assumption that the effectiveness of control statements, like the records for the reverse charge mechanism, will mainly depend on the tax administrators’ control work and support from information and communication technologies (ICT). After the number of criteria for designating someone an unreliable payer was increased from October 2014, there was a significant increase in the number of published unreliable payers - the financial administration had published a total of 3,701 as at 6 January 2016.

One long-term trend is the fight against tax evasion, which is reflected in the introduction of numerous new obligations for taxpayers. However, the SAO notes the absence of any comprehensive evaluation of the effectiveness of these changes taking into account both direct and indirect costs and the deadweight effect, i.e., whether the adopted measures bring about reactions that harm the economic environment. The negative situation persists whereby tax administration primarily comprises the actual paperwork of processing tax statements and information technologies are not fully exploited, even though considerable amounts are spent on them.

2.3 Government spending - shortcomings in management and ineffective tools for the implementation of state policies

Public spending has been increasing constantly over the long term. That is not just down to the growth in gross domestic product and the related enlargement of the expenditure side of the budget: it is also caused by the generally increasing share of national product accounted for by public spending as the state tries to ensure the well-being of its citizens. The questions that need asking, however, are what the state gains in return for its public spending and whether it is capable of providing high-quality services to citizens in an effective way guaranteeing good value-for-money. In other words, whether it is capable of fulfilling its duty to manage public money in accordance with the law and the principles of economy, efficiency, and effectiveness.

The state spends considerable amounts on various policies under state budget headings and the budgets of state funds. To give an idea, Graph No. 6 shows the amounts of money earmarked for various areas in the years 2011 to 2014 and ranks these areas in order of financial importance. The breakdown is similar every year - the biggest volume of funds is earmarked for benefits and social support, most of which are mandatory. That is followed by state spending on education, transport, agriculture, and other areas in which the executive has palpably the greatest room for optimising the use of resources.

Graph No. 6: Overview of expenditure under state budget headings and the budgets of state funds 2011-2014 by sector

Source: MoF *Monitor* information portal; <http://www.mfcr.cz/cs/o-ministerstvu/zakladni-informace/informacni-systemy/iissp--monitor>; sectoral classification of expenditure by budgetary composition.

If we now overlook mandatory state expenditure, which is constantly growing in terms of both volume and share of total state expenditure, a considerable part of state expenditure takes place through various targeted programmes, interventions and subsidies under the individual policies through which the state seeks to steer and develop areas it regards as societally important and necessary. To do this, it uses various instruments intended to ensure the desired goals are achieved. These mainly include implementing policies through programme financing, programmes co-financed by the EU, and state funds.

Findings from the SAO's audits and other outputs indicate that state expenditure involves equivalent systemic failings that mean that money is often spent without any proof of economy, efficiency, and effectiveness in fulfilling the state's needs and goals or even in a manner contrary to these requirements. A large proportion of similar negative findings is repeated again and again. The low effectiveness of the financing systems for various programmes or projects makes it possible to infer a certain "incorrect conduct matrix", i.e., the principal long-term reasons why the state is not ultimately effective in its actions in various areas. The principal ones are:

- the absence of binding concepts and strategies identifying needs, resources, and priorities;
- the incorrect setting of targets and methods for monitoring achievement thereof;
- deficiencies in the selection, preparation, and implementation of projects and actions relative to the achievement of goals;
- shortcomings in coordination, management, and the evaluation of the results and benefits of projects and programmes;

- **failure to observe the principles and rules of programme financing;**
- **ineffective financial control systems;**
- **non-compliance with the public procurement rules.**

The state's problems in a number of areas begin with the definition of the needs, resources and priorities of individual activities that need to be undertaken to achieve the goals. Policy goals are often not defined in a way allowing them to be evaluated or lack any clear link to the identified problems. The selection of projects and actions is not always demonstrably documented as being able to deliver the best value-for-money solution relative to the achievement of goals. Consequently, projects and actions that are unprepared or even lack any purpose or are uneconomical may then be implemented. The management and control principles are particularly grossly violated wherever the effectiveness of the spending, i.e., the relationship between the money spent and the achievement of the policy goals, is not evaluated.

The tools the state can draw on to fulfil requirements (programme financing, programmes co-financed by the EU, financing via off-budget state funds) often fail. They are not robust frameworks for achieving the state's objectives. Both the frequent violations of the Act on Public Procurement and the quantity of contracts awarded without tenders are a signal that public procurement is not always used to achieve a good price. The violation of these principles and rules, including legal rules, is the reason that they are still not effective management and control tools and a guarantee of optimal use of resources. It is often the case, therefore, that the problems do not reside in the absence of rules but in the failure to follow them. That is also why the state is not always able to provide services to citizens effectively and for the best value-for-money.

The following section of the annual report sets out the most important systemic findings from SAO audits completed in 2015 linked to the audited funds spent under selected state policies. The examples from the audits also demonstrate the aforementioned long-term reasons for the recurring shortcomings in the state's management of public money.

2.3.1 Efficient public administration

Efficient public administration is one of the key factors influencing the Czech Republic's development and competitiveness. As mentioned above, the Czech Republic lags behind in this regard, with the inadequate institutional environment rated as one of its biggest weaknesses. Efficient public administration has consequently become one of the priorities of Czech governments. One tool to help resolve this problem is the interdepartmental government strategy called *Effective Public Administration and Friendly Public Services - Smart Administration implementation strategy 2007–2015* (SA). The strategy's primary objective was to support the socioeconomic growth of the Czech Republic and improve the quality of citizens' lives by making public administration and public services more efficient.

In audit no. 14/15 the SAO focused on funds from national sources and from the EU earmarked for managing and implementing this strategy. The SAO judged that no improvement in the working of public administration and public services that would improve the CR's standing in terms of international competitiveness rankings materialised during the strategy's implementation.

- During the implementation of this strategy between 2007 and 2014, the audited projects delivered no improvement in the working of public administration and public services. The Ministry of the Interior (MoI), which was the SA strategy's author and guarantor, did not define a specific target state that was supposed to be achieved by public administration in 2015 and did not define how the implementation of this strategy was to be measured. The interdepartmental management of the strategy and coordination of public administration bodies' strategic projects

that was meant to have been handled by the advisory bodies of the government and the MoI repeatedly failed. Management of the strategy within the MoI was also poor.

The SAO found that seven of the eight audited projects subsidised out of OP *Human Resources and Employment* (OP HRE) did not achieve their goals and did nothing to help achieve the specific objectives of the SA strategy, i.e., making public administration more efficient and cutting administrative costs. The SAO declared that the MoI and Ministry of Industry and Trade (MoIT) ineffectively spent almost **CZK 227 million** in public money on these projects. It also judged that this constituted breaches of budgetary discipline. The audited projects were supposed to improve the quality of project or strategic management in selected departments, reduce the cost of bureaucracy and make the exercise of public administration more transparent. Instead, methodological guidelines for project and strategic management were repeatedly drawn up without delivering any real impact.

The funding of the further development and improvement of public administration in terms of efficiency has continued in the form of a new government strategy called *Strategic Framework for the Development of Public Administration in the Czech Republic 2014-2020*, which directly follows up the SA strategy. In this area, the SAO formulated recommendations for improvements in the form of functioning communication between the responsible bodies, implementing projects in line with the strategy's and operational programmes' goals and providing methodological and information support for projects. Putting these recommendations into practice could make a considerable contribution towards achieving the goals in the 2014-2020 programming period.

Computerization of public administration

The computerization of public administration is closely tied to the need to make public administration and public services provision more efficient. The SAO has paid systematic attention to this area and has repeatedly flagged up problems that need resolving. Although the state spends considerable sums of money in this area, it continues to fall short in conceptual and strategic management, coordination between departments, guaranteeing value-for-money, effective use of money and economical operating expenditure. The unsatisfactory number of public contracts awarded without tenders leads to dependency on a single supplier, puts the state in a disadvantageous position as the operator of information and communication systems and consequently results in uneconomical expenditure.

Serious shortcomings were identified in the audits completed in 2015, when the SAO scrutinised:

- the construction, operation and use of the services of data centres (audit no. [14/20](#));
- public administration computerization projects managed by the MoI (audit no. [15/03](#));
- ICT projects within the budget heading of the Ministry of the Environment (MoE) (audit no. [14/12](#)).

The results of audit no. [14/20](#) provide one example of incorrect procedures in the computerization of public administration, including the causes and consequences of profligacy in this area. Data centres are one of the important components of the secure and reliable operation of public administration information systems. The SAO focused on the strategy and coordination of their construction, development and utilisation. It also scrutinised the construction and operation of a data centre used by the MoF department in the context of the state firm Státní tiskárna cenin (STC), which it founded. The SAO's principal findings:

- The construction, development, and utilisation of data centres was not coordinated. There is no specific definition of how the construction of data centres for the operation of public administration information systems is to be coordinated or what rules should govern their use, even in the new *Strategic Framework for the Development of Public Administration in the Czech*

Republic 2014-2020, which divided powers in the field of ICT between the MoI and MoF. What is more, there are still no rules governing how public administration is to switch to data centres operated by Czech Post and STC. The MoI expressed no opinion on the projects to build STC data centres, thereby failing to exercise the coordination role imposed on it by the Competences Act.

The MoF built a data centre for its requirements through STC. The total cost of preparing and executing the construction of the data centre was **CZK 386 million**. Yet the MoF only used this data centre to operate selected information systems and thus did not fulfil the original purpose of the use of this data centre by the entire department. Its total utilisation was merely around 50% of capacity. STC has provided the MoF with data centre services since 2009, mainly for the state treasury operation, and provides the MoF with related *Service Desk* services. The fact that subcontractors played a major role in providing these services is not evidence of economical operation. The MoF concluded two contracts in classified procedure, making use of an exemption in the Act on Public Procurement. Over five years, the MoF paid STC almost **CZK 1.2 billion** for these services, for which STC paid subcontractors **CZK 760 million**, i.e., 66% of the amount STC received from the MoF. Moreover, the MoF transferred some of its employees to STC to handle the working of the data centre's services and in order to fulfil a government regulation on cutting workforce numbers. In return for their services it subsequently paid more than double the wages which STC paid these employees, which the SAO judged to be uneconomical on the part of the MoF. From 2004 to 2014 the MoF paid a total of **CZK 254 million** for STC employees.

In addition, the results of other audits confirmed equivalent shortcomings at the level of strategic and project management that had a negative impact on the solutions' value-for-money.

- In audit no. **15/03** targeting the construction and operation of the communication infrastructure of public administration, the SAO declared that the MoI does not have a government-approved plan for the development of this communication infrastructure making it possible to systematically plan and manage investments in this area in the long term. Two of the four audited projects were not prepared, implemented, and managed in a manner guaranteeing their successful completion according to the timetable. Out of approximately **CZK 700 million** of audited expenditure, the SAO found that the Act on Public Procurement had been violated in the case of **CZK 391 million**. The findings applied to contracts co-financed by the EU, which poses a risk of ineligible expenditure. The MoI also failed to evaluate the financial benefit of transferring ICT services along with selected employees to the state firm *Czech Post*, which the MoI commenced in 2009. By the end of 2013, the assumed financial benefit had not materialised at all in the audited services, and in 2014 the cost of services fell by just 2%. In its audit conclusion the SAO also pointed out that the MoI had failed to ensure the adequate security and protection of the existing central services point and its integrated telecommunications network.
- Shortcomings in conceptual management and the coordination of ICT projects in the MoF department; a failure to evaluate the economy of operation; data incompatibility and duplications with a negative impact on operating costs; and a lack of economy and inefficiency in one of the audited projects were also detected by audit no. **14/12**. This audit confirmed that certain information systems continue to be contractually dependent on a single contractor, which leads to the risk that the public tender will not be executed in the most economical manner.

The aforementioned serious findings relating to the computerization of public administration and their impacts make it essential that legislative and technical administrative measures are put in place to support the efficient use of state assets when securing the strategic interests and needs of critical infrastructure of the state, enabling horizontal and vertical cooperation between public contracting organisations when performing public procurement. The SAO therefore welcomes the task imposed by government resolution no. 996 of December 2015 on the interior minister, finance minister and minister for regional development in response to audit conclusion no. **14/20: the ministers have been tasked with proposing improvement measures in this area by the end of 2016.**

2.3.2 Education and support for research and development

Education and support for research and development rank among the key areas of government policy through which the government is striving to support social and economic development and boost the Czech Republic's competitiveness. The core of the Europe 2020 strategy which the CR has undertaken to implement is the creation of a smart and sustainable economy that supports social inclusion. Education, like science, research, and innovation, is therefore one of the five main pillars of this strategy⁴. Expenditure in this area covered out of national and European funds has been targeted by a number of SAO audits in view of its social significance, financial importance and potential risks. In 2015, audits targeted:

- infrastructure for teaching at universities paid for out of operational programme *Research and Development for Innovations* (OP RDI) (audit no. [14/22](#));
- national projects carried out as part of operational programme *Education for Competitiveness* (OP EC) (audit no. [14/24](#));
- the sustainability of projects carried out as part of the *Integrated Operational Programme* (IOP), OP RDI and OP EC (audit no. [15/06](#)).

Even though both teaching infrastructure at universities and the material and technical conditions in other science and research institutes have improved, the audit results revealed a number of serious deficiencies of a systemic nature. These mainly concerned assessment of the necessity, economy, and sustainability of certain projects. In addition, relevant indicators for assessing the projects' benefits were not put in place, so the projects' actual contribution towards achieving the goals of the support was neither monitored nor evaluated. It is alarming that certain projects did not deliver the planned effects or their outputs were not used at all even. This can be illustrated by the following examples:

- Audit no. [14/22](#) scrutinised support for the infrastructure of universities via projects to build new buildings, buy equipment and apparatus and modernise old buildings. The SAO found that although the support did contribute to improvements in the state of universities' infrastructure, the general objective of the support was also to put in place the right conditions for increased and improved human resources for research and development, innovation, and work experience. However, the projects' actual benefit for research, development and innovation was not scrutinised by the Ministry of Education, Youth and Sports (MoEYS) as the OP RDI managing authority. That is borne out by the fact that it assessed the benefit through monitoring indicators such as number of supported projects, size of acquired or renovated space, number of students etc. The MoEYS did not, however, look at e.g. the degree to which projects' benefits were achieved in terms of the number of university graduates who found work in science and R&D. The MoEYS set very detailed rules for the support beneficiaries but often changed these rules, which increased the administrative burden of managing the projects. In addition, the MoEYS did not possess a complete overview of the state and use of existing equipment, apparatus and technologies in the universities. The audit also drew attention to the risk of a failure to fully utilise the OP RDI funding in 17 projects with a total value of **CZK 1.3 billion**.
- In audit no. [14/24](#) the SAO dealt with projects supported in the context of the OP EC goals of building a system of further education and lifelong learning. The SAO found serious deficiencies in all three audited national projects. Among other things, the SAO judged that it was extremely difficult for the MoEYS, as the OP EC managing authority, to evaluate the benefit of the audited national projects (*Work Placements in Firms, Development and Implementation of a National Qualifications System* (NQS2) and *Keys for Life*), which cost almost **CZK 1.7 billion** in total, for

⁴ The fundamental areas are: 1. employment; 2. science, research and innovation; 3. climate change and energy; 4. education; 5. poverty and social exclusion.

achieving the goals at the level of the OP EC priority axes. The reason is that the MoEYS set inappropriate goals at the axes level and did not set up relevant indicators to measure results at project level. The SAO reached the conclusion that the very costly audited national projects did not have the expected effect. The *Work Placement in Firms* project, for example, did not impact on those segments of the target group it was supposed to support most. Even though the Ministry of Labour and Social Affairs (MoLSA) spent almost **CZK 800 million** as the subsidy provider, it currently has no plan to make use of the results and outputs of the undertaken work placements. In the case of NQS2 projects subsidised to the tune of **CZK 651 million**, almost half the elaborated and approved qualifications are de facto unusable because of the lack of people authorised to test candidates. The National Qualifications System contains 679 qualifications in total; two-thirds of the attestation holders registered for one of the four most widely used qualifications, however.

- Audit no. **15/06** also detected serious systemic deficiencies. The main shortcomings linked to support for R&D were the design of the sustainability conditions and MoEYS' monitoring and checking of the results and benefits of the newly built science and research centres using OP RDI funds. These concerned the volume of contractual research, for example, compulsory indicators of the centres' results and information about jobs created. Under OP RDI, more than **CZK 36 billion** was spent on building 48 science and research centres, with a further **CZK 24.4 billion** required from the state budget to finance their operation in the five-year sustainability period, according to the managing authority's estimate.

In the light of the audit findings it is essential that the subsidy providers put in place the right conditions for a fundamental change in the evaluation and financing of projects related to education, science and research, with the emphasis on their actual benefit for the development of the Czech Republic. Previously, in its response to audit no. 14/22 the MoEYS had declared that it would look at ways to monitor the extent to which university graduates find work in R&D and would continue to work on a database of equipment and apparatus acquired out of OP RDI funds. The issue of support for education, science and research and its actual benefits will remain at the centre of the SAO's attention.

2.3.3 Transport infrastructure

The SAO went ahead with its systematic scrutiny of important programmes and projects in the realm of transport infrastructure investment, repair and maintenance. The substantial expenditure in this field has a fundamental impact on the CR's economic development and the quality of life of its citizens. Other reasons for the SAO's long-term focus on this spending are that this infrastructure is still relatively undeveloped and there is considerable potential here for improving the effectiveness of government policy. In 2015 the SAO conducted two audits scrutinising financial resources earmarked for:

- repairs and maintenance on national and regional railways (audit no. **14/21**);
- the construction of the line A of the Prague metro (audit no. 14/32).

No major shortcomings were found in the financial management of funds for the repair and maintenance of railways as a whole. However, the SAO pointed out certain facts that show there is room for more economical and efficient use of money.

- In audit no. **14/21** the SAO drew attention to shortcomings in the valuation of maintenance work and in the selection of contractors. In some cases, these errors meant that the contractor with the most advantageous bid did not win the tender. There were also shortcomings in the planning of repair work on railways. A lack of funds means that repair work can be deferred for up to several years, which ultimately increases the cost of the work. The Railway Infrastructure

Administration (RIA) spent on average **CZK 8.9 billion** per year on repair and maintenance work on railways in the years 2010 to 2013. According to a study the RIA commissioned in 2004, the annual sum required to prevent the technical condition of railway infrastructure from deteriorating was **CZK 11.7 billion**. The RIA gave precedence to eliminating defects jeopardising the operation and safety of rail transport. It then eliminated other defects at a delay of up to several years depending on the amount of money made available.

Improving the effectiveness of management in the field of the valuation of the work involved was one way to cut the cost of railway repair and maintenance. The RIA used a catalogue of maintenance work to draw up itemised budgets and to value work. However, the catalogue was not an objective tool for verifying the appropriateness of prices, as the disproportionately large differences between the valuation of work according to contractors' bids and according to the catalogue revealed. The identified differences were in the order of tens of per cent, often exceeding 50% or even 100%, and were both higher and lower. In the majority of cases, however, the prices offered by contractors exceeded the prices specified in the catalogue.

The course and extent of audit work in audit no. 14/32 was significantly affected by the fact that, contrary to the original expectations and up to the completion of the audit, the project for the construction of the line A of the Prague metro was funded mainly without the involvement of finances falling within the SAO's audit powers. All spending on the project preparation and construction work was paid by the Prague Public Transport Company out of its own funds or out of finances provided by the City of Prague. By the time the audit was completed, no finances had been paid out of operational programme *Transport (OPT)*. The SAO therefore focused on how the Ministry of Transport (MoT) decided on the provision of support for the project and on the project management, evaluation and administration. The SAO found the following:

- The MoT did not define the goals of the investment programme for the construction of the metro line A in a way corresponding to the goals of priority axis 5 of OPT, which was supposed to finance the project. The goals did not define any specific technical or timing criteria. The substantive content of the defined result and impact indicators, their link to the goals and the method for measuring achievement of the indicators were unclear. Consequently, the MoT failed to put in place the right conditions for objective assessment of the effectiveness and efficiency of support for the construction of the Prague metro.

In addition, the MoT paid no attention to what impact the postponement of the completion of certain related projects (in particular the completion of the road network and parking capacities and the modernisation of the rail link between the city centre, Prague airport and the city of Kladno) had on the achievement of goals and on the project's cost-effectiveness. It also paid no attention to changes in project costs. The project's total cost of **CZK 22.6 billion** specified during the preparatory phase was increased to **CZK 27.2 billion** at the approval time without adequate justification. At the time of the audit's completion, the expected cost was reduced to **CZK 24.8 billion** (all including VAT). In the SAO's opinion, the projects' actual benefits for citizens should be demonstrated and compared with the envisaged benefits, in addition to scrutiny whether the use of public funds was correct.

The findings presented above and findings from previous audits reveal that the funding of major transport infrastructure works is dogged by recurring problems. These mainly concern the failure to evaluate projects' cost-effectiveness when fundamental changes are made to the projects' parameters, including the failure to assess the benefits of the executed projects. The fact that both parameters and prices can be changed without adequate justification and evaluation is proof that the MoT follows incorrect procedures. Problems also persist in the valuation of construction work costs, which is not an objective planning tool, and in the failure to check costs, as the audit of railway repair and maintenance work showed. Effective measures to improve the efficiency of spending are therefore essential.

Based on the audit of the metro construction project, the MoT declared that, as part of its remedial measures, it was updating its instructions for investment efficiency assessment to include methods of ex-post assessment of the benefits and cost-effectiveness of investments and the methods set out in the new *Guide to Cost-Benefit Analysis of Investment Projects*, which presents a detailed look at investment projects, including investments in other modes of transport. In addition, as part of the OPT rules for the 2014-2020 programming period the MoT will ensure that the indicator measurement method is relevant to the project, whereby the methods used to calculate the expected target value at the start of the project and after the project must be commensurable.

In response to the audit of railway repairs and maintenance, the MoT adopted measures consisting in updating its guidelines on RIA public procurement so that the demands placed on candidates' references are not disproportionate and adopted a measure specifying the course of action if the price of the cheapest bid is higher than the expected price as set by the contracting organisation.

2.3.4 Energy

Reducing the economy's energy needs and promoting renewables are at the forefront of programmes financed both by the EU and through national subsidies. The proper functioning of these programmes is not only important for achieving goals in the fields of energy security, sustainable development, cutting greenhouse gas emissions, and increasing the proportion of energy-efficient buildings and technologies. It is also important for improving the living conditions of the public and cutting costs.

The SAO pays systematic attention to the issues of renewables, cutting emissions, and attaining energy savings. In 2015, the SAO completed audit no. [15/12](#), which followed up a previous audit in this field⁵. In this audit, the SAO scrutinised support for energy savings from various subsidy programmes, focusing mainly on the progress made towards both the government's and the EU's objectives. The central body of state administration for the energy sector is the MoIT, but the MoE and the Ministry for Regional Development (MoRD) play significant roles in achieving the goals of energy savings. The SAO's findings included the following:

- Further to the European directive on energy efficiency, the Czech Republic committed itself to a final energy consumption annual savings target of 47.78 PJ⁶ in 2020. The cumulative saving from 2014 to 2020 should be 191.1 PJ. That means that the CR should achieve new energy savings of 6.83 PJ every year. It is true that this target was reached in 2014, when the saving achieved was 7 PJ, but that substantial saving was the outcome of subsidy programmes that had taken place over the past seven years, a period during which (2007-2014) subsidies totalling **CZK 32.2 billion** were approved for projects. The CR's cumulative saving for that entire period was 12 PJ, i.e., just 6% of the binding cumulative target. The SAO worked out that in order to achieve the objective, i.e., the planned savings in 2020 and the cumulative savings for 2014-2020, the annual savings would have to be increased by 100% of the value of savings achieved in 2014 every year up to 2020. Given the existing pace of implementation of energy savings and the considerable cost, achieving the planned savings target would be difficult without additional sources of financing, which are not currently in place. The SAO also drew attention to the unsatisfactory system for monitoring savings. The MoIT monitored the savings achieved only in the case of two operational programmes, ignoring this issue in other subsidy groups.

5 E.g., audit no. 08/38 - *Funds allotted for support programmes for energy production from sustainable energy resources and for energy savings support*, audit conclusion published in volume 3/2009 of the *SAO Bulletin*; audit no. 10/31 - *Trading of surplus Assigned Amount Units and use of such funds received from the trading*, audit conclusion published in volume 2/2011 of the *SAO Bulletin*; audit no. 14/06 - *Management of funds earmarked for the support of energy production from the renewable energy resources*, audit conclusion published in volume 4/2014 of the *SAO Bulletin*.

6 1 PJ (petajoule) = 1,000 TJ (terajoules) = 1,000,000 GJ; 1 MWh = 3.6 GJ.

The SAO also pointed out that the pace of implementation of investment measures in the buildings of central government institutions would have to be increased if the savings targets for public buildings were to be reached. There is a persisting risk of under-financing: up to 2020 approx. **CZK 5.8 billion** will have to be spent on projects. It is therefore unclear whether the targets will be achieved, because that money is not in place at the moment.

The results of audits in this field show that the poor effectiveness in achieving the required goals is mainly influenced by management methods and the use of sources of support from the conceptual point of view. For example, previous audits highlighted uneconomical and inefficient support for renewables: although the required target for the proportion of electricity generated from renewables was achieved, this came at the cost of a disproportionate burden on the economy as a result of support for the most expensive renewables, especially solar energy (audit no. 14/06). The SAO also described the quality of management as poor, owing to the lack of satisfactory information about the programme's substantive and financial development and information necessary to evaluate progress towards the energy-saving and emission-reducing objectives (audit no. 10/31). Even though measures to improve the effectiveness of programmes were adopted and implemented in response to the audits, the findings from audit no. 15/02 confirm the persisting deficiencies in the way the results of energy-saving policies are evaluated and in the way resources for the efficient and economical achievement of the required objective are set up. Overall value-for-money therefore remains limited, as cost-effectiveness is not a decisive factor in the planning and implementation of support. That needs to be changed.

2.3.5 Environment, rural development and regional development

The SAO has also paid attention to other major expenditure areas with an impact on the whole of society and importance for the CR's sustainable development and economic, social, and territorial cohesion. The government's priorities are worked towards via various instruments financed out of the state budget and EU funds in the fields of protection of and care for the environment, rural development and regional development, including the renewal and development of miscellaneous infrastructure.

Environment and rural development

In this field, the SAO completed three audits scrutinising subsidies earmarked for:

- selected rural development projects (audit no. [14/26](#));
- payment of the cost of land consolidation (audit no. [14/40](#));
- water and sewer mains infrastructure (audit no. [15/01](#)).

All these activities drew on funding from the state budget, the *Rural Development Programme (RDP)* and the operational programme *Environment (OPE)*. The audits revealed errors in the way the terms of use of funding were defined and in the functionality of policy implementation management and control and shortcomings in the evaluation of the effects of the provided subsidies. These fundamental deficiencies had a negative impact on the achievement of the required goals.

- In audit no. [14/26](#) the SAO declared that the rules set up by the Ministry of Agriculture (MoA) as the OPE managing authority contained certain conditions that posed a risk of uneconomical use of funds. The MoA thereby made it possible to finance projects that were not consistent with the OPE objectives, i.e., did not serve to modernise agricultural firms, promote enterprise, develop tourism or develop and revitalise villages. In the case of 36 subsidised biomass boilers, for example, the SAO found that 20 of them were located in family houses, when the subsidies were supposed to support enterprise. What is more, after five years in which the subsidy

beneficiary was obliged to operate the boilers, in some cases it offered boilers worth **hundreds of thousands of Czech koruna** to the owners of family homes for a symbolic price of **CZK 10**. The MoA also financed the construction of buildings for animal production without checking whether the applicants' demands matched their requirements. The applicants did not even have to be in the business of animal production. Similarly, the size of the buildings did not have to correspond to the number of kept animals. The MoA moreover set the target values for indicators of the programme's outputs, results and impacts incorrectly and unrealistically and did not possess sufficient timely information to assess the programme's progress and effectiveness. The SAO also stated that certain RDP goals would not be achieved. The MoA reduced the envisaged number of new jobs created from **22,000 to 2,000**, for example. Based on its findings, the SAO declared the RDP management and control system to be only partially effective.

- In audit no. **14/40**, which dealt with the procedure and results of the MoA, the State Land Office and the State Agricultural Intervention Fund (SAIF) when performing land consolidation, the SAO concluded that the possibilities created by drawing up proposals for comprehensive land consolidation for achieving goals in the fields of rigorous protection of agricultural land, improving drainage in the countryside and minimising flood damage and improving the countryside's overall ecological stability remained largely unused. The MoA spent a total of **CZK 13 billion** on land consolidation out of the RDP and state budget from 2007 to 2014. The drawdown of RDP finances earmarked for land consolidation was uneven in the 2007-2013 period, ranging from 35% to 100% of the annual budget, which ultimately slowed down the implementation of the approved land consolidation works. The execution of land consolidation is very slow and incomplete. In reality, only approx. **9%** of all the measures proposed in joint facilities plans (i.e., measures to make land accessible, to protect the soil, water management measures and environmental protection and landscaping measures) have been completed in the CR since 1995. Their completion could take several decades more, given the progress to date. The SAO pointed out that in the CR roughly 50% of arable land is under threat from water erosion and almost 10% from wind erosion. The majority of the vulnerable land is thus not systematically protected and there is a constant decrease in arable land. Failure to execute all the proposed measures endangers the achievement of the purpose and goals of land consolidation.
- In audit no. **15/01** the SAO identified shortcomings mainly concerning the functionality of the management and regulation of the water and sewer mains segment. These shortcomings had a negative impact on the fulfilment of the conditions governing water and water management as set out in EU directives and in the fulfilment of the conditions defined for the audited programmes. Powers continued to be fragmented among the central authorities in the water and sewer mains segment (MoA, MoE, MoF, and others) and there was no central regulator equipped with the appropriate powers. In addition, the conditions governing support out of the state budget and out of OPE differed. The system was not entirely functional: it did not ensure the segment was self-financing and did not resolve other financing risks that had been flagged up since 2004 by, among others, the European Commission. This state of affairs was one of the reasons that the audited programmes lasted longer and cost more than originally planned. The requirements set out in the European Urban Waste Water Treatment Directive, which the CR committed itself to implementing, were not satisfied by the defined deadline of the end of 2010 and most likely will not be satisfied until 2021, according to the audit findings. The reason is problems with a central waste water treatment plant in Prague. Consequently, the Czech Republic is at risk of being penalised by the European Commission.

Regional development

The SAO completed two audits focusing on the renewal and development of regional infrastructure and regional projects. The projects and works were supported out of the state budget and EU funds. Finances earmarked for the following were audited:

- clear-up of flood damage (audit no. [14/27](#));
- implementation of the major regional project *Pilsen - European Capital of Culture 2015* (audit no. [15/04](#)).

These are the audits' principal findings:

- In audit no. [14/27](#) targeting the use of the EU *Solidarity Fund* (EU SF) to clear up damages after the 2010 floods the SAO found that the CR had drawn from this fund over CZK 400 million, which was the maximum possible support. The damage the floods caused to public property amounted to approximately **CZK 16 billion**, and the state budget supplied roughly **CZK 5.3 billion for the clear-up**. The SAO rated the control and supervisory system for money provided to the CR from the EU SF as effective, adding that the subsidies were provided and used in line with the defined procedures and rules. The speed of aid provision was problematic, however. Even though the main purpose of aid from the EU SF is to contribute to a swift return to normal living conditions in afflicted regions, it took inordinately long for the money from this fund to reach the beneficiaries, as the regions only received the money a year and a half after the floods. The reason for the hold-up was the lengthy application approval process at the level of European institutions. This state of affairs should change following the adoption of a number of EU measures governing the provision of aid from this fund in the coming years.
- Poor preparation of projects, indicators that did not provide relevant information and a failure to utilise the allocation under Regional Operational Programme of Cohesion Region Southwest were detected by the SAO in audit no. 15/04. Even at an advanced stage of this significant regional project the City of Pilsen did not decide which sub-projects would be implemented and which would not. Of 17 sub-projects approved, only 11 were actually executed. One consequence of the lack of preparation of investment projects was that a major portion of the allocation was not utilised. The shortfall exceeded €6 million, i.e., approx. 1/3 of the approved allocation. Out of five planned sub-projects to build new premises for important cultural institutions the City of Pilsen carried out just one - a new theatre building. The defined project indicators did not provide relevant information. The Regional Council of Cohesion Region Southwest did not calculate the optimal subsidies on the basis of realistic values for unit prices (per m², hectare, unit etc.) in a structure corresponding to project indicators defined according to the project's substantive focus. Yet, the principal purpose of the project indicators in connection with their budgets was to measure the project goals, assess projects or evaluate the achieved effects and possibly also the project's quality.

The identified systemic shortcomings in the provision and use of subsidies, the functionality of management, and the evaluation of the value-for-money achieved should be a starting point for the adoption of measures to deliver the necessary improvement in the effectiveness of policies. These primarily include speeding up the implementation of land consolidation, improving the effectiveness of rural development measures and ensuring that regulation and management in the water and sewer mains segment are functional.

One fact welcomed by the SAO is that the MoA is working with the SAIF to try to adopt measures designed to improve the rural development support tools in the 2014-2020 programming period (audit no. [14/26](#)). According to government resolution no. 86 from 2015 concerning the need for water and sewer mains to be self-financing, the MoA is to see to and check the creation of reserves for the renewal of water and sewer mains networks without delay and to make it obligatory for the infrastructure owners to announce and publish an overview of resources for execution of a water and sewer mains financing and renewal plan by the end of 2015. In response to the results of the audit the MoA also agreed with the SAO's recommendations and will, for example, continuously revise the programme indicators and parameters according to the structure of the received applications (audit no. [15/01](#)).

2.3.6 Defence and security

Another priority of the SAO's audit work was state expenditure on the defence and security of the state and on the protection of its citizens. The reasons are both the financial significance of the state's resources channelled into these duties and this area's social importance. That is reinforced by the essential requirement that this area of state policy is no different from others in satisfying the state's and citizens' requirements in an effective, efficient, and economical manner. In response to new threats the state's ability to provide security is gaining in importance.

From the SAO's long-term point of view, this is still a risk area in terms of the efficiency of state expenditure. The SAO has repeatedly set out the reasons: an absence or low standard of strategic and conceptual management; lack of preparation of projects; equipment and services bought without sufficient regard to efficiency and economy; failure to comply with the legally prescribed public procurement procedures; and failure to make use of the economic potential of public tenders. The instruments through which the responsible authorities pursued government policy were not always a guarantee that the requirements would be satisfied effectively. One of the main problems is the poor effectiveness of programme financing, which has long been only partly successful at fulfilling its function. Programmes are often not founded on predefined and justified needs and priorities, realistic timing considerations or actual sources of funding. Their parameters are not specific and assessable in terms of the policy goals. Programmes are fundamentally altered in the course of implementation without sufficient justification of the changes and their impacts on the efficiency of state expenditure.

Some of these recurring reasons for the state failing in its role as the custodian of public money were again shown up by audits completed in 2015. The audits targeted:

- the renewal and development of the equipment of the Fire Rescue Service of the CR (FRS) in the MoI department (audit no. [14/23](#));
- the purchasing of services in the Ministry of Defence (MoD) department (audit no. [14/36](#));
- the performance of biological protection tasks in the MoD department (audit no. [14/41](#)).

The most serious systemic shortcomings the SAO detected in 2015 mainly concerned the absence of a concept for the renewal of FRS equipment and the dysfunction of related programme financing in the MoI department, as well as the low standard of management and control and assessment of the economy of spending in the discharge of certain MoI duties. The upshot is that in these areas the state is unable to guarantee that it obtained appropriate value-for-money:

- Audit no. [14/23](#) found that the MoI does not have an integral concept clearly defining the overall material and financial requirements of the FRS and setting deadlines for satisfying these requirements. The MoI often changed the duration of the audited programmes, which were extended by three or four years. What is more, the amount of funding was changed during the course of programmes. In one of the audited programmes, for example, the original budget was changed three times and the completion of the programme was set back from 2014 to 2017. The financing was first raised twice by a total of **CZK 1.8 billion** and then reduced by **CZK 451 million**. Although fire stations were built and equipment purchased under the programmes, the documentation did not define any concrete goals or methods for achieving them. It is therefore unclear to what extent each programme contributed to improving the FRS's material resources. Instead, the programmes' documentation was adjusted to correspond to the actual state. In the *Replacement of FRS Assets* programme, for example, 13 new FRS stations were meant to be built by the end of 2011. Only in January 2012, when the programme was meant to have been completed, was the defined number reduced to two stations, with no justification offered for this major change. In the SAO's assessment, the programmes were therefore not a tool for delivering a particular defined and properly justified outcome.

- In audit no. **14/36** the SAO scrutinised how the MoD evaluated the cost-effectiveness of spending on meals provision and cleaning in and the running of accommodation facilities and the technical safeguarding of munitions warehouses. The MoD spent a total of **CZK 5.4 billion** on purchasing these services in the years 2009-2014. The results of the SAO audit showed that project management for the purchasing of these services was insufficient, which resulted in numerous errors in public procurement, violations of obligations laid down by the budgetary rules, failure to assess the economy of spending and the conclusion of disadvantageous contracts. In the case of meals provision services, for example, the MoD possessed information that contracts concluded with its own part-funded organisation were disadvantageous but continued to sign uneconomical contracts with it anyway. This fact confirms the inadequate management and ineffective control of the part-funded organisation *Armádní Servisní* by the MoD as the organisation's founder. In nine cases, the SAO judged the conduct of MoD and *Armádní Servisní* to be breaches of budgetary discipline with a total value of **CZK 2.2 billion**, **CZK 2.1 billion** of which concerned MoD public procurement for technical safeguarding services for munitions warehouses. One especially serious finding is that spending on cleaning and meals provision services was audited by the SAO as long ago in 2008⁷ but the MoD had not executed the remedial measures it informed the government of. That led to a worsening of the problems caused by the very deficiencies the SAO drew attention to seven years earlier.
- In audit no. **14/41** the SAO identified a high risk of uneconomical spending by the MoD department. The construction of the Těchonín Biological Protection Centre (BPC) has not been completed yet, so the facility is not capable of discharging its duties in full so that it can honour the CR's commitments towards NATO. Yet at least **CZK 2.9 billion** has been spent on the BPC since 2001, out of both the MoD budget heading and US *Foreign Military Financing*. Since a decision was made to build this kind of unique biological protection facility, the MoD has failed to draw up a concept for the development and effective use of the BPC. The SAO therefore recommended that the MoD immediately decide to complete key buildings in the facility and secure funding for the operation and regular renewal of technologies and equipment. At the same time, the SAO recommended that the use of the BPC be ensured in the context of the integrated rescue system and public healthcare system and specialised scientific research centres in the CR.

In response to the audit of programmes to renew and expand the equipment of the FRS (audit no. **14/23**) the MoI decided not to continue with the existing assets replacement programmes and to create new programmes whose programme documentation would take into account the SAO's conclusions. The programmes will be based on the FRS's objective requirements, which will be elaborated into specific key projects. The MoI declared that these projects will be grounded in the existing and desired state of affairs and a quantification of the planned benefits. The MoI undertook to link programme evaluation to objective requirements, actual costs and factual achievement of the defined goals.

The results of the MoD audit had not been discussed by the Czech government by the end of 2015. Given that the MoD outsources a considerable extent of support services, it is essential that the MoD finally fulfil its responsibility for the entrusted funds, adopt the kind of measures that will enable the chosen solution to be evaluated in terms of value-for-money and eliminate uneconomical purchasing of services. In the case of the BPC, the MoD must ensure that the uneconomical spending of billions of Czech koruna by the state is prevented.

⁷ The audit conclusion from audit no. 08/01 - *Outsourcing of the Ministry of Defence to provide activities of general security* was published in volume 4/2008 of the *SAO Bulletin*.

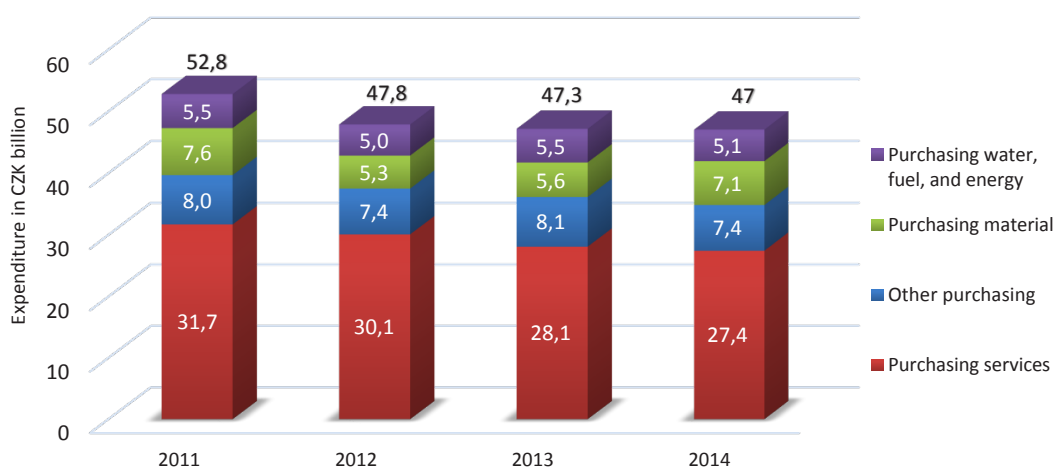
2.4 Expenditure on administration and state property - significant potential for savings and making the operation of state organisations more efficient

The management of state property and resources by state organisations is another area the SAO has devoted long-term attention to. Eight audits in this field were completed in 2015, targeting:

- the financial management of selected organisational components of the state (OCS) and organisations part-funded out of the state budget (part-funded organisations) (audit no. **14/29** scrutinised selected part-funded organisations of the Ministry of Culture (MoC) and MoEYS; audit no. **14/31** scrutinised selected part-funded organisations of the MoRD; audit no. **14/34** scrutinised the State Land Office; audit no. **14/35** scrutinised selected regional directorates of the Police of the CR; and audit no. **15/08** scrutinised selected components of the Fire Rescue Service);
- the financial management of the State Transport Infrastructure Fund (audit no. **14/30**);
- the financial management of selected state firms under the authority of the MoA (audit no. **14/11**);
- administration of the state's capital interests in commercial companies (audit no. **15/05**).

The SAO has systematically endeavoured to draw attention to those expenditure areas where it sees room for savings. This is mainly expenditure linked to the operation of state organisations and the administration of state property. The state closing account for 2014 shows that although current expenditure increased by **CZK 29.3 billion** compared to 2013, some components of this expenditure were down compared to 2013, e.g., purchasing of services fell by **CZK 0.4 billion** and purchasing of water, fuel and energy by **CZK 0.3 billion**. Graph No. 7 shows selected non-investment expenditure items of budget headings and expenditure by state funds. Expenditure on purchases of services fell by **CZK 0.7 billion**, for example. These savings are without doubt the result of both external factors (as stated by budget heading administrators in the state closing account), and, for example, factors like a change of suppliers, energy savings, revitalisation of buildings in the previous period, lower bid prices in public procurement tenders or the overall optimisation of costs.

Graph No. 7: Selected non-investment expenditure in budget headings incl. state funds 2011 to 2014



Source: MoF Monitor information portal; <http://www.mfcr.cz/cs/o-ministerstvu/zakladni-informace/informacni-systemy/iissp--monitor>; selected sub-categories of budgetary items.

An example of good practice in achieving savings in expenditure on these purchases can be seen in the SAO's findings from audit no. [14/29](#) targeting the defrayal of selected cost items in part-funded organisations of the MoC and MoEYS. Here the SAO declared that central purchasing of electricity had led to a fall in the costs in question since 2013. Between 2012 and 2014, electricity costs fell by 58% in the case of the National Library, 24% in the case of the National Gallery and 33% in the case of the National Technical Library. Similarly, after a central public procurement process by the MoC in 2013 the cost of cleaning services fell by 52% in the case of the National Library and by 43% in the case of the National Gallery between 2012 and 2014.

However, the results of the SAO's audits in 2015 also showed that certain state organisations do not operate in an economical, efficient, and effective manner. Specifically, in the activities of the auditees this involved uneconomical and inefficient spending on external legal, advisory, and consulting services and on purchasing services related to ordinary activities that could have been handled by the organisations' own workforce. It is in this area that the SAO sees room for further savings.

- In audit no. [14/30](#) the SAO found that the State Transport Infrastructure Fund (STIF) concluded a total of 13 contracts for legal, advisory, and consulting services from 2011 to 2014. The SAO had doubts about the effectiveness, efficiency, and economy of the costs involved in these services. In most cases, the contracts were for standard activities linked to checks of procurement proceedings and the STIF should perform these activities through its own employees. The STIF paid a total of **CZK 3.6 million** for these services, and mostly selected the service providers directly without comparing multiple offers. In 2013, for example, the STIF paid a private company **CZK 574,000** for checking the STIF's public contracts, yet the checks were performed by a team consisting of three STIF employees and just one employee of the legal services provider. Checking one public tender cost almost **CZK 23,000**, which was almost double the amount paid by the Road and Motorways Directorate for an equivalent check. Furthermore, in 2011 and 2012 the STIF commissioned the elaboration of two equivalent methodologies for checking project documentation and valuating buildings, paying over **CZK 1 million** for them. One of the documents contained nothing but general information, however, and cannot therefore be regarded as a methodology.

In its response to the SAO audit the STIF pledged to boost its personnel capacity and ensure that justifications of the commissioning of legal, advisory, and consulting services would demonstrably include an assessment whether its own employees could perform the required work.

- As in the preceding case, in audit no. [14/11](#) the SAO found that the state firm Morava River Basin Administration did not proceed economically when, on the basis of long-term contracts, it outsourced even simple administrative tasks linked to public procurement at an hourly cost from **CZK 2,500 to CZK 2,900**. In most cases, these tasks should have been performed by the Morava River Basin Administration's own staff.

On the other hand, state authorities are unable to collect suitable revenues for services rendered, as confirmed by the results of audit no. [15/08](#) targeting selected organisational components of the state that are part of the FRS. The SAO also found room for savings in the purchasing of equipment for FRS staff. In this audit the SAO found that:

- The General Directorate of the FRS (GD FRS) set inadequate rules governing claims for reimbursement of costs incurred during call-outs to traffic accidents. The legislation on the FRS's entitlement to these reimbursements is not fully in line with the obligation of insurance companies to pay the exercised claims, which is the main reason why the revenue in 2014 did not even reach **CZK 150 million** out of the envisaged approx. **CZK 300 million**. The SAO recommended that the legislation be unified and a uniform method be defined for exercising, charging, and collecting reimbursements for call-outs to traffic accidents. In providing a service

consisting in hooking up buildings to the centralised protection desk, GD FRS did not unify the procedure for concluding contracts or for setting prices for connection to the desk and for false-alarm call-outs. That led to a haphazard approach the issue and differences in the payments demanded. The total revenues for connecting buildings to the centralised protection desk for 2013 and 2014 ranged from **CZK 0 to CZK 28 million among the auditees**. The SAO also found that GD FRS did not centrally select suppliers of call-out equipment, e.g. suits, gloves, and footwear. This equipment was required for all the approx. 6,300 FRS shift employees, however. The upshot was differences in the unit prices paid for call-out equipment. For example, in the auditees the unit price of a multi-layer call-out suit varied by more than **CZK 8,000**.

The SAO sees room for further savings in improved care for state property. The audit results demonstrated that certain OCS and part-funded organisations did not make economic and efficient use of property for discharging the functions of the state. They did not use the resources at their disposal to cover essential requirements and in some cases acquired property which they subsequently did not use for the exercise of their powers. At the same time, they did not conduct themselves in a way ensuring they did not harm property and did not unjustifiably reduce the extent and value of the property or the yield from this property, thereby violating the budget rules and the Act on State Property⁸. The shortcomings mainly concerned the acquisition of superfluous property, the unauthorised private use of passenger vehicles, including fuel, without adequate recompense and reducing the yield from lettings of state property, as the following examples illustrate:

- In audit no. **14/35** the SAO found that the Regional Police Directorate (RPD) of the City of Prague declared newly acquired motor vehicles worth **CZK 2.7 million** surplus to requirements without making further use of them and transferred them to another organisational component of the state free of charge. The RPD of the Moravian-Silesian Region justified the need to acquire 12 special minibuses worth a total of **CZK 14 million** in the context of programme financing and subsequently declared nine of them as surplus to requirements and transferred them to another RPD.
- In audit no. **14/29** the SAO found that the National Library provided two company vehicles to its employees for private use free of charge during the audited period, and even hired a replacement vehicle for private purposes for almost **CZK 27,000**, even though the legal grounds for their use in this way were not in place. In both cases, the National Library also paid for fuel. The SAO judged these cases to be breaches of budgetary discipline worth more than **CZK 42,000** and notified the appropriate financial office.
- In audit no. **14/30** the SAO found that the STIF allowed certain passenger cars to be used for private travel without charging a rental price. The reported proportion of private journeys ranged from **4% to 49%** in the years 2012 to 2014.
- In audit no. **14/34** the SAO found that the State Land Office provided its employees with company vehicles for private purposes free of charge in contravention of the Act on State Property and paid the full amount for repairs and maintenance on the audited sample of 43 company vehicles, even though 36% of the use of these vehicles in 2013 and 2014 was by State Land Office employees for private purposes. The State Land Office also enabled its employees to declare business journeys at a time when they were on ordinary leave.
- In audit no. **14/29** the SAO scrutinised lease agreements and found that the National Library did not include in a lease agreement rules on rent increases in line with the previous year's inflation, thereby reducing the proceeds from the letting of property by **CZK 1.1 million** in the audited period of 2012-2014.

⁸ Act No. 218/2000 Coll., on the budgetary rules and amending certain related acts (the Budgetary Rules); Act No. 219/2000 Coll., on the property of the Czech Republic and on the representation of the Czech Republic in legal matters.

Every year, the SAO finds that state organisations fail to make thorough use of all available legal means to assert and defend the state's rights as an owner when protecting property against unauthorised interventions, even though the Act on State Property requires them to. The following example is evidence of that:

- In audit no. **14/29** the SAO found that the National Gallery had failed to protect its collection items properly. During a ten-year stocktaking period ending in 2012, the National Gallery did not find a bronze sculpture, a painting, and 31 drawings, including works by Josef Lada, František Kupka, and Jan Zrzavý, and a further 978 collection items. The National Gallery lent Jan Zrzavý's drawing *The Zeyer Garden* and a further 16 drawings and one graphic work to a museum in Amsterdam in 1999 and 2000 for an exhibition called *Prague 1990*. According to the documents, when the exhibition finished the National Gallery took back the drawing from a transport firm. Two years later it discovered that the drawing was missing, nevertheless it only filed a criminal complaint during the SAO audit, i.e., at least 13 years after the drawing was lost. After the 2002 floods, the National Gallery did not perform an inventory of the collection housed in the Zbraslav Chateau depository and therefore did not ascertain the actual extent of damage to collection items. As of the end of the audit, the National Gallery had not found 35 collection items in connection with the floods, including 28 sculptures, and had not even notified the Police.

The state's capital interests in commercial companies rank as a major component of the state's financial assets. These are mainly state-owned stakes in the registered capital of commercial companies. In this area, the SAO performed audit no. 15/05, which scrutinised ministries' approach to capital interests from the perspective of the execution of ownership policy, the rules of the management of capital interests in the ministries' internal regulations and the remuneration principles⁹ in internal regulations, including their application in the exercise of shareholder rights. The SAO scrutinised three ministries' management of the state's capital interests in 31 commercial companies and declared that:

- **there is an absence of a state ownership policy defining primarily how the state sees its position as the owner of commercial companies with state-owned stakes;**
- **the legislation governing the appointment of persons authorised to act on behalf of the state as a shareholder is unbalanced;**
- **there are no rules specifying how the state should proceed when its sole-shareholder rights in a company are exercised by several ministries at once;**
- **ministries' internal regulations contain merely general criteria for selecting representatives to company bodies and have no criteria at all for recalling them;**
- **ministries incorporated the principles on the remuneration of senior employees and members of bodies into their internal regulations to various extents, ranging from including them in their entirety to minimal rules; e.g., the part governing the pay-out of rewards linked to achievement of goals was completely missing from the Mol's rules;**
- **there are shortcomings in the accounting for and stocktaking of capital interests.**

Based on these findings, the SAO recommended that a state ownership policy should be drawn up and, as regards the exercise of the state's capital interests, the general legally defined obligations should be made more specific so that there can be no doubt which obligations ministries acting in the state's name absolutely must fulfil. In addition, legislation is required on the uneven approach

⁹ *Principles of the Remuneration of Management Employees and Members of the Bodies of Commercial Companies in which the State has a Capital Interest Exceeding 33%, including State Enterprises and other State Organisations Established by Law or by a Ministry, approved by Czech government resolution no. 159 of 22 February 2010.*

to the exercise of shareholder rights, the remuneration principles should be incorporated into ministries' internal regulations so that the state's interests are sufficiently defended, and compliance must be monitored.

The duty of the state as the founder of state enterprises is to discharge duly its duties as laid down in the provisions of the Act on State Enterprises with regard to the assigned property and development strategy. Among other things, state enterprises should ensure that their business leads to equilibrium between the need for and generation of finances and to economical use of all resources. That this is not always successfully done is illustrated by the following case:

- In audit no. **14/11** targeting the financial management of the state enterprises Morava River Basin Administration and Ohře River Basin Administration, the SAO found that the MoA was not duly discharging its obligations as founder with regard to the assigned property and the development strategy of the audited state enterprises. Since 2008, for example, it had not drawn up a strategy for small hydroelectric plants, which prevented the state firms from developing in this area. The audited state firms declared a profit in the years 2011-2013, but their profitability indicators were poor. Subsidies from the MoA played the key role in their profits. One factor affecting the business of both enterprises was the regulated price for the off-take of surface water which did not cover the actual costs associated with the off-take of surface water. The difference between the regulated price and the actual costs of surface water off-take was over **CZK 234 million** for both companies for the years 2011 to 2013.

Based on the audit results, the SAO recommended that the strategy for the development of small hydroelectric plants should be finalised in the MoA department with a view to acquiring further sources of funding for the work of the state enterprises in charge of the individual river basins; that consideration should be given to adjusting the price regulations so that the price for surface water off-take corresponds to the actual costs; and, in the case of the Baťa Canal, that consideration should be given to amending the Act on Waters and the Act on Inland Navigation so that tolls are levied on the use of this watercourse to generate sources of funding for the state enterprise to manage and maintain the canal.

2.5 Financial resources from abroad - problems with achieving financial and substantive goals and with the use and sustainability of results

During 2015, the SAO completed 11 audits that focused first and foremost on the management of financial resources provided to the Czech Republic from abroad. All the audits scrutinised finances provided out of the European Union budget.

Measures financed with a view to achieving the goals of economic, social, and territorial cohesion were targeted by the audits of finances earmarked for the implementation of selected projects of the following operational programmes:

- *Integrated Operational Programme* (audits nos. **15/03** and **15/06**);
- *Human Resources and Employment* (audit no. **14/15**);
- *Research and Development for Innovation* (audits nos. **14/22** and **15/06**);
- *Education for Competitiveness* (audits nos. **14/24** and **15/06**);
- *Transport* (audit no. **14/32**);
- *Enterprise and Innovation* (audit no. **15/02**);
- *ROP Southwest* (audit no. **15/04**).

An audit of selected measures under the *Rural Development Programme* (audit no. **14/26**) dealt with support for agriculture, scrutinising the achievement of goals, and the fulfilment of the projects' purpose and sustainability.

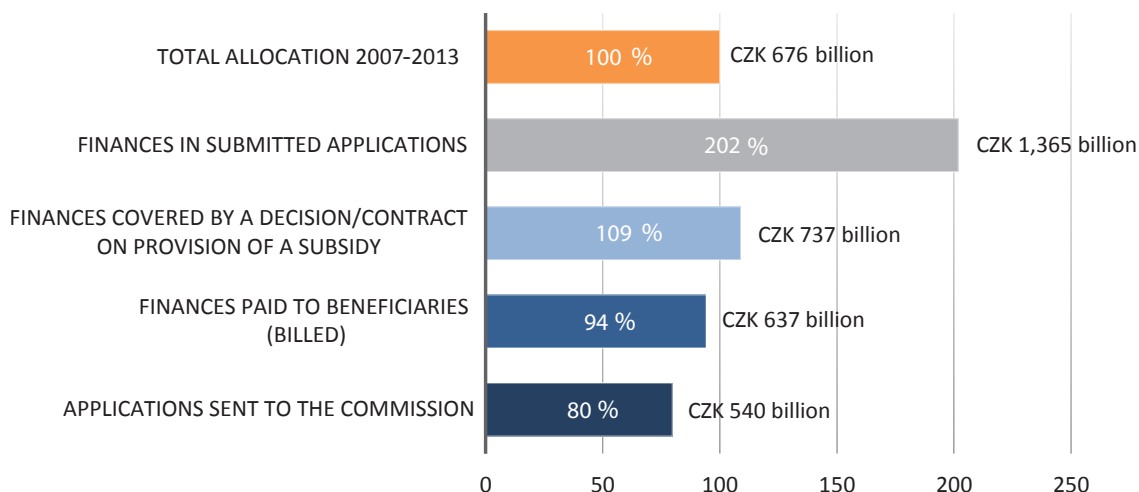
Two other audits, audits nos. [14/27](#) and [14/37](#), scrutinised finances provided to the CR for the clear-up of the consequences of the destructive floods of 2010 out of the *European Union Solidarity Fund* and the discharge of selected accounting units' obligations when keeping accounts of finances received from abroad.

The results of these audits were evaluated in the preceding sections of this annual report (Chapter 2.3).

Based on the outputs from its audit, monitoring and analytical work in the field of finances provided to the CR from abroad, and especially from the EU budget, the SAO's reports have repeatedly warned about a fundamental problem consisting in the insufficient utilisation of the allocated funds and the poor effectiveness of the implementation systems of certain programmes.

The CR has long ranked among the Member States with the worst track records of utilising allocations from the EU. In all operational programmes throughout the 2007-2013 programming period, the managing authorities in question had problems utilising the funds allocated to the CR through the Structural Funds and Cohesion Fund. According to the MoRD's latest information, as at 6 January 2016 a total of CZK 637 billion had been paid out to beneficiaries, i.e., 94% of the adjusted allocation for the CR, resulting in CZK 39.6 billion left unpaid at the end of the 2007-2013 programming period¹⁰ (see Graph No. 8). The adjusted allocation, the equivalent of CZK 677 billion, was the result of a CZK 20 billion reduction of the original allocation in consequence of automatic decommitment by the European Commission (the Commission) on the grounds of failure to fulfil the rules in 2013 and 2014.

Graph No. 8: Aggregate drawdown from the Structural Funds and Cohesion Fund as at 6 January 2016 (CZK billions)



Source: MoRD; <http://www.dotaceeu.cz/cs/Informace-o-cerpani/Mesicni-pokrok-v-cerpani>.

Despite a number of analyses and the adoption of crisis plans, the unfavourable development was overturned only partially. Even though the CR ranked among the least successful Member States in 2015 in terms of utilisation of the allocation¹¹, in that year it managed to speed up the drawdown of allocated finances, so that whereas at the start of 2015 the drawdown shortfall estimates for the past year were still around CZK 85 billion at the upper limit, in the second half of the year they were just CZK 36 billion. According to an MoRD press statement dated 8 January 2016, the current

¹⁰ In isolated cases, the final deadline for submitting an application for payment to the European Commission may be postponed to 30 June 2016.

¹¹ According to the available data published by the Commission at the end of 2015, the CR occupied 21st place - website of the European Commission/Regional Policy/Information Source/Cohesion Policy Data.



estimate of the European subsidies drawdown shortfall for 2015 was below CZK 10 billion. The most up-to-date scenario therefore indicates that approx. CZK 30 billion will remain unutilised for the entire 2007-2013 programming period.

On the other hand, the SAO drew attention to the risk that the effort to maximise drawdown of the allocated funds could, in individual projects, result in the principles of effectiveness, efficiency, and economy being flouted and ineligible expenditure being claimed. That was confirmed by the results of audits approved during 2015. The SAO stressed the reasons for the large extent of deficiencies in the utilisation of EU support. In a number of cases, the principal reasons are the poor quality of management work by the implementing authorities and, in some cases, the limited functioning of the control systems put in place. These deficiencies are manifested in varying error rates in the various processes of support implementation. The following deficiencies were the most common:

- **non-specific and unmeasurable goals were set for programmes and projects (e.g., audits nos. 14/24, 14/26, 15/04);**
- **control systems were poorly designed and control work was inadequately performed and did not detect errors (e.g., audits nos. 14/24, 15/06);**
- **projects were incorrectly evaluated with regard to effectiveness, efficiency, and economy (audits nos. 14/24, 14/26, 15/04);**
- **poorly designed rules in connection with economy (e.g., audits nos. 14/26, 15/04);**
- **failure to ensure projects were sustainable (e.g., audits nos. 15/06, 14/24).**

As mentioned above, one consequence of the endeavour to maximise drawdown of the allocated funds was that in some cases the managing authorities paid no regard to effectiveness when selecting projects and designed the subsidy provision rules in a way making it possible to fund projects that were not effective and practical or provided no guarantee that their outputs would be sustainable throughout the defined period.

- Compliance with the project sustainability conditions in projects under three operational programmes (IOP, OP RDI and OP EC) was the focus of audit no. 15/06. The SAO declared that in 14 of the 56 audited projects there was a risk that the beneficiaries would have to return part or all of the subsidy, either because of violations of the sustainability conditions or because of other identified shortcomings. In the case of OP RDI the SAO found that the MoEYS had not defined any obligatory monitoring indicators measuring the results and benefits of projects concerning scientific research centres throughout the sustainability period. The cost of building and running these centres will exceed **CZK 60 billion** over the sustainability period (see also section 2.3.2 of this annual report). The SAO audit found that many of the new research centres would fail to secure further sources of funding (through contractual research or from international grants) at the level originally envisaged.

In addition, the MoEYS as the OP EC managing authority stopped demanding compliance with the sustainability condition in individual national projects during the programming period. Although this action did not contravene the European legislation, there is a risk with expensive projects targeting systemic changes that it will be impossible to ensure they are economical, efficient, and effective. The MoEYS spent money ineffectively when implementing three national projects with a total value of **CZK 242 million**. One example of ineffectiveness and simultaneously violation of the sustainability condition was the MoEYS' project to establish inclusive education support centres at a cost of over **CZK 133 million**. The project was supposed to verify and calibrate the conditions for inclusive education in primary schools. However, all nine regional centres to support inclusive education that were created during the project ceased to exist without replacement after the project ended.

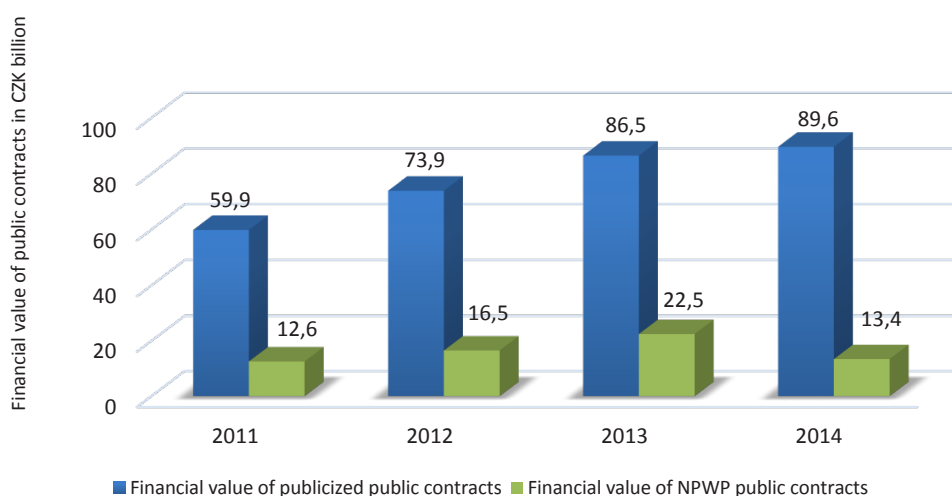
In connection with this audit, the SAO warned that closer attention should be paid to the use of the outcomes of EU-funded projects after the projects come to an end. If the project outputs do not find practical use in the future, the subsidy money is not being used effectively or efficiently. The subsidies are not intended merely to finance the project itself: they should help bring about long-term improvements in the area in question.

In audit no. **14/37**, dealing with finances received from abroad and the way they are reflected in the accounts of selected auditees, the SAO pointed out that the assessment of the actual cost of expenditure policies co-financed out of the EU budget lacks comprehensive information about the actual cost the CR will bear in connection with its involvement in the EU's expenditure policies (e.g., under operational programmes). According to the SAO, particular attention should to be paid to the fact that the performed financial corrections done in the form of flat-rate corrections could result in the money that was originally planned for the CR to receive from the EU budget will not be paid out. This in fact increases the CR's budget funding of EU expenditure policies, i.e., increases the amount provided out of the state budget and increases the costs of the funds received from the EU budget. **In this context, the SAO therefore points out that the information published about the actual financial cost of the EU's expenditure policies in the CR is inconclusive.**

2.6 Public procurement - failure to exploit the economic potential of public procurement

The SAO sees huge potential for improving the overall effectiveness of the state's financial management in the expenditure savings that can be achieved in public procurement, which has for long remained one of the highest-risk areas. It is for that reason that at least half of the SAO's audits contain a section targeting scrutiny of the procedures used by state organisations when awarding contracts, not just in legal procedural terms but also from the perspective of how economically money is spent on the basis of contract award procedures. The value of public contracts awarded by state administration in 2014 reached almost **CZK 90 billion** in 2014, as Graph No. 9 shows. The graph also allows us to observe the proportion of public contracts assigned in negotiated procedure without publication ("NPWP") which, according to the SAO's findings, is a method for awarding public contracts used frequently by certain state organisations.

Graph No. 9: Value of public contracts awarded by state administration (OCS and part-funded organisations), incl. state enterprises, according to the *Public Contracts Bulletin*



Source: *Public Contracts Bulletin* and the SAO.



The results of audits in 2015 again draw attention to recurring incorrect procedures and non-compliance with the rules when awarding public contracts, resulting in uneconomical use of resources. The undermining of the competitive environment, the failure to scrutinise cost-effectiveness when awarding public contracts, and the resulting failure to attain the most favourable price take place in various ways:

- **unauthorised use and overuse of negotiated procedure without publication;**
- **incorrect use of exemptions when awarding public contracts without competition to a single contractor;**
- **restriction of competition through excessively strict qualification conditions;**
- **self-serving division of the subject of a public tender into several separate contracts so that they can subsequently be awarded as below-the-threshold contracts or small-scale contracts;**
- **incorrect procedure when assessing bids and failure to set assessment criteria that would make it possible to judge how economical concluded contracts are.**

This is documented by the following examples:

- The SAO identified the most serious errors in audit no. **14/36** in contracts for the technical safeguarding of munitions warehouses. These contracts consisted in the purchasing of technologies and building alterations in munitions warehouses. The MoD did not evaluate the cost-effectiveness of the chosen solution and awarded contracts for safeguarding services to a single contractor in negotiated procedure without publication, even though the contracts should have been competed for in public tender, according to the SAO. As part of the contracts with this contractor the MoD also undertook gradually to buy security technology from the contractor. It paid for the technology in instalments even though the Act on State Property prohibits this. This was what is known as “disguised financial leasing”. For these assets the MoD paid **CZK 1.6 billion** that was not intended for this purpose. According to the SAO’s assessment, the MoD was in breach of budgetary discipline involving a total value of **CZK 2.1 billion** in connection with technical safeguarding.
- In audit no. **14/29** the SAO found that the National Technical Library awarded a public contract for equipment inspection and servicing worth **CZK 29 million** without the necessary legal conditions being in place. This enabled it to influence the selection of the best offer. In addition, when the National Gallery conducted an award procedure for transport services for its collection items and exhibits it did not put in place the conditions enabling the submission and evaluation of bids from multiple candidates, thus restricting public competition. During the audited period, the value of the transport services awarded without a public tender was **CZK 6.2 million**.
- In audit no. **14/20** the SAO found that the MoF commissioned the elaboration of project documentation from a general contractor in negotiated procedure without publication, without the conditions for this type of award procedure being in place. The tender for the construction of the Státní tiskárna cenin data centre was won by a company that had already been involved in defining the data centre’s technical parameters and drew up the project documentation for its technological part. In the subsequent tender this company was the only one not expelled from the tender and its bid corresponded exactly to the award conditions that were based on the project documentation it had authored. The other candidates were discarded because their bids did not satisfy the contract award conditions, even though their bids were roughly **CZK 50 million** lower. The SAO also identified shortcomings in the services the STC data centre provides to the MoF. For example, without a tender the MoF concluded two contracts in classified procedure, making use of an exemption in the Act on Public Procurement. In the case of a contract for the provision of Service Desk services, awarded without a tender, the company that created the contract award documentation, including the classified part, became the subcontractor. In the

case of a contract for the operation of the state treasury, also awarded without a tender, the company that supplied this information system to the MF became STC's subcontractor.

- In audit no. **14/21** the SAO found that the Railway Infrastructure Administration limited the number of candidates in procurement procedures to select suppliers of repair and maintenance work by imposing excessively strict qualification requirements, which could hamper the selection of the most advantageous offer. For contracts with an expected value of **CZK 2 to 5 million** the RIA required that the contractor demonstrate it had performed construction work worth **CZK 50 million** over the previous three years. In the case of construction work related to railway substructures and superstructures, for example, **56%** of contracts worth **CZK 4.6 billion** was won by just **3%** of contractors. The RIA was guilty of further deficiencies in procurement procedures to select contractors. These included the unjustified discarding of a candidate whose bid was **CZK 1.8 million** lower than the selected candidate's price. The SAO judged this action by the RIA in selecting the contractor to be uneconomical. Other deficiencies were unequal treatment of candidates and non-standard procurement procedures. These deficiencies mainly applied to below-the-threshold public contracts which, in the case of the RIA as a sectoral contracting organisation, are covered by an exemption from the Act on Public Procurement. The SAO found no substantive reason for this exemption to apply to the RIA.
- In audit no. **15/03** the SAO found that the MoI awarded five public contracts worth **CZK 391 million** directly to Czech Post's ICT Services unit without a tender, by making use of the in-house exemption¹², even though not all the legally defined conditions were in place. In the SAO's opinion, this use of the exemption was incorrect. The MoI did not check whether this method of awarding the public contracts was advantageous.

Based on the serious findings from audit no. 14/20, the SAO recommends changing the Act on Public Procurement in a way making it impossible to advantage firms taking part in the preparation of the public contract in question.

2.7 Miscellaneous public funds - systemic shortcomings in healthcare funding

In 2015, the SAO completed one audit targeting the management of funds collected by law in favour of legal persons. In audit no. **14/33** the SAO scrutinised how the Health Insurance Company of the Ministry of the Interior of the Czech Republic (HIC MoI) managed these funds. HIC MoI is the second biggest health insurer in the CR, with over **CZK 1.2 million** insured persons. In 2014, it collected over **CZK 26.4 billion** in insurance premiums.

In connection with this audit and earlier audits of health insurance companies¹³ the SAO has repeatedly drawn attention to many discrepancies in the legislation and legislative shortcomings that give rise to serious systemic risks. These include:

- **the discrepancy between the healthcare payments decree and the Act on Public Health Insurance consisting in the provision of capitation payments to general practitioners without the need to provide a health service;**
- **the option for health insurance companies to deviate from the healthcare payments decree and conclude individual annexes to contracts without any further restriction, which adds to the complicated healthcare services funding system the risk of unequal treatment of providers of healthcare services;**

¹² Procedure pursuant to Section 18 (1) (e) of Act No. 137/2006 Coll., on public procurement.

¹³ Audit no. 08/36 - *Funds collected in compliance with the law by the Military Health Insurance Company of the Czech Republic*, audit conclusion published in volume 3/2009 of the *SAO Bulletin*; audit no. 09/29 - *Funds collected upon the act in favour of the General Health Insurance Company of the Czech Republic*, audit conclusion published in volume 1/2011 of the *SAO Bulletin*; audit no. 13/22 - *Funds collected in accordance with law in favour of the Czech Industrial Health Insurance Company*, audit conclusion published in volume 2/2014 of the *SAO Bulletin*.



- the fact that the current legislation, which does not push down supplier prices for medical equipment, does not ensure economical expenditure;
- the fact that the conditions and level of payments for long-term intensive care and long-term intensive nursing care are not defined by the Ministry of Health (MoH) decree issuing a list of medical actions, even though the MoH has been considering including these actions in the decree for more than ten years;
- shortcomings in the legislation, which did not lead to health insurance plans being approved in good time.

In audit no. **14/33** the SAO found that in 2014 HIC MoI had almost 26,000 healthcare providers and paid them **CZK 26.1 billion** for healthcare services. In at least **82%** of cases HIC MoI did not proceed according to the payments decree and concluded annexes to contracts enabling it to pay healthcare services providers different prices for the same actions. For example, it paid different prices to comparable types of in-patient healthcare services providers for the same special actions such as endoprosthesis of large joints or implants of cardioverters and cardiostimulators. The payment for implanting a selected type of cardiostimulator ranged from **CZK 106,000** to **CZK 200,000**. The insurance also paid different prices for the same treatment to spa care providers. The existing legislation makes this procedure possible.

In the area of the drawdown of funds the SAO found that in the years 2009 to 2013 HIC MoI contravened the Act on Public Health Insurance by paying general practitioners almost **CZK 13 million** out of the basic fund under two projects (*Integrated Care System* and *Life Card*), even though healthcare services were not provided to insured persons out of these finances. The operational fund of HIC MoI had relatively high balances in the period under scrutiny. The undrawn finances amounted to **CZK 1.2 billion** at the end of 2014. The SAO recommends amending the legislation so that disproportionately high balances in operational funds are eliminated. In the SAO's opinion, the amount of money in this fund should correspond to the health insurance company's actual need to pay operating costs. When there are excessive reserves there is not sufficient pressure for economical and efficient use of money. HIC MoI uneconomically paid an external advisor a total of **CZK 868,000** out of the operational fund, including for work that should have been done by employees of the insurance company. HIC MoI paid the uneconomical sum of **CZK 635,000** out of the prevention fund in connection with recuperation treatment for children. In addition, when paying for spa treatment out of what is known as the "managing director's item" it did not respect the rules approved by the administrative board, thus advantaging certain insured persons. There was also substantial expenditure on marketing services, which amounted to **CZK 47 million** in 2013, and on gift items, which amounted to **CZK 16.7 million** in the years 2012 to 2014.

Based on the audit results the SAO recommended a number of other legislative changes. In the area of the collection of public health insurance premiums, for example, the legislation needs to be changed so that an obligation is categorically defined instead of the health insurance companies having the option to set by their own decisions the probable level of insurance premiums in cases where a payer of insurance premiums does not fulfil the obligation of submitting an overview of insurance premium payments.

2.8 Reliability of data for financial management - persisting ambiguity of accounting regulations and inaccuracies in reported data

In 2015, the SAO continued to scrutinise the reliability of data for monitoring and managing public finances and completed four financial audits:

- Audit no. **14/18** - *Financial statements and financial records of the Labour Office of the Czech Republic for the year 2013 which are submitted as a supporting document for the closing account of the state budget chapter the Ministry of Labour and Social Affairs;*
- Audit no. **14/19** - *Closing account of the state budget chapter “Ministry of Environment” for the year 2013, their financial statements and financial records for 2013;*
- Audit no. **14/38** - *Financial statements of the Czech Social Security Administration for the year 2014 and the data submitted by the Czech Social Security Administration for the assessment of the state budget fulfilment;*
- Audit no. **15/07** - *Closing account of the state budget chapter “Ministry of Health” for the year 2014, the financial statements of the Ministry of Health for 2014 and data submitted by the Ministry of Health for the assessment of state budget fulfilment for the year 2014.*

In these financial audits, data from the auditees’ financial statements for the said periods were audited. According to the financial statements, the total value of assets was net **CZK 69 billion**; total costs amounted to **CZK 526 billion**; and total yields were **CZK 397 billion**. In addition, data from the auditees’ financial reporting for budget implementation assessment purposes were scrutinised: total incomes were put at **CZK 391 billion** and total expenditure was **CZK 520 billion**.

The SAO detected serious deficiencies in compliance with the legislation when closing accounts were compiled.

The primary focus of the financial audits was bookkeeping. The SAO examined whether the auditees kept their accounts in a way that enabled the closing accounts to provide a true and fair view of the accounting. The SAO also scrutinised statements for assessment of the implementation of the budget. These audits of the SAO again uncovered significant deficiencies that influenced the reliability of the data that can be used for monitoring and managing public finances.

- The auditees did not keep accounts correctly. The Labour Office of the CR (LO CR), for example, incorrectly accounted for cost and revenue adjustments from previous periods worth **CZK 29.9 billion**; in its cash flow statement, incorrectly defined algorithms for calculating items in this statement resulted in an incorrect adjustment of the previous accounting period’s profit/loss worth **CZK 6.9 billion** (audit no. **14/18**). In addition, the MoE’s cash flow statement, for example, was riddled with inaccuracies amounting to a total of **CZK 6.4 billion**. That applied to various levels of the compilation of the cash flow statement owing to the absence of any analytical breakdown of the relevant accounts from the point of view of defining the items in this statement (audit no. **14/19**). The Czech Social Security Administration, for example, posted penalties on insurance premiums with regard to employers and penalties on advance payments of insurance premiums for pension insurance with regard to the self-employed at the wrong time, thus increasing both accounts receivable in the balance sheet and revenues in the profit and loss statement by a total of **CZK 349 million** (audit no. **14/38**). Another example is the MoH, which incorrectly chose the revenue account in the case of transfers resulting from claims on IOP finances on the grounds of pre-financing worth **CZK 0.5 billion** (audit no. **15/07**).
- The audited entities’ accounts were incomplete. The MoH, for example, failed to account for a reduction in the value of warehouse stocks because of the expiration of antivirals with a total value of almost **CZK 0.9 billion** (audit no. **15/07**). The MoE, for example, applied a monthly aggregate sum to account for the movement of finances in its “revolving fund” and finances of twinning projects kept with commercial banks, even though it should have entered these movements in its accounts individually at the time when they took place. The total end balance of these finances reported in the relevant bank accounts was **CZK 59 million** as at year-end 2012 (audit no. **14/19**).

- The auditees' accounts were not conclusive: when performing document-based inventories, for example, the MoE failed to ascertain the actual state of assets and liabilities and did not verify whether it tallied with the state reported in the financial statements as at year-end 2013 (audit no. **14/19**). The MoH also failed to ascertain the actual state of certain conditional receivables and conditional liabilities when performing an inventory. The balance of account 975 - *Short-term conditional liabilities from instruments co-financed from abroad*, reported at **CZK 3.4 billion**, was judged to be inconclusive and there is a risk that conditional liabilities that no longer existed formed part of this account as at the balance-sheet day (audit no. **15/07**).
- In its audits of the accounts of the LO CR and MoE the SAO also identified cases which led to breaches of budgetary discipline. The LO CR did not pay revenues from refunds of over-payments on benefits, contributions and support worth at least **CZK 13.9 million** into the state budget in good time (audit no. **14/18**). The MoE did not fulfil the obligation to abolish off-balance-sheet accounts of finances kept with commercial banks and replace them with accounts opened with the Czech National Bank. This influenced the amount of money the state treasury had available to it during the year. The total value of the finances in the relevant bank accounts as at year-end 2012 was **CZK 59 million** (audit no. **14/19**).
- The SAO also detected inaccuracies in reporting for the assessment of implementation of the state budget: the MoH, for example, classified expenditure it provided to its part-funded organisations in support of science and research and expenditure linked to the provision of funding under OP HRE and OP EC as the wrong budget items, with the total involved amounting to **CZK 310 million** (audit no. **15/07**); and the LO CR classified incomes in the case of the refunding of disbursed unemployment support from entities abroad as the wrong budgetary item, with the total involved amounting to **CZK 66.2 million** (audit no. **14/18**).
- The SAO's ability to give an opinion on the reliability of data in financial statements scrutinised in 2014 was constrained in the case of the MoE and MoH by the state of the legislation on the accounting for and reporting of transfers co-financed out of the EU budget and provided to end beneficiaries in the form of pre-financing out of the state budget.

In audit no. **14/19** the SAO drew attention to the fact that the MoE reports a specific item in its assets, namely emissions permits. In its financial statements as at year-end 2013 it declared a sum of almost **CZK 7.5 billion**, representing the value of emissions permits, as long-term intangible assets in account 015 - *Emissions permits and preferential limits*¹⁴ and a sum of almost **CZK 9.9 billion** representing the inclusion of emissions permits as part of MoE assets in 2013 in account 401 - *Assets of the accounting unit*. Under the existing legislation the exact moment when the accounting case originated cannot be categorically determined for this specific asset item. The exact quantity of permits pertaining to the CR at any given moment also cannot be defined categorically because of the continuously changing quantity of free-of-charge permits. However, the moment when an accounting case originates, the quantity of permits and their valuation as at the date when they are included in assets have a significant impact on the values reported in the financial statements. In the SAO's opinion, the current accounting regulations are not sufficiently specific for a faithful representation of all the facts linked to the use of assets classified under "emissions permits" in the balance sheet.

Two system audits were also completed in 2015: audit no. **14/25** scrutinising the MoF's accounts and audit no. **14/37** focusing on transfers co-financed from abroad in the MoEYS and the MoA.

- Audit no. **14/25** was the first audit to scrutinise the accounting of the Ministry of Finance as the administrator of the state budget headings *Ministry of Finance, State Debt, Operations with*

¹⁴ The existence of emissions permits reported as at the date of the financial statements was not proven during stocktaking by an extract from the EU register, with the justification that the MoE does not have access to the EU register accounts in which permits are generated. The reported quantity is therefore an MoE estimate.

State Financial Assets, and General Treasury Administration. In terms of the volume of assets, liabilities, costs and the number and variability of operations the MoF accounts for, the MoF is the most significant state budget accounting unit. The MoF's accounts record operations in state treasury aggregate accounts, the state budget outcome and the state debt, among other things. The SAO focused on whether the information in the MoF's accounts for 2013 was complete, reliable, and accurate.

The value of inaccuracies affecting the balances of the MoF's accounts as at year-end 2013 was put at **CZK 291 billion**, with inaccuracies in the accounting for reverse REPO operations¹⁵ amounting to **CZK 193 billion**, making them the most significant inaccuracies. In this case the MoF incorrectly applied the accounting method for REPO transactions by not entering the transfer of securities in its accounts, even though it should have done so under the applicable legislation. It also failed to enter in its accounts, for example, the significant reduction in the value of capital interests in commercial companies (if adjustments had been created in the full amount for capital interests in companies that are bankrupt or in liquidation, their value would have been almost **CZK 9 billion**). In addition, the MoF incorrectly accounted for exchange rate differences linked to the valuation of capital interests in international banking institutions, which had an impact of approx. **CZK 6 billion** on the data reported in both the balance sheet and profit and loss statement.

Some provisions in the legislation cannot be categorically applied to the MoF's accounting.

- **Audit no. 14/37 - State budget funds, European Union budget funds and other funds acquired from abroad** targeted the portrayal of transfers in accounts, scrutinised the comparability of reported budgetary and accounting data in the context of time lines and between accounting units and examined the data presented on transfers in the closing accounts of state budget headings for 2014 with a view to identifying systemic risks and systemic shortcomings in these areas.

Amendments to the accounting regulations which, in the SAO's opinion, eliminate the basic lack of uniformity in accounting procedures have been effective since 1 January 2015, as these amendments require organisational components of the state to account for pre-financed foreign funds in the role of provider and recipient. Despite this change in the accounting regulations the SAO detected persisting systemic shortcomings and risks, e.g.:

- The accounting regulations do not lay down any procedures for accounting for financial adjustments in the form of flat-rate corrections borne by the CR. Flat-rate corrections result in a greater burden on the state budget: the expenditure should be funded out of the EU budget but systemic irregularities mean that the European Commission will not refund money spent by a Member State. The MoEYS and the MoA took different approaches to their accounts and reporting. The introduction of clear accounting regulations in this area is necessary, in the SAO's opinion.
- Since 1 January 2015, organisational components of the state have been required to enter conditional receivables in their accounts where pre-financing is provided. In the case of the MoEYS and MoA, however, requests for the refunding of part of these funds are submitted by a different entity. The SAO points out that the obligation to report these conditional receivables can be difficult in practice, as even though an organisational component of the state receives

¹⁵ REPO transaction means REPO transaction or reverse REPO transaction. A REPO transaction entails the provision of financial assets (not cash) in return for cash with a simultaneous commitment to accept these financial assets at a precise date in return for a sum equalling the original cash plus interest. This is a REPO transaction on the part of the debtor.
A reverse REPO transaction means the acceptance of financial assets (not cash) in return for cash with a simultaneous commitment to provide these financial assets at a precise date in return for a sum equalling the original cash plus interest. This is a REPO transaction on the part of the creditor.
Securities, most frequently government treasury bonds, treasury bonds of the Czech National Bank and medium-term government bonds, are usually used as the financial assets ("collateral").

the funds the administration of the claim itself is under the control of a different entity. The SAO also points out that the specification of different times for deleting conditional receivables from the accounts means that the reported data is materially incomparable between audited entities.

The cases set out above can have a significant impact on both the financial situation and profit/loss of specific accounting units and on the informational value and thus also the usability of summary financial statements for the Czech Republic (in the context of consolidation) for 2015, compiled for the first time in 2016.

Promoting good accounting practice

The SAO is of the opinion that the reform of state accounting that was launched in 2010 had rational reasons and was in principle a step in the right direction, because the reform:

- resulted in improved accruing and in the provision and publication of more comprehensive information about financial management in the public sector;
- put in place the right conditions for better sector-to-sector comparison of information (for the public and private sectors) and for consolidating data for the state.

The CR is currently ranked as a country that has in place a mature accrual-based accounting system for the state sector; a 2014 study drawn up for the Commission revealed that its accounting system for units at the central government level is the sixth most mature system in the EU¹⁶.

The reform did not take place without significant problems, however. Some are being eliminated on the fly, e.g., by the aforementioned accounting regulations effective from 1 January 2015. Some systemic shortcomings persist, however, and the SAO continues to draw attention to them repeatedly, mainly in its audit conclusions. The principal ones are:

- the issuing of accounting regulations shortly in advance of their effective date (*vacatio legis*), which causes problems for certain accounting units in terms of the correct and timely application of the new requirements;
- the problem with the lack of clarity and the ambiguity of certain accounting regulations dealing with **flat-rate corrections in connection with transfers**, off-balance-sheet accounts, the state's capital interests in commercial companies or, for example, intangible assets in the form of emissions permits;
- the absence of a conceptual definition of fundamental accounting terms such as assets, costs, revenues et al.

In its audit work the SAO helps identify systemic risks, typical problems and possible solutions, and promotes greater use of accrual-based accounting for the purposes of compiling accounts on the state's financial management, e.g., when compiling the closing accounts of budget headings and the state closing account. The SAO also monitors changes in the requirements placed on state accounting at international level, and most notably in the European Union; in this context it can be said that the European Commission's ongoing project to create single European public sector accounting standards (EPSAS) could significantly influence public sector accounting in the CR in the medium to long term.

The SAO is well aware of the importance of some accounting information, e.g., for national accounts. Further to the *cooperation memorandum* signed with the Czech Statistical Office (CSO), the SAO continuously monitors the situation in state accounting for other purposes as well. The

¹⁶ Study drawn up by PwC for EUROSTAT, August 2014, p. 36, see http://ec.europa.eu/eurostat/c/portal/layout?p_l_id=1020223&p_v_l_s_g_id=0.

SAO also monitors accounting information that is significant for financial management with a view to ensuring the long-term sustainability of public finances. This information includes information on conditional liabilities, where a potentially significant impact on public finances cannot be ruled out.

In October 2015, the SAO presented its experiences and opinions at a conference with the title *Government Accounting Reform*, which it organised in conjunction with the MoF. The conference showed that the problems identified by the SAO such as *vacatio legis*, data incomparability, accounting for transfers and accounting on off-balance-sheet accounts, are also seen as a problem by other participants in the conference, e.g., representatives of ministries and the CSO.

2.9 Ineffectiveness of measures announced to remedy shortcomings and failure to hold persons responsible

The SAO systematically monitors how audited entities treat the results of its audit work. It is not always the case that the kind of measures implemented to remedy the identified shortcomings lead to positive changes in the auditees' financial management. The results of audits in 2015 again showed that many serious shortcomings leading to uneconomical or inefficient use of funds are repeated again and again and that, in some cases, these shortcomings are worsened by the incorrect conduct of the persons responsible. The following cases demonstrate that organisational components of the state often merely proclaim many remedial measures without actually implementing or complying with them:

- In audit no. 07/16¹⁷ targeting the implementation of ICT projects in the MoE department the SAO found that the Single Environmental Information System (SEIS) is in fact merely a theoretical concept comprising a set of unconnected information systems and databases. With a view to ensuring that the development of the SEIS was managed uniformly and centrally, the MoE responded to this audit by establishing an SEIS Development Board and executed the SIRIUS integration project, which was supposed to deliver a reduction in the number of information systems and enable data sharing. In a number of cases, however, the MoE did not actually implement these measures or did not comply with them in a manner ensuring they genuinely fulfilled their originally intended purpose - this was confirmed by audit no. 14/12. In this audit, the SAO found that the SEIS Development Board had not met for almost two years. This undermined the organisational coordination of the development of the SEIS and made it impossible to discuss problems at this level in good time, which ultimately resulted in the MoE scrapping the SIRIUS integration project without a replacement, stating that the project goals had not been achieved. The SAO judged this CZK 21 million investment in the SIRIUS project to be ineffective and uneconomical. The environment department currently uses 125 separate information systems and databases. What is more, these are not interconnected. The data in them are saved in multiple locations, which results in a need for more storage capacity for the data and resultant higher operating costs.
- Another example of the SAO's audit results and recommendations being ignored is the MoT's approach to selecting a new toll system supplier. In 2011 and 2012, the SAO conducted two audits (audits nos. 11/13 and 12/12)¹⁸ scrutinising the money spent on the acquisition and operation of a toll system and how efficiently toll revenues are obtained. In both audits the SAO pointed out serious deficiencies and the need for work to begin immediately on designing

¹⁷ Audit no. 07/16 - *Funds of the state budget allotted for establishment, renewal, and operation of information systems and communication technologies of the Ministry of Environment*, audit conclusion published in volume 1/2008 of the SAO Bulletin.

¹⁸ Audit no. 11/13 - *Funds spent on constructing and operating of the road toll collecting system in the Czech Republic*, audit conclusion published in volume 2/2012 of the SAO Bulletin; audit no. 12/12 - *Incomes from the motorway toll and from time coupons (time framed charge for using roads) including related expenditures*, audit conclusion published in volume 2/2013 of the SAO Bulletin.

the parameters of the toll system and related activities and selecting a new supplier of the toll system and related services. Despite this appeal, the MoT failed to perform this work in time.

- In addition, the results of audit no. **14/14** scrutinising the MoF's management of funds under the General Treasury Administration budget heading confirmed the same shortcomings as the SAO found in audit no. **06/24**¹⁹. The MoF did not manage UTA funds in line with the budgetary rules, as the budgeted expenditure amounting to several billion Czech koruna was not universal in nature and often belonged under the authority of the administrators of other state budget headings. Incorporating this expenditure into the UTA heading reduces the responsibility of the appropriate administrators for the matters entrusted to them and increases the risk of inefficient use of state budget funds.

The SAO recommends that the government and the Chamber of Deputies of the Parliament of the CR pay close attention to whether the purpose of funds released from the UTA heading, and from the government budgetary reserve in particular, is consistent with the purpose defined by the budgetary rules.

- Another example is audit no. **14/36**, whose results drew attention to the MoD's uneconomical conduct when using funds for cleaning and meals provision services. What is alarming is that the SAO already flagged up the problems with these services in 2008 in audit no. **08/01**²⁰, based on which the MoD was supposed to execute specific remedial measures. The ministry informed the government that measures concerning cleaning services had been adopted, even though they had in fact not been. The measures dealing with meals provision services were ineffective. As a result, the problems caused by the deficiencies the SAO had drawn attention to seven years earlier had got worse in the audited period. The SAO therefore recommends that the MoD adopt appropriate and effective measures to eliminate these shortcomings, with attention needing to be paid to regular assessment of their effectiveness.

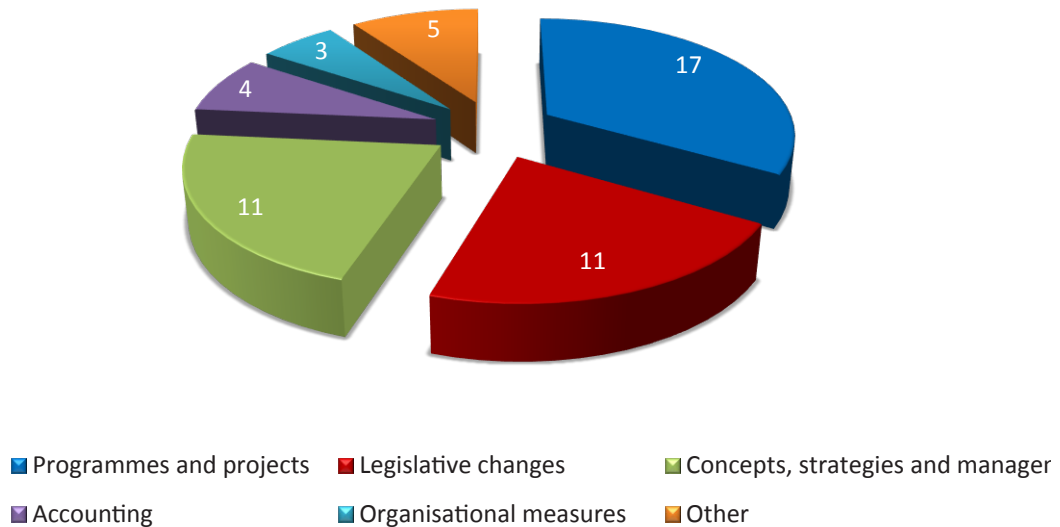
2.10 SAO recommendations

The SAO's goal is to help improve the state's financial management through the outputs of its audit and analytical work. One expression of this endeavour is the SAO's systemic recommendations intended to deliver positive impacts both on the system of state management and, above all, on economical, efficient and effective use of state funds and property in working towards goals that are societally justifiable.

The SAO formulated 51 recommendations in the past year. Most of them addressed the area of programmes and projects, concepts, strategies and management, and also legislation. Graph No. 10 breaks the recommendations down by problem areas.

¹⁹ Audit no. 06/24 - *State Budget Funds Involved in the General Treasury Administration Heading*, audit conclusion published in volume 2/2007 of the SAO Bulletin.

²⁰ Audit no. 08/01 - *Outsourcing of the Ministry of Defence to provide activities of general security*, was published in volume 4/2008 of the SAO Bulletin.

Graph No. 10: SAO recommendations in 2015

The preceding sections of the annual report presenting serious systemic deficiencies and their causes make it clear that the state will not be able to improve its functioning in many areas until there is a genuine change of approach. In the SAO's opinion, it would be possible to invest the CR's budget finances better and more effectively - this would contribute to economic growth.

It is obvious that the key point in the state financial management process as a whole is the fact that in many areas not enough is done to assess what the state gains in return for public spending and whether this spending is cost-effective in terms of satisfying the state's and its citizens' requirements. For the state to gain the required value-for-money, the SAO recommends that improved programme and project management should become the top priority of the central authorities. This requires the following:

- analysing requirements for the precise targeting of support and defining strategies and the right focuses of investment;
- setting specific and measurable goals respecting the necessity of support and ensuring spending is effective and efficient;
- generally simplifying subsidy provision processes by simplifying their regulations and rules;
- putting in place high-quality monitoring systems for monitoring actual results;
- improving control systems by targeting control work at verifying benefits and necessity and simultaneously compliance with the principles of effectiveness, efficiency and economy.

The recommendations the SAO formulated in 2015 should help government and parliamentary bodies to make decisions and deliver improvements. The SAO's efforts are not enough on their own, however. These changes cannot be brought about without the collaboration of the audited entities, which have to take appropriate measures to eliminate the identified shortcomings. The SAO will continue to monitor this process, as the effects of some changes may only materialise in the longer term.

3. SAO opinion on the draft state closing account and on the report on the implementation of the state budget

In 2015, the SAO submitted to the Chamber of Deputies of the Parliament of the Czech Republic its *Opinion on the Draft State Closing Account of the Czech Republic for 2014* and its *Opinion on the Report on Implementation of the State Budget for the First Half of 2015*²¹. When drawing up these opinions, the SAO partly based its opinions on audit conclusions and other findings from its audit and analysis work.

In its *Opinion on the Draft State Closing Account of the Czech Republic for 2014* the SAO drew attention to the large number of changes made in the revenues and expenditure budget through budgetary measures. As regards tax receipts, the SAO drew attention to the low effectiveness of tax collection, especially the collection of value added tax, excise duties and natural persons' income tax. The failure to undertake appropriate reform of pension insurance remains a long-term risk.

Another future risk in the SAO's judgement is the state of claims from unused expenditure as at 1 January 2015, which amounted to **CZK 155 billion**, i.e., double the state budget deficit. In this context the SAO drew attention to the expenditure savings registered as new claims from unused expenditure. Based on its audit work the SAO also flagged up the low implementation of the budget for expenditure in the area of programme financing.

As the 2007-2013 programming period drew to a close, a significant risk of failure to utilise the allocation emerged with regard to the Structural Funds and *Cohesion Fund*.

Other details, including the results of audit and analytical work relating to the aforementioned opinion of the SAO, were set out in the preceding sections of the annual report.

In its *Opinion on the Report on Implementation of the State Budget for the First Half of 2015* the SAO drew attention to the state budget surplus of **CZK 27.7 billion** attained as at 30 June 2015, the result of large revenues from the EU budget in connection with the closure of the 2007-2013 programming period. On the other hand, value added tax receipts were down by **CZK 5.3 billion** compared to the previous equivalent period despite strong economic growth. The volume of unpaid excessive deductions, which had a major impact on the collection of value added tax in previous years, was not stated.

In the context of mandatory expenditure, all social support benefits registered a slight drawdown reduction with the exception of housing allowance, which is the only benefit in material need that is increasing constantly. In this context, the SAO recommended a more detailed assessment of the disbursement of this allowance.

4. Promoting the results and benefits of the SAO's work

The SAO's mission is to provide an overview of the state's management of public funds and to submit reports to the appropriate authorities that are important for these authorities' management and control work. The outputs provided by the SAO are an irreplaceable source of information comprising a view of the working of the state that is objective and independent from external influences. This is the role of the SAO as an independent external audit institution and the fulfilment of its irreplaceable role in the working of a democratic state. The mission would not be complete, however, if it were not motivated by an endeavour to contribute to improving the state of public finances and management of state property. It is also the principal objective of the strategy that the Supreme Audit Office tries to fulfil.

21 The SAO presents these opinions in compliance with Section 5 of Act No. 166/1993 Coll., on the Supreme Audit Office.

Key data of 2015

- **36 completed audits**
- **207 audited entities**
- **51 recommendations of a systemic nature**
- **22 audit conclusions discussed by the Committee on Budgetary Control of the Chamber of Deputies**
- **25 audit conclusions discussed by the Czech government**
- **measures to remedy shortcomings were adopted in the case of 88% of audit conclusions**
- **35 notifications submitted on breaches of budgetary discipline with a value of CZK 2,927 million**
- **12 criminal complaints linked to 12 audited entities submitted**

4.1 Discussion of the results of audit work by the constitutional organs of the CR

Discussion of the SAO's outputs, and most notably its audit conclusions, by the constitutional organs of the CR, in particular parliament and the government, plays a key role in the promotion of the results of the SAO's audit work. The SAO provides objective and independent information on government expenditure to these bodies for their legislative and executive duties. The SAO considers cooperation with these bodies to be key to improving the state's financial management and thus an essential factor in terms of the benefits of the SAO's work.

Every audit conclusion is sent to the presidents of both chambers of the Czech parliament and to the Czech prime minister after they are approved. The SAO also sends these institutions its annual report, its opinion on the state closing account, and its opinion on the implementation of the state budget.

The SAO's key partner in the parliament is the Committee on Budgetary Control of the Chamber of Deputies. The SAO regards cooperation with this Committee as highly important. The Committee discusses the SAO's audit conclusions, its annual report, the draft budget of the SAO budget heading, its closing account, the SAO opinion on the draft state closing account and other materials. The Committee discussed **25 SAO audit conclusions** in 2015. In a number of cases the Committee asked the appropriate authorities to remedy shortcomings or to submit additional information on the measures adopted. Appendix 3 of this annual report gives an overview of the audit conclusions discussed by the Committee in 2015 and a summary of the resolutions adopted.

The Czech government plays an irreplaceable role in adopting measures linked to the results of the SAO's audit work. The government discusses all audit conclusions in the presence of the president of the SAO. In 2015 the government discussed **25 audit conclusions**, adopting resolutions imposing or recommending measures to remedy shortcomings in **88% of the discussed audit conclusions**. This puts in place the right conditions for the SAO's work to deliver real change in areas marred by deficiencies. Appendix No. 4 of this annual report provides an overview of audit conclusions discussed by the government in 2015 and a summary of the measures imposed.

The SAO appreciates the attention that was again devoted to the results of its work in 2015 and tried actively to help promote measures to remedy the identified shortcomings. In doing so it made full use of the government's rules of business that enabled the SAO to play an effective role in the process of discussing the opinions of the central authorities on audit conclusions and adopting suitable measures to remedy the shortcomings identified. In several cases the SAO exercised its right to issue fundamental comments on the proposed measures to ensure that the kind of measures that pave

the way for genuinely positive changes were implemented. The amendment of the Act on the SAO gave the SAO president the chance to attend sessions of government at which audit conclusions are discussed and to give his opinion on the proposed corrective measures. These changes have made it easier to enforce measures arising from the results of the SAO's audit work.

In the previous period the SAO also paid attention to the discussion of the results of its audit work with other constitutional organs and their representatives. A number of meetings were held that regularly acquainted e.g. the president of the republic and the presidents of both chambers of parliament with the SAO's most important findings.

4.2 Benefits of the SAO's work

The steps taken after the completion of audits in response to our findings and recommendations and in response to our opinions or other outputs and activities deliver value added to our work. The SAO is guided by an endeavour to do as much as it can to contribute to positive changes in areas where deficiencies were identified. The most important benefits of our work include:

- **the elimination of identified shortcomings;**
- **recommendations for systemic measures;**
- **the preventive effect of audits and their results;**
- **greater responsibility in public administration and greater enforceability of the law;**
- **the promotion of best practice in the state's financial management;**
- **identification of shortcomings in legislation and legislative recommendations;**
- **fulfilment of the reporting duty.**

The direct effects of audits include their direct impact on the elimination of identified shortcomings and on improving the working of specific auditees' management and control systems either after or during an audit. That can be demonstrated by the numerous measures adopted on the basis of identified shortcomings linked to non-compliance with the legal regulations and rules, for example, or to a failure to respect the principles of economy, efficiency and effectiveness.

In 2015, the SAO played an active role in the discussion of measures proposed to the government by central authorities. In response to the results of the SAO's audit work the government instructed the appropriate ministries to adopt measures to remedy shortcomings. These measures were a response to **220 shortcomings and recommendations**²², mainly systemic in nature, that were presented in audit conclusions. Last year, the SAO formulated **51 systemic recommendations** with a view to helping resolve the biggest problems and implement good practice in the state's financial management. The SAO greatly welcomes the fact that measures that fully responded to the identified shortcomings were adopted in the vast majority of cases. The rate of the SAO's satisfaction with the adopted measures was thus **88%**.

Adopting measures is merely the fundamental first step towards achieving the necessary remedy of shortcomings in the state's financial management, however. The SAO points out that the implementation of these measures is entirely the responsibility of the central authorities. As mentioned above, the long-term and recurring problems in certain areas indicate that the measures actually implemented are not particularly effective. The insufficient activity of the persons responsible thus necessitates more rigorous control by the government. The SAO will therefore perform intensive monitoring and audit work to assess how important measures are being implemented.

²² Based on the audit conclusions from the 2014 audit plan discussed by the government.

The effects of audit results are also indirect, however. These without doubt include the preventive effect of audits and audit results on the conduct of potential auditees. Improving awareness of responsibility and the enforceability of law and the effect on economic behaviour when managing public funds are other indirect effects. Transparency, publishing audit plans and informing the public through publicity and communication of the results of the SAO's work are important tools for delivering the benefits of audit work in this regard.

The principles of good practice were publicised and promoted through numerous formal and informal meetings with representatives of the state, and also through publishing work and expert seminars and conferences. In 2015, for example, the SAO held two internationally attended expert conferences. The conference entitled *eData – the future of audit* targeted the issues of “big data” and “open data” in state and public administration and looked at ways to make full use of the potential of e-data, including effective use in scrutinising the management of public funds. The aim of the conference entitled *Government Accounting Reform* was to summarise and discuss the evolution of state accounting over the past five years, and in particular to assess the progress made towards the goals of the reform and to pinpoint problem areas in this regard.

Last but not least, other important benefits of the SAO's work included identifying unsatisfactory legislation in the audited areas and the subsequent adoption of suitable amendments, and the SAO's legislative recommendations presented in the consultation process on draft legislation.

The fulfilment of the SAO's notification duty in respect of the financial administration authorities in cases where the identified shortcomings constitute breaches of budgetary discipline is without doubt another benefit of the SAO's audit work. In a number of cases the SAO judged its findings to constitute crimes and reported them to the criminal justice authorities. The next section discusses this in more detail.

The SAO welcomes efforts by the government and the legislature to broaden its powers so that it is able to provide an independent assessment of the management of all public funds, i.e. not just state finances. Again in 2015 the SAO was unable in certain audits to provide information about the use of significant quantities of public money that was spent e.g. by territorial self-governing units or their organisations. The SAO is convinced that the widening of its powers that was the subject of many discussions among constitutional authorities in 2015 will make it able to deliver even greater value added to the state and its citizens.

4.3 Examples of the impacts of SAO audits

A number of measures that should contribute to improved financial management by the state were adopted in response to audit results. In many cases the solutions are systemic, so their actual effect is only evident on a longer time scale, in some cases after a follow-up audit has been conducted. There are numerous positive examples where the results of the SAO's work led to necessary changes in areas where the SAO had found serious shortcomings. That is an important signal that the SAO has successfully helped remedy negative phenomena in the state's financial management. That was again the case in 2015, as the following examples show.

- In 2010 and 2013, the SAO conducted two audits, nos. **10/08** and **13/15**²³, targeting the effectiveness of the management of payments levied for breaches of budgetary discipline. Based on the identified shortcomings the SAO recommended increasing the responsibility and powers of subsidy providers so that payments for breaches of budgetary discipline that are subsequently waived are not imposed. Important legislative changes were effected during 2014

²³ The audit conclusion from audit no. 10/08 - *Administration of payments for the breach of budgetary discipline* was published in volume 1/2011 of the *SAO Bulletin*; the audit conclusion from audit no. 13/15 - *Administration of levies from the breach of budgetary discipline* was published in volume 4/2013 of the *SAO Bulletin*.

and 2015 which, if applied, could help reduce the administrative burden linked to the waiving of payments levied for breaches of budgetary discipline.

- An amendment of the Act on the Insurance and Financing of Exports with State Support²⁴ and an amendment of the Act on Banks²⁵ took effect in 2015. These amendments were adopted in response to the serious findings from audit no. **11/11**²⁶. The results of this audit revealed that the Czech Export Bank wrongfully provided loans of **CZK 8.2 billion** and in deciding on the loans contravened both the law and its own internal regulations. Above all, the amendments will make it possible for the MoF to subject the Czech Export Bank to rigorous control in the MoF's roles as the provider of annual subsidies from the state budget and as the controlling shareholder scrutinising this bank's conduct when providing loans.
- In 2013, the SAO conducted audit no. **13/35**²⁷ examining the procedure followed by the financial authorities and the MoF in connection with the administration of revenues from lotteries and other similar games, including scrutiny of the impacts on state budget revenues. The SAO found serious deficiencies in the legislation, in the organisation of state supervision and the administration of payments to the state and in the work of the concerned public administration authorities. The absence of legislation and technical support enabling the legal operation of online gambling was a particularly serious shortcoming. Illegal operation of online gambling deprives the state budget of over **CZK 600 million** per annum. Based on the shortcomings detected by the SAO audit, new legal regulations entered the legislative process in 2014 and 2015. However, the SAO points out that restricting the illegal operation of gambling requires a technically favourable environment for sharing data on the operated games, a suitable legal environment and defined rates of payments to the state. Excessively draconian conditions will encourage illegal gambling.
- In audit no. **14/04**²⁸ targeting subsidies provided as part of selected programmes under the General Sport Activities state budget heading the SAO pointed out that the MoEYS fulfilled the function of the coordinator of state support for sport in a purely formal manner, because it did not possess fundamental data on the financing of the entire area of support for sport. The MoEYS did not set any measurable targets for the audited programmes. Essentially, its role was limited to redistributing the money earmarked in the state budget without any form of evaluation of the effects achieved by the programmes. Decision-making by the MoEYS on the provision of subsidies for sport was transparent and created unequal conditions for subsidy applicants. In December 2015, the Chamber of Deputies of the Parliament of the Czech Republic debated an amendment of Act No. 115/2001 Coll., on support for sport, in the first reading. The amendment's aims include ensuring that there is greater transparency in the provision of support for sport out of public money and the MoEYS has improved powers for managing support for sport. According to the information publicly available, the MoEYS redesigned the system of subsidy programmes supporting sport, channelling part of the support directly into individual sports clubs and organisations.

²⁴ Act No. 58/1995 Coll., on the insurance and financing of exports with state support and amending Act No. 166/1993 Coll., on the Supreme Audit Office, as amended.

²⁵ Act No. 21/1992, on banks, as amended.

²⁶ The audit conclusion from audit no. 11/11 - *Funds provided to the Czech Export Bank from the State budget; Bank's management of those funds for which the State gives a guarantee; exercise of shareholder rights in the Czech Export Bank by the State* was published in volume 3/2012 of the *SAO Bulletin*.

²⁷ The audit conclusion from audit no. 13/35 - *State budget revenues from lottery and other similar games* was published in volume 3/2014 of the *SAO Bulletin*.

²⁸ The audit conclusion from audit no. **14/04** - *State funds provided for selected programmes of state budget indicator - General Sport Activity* was published in volume 1/2015 of the *SAO Bulletin*.

III. Financial Evaluation of Audit Work

1. Summary financial evaluation of audits

Every year, the SAO performs summary financial evaluation of audits by means of an indicator of the overall volume of audited state funds, assets, and liabilities. This indicator is first and foremost an informative piece of data that indicates the total extent of audited state budget revenue and expenditure items, state assets and liabilities, financial resources provided to the Czech Republic from abroad, and other financial resources (e.g., funds collected by law in favour of legal persons). It is significantly affected by the number of audits, the subject and purpose of the audits, and the length of the audited period.

The audits whose conclusions were approved in 2015 scrutinised funds and assets totalling **CZK 188 billion**. Data from audits reviewing the closing accounts of the state budget headings are not included in that total (see section 2.8).

Furthermore, financial resources assessed only on the system level (e.g., during audit of strategic and conceptual materials and scrutiny of programmes as part the audit of the activities of their administrators or intermediate bodies) and finances included in the audited public procurement, are not included either. The value of funds audited in 2015 reached **CZK 254 mld.**

2. Discharge of notification duty pursuant to Act No. 280/2009 Coll., the Tax Code

Based on the facts it discovers, the SAO notifies the appropriate tax administrators about the identified shortcomings stated in the audit reports and related to the auditees' tax obligations. Specific audit findings may be used by the appropriate tax administrators to commence proceedings that may result in a ruling that penalties should be paid for breaches of budgetary discipline.

In 2015, 35 notifications were sent to the appropriate tax administrators. These notifications were linked to the expenditure side of the state or territorial budgets, and the total amount of funds involved in these notifications was **CZK 2.9 billion**. The biggest aggregate amount of **CZK 2.2 billion** was the subject of a notification based on the results of an audit concerning spending on meals provision, facility management of accommodation facilities, and the technical safeguarding of munitions warehouses in the Ministry of Defence department (audit no. [14/36](#)).

IV. Evaluation of Other Activities

1. Cooperation with the criminal justice authorities in 2015

In 2015, the SAO filed 12 criminal complaints, based on the findings of nine audits and in accordance with Section 8(1) of the Criminal Code.

Based on the shortcomings identified in audit no. 14/09, a criminal complaint was filed concerning the unauthorised use of funds allocated from the budgets of the City of Prague and European Union to a city district in connection with payment for work that was not in fact performed.

Other reported circumstances were identified in audit no. 14/04. Three criminal complaints concerning three auditees were filed in the context of this audit. These involved cases where a subsidy had been provided from the state budget to applicants in contravention of the subsidy award rules, subsidy funds had been used for a purpose other than the defined purpose and incorrect and grossly distorted data was presented in a subsidy application.

Facts discovered in audit no. 14/07 were also reported. These were linked to the unauthorised disbursement of funds from the state budget to pay invoices for consultation services when it was not possible to verify reliably whether the contracts were actually performed.

Audit no. 14/15 uncovered the unauthorised use of state budget and European Union budget funds to pay for activities that were demonstrably not performed or whose substance was not apparent; a serious violation of the public procurement rules was also identified by this audit.

Another case where untrue and grossly distorted data were presented in a subsidy application resulting in the unauthorised use of European Union budget funds was detected in audit no. 14/26.

A criminal complaint was also filed on the basis of the facts found in audit no. 14/36. In this case, a violation of the principles of transparency, equal treatment and non-discrimination was identified in the acceptance of a candidate's bid in a tender; the expected value of the public tender was defined in a self-serving manner; and regulations on the rules of economic competition were violated by the unauthorised obviating of the public procurement rules. This led to money being wrongfully paid out of the state budget.

Another criminal complaint was linked to the findings made in audit no. 14/31. The audit found that funds provided out of the state budget were not used to cover the essential requirements of the auditee; the failure to collect unlawfully acquired money from a former employee also led to a loss; and the auditee simultaneously violated the public procurement rules by giving preferential treatment to one tenderer at the expense of others.

Two criminal complaints concerning two auditees were filed in the context of audit no. 14/29. The first criminal complaint concerned the unauthorised spending of state budget funds on the letting of a company vehicle for private purposes and the failure to recoup this expenditure. The second was filed on the basis of the finding that the auditee did not take rigorous steps to protect state property from damage, destruction and the loss of artworks.

On the basis of audit no. 15/02 a criminal complaint was filed in connection with the unauthorised use of finances provided out of the state budget and a European fund in consequence of a violation of the binding subsidy award conditions.

In its criminal complaints, the SAO stated that the above actions by auditees could have constituted the following crimes: subsidy fraud; harming the financial interests of the European Union; breach of trust; breach of trust due to negligence; abuse of office; breach of regulations on competition rules; and creating an unfair advantage in the award of a public contract, in public tender and in public auction.

The criminal justice authorities requested the SAO's cooperation in a total of 22 cases in 2015. In response to these requests the SAO provided audit materials from 23 audits. In 2015 the President of the SAO released an SAO employee from the confidentiality duty on the grounds of important public interest under Section 23 of the Act on the SAO in 23 cases in total.

2. Opinions on draft legislation

Section 6 of the Act on the SAO provides that both chambers of the Czech Parliament and their bodies are authorised to demand from the SAO opinions on draft legislation concerning budgetary management, accounting, state statistics and the performance of control, supervision and inspection work. These bodies did not exercise this authorisation through the submission of a formal request for an opinion in 2015. The SAO's findings in relation to the necessary legislative amendments were presented at sessions of the Committee on Budgetary Control of the Chamber of Deputies in connection with the discussion of audit findings.

Again in 2015, the Senate of Parliament did not complete its debate of a draft constitutional act amending Constitutional Act No. 1/1993 Coll., Constitution of the Czech Republic, as amended, as regards Article 97 (1) of the Constitution regulating the powers of the Supreme Audit Office, which was approved by the Chamber of Deputies in May 2014. The proposed wording envisages that the Supreme Audit Office, as an independent body, carries out audit of the management of public funds and funds provided from public budgets and the management of the assets of legal entities in which the state has a capital interest or the assets of a territorial self-governing unit. In connection with this constitutional amendment, in 2015 the Chamber of Deputies debated a government draft act amending Act No. 166/1993 Coll., on the Supreme Audit Office, as amended, and other related acts (parliamentary paper no. 610). The debate of this draft was not completed in 2015.

Act No. 78/2015 Coll., amending Act No. 166/1993 Coll., on the Supreme Audit Office, as amended, was passed in 2015. The principal aim of the amendment was to bring the Act on the Supreme Audit Office into line with current trends in the processing of information in audit work, the computerisation of the agendas of the public authorities and the current options for remote access to the results of the SAO's work. The amendment also gave the SAO new powers to obtain materials for drawing up and changing the audit plan, which will enable the SAO to target its audit work more effectively. The amendment allows the president of the SAO to attend government meetings at which audit conclusions and opinions on them are to be discussed and widens the authorisation of the president of the SAO to attend sessions of the Chamber of Deputies and the Senate and both chambers' bodies where audit conclusions and materials linked to the SAO's work are to be discussed. The amendment also responds to changes in terminology ensuing from other legislation.

In the interdepartmental consultation process conducted pursuant to the *Government's Legislative Rules*, the SAO gave its opinion on draft legislation that concerned it as an organisational unit of the state or was linked to the SAO's powers. The SAO obtained a total 178 legislative drafts for assessment in 2015. The SAO made specific comments, stemming primarily from its audit findings, on 57 drafts.

The following points are particularly worth mentioning in connection with the SAO's comments on government draft legislation:

In February 2015, the Ministry of Industry and Trade launched the consultation process for a draft act amending Act No. 77/1997, on state enterprises, as amended. The submitted draft act was partly based on a suggestion made by the president of the SAO drawing attention to shortcomings in the current legislation: state enterprises are not currently obliged to define criteria for assessment of effectiveness, efficiency and economy and are not obliged to keep separate accounts for designated assets; and the legislation does not cover the issue of increasing or decreasing the ordinary capital of state firms or the procedure for merging, amalgamating or dividing state enterprises. The Act on State Enterprises also needs to be brought into line with new legislation adopted as part of the

re-codification of private law and regulating the status of legal persons and their organs, most notably Act No. 89/2012 Coll., the Civil Code, and Act No. 90/2012 Coll., on commercial companies and cooperatives (the Act on Commercial Companies). The first reading of the draft act on state enterprises took place in the Chamber of Deputies in December 2015.

In April 2015, the Ministry of Regional Development submitted a draft act on public procurement in connection with the adoption of three EU directives on public procurement whose substance must be transposed into national law by April 2016. The draft of the new legislation on public procurement dropped certain mechanisms established by earlier amendments of Act No. 137/2006 Coll., on public procurement, and in particular by the “transparency” amendment of the Act on Public Procurement implemented by Act No. 55/2012 Coll. The SAO submitted comments on the draft mainly dealing with the proposed rules on changes to contracts and the formulation of new exemptions. The SAO also expressed doubts about the suitability of the proposed rules on the supervision of the award of public contracts that are financed, even only partly, by the EU. Most of the SAO’s comments were taken into account in the draft of this act approved by the government. The debate on the government draft of the act on public procurement was not completed in the Chamber of Deputies by the end of 2015.

In July 2015, the Ministry of Finance submitted a draft act on the management and control of public finances. The aim of this draft is to define responsibility for the establishment of internal management and control systems and for the safeguarding of public finances, to eliminate the duplication of control work done by the financial administration bodies, to boost the scrutiny of the financial management of subordinate organisations by their founders and to strengthen the independence of internal audit. In its comments on this draft the SAO drew attention to the fact that in its submitted form the draft overlooks the status of the Supreme Audit Office as an independent audit body *sui generis* and the fact that audit of the SAO’s financial management and thus also of its internal audit processes is entrusted exclusively to the Chamber of Deputies of the Parliament of the CR specifically in order to preserve its independence. Another fundamental comment raised by the SAO dealt with the need for legislation covering the reporting of cases of breaches of budgetary discipline identified by SAO audit in a situation where the submitted draft removes the existing authorisation to perform financial control from the powers of the tax offices. The comments submitted by the SAO were taken into account by the legislator in a modified wording of the draft act; nevertheless, the draft act on the management and control of public finances was not discussed by the government by the end of 2015.

In October 2015, the Ministry of Health launched the consultation process for a draft act on non-profit healthcare organisations. The aim of this draft is to regulate a new form of legal person, namely a non-profit healthcare organisation, whose principal activity is be the provision of in-patient healthcare and related medical services, but the principal activity of non-profit healthcare organisations should not be enterprise and should be regarded as a service of general economic interest. In its comments the SAO drew attention to the fact that the proposed legislation does not sufficiently define the conditions governing these entities’ business and does not define requirements for effective, efficient and economical use of the finances they manage. Going beyond the framework of the draft, the SAO demanded that an additional part be added to the draft act on non-profit healthcare organisations complementing the currently debated amendment of Act No. 166/1993 Coll., on the Supreme Audit Office, so that the SAO’s audit powers will also apply to non-profit healthcare organisations under the proposed legislation. The consultation process on the draft act was not completed by the end of 2015.

In December 2015, the Ministry of the Interior launched the consultation process for a draft act amending Act No. 365/2000 Coll., on public administration information systems and amending certain acts, as amended, and certain other acts. The principal aim of the proposed legislation is to define rules for the management, cost-effectiveness, security and functional properties of public administration information systems. In its comments the SAO drew attention to the fact that the proposed legislation is supposed to apply to the category of “administrative offices” as defined by Article 79 of the Constitution of the Czech Republic. Consequently, the information systems of bodies

like the Office for Government Representation in Property Affairs and state funds etc., which cannot be classified as “administrative offices”, would not be part of these public administration information systems. In the SAO’s opinion, the possible narrowing of the application of the act would increase the risk of uneconomical, inefficient and ineffective use of state budget funds. The SAO also drew attention to the proposed inappropriate wording of the amended provision of Section 21 (i) of Act No. 166/1993 Coll., on the Supreme Audit Office, as a result of which SAO auditors would not be able to demand access to auditees’ data linked to the subject of the audit and currently administered in the auditees’ operational information systems. The consultation process on the draft act was not completed by the end of 2015.

As far as draft legislation commented on by the SAO in previous years is concerned, Act No. 24/2015 Coll., amending Act No. 250/2000 Coll., on the budgetary rules of territorial budgets, was adopted in 2015. The act’s wording made allowance for the SAO’s comment which, further to findings made in audit no. 09/26, drew attention to the issue of subsidies being provided by regional councils of cohesion regions under private-law contracts. The amendment provides that subsidies or returnable financial assistance are to be provided on the basis of public-law contracts.

Other adopted legislation included Act No. 25/2015 Coll., amending Act No. 218/2000 Coll., on the budgetary rules and amending certain related acts (the Budgetary Rules), as amended. The aim of Act No. 25/2015 Coll. was to make it possible, in respect of subsidies co-funded by the EU, to define reduced fines for breaches of budgetary discipline by means of a fixed percentage and to apply the reduced subsidy before payment to other cases than just cases of breaches of the public procurement rules. The government draft of this act was partly a response to the EU’s requirements expressed in the *Action Plan to Improve the Functioning of Management and Control Systems for the Structural Funds in the Czech Republic* and partly a response to the SAO’s findings presented in audit conclusions touching on this issue.

Act No. 220/2015 Coll., amending Act No. 58/1995 Coll., on the insurance and financing of exports with state support, Act No. 166/1993 Coll., on the Supreme Audit Office, as amended, and Act No. 21/1992 Coll., on banks, as amended, was adopted in 2015. This amendment responds to the SAO’s findings in audit no. 11/11. Its aims include boosting the transparency of banking services provided by the Czech Export Bank and enabling effective control by the Ministry of Finance in the provision of subsidies to this bank out of the state budget.

In internal consultation processes on draft legislation, the SAO also paid attention to other legislative proposals in 2015, mainly under the authority of the Ministry of Finance. These were primarily draft amendments of implementing regulations linked to the Act on Accounting and the Act on the Budgetary Rules. The comments offered by the SAO on these draft decrees were grounded in the SAO’s findings from audits targeting the issue in question.

3. International cooperation

The international cooperation focused mainly on activities within the European Organisation of Supreme Audit Institutions (EUROSAI) and the Contact Committee (CC) – an assembly of heads of Supreme Audit Institutions (SAIs) of the European Union and the European Court of Auditors (ECA). Bilateral cooperation primarily took place with the SAIs of Slovakia, Austria, and the ECA.

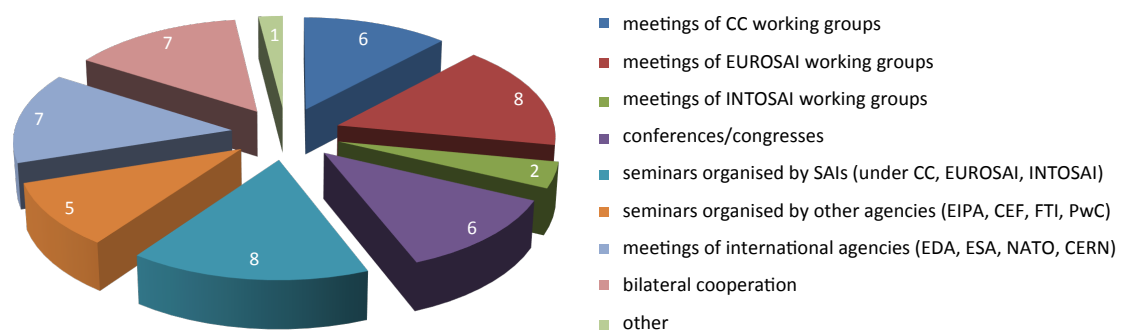
A joint report “Funds earmarked for the implementation of the Swiss–Czech Cooperation Programme to reduce economic and social disparities within the enlarged European Union” was published last year.

Also, an evaluation in accordance with the INTOSAI *Performance Measurement Framework* was done at the SAO in 2015.

SAO representatives took part in 50 events abroad. Most of these events were meetings of working groups of CC, EUROSAI, and INTOSAI where the SAO is a member (16 events). Also, educational activities organised under an umbrella of CC, EUROSAI, and INTOSAI and events organized by specialized professional organizations were of great importance in 2015 (13 events).

The SAO was very active in cooperation with international organizations in 2015, as well. Apart from traditional cooperation in the Competent National Audit Bodies of NATO, the SAO was involved in cooperation with the European Defence Agency (EDA) and the European Space Agency (ESA). The SAO representatives became members of their audit bodies for several years and they will share their knowledge with colleagues from abroad in audits of financial statements and final reports from EDA projects and while performing external audit of ESA.

Graph No. 11 shows an overview of foreign trips made by SAO representatives in 2015.



In March, a delegation from the SAO headed by the President of the SAO attended 43rd EUROSAI Governing Board Meeting in Helsinki, Finland. One of the main tasks of the EUROSAI Governing Board is preparing strategies and working plans of EUROSAI. At this annual meeting, the budget of EUROSAI was approved, comprehensive discussions were held with respect to joint audits and regional audit institutions' involvements, and participants evaluated the latest EUROSAI activities and the previous Congress as well as discussed about activities planned for the future. President of the SAO informed about activities and tasks of the EUROSAI Goal Team 3: Knowledge Sharing, which the SAO chairs. A short summary of the EUROSAI activities in the previous 25 years of its existence was presented at the 43rd EUROSAI Governing Board Meeting as well.



Meeting of the EUROSAI Governing Board

SAO representatives also took part in the annual meeting of SAIs of Visegrad four countries, Austria, and Slovenia (V4+2) that was held in Poland in May. The main topic was communication between SAIs, auditees, and public administration bodies. Furthermore, individual SAIs' powers concerning

follow-up audits were talked over and attendees also discussed how the processes of translating their recommendations into practice are observed.

Another important event organized abroad was the Contact Committee meeting that was held in Latvia in June. The meeting of the Contact Committee of the Heads of SAIs of the EU and the ECA is held every year. Among the participants in the Contact Committee, there are delegates from EU candidate states as well as representatives of several EU institutions. The aim of this meeting is to discuss relevant matters and challenges connected with EU financial management issues.

One of the main topics was the European fund for strategic investments, which was described by presenters from the European Commission and from the European Investment Bank as a safe mechanism that can help use public funding, including funding from the EU budget, to mobilise private investment. Such large investments and changes to EU legislation present significant challenges for SAIs which must respond to the changing environment and revise their strategic plans related to the area of auditing.

Among the themes discussed at the Contact Committee was further and closer cooperation between the European Court of Auditors on one side and individual national supreme audit institutions on the other side, issues related to the Europe 2020 Strategy, Single Supervisory Mechanism, and anti-corruption measures.



Contact Committee meeting

In October 2015, the President of the Supreme Audit Office and representatives from the Committee on Public Administration, Regional Development, and the Environment of the Senate of the Parliament of the Czech Republic visited the Slovak Republic and the Republic of Austria. The delegation aimed at learning about audits of public budget carried out by SAIs, namely at municipalities, what demands are made on audited bodies, and how the audited municipalities utilize the audit outcomes. Meetings were held in relation to the effort to extend auditing competences of the Supreme Audit Office of the Czech Republic.

In the Slovak Republic, the delegates met the President of the Slovak Supreme Audit Office, the Chairman of the Committee on Public Administration and Regional Development of the Slovak National Council, representatives of the Union of Municipalities in Slovakia, the Union of Slovak Towns and Municipalities, and other municipal representatives. Main topics on the meeting agenda was experience of town mayors and other local representatives with auditing public budget.

In Austria, meetings and discussions were held at the Austrian Court of Audit with its Director of the section aimed at audits of Austrian lands, municipalities, and economy, delegates from

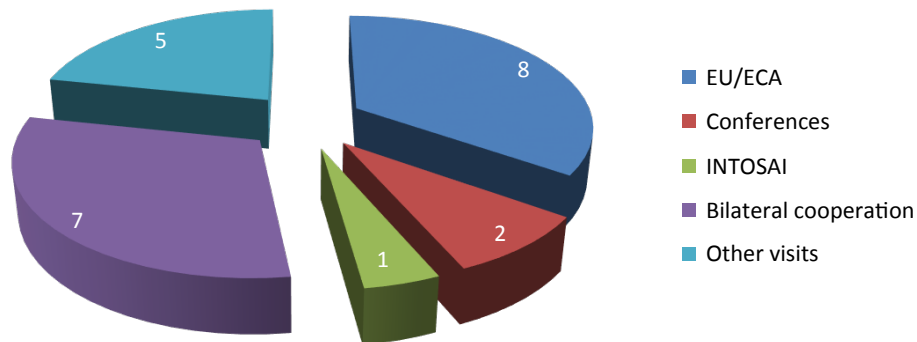
the Association of Austrian Municipalities (Gemeindebund), and with mayors of municipalities Ried and Retz. The Czech delegation was also welcomed by President of the Austrian Federal Council and Ambassador of the Czech Republic in Austria.



Meeting with President of the Austrian Federal Council and other Members of the Council

The SAO was also very active in organising international events in the Czech Republic in 2015. We organized 23 international events, most of which were connected to cooperation with the ECA. Also, activities on bilateral level were very frequent. Graph No. 12 shows the structure of the international events.

Graph No. 12: Number and focus of international events organized by the SAO in 2015.



At the turn of February and March 2015, a delegation from the National Audit Office of China visited the SAO. The discussion with SAO representatives focused mainly on fight against corruption, audits on fixed assets investment, and accountability audits of government and public officials.

In May, the SAO hosted a meeting of experts involved in the INTOSAI Working Group on Environmental Auditing research project on energy savings. The project called “Energy Savings” will result in a study which should provide help in the field of auditing energy issues and energy efficiency. The main objective is to emphasize the topics of energy savings as a potential focus of environmental audits.



Meeting of the co-authors of the “Energy Savings” study

In May, delegates from Danish Parliament, the Auditor General of Denmark, and the Danish ambassador in the Czech Republic visited the SAO. Issues related to functioning and organisational structures of both SAIs, relations with their national governments and parliaments, and audits aimed at EU funds were discussed at the meeting.

In June, President of the ECA, Mr Vítor Manuel da Silva Caldeira, came to the Czech Republic. He was accompanied by the ECA Member for the Czech Republic, Mr Jan Kinšt, and the Director of Presidency and Liaison Officer of the ECA, Mr Geoffrey Simpson. Mr Caldeira informed participants in the meeting about the last development at the ECA and about cooperation with SAIs in ECA’s audit missions. During his visit to the Czech Republic, he also met with President of the Czech Republic, Mr Miloš Zeman, Prime Minister, Mr Bohuslav Sobotka, and with President of the Chamber of Deputies of the Parliament of the Czech Republic, Mr Jan Hamáček. He also took part in the meeting of the Committee on Budgetary Control and the Committee on European Affairs of the Chamber of Deputies. Last but not least, he also opened the conference *“eData – the future of audit”* organized by the SAO.

This conference was designed for the public and professionals as well. It focused on so called “big data” and “open data” in the state and public administration. Foreign and home speakers from audit institutions, public administration, and independent professionals participated in the conference – e. g., Vítor Manuel da Silva Caldeira, President of the ECA, Miloslav Kala, President of the SAO, representatives of SAIs of Austria and the Netherlands, and experts in processing and using open data from the MoI and MoF. The aim of the conference was to answer questions how to fully utilize the e-data potential and what impact on public funds administration will e-data utilization and auditing have.



Meeting of ECA and SAO representatives



President of the ECA at the “eData – the future of audit” conference

At the end of June, Dr. Josef Moser, President of the Austrian Court of Audit and Secretary General of INTOSAI, arrived at the SAO for an official visit. He discussed with top representatives from the SAO about future possibilities of cooperation between both institutions and was also informed about the conference on “eData – the future of audit”. Participants of the meeting discussed how SAIs perform audits of local governments and their financial management and talked about the Austrian Court of Audit’s experience in this area. At the end of the meeting, the Austrian delegation gave a presentation about an INTOSAI initiative focusing on SAIs’ independence and about the main principles of independence of SAIs as well as about the Peer-Review Project on the Independence of SAIs.



Meeting with the President of the Austrian Court of Audit

In the middle of August, the newly appointed President of the Supreme Audit Office of the Slovak Republic Karol Mitrík came for his first visit. At the meeting, he was informed about the structure and scope of activities of the Czech SAO. Participants also discussed how the audit results are published and about co-operation with law enforcement authorities, and, last but not least, about ways of publishing the audit outcomes. Also, a discussion about the Slovak SAO’s experience with audits of regional governments, which the Slovak SAO – unlike the Czech SAO - is entitled to carry out, took place.

At the meeting, an agreement on future cooperation between both SAIs when performing audits aiming at excise duties’ administration was signed. Outcomes from the parallel audits should compare whether administrations of excise duties in both countries achieve similar figures with comparable costs and whether new electronic systems for monitoring of products’ transport resulted in more effective administration of the duties and in reducing tax fraud levels. Participants also discussed further cooperation possibilities namely in the field of audits aimed at tax administration and electronic records of sales.



Signing the agreement on cooperation between both SAIs when performing audits aiming at excise duties’ administration

In September, a delegation of the Republic of Belarus consisting of representatives from Ministry of Economy, Minsk City Executive Committee, educational institutions, and non-governmental organisations of Belorussia and the Transparency International Czech Republic visited the SAO. Belarusian delegates arrived to the Czech Republic within the frame of a year-long project of the Transparency International Czech Republic which focused on promoting anti-corruption mechanisms in public administration. Topics discussed at the meeting included powers and activities of the SAO, the code of ethics for the SAO employees, methods to tackle corruption in auditing, transparency, responsibilities, and utilisation of “open data” within the SAO’s activities.

In November, a delegation from the Organization for Economic Co-operation and Development (OECD) led by Head of Division of the OECD Economics Department visited the SAO. Also, Ambassador and Permanent Representative of the Czech Republic to the OECD attended the meeting. The aim of the OECD mission to the Czech Republic is to prepare an economic survey for the year 2016, which will contain an assessment of macro-economic indicators in the Czech Republic, economic developments, and recommendations for the future as well as specific chapters dealing with a prospective productivity boost, a convergence in revenues, and efficiency gains in public services. The OECD prepares and publishes such surveys dealing with individual Member States every 18 months. On the agenda of the meeting there were topics related to audits performed in the area of EU funds management, awarding public contracts, and costs of research and development.

At the end of November, a traditional meeting with the ambassadors of the EU Member States in the Czech Republic, the head of the Representation of the European Commission in the Czech Republic, and a representative of the MoFA was held at the SAO. At the meeting, President of the SAO informed participants about the „big data“ topic and its significance for future audits. Also, the *Report on EU Financial Management in the Czech Republic (EU Report 2015)* was presented to the participants. They were also informed about the international activities of the SAO in 2015. The discussion focused on EU funds drawdown and on the newly prepared Act on Public Procurement.



Meeting with ambassadors of EU Member States

4. SAO activities in respect of the public

4.1 Providing information pursuant to Act No. 106/1999 Coll., on free access to information

In 2015, the SAO received 21 written requests for information under Act No. 106/1999 Coll., on free access to information, as amended. The SAO set aside two requests, one because the subject matter did not fall within its competence and the other because the applicant did not respond to a request for additional information pursuant to Section 14 (5a) of Act No. 106/1999 Coll. For the other 19 requests the SAO provided the requested information in full. No complaint was filed against the SAO's procedure in dealing with requests for information pursuant to Section 16a of Act No. 106/1999 Coll. in 2015.

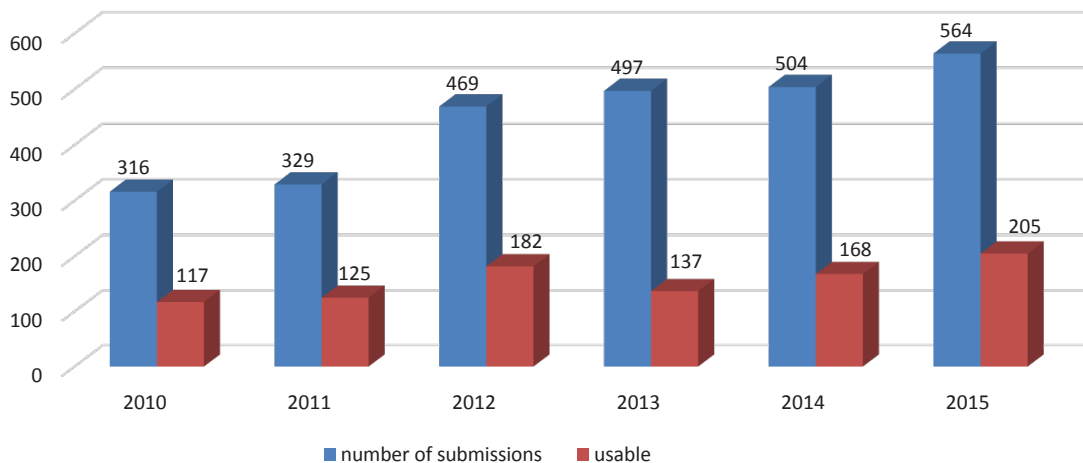
In 2015, the Municipal Court in Prague issued a ruling on an administrative action brought against the SAO by an applicant to whom the SAO refused to provide information requested in 2011. In its verdict of 5 June 2015, ref. no. 7A 127/2011-31, the court annulled the SAO's 2011 decision in the matter, ordered the SAO to provide part of the originally requested information (decision of

the Disciplinary Chamber of the SAO) and returned the matter to the SAO for further proceedings as regards the part of the original application requesting information about conduct of the SAO Board. Further to this verdict, the SAO provided part of the information requested in 2011 to the applicant and issued a decision refusing to provide another part of the information on the grounds of Section 11 (1) (a) and Section 11 (4) (d) of Act No. 106/1999 Coll. No appeal was lodged against the rejection of that part of the application. The SAO incurred costs of CZK 2,600 in connection with this case.

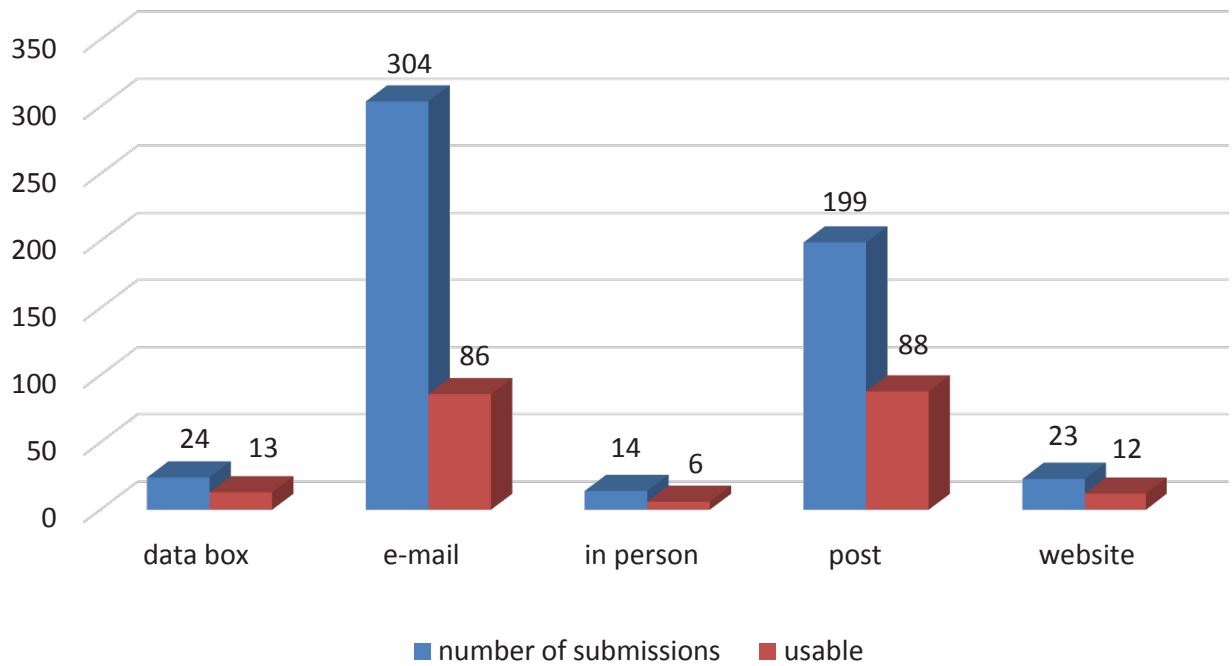
4.2 Submissions from citizens

In 2015, the Communication Department of the SAO registered 564 written submissions (suggestions for audits, complaints, requests, enquiries etc.) from citizens and legal persons. The content of all submissions is assessed on the basis of the scope of the SAO’s authority and from the point of view of whether the information contained in the submission can be used for audit work. Submissions related to matters within the purview of the SAO serve as a supplementary material in the context of up-to-date and relevant audits and for preparing the audit plan. The SAO received 205 such actionable suggestions in 2015, i.e., 36.3% of the total number of such submissions. In its audit work, the SAO mainly acted on information from submissions focusing on the management of subsidy finances provided out of national sources and European funds to state organisations, territorial self-governing units and other beneficiaries; 105 submissions, i.e., half of all the actionable external submissions, concerned this area.

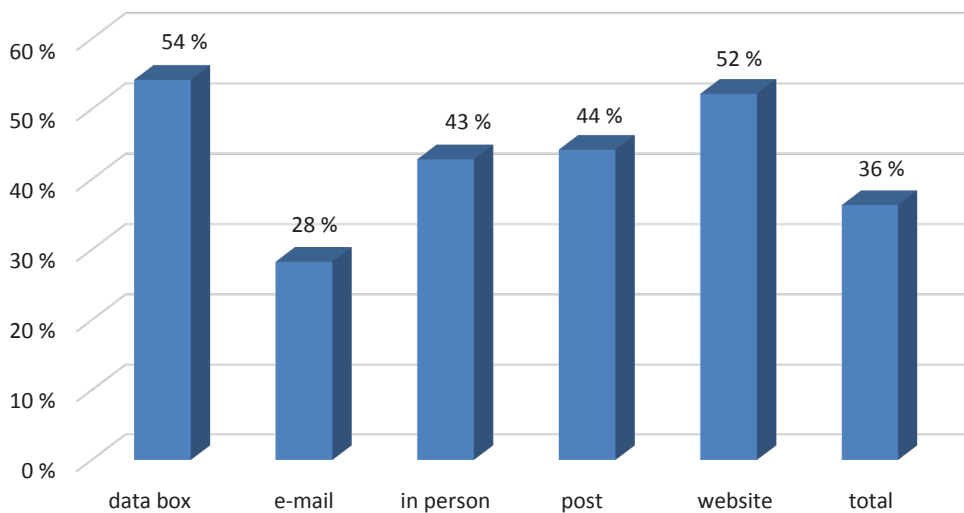
Graph No. 13: Overview of the total number of submissions and their usability for audit work for 2010 to 2015



Graph No. 14: Breakdown of submissions by delivery method for 2015



Graph No. 15: Breakdown of usability of submissions by delivery method for 2015 (%)



5. Management of finances allocated to the SAO budget chapter

5.1 Implementation of the mandatory indicators of the SAO budget chapter

The budget of the chapter 381 – *Supreme Audit Office* was approved by Act No. 345/2014 Coll., on state budget of the Czech Republic for 2015.

Table NO. 2: Overview of the implementation of mandatory indicators in 2015 (CZK thousand)

Indicator	Approved budget (a)	Budget after changes (b)	Actual state (d)	Implementation in % (d/b)
Aggregate indicators:				
Total revenue	339	339	1 067.62	314.93
Total expenditure	518.197	518.197	472.924.50	91.26
Specific indicators:				
Revenue	339	339	1 067.62	314.93
Expenditure covering performance of SAO's tasks	518,197	518,197	472,924.50	91.26
Cross-sectional indicators:				
Employees' pay and other payments for work performance	257,800	258,986	258,008.17	99.62
Mandatory insurance premiums paid by the employer	87,652	88,055	87,663.63	99.56
Transfer of the Cultural and Social Needs Fund	2,372	2,384	2,383.56	99.99
Pay of employees with employment contract	237,185	238,371	238,349.24	99.99
Expenditure kept in the information system of programmed financing EDS/SMVS in total	68,160	68,160	49,882.99	73.19

Revenue

Revenue amounted to CZK 1,067.62 thousand, i.e., 314.93% compared to the approved budget and the budget after changes.

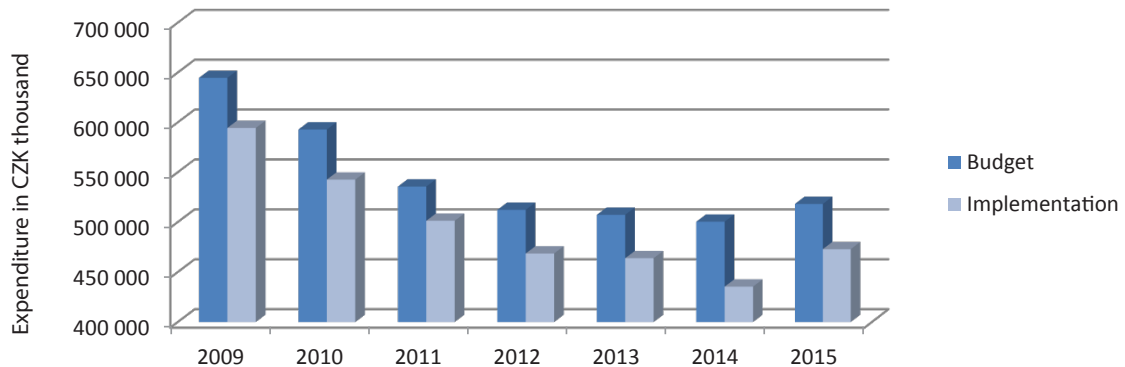
Expenditure

Total expenditure were drawn down in the amount of CZK 472,924.50 thousand, i.e., 91.26% of the approved budget and budget after changes. The biggest share comprises expenditure on salaries and related expenses CZK 348,055.36 thousand (73.60%).

All binding indicators of the SAO budget chapter were observed in 2015.

Graph No. 16 gives an overview of expenditure of the chapter 381 – *Supreme Audit Office* for the years 2009-2015. From 2009 to 2015, the approved budget fell by CZK 126,467.88 thousand on a year-on-year basis.

Graph No. 16: Overview of expenditure under the chapter 381 – *Supreme Audit Office* according to the budget after changes and budget implementation for 2009 to 2015



5.2 Claims from unused expenditure

As of 31. 12. 2015, the balance of claims from unused expenditure totalled CZK 254,349.02 thousand. In 2015, the claims totalling CZK 11,900 thousand were included in the budget.

5.3 Expenditure on financing assets replacement programmes

Budget funds were spent on implementation of the Programme 18101 – *Development and Renewal of Material and Technological Resources of the Supreme Audit Office as of 2011*, namely on ICT and assets replacement. A total of CZK 49,882.99 thousand was spent.

5.4 Information on external audits of the SAO

Two external audits of the SAO took place in 2015. In November 2015, the Prague Social Security Administration conducted an inspection of fulfilment of obligations in sickness insurance, pension insurance, and payment of insurance premiums for social security and of the contribution to state employment policy for the period from 1 November 2012 to 30 September 2015. In September 2015, the health insurance company Oborová zdravotní pojišťovna conducted an inspection of the payment of insurance premiums for public health insurance. No serious shortcomings were identified in either inspection.

5.5 Mandatory audit

The annual financial statements of the SAO were audited by an auditor in accordance with Section 33(3) of Act No 166/1993 Coll., on the Supreme Audit Office, as amended. According to the auditor's opinion, *"the financial statements and financial reports give a true and fair view of the assets and liabilities of the Supreme Audit Office as of 31 December 2015 and costs and incomes and its economic results, and revenue and expenditure for the period from 1 January 2015 to 31 December 2015, in accordance with the Czech accounting regulations"*.

6. Internal audit

Basic legal regulations and regulatory standards governing the work of the internal audit department are Act No. 320/2001 Coll., on financial control in public administration and on amendments to certain acts (the Financial Control Act), Decree No. 416/2004 Coll. implementing Act No. 320/2001 Coll., and the *International Professional Practices Framework for Internal Auditors*.

The annual internal audit plan for 2015 was approved by the SAO President on 5. 1. 2015. It was drawn up primarily on the basis of the SAO's aggregate risk analysis including risks identified during the execution of the internal audit and an audit universe²⁹. Furthermore, the annual plan was based on the medium-term internal audit plan for 2013 to 2015, on results from audits performed at the SAO by external audit bodies, on results from previous internal audits, on requirements made by SAO managers, and on the internal audit department's capacity.

The internal audit department conducted a total of four audits in line with the approved annual audit plan.

The internal audits focused on:

- observing Act No. 137/2006 Coll., on public procurement,
- functioning and effectiveness of the Supreme Audit Office's internal control system,
- programme *Development and Renewal of Material and Technological Resources of the Supreme Audit Office as of 2011*,
- ICT development conception and using software and hardware.

The results of the audits completed in 2014 were discussed with the senior staff of the audited departments. Targeted, specific measures with deadlines were adopted in respect of all the shortcomings found during the audits. The implementation of the adopted measures is monitored and assessed regularly by the internal audit department.

The internal audits did not produce any serious findings within the meaning of Section 22(6) of the Act on Financial Control.

Throughout the year 2015, the internal audit department also:

1. Performed consultancy work and methodological work in the area of:

- risk management;
- public procurement;
- making contracts;
- personnel;
- assets records;
- measures implementation;

2. Organised training for internal auditors.

On 1 February 2016, the President of the SAO Miloslav Kala was presented with and signed the *Internal Audit Report for 2015*. This report contains the following declaration on internal audit: *"Based on the result of the audit work I can give assurance that in the audited period the management and control processes in place in selected areas of the SAO's internal operational and financial management were proportionate and effective, except for some minor shortcomings."*

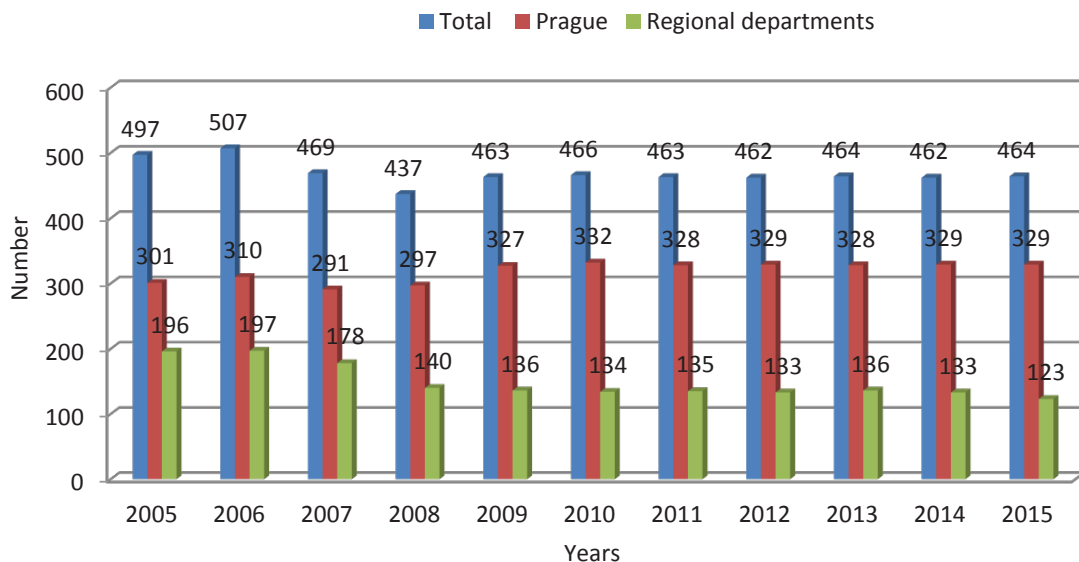
²⁹ In line with international internal audit standards, audit universe means the sum of all possible internal audits that could have been conducted in the SAO.

7. SAO staffing

The SAO had 468 employees³⁰ in 2015, 333 of them worked in the audit section, i. e., 71.15% of the total average registered number of SAO employees in 2015. 47 new employees were taken on in 2015 and 14 returned to work after their parental leave. 42 employees ended their employment. The fluctuation rate in 2015 was 6.84%. The stability rate was 83%, the average for the last three years is 84%.

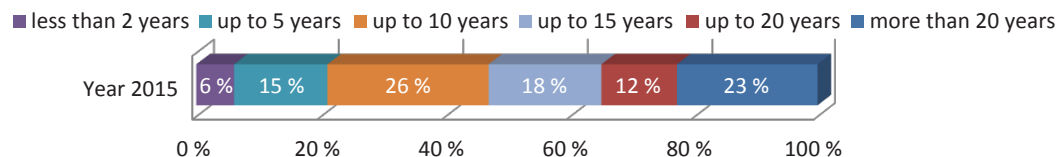
The average number of full time equivalent SAO employees was 464 in 2015, the average number of full time equivalent employees in the audit section was 329 in 2015. Graph No. 17 shows development of the average number of SAO employees and employees of Prague and regional departments in 2005-2015.

Graph No. 17: Development of the staff number of the SAO in 2005–2015



Graph No. 18 shows the duration of employment with the SAO as at 31. 12. 2015. As at the same date, 6.04 % of the total workforce of the SAO had been employed for less than two years and 22.74% of the workforce had been with the SAO for 20 years or more.

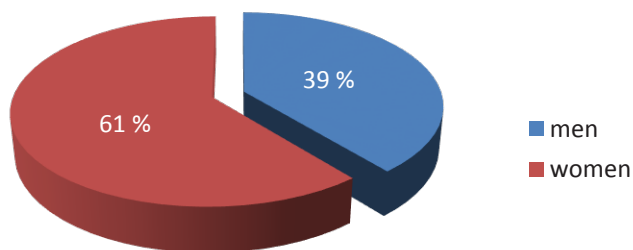
Graph No. 18: Overview of the duration of employment in the SAO as of 31. 12. 2015 (in %)



The SAO provides its employees with equal work conditions and job opportunities. Graph No. 19 shows the proportion of men and women employed at the SAO in 2015.

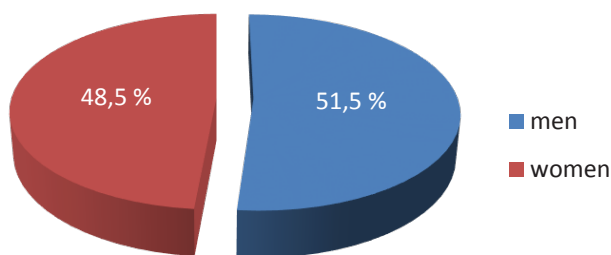
³⁰ Registered average number of employees in 2015.

Graph No. 19: Proportion of men and women employed at the SAO in 2015 (in %)



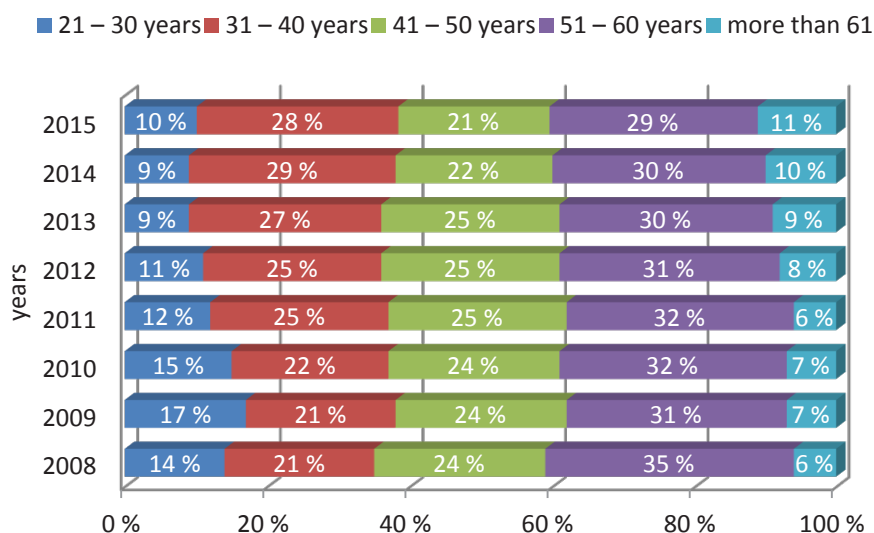
Graph No. 20 shows the proportion of men and women in the SAO’s management as of 31. 12. 2015.

Graph No. 20: The proportion of men and women in the SAO’s management as of 31. 12. 2015 (in %)



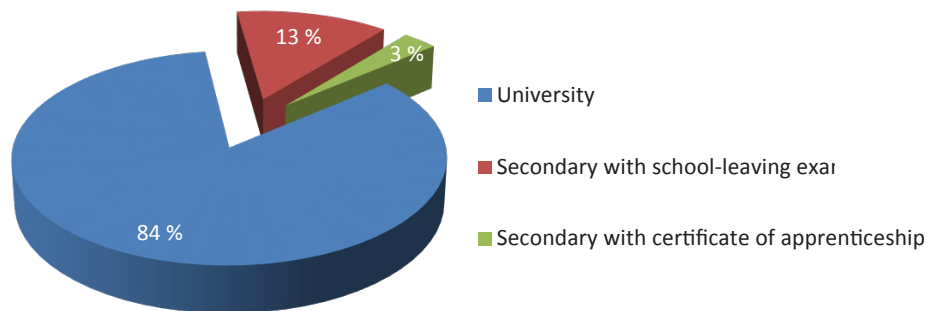
The average age of SAO employees was 46 in 2015. Graph No. 21 shows the age structure of SAO employees as of 31 December 2015, including a comparison with the years 2008-2015.

Graph No. 21: Overview of the total age structure of SAO employees in 2008–2015 (comparison as of 31 December of the respective year)



As of 31. 12. 2015, 84% of the total SAO workforce was university educated. Graph No. 22 gives an overview of the educational structure of SAO employees as of 31 December 2015.

Graph No. 22: Qualification structure of SAO employees according to the level of education reached; as of 31. 12. 2015

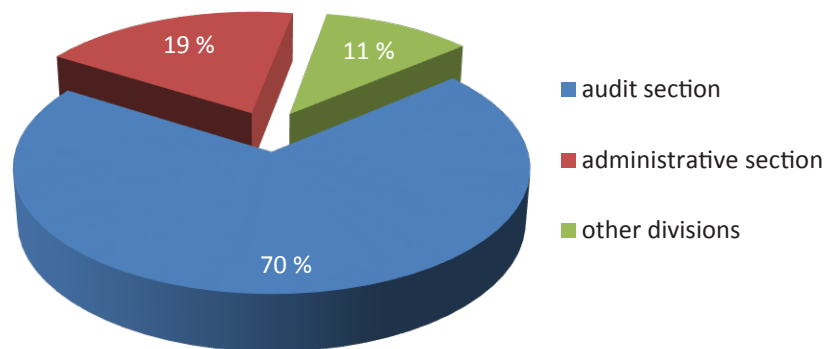


Employment, salary, and other entitlements of SAO employees were satisfied in compliance with the valid collective contract.

Training and personal growth

The SAO regards training its employees as an important aspect of human resources management. Systematic training in the SAO is continuously updated and developed in connection with socioeconomic and political changes in the CR. One central part of the training process is identifying training requirements, whereby consideration is given primarily to the audit plan for the coming years. The goal is to deepen and increase the professional qualifications of employees in areas that are significant mainly for audit work. Graph No. 23 gives a breakdown of SAO employee training in 2015 by sections

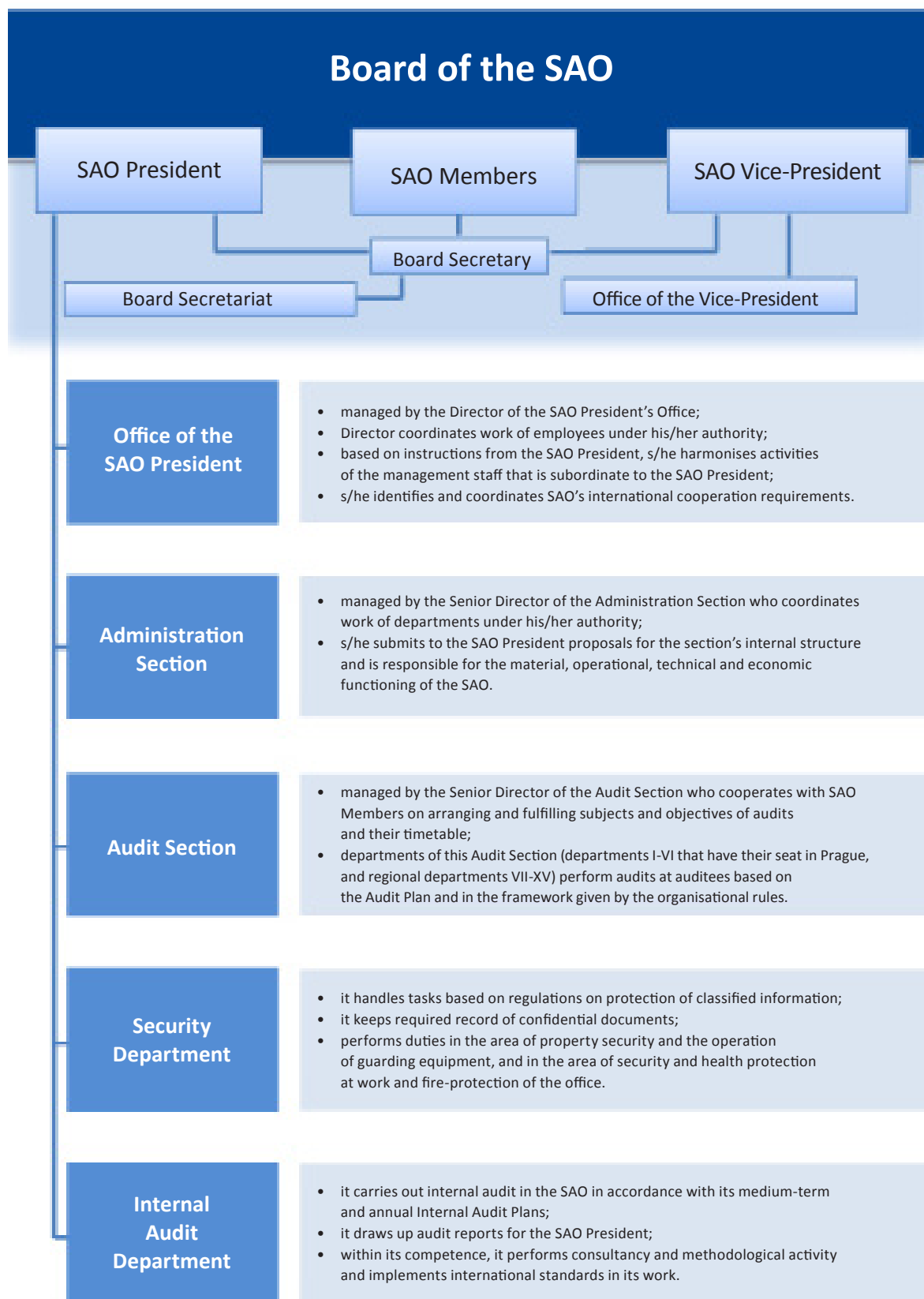
Graph No. 23: SAO employee training in 2015



SAO employee training applies the principles of continuity and permeability in training, variability in the content and forms of training and the diversity of training subjects. SAO employees can deepen and widen their knowledge and skills in internal training provided both through external organisations and, to a great extent, through internal instructors. Internal instructors play a significant role in the induction training of new employees and on the subsequent deepening of employees’ knowledge, primarily in the audit sector (*Auditor II*, and the special courses *Performance Audit* and *Financial Audit*).

Important training projects in 2015 included training focusing on ICT in audit procedures, the new Act on Public Procurement, and financial and commodity derivatives.

8.Organizational structure of the SAO



A detailed chart of the organisational structure can be found on the SAO's web site.

Conclusion

Through its audit work, the SAO provided independent feedback on the standard of the state's financial management to policymakers and those who supervise them and also to the public who are supposed to be served by these policies. Auditors described key aspects of the use of public resources and the shortcomings that plague them.

The results of audits in 2015 show that the problems in the state's financial management begin with the collection of funds for the state budget. The SAO described both how and why the state inadequately collects certain taxes and shortcomings in the fight against tax evasion. Problems on the expenditure side begin when the state and its institutions have to define what they actually need and to what standard, and what the price of the required solution should be. There is often no systematic concept realistically reflecting these considerations. The state and its institutions incorrectly set goals and make mistakes when actually selecting projects through which they want to implement policies.

We have repeatedly drawn attention to the fact that when the state does see projects through to the end it does not evaluate them sufficiently as regards what the projects actually delivered to the state and what future value added they offer. Policymakers therefore do not obtain relevant information about whether the state is successfully implementing its policies and whether the policies are actually delivering the expected results. Under these circumstances policymakers and policy implementers cannot learn from their mistakes or place the necessary emphasis on economy, efficiency, and effectiveness in their budgeting. Yet, it is through these criteria that the investment of every Czech koruna of public money should be evaluated.

The SAO helps improve the state of affairs through its audit work. In many cases, the audited entities eliminate identified shortcomings while the audit is still taking place, where the nature of these shortcomings so permits. That mainly applies to individual errors and personal failings. One of the principal roles of the SAO, enshrined in the Supreme Audit Office's long-term strategy, is to describe systemic shortcomings, which take longer to put right, as a rule. Our audit conclusions contained 51 systemic recommendations in 2015. Incidentally, we make use of our audit findings when submitting comments as part of the external consultation process on draft legislation. Nor can it be overlooked that in 2015 the SAO filed 12 criminal complaints concerning circumstances indicating a crime was committed. In addition, it sent notifications of suspicions of breaches of budgetary discipline with a total value of almost CZK 3 billion to the appropriate financial offices.

If the state's financial management is to improve in the future, those investing public money must keep coming back to the questions of how, why, and at what cost the state invests, whether it genuinely gets what it needs for the money spent, and whether the value obtained is proportionate in terms of satisfying the requirements of the state and its citizens. Effective control should be an integral part of the entire process of spending public money, and this control should be seen as an ally rather than an enemy. When budgeting for a given year, those who decide on spending should think further ahead than the projects being implemented right now or soon to be launched. If expenditure is to be sensible, it has to fit in with the longer-term framework as determined by the state's concepts, strategic goals and medium-term and long-term priorities.

The SAO's role is to contribute to a change for the better through its work and the presentation of its work to important partners and the public. The SAO wants to help and simultaneously reduce the burden placed on institutions. When designing our activities we place great emphasis on ensuring that the actions linked to the ongoing audit place as small a burden as possible on the audited entities. For that reason we are constantly developing our work with data from public administration information systems, which provide us with a well of extremely valuable information and will simultaneously enable us in future to demand less active collaboration from auditees. In this sense we are getting ready for the possible widening of the SAO's powers to include audit of municipalities, towns, regions, local government, and companies in which the state has capital interests.

Appendix No. 1 to the SAO Annual Report for 2015

Audits included in the Audit Plan for 2015							
Audit No. ³¹	Subject of audit	Start (month/year)	Audit conclusion submitted for approval (month/year)	Chapter administrator	Audit conclusion drawn up by a Member of the SAO	Audit conclusion approved by	
15/01	Funds earmarked for the infrastructure of sewerage and duct systems	01/15	09/15	MoA	Mr Adámek	SAO Board	
15/02	State budget funds provided for support of energy savings	01/15	10/15	MoRD, MoIT, MoE	Mr Neuvirt	SAO Board	
15/03	Funds earmarked for projects related to introduction of electronic public administration under the supervision of the Ministry of the Interior	01/15	11/15	MoI	Ms Hykšová	SAO Board	
15/04	Funds earmarked for the infrastructure of the project "Pilsen - European cultural capital 2015" under the Regional Operational Programme of Cohesion Region South-West for period 2007 - 2013	02/15	10/15	-	Mr Kufa	SAO Board	
15/05	Equity holdings of the state in business companies	02/15	11/15	MoIT, MoA, MoF	Mr Hrnčíř	SAO Board	
15/06	State budget funds and EU structural funds earmarked for financing of operational programmes with respect to projects sustainability	02/15	11/15	MoRD, MoLSA, MoI, MoH, MoEYS	Mr Macháček	SAO Board	
15/07	Closing account of the state budget chapter the Ministry of Health for the year 2014, the financial statements of the Ministry of Health for 2014 and data submitted by the Ministry of Health for the assessment of state budget fulfilment for the year 2014	03/15	11/15	MoH	Ms Steidlová	SAO Board	
15/08	State property and funds allotted to the selected organisational units of the state within the Fire Rescue Service of the Czech Republic	03/15	12/15	MoI	Mr Kubiček	SAO Board	

31 Kontrolní závěry zveřejněné v roce 2014 lze nalézt v jednotlivých částkách *Věstníku NKÚ* nebo v elektronické verzi výroční zprávy po kliknutí na modře zvýrazněné číslo dané kontrolní akce.



Audits included in the Audit Plan for 2015										
Audit No. ³¹	Subject of audit	Start (month/year)	Audit conclusion submitted for approval (month/year)	Chapter administrator	Audit conclusion drawn up by a Member of the SAO	Audit conclusion approved by				
15/09	Funds spent on education support, consultation and promotion within the Ministry of Agriculture	10/15	06/16	MoA	Mr Kalivoda	SAO Board				
15/10	Funds spent on the National Infrastructure for Electronic Public Procurement (NIPEZ) and its utilisation for purchase of selected commodities	04/15	01/16	MoRD	Mr Sehoř	SAO Board				
15/11	State budget funds provided for international development cooperation	04/15	01/16	MoFA	Mr Kalivoda	SAO Board				
15/12	Management of the state property and state funds allotted to the projects concerning IT and communication technology at the Ministry of Industry and Trade	04/15	01/16	MoIT	Mr Vedral	SAO Board				
15/13	State debt and expenses for its financing	04/15	01/16	MoF	Mr Reisiegel	SAO Board				
15/14	Funds earmarked for modernisation of III and IV transit railway corridor	04/15	01/16	MoT	Mr Adámek	SAO Board				
15/15	Taxation of real estate, real estate possession transfer and property acquired by inheritance or gift	04/15	02/16	MoF	Ms Profeldová	SAO Board				
15/16	Funds earmarked for financing of selected programmes that are in the competence of the Ministry of Justice	05/15	01/16	MoJ	Mr Neuvirt	SAO Board				
15/17	Funds spent on measures related to streamlining of tax and insurance collection and administration, mainly within the project "Setup of single collection point for state budget revenues"	05/15	04/16	MoF	Mr Macháček	SAO Board				
15/18	Funds earmarked for housing support	05/15	01/16	MoRD	Mr Hrnčíř	SAO Board				

Audits included in the Audit Plan for 2015									
Audit No. ³¹	Subject of audit	Start (month/year)	Audit conclusion submitted for approval (month/year)	Chapter administrator	Audit conclusion drawn up by a Member of the SAO	Audit conclusion approved by			
15/19	Closing account of the state budget chapter the Ministry of Culture for the year 2014, the financial statements of the Ministry of Culture for 2014 and data submitted by the Ministry of Culture for the assessment of state budget fulfilment for the year 2014	06/15	02/16	MoC	Mr Vedral	SAO Board			
15/20	Investment incentives as a tool of active employment policy	06/15	03/16	MoLSA	Mr Kalivoda	SAO Board			
15/21	Funds earmarked for recultivation in the locality of Most and Chabařovice lakes	06/15	03/16	MoF, MoIT	Ms Hykšová	SAO Board			
15/22	State budget funds provided for the public service in railway passenger transport	06/15	03/16	MoT	Mr Adámek	SAO Board			
15/23	Management of the state property and state funds allotted to the projects concerning IT and communication technology at the Ministry of Transport	06/15	04/16	MoT	Mr Neuvirt	SAO Board			
15/24	Funds earmarked for the implementation of EU asylum and migration policy objectives	06/15	03/16	MoI	Ms Hykšová	SAO Board			
15/25	State property and funds allotted to the Ministry of Foreign Affairs	07/15	04/16	MoFA	Mr Macháček	SAO Board			
15/26	EU and State budget funds spent within technical assistance for the activities related to publicity and promotion of operational programmes and projects implemented in the programming period 2007 - 2013	08/15	04/16	MoRD, MoLSA, MoEYS	Mr Vedral	SAO Board			
15/27	State funds earmarked for special-purpose support of research and development within the budget chapter of the Technological Agency of the Czech Republic	08/15	05/16	TA CR	Mr Neuvirt	SAO Board			



Audits included in the Audit Plan for 2015						
Audit No. ³¹	Subject of audit	Start (month/year)	Audit conclusion submitted for approval (month/year)	Chapter administrator	Audit conclusion drawn up by a Member of the SAO	Audit conclusion approved by
15/28	State property and funds allotted to the State Cinematography Fund	08/15	05/16	–	Mr Kufa	SAO Board
15/29	Funds earmarked for the construction of motorway D8	08/15	04/16	MoT	Mr Sehoř	SAO Board
15/30	State property and funds allotted to the state-funded organisation "Zařízení služeb pro Ministerstvo vnitra" (Services for the Ministry of Defence)	08/15	05/16	MoI	Mr Reisiegel	SAO Board
15/31	Funds earmarked for arrangement of information support for the system of programme and subsidy financing, and for collected subsidies and programmes of property reproduction	08/15	06/16	MoF	Mr Reisiegel	SAO Board
15/32	Financial statements of the Ministry of the Interior as of 31. 12. 2014	09/15	05/16	MoI	Ms Steidlová	SAO Board
15/33	Excise Duty Administration	09/15	08/16	MoF	Mr Kalivoda	SAO Board
15/34	Funds spent on settlement of expenses related to operation of selected ministries	10/15	07/16	MoD, MoLSA, MoA	Mr Vedral	SAO Board
15/35	Closing account of the state budget chapter the Ministry of Education, Youth and Sports for 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	11/15	07/16	MoEYS	Ms Steidlová	SAO Board
15/36	Funds spent in relation to preparation and execution of elections	11/15	07/16	MoI, MoF, CSO	Mr Kubiček	SAO Board
15/38	State property and funds allotted to the state-funded organisation "Vojenská lázeňská a rekreační zařízení" (Army Spa and Recreational Facilities)	11/15	08/16	MoD	Mr Stárek	SAO Board



Audits included in the Audit Plan for 2015						
Audit No. ³¹	Subject of audit	Start (month/year)	Audit conclusion submitted for approval (month/year)	Chapter administrator	Audit conclusion drawn up by a Member of the SAO	Audit conclusion approved by
15/39	State property and funds allotted to the selected organisational units of the state within the Institute for the Study of Totalitarian Regimes and Security Services Archive	06/15	02/16	ISTR	Mr Kubiček	SAO Board
15/40	Funds earmarked for development and renewal of the material-technical base of state cultural facilities	11/15	07/16	MoC	Ms Pýchová	SAO Board
14/40	Peněžní prostředky určené na úhradu nákladů pozemkových úprav	8/2014	5/2015	Dotační politika státu	MZE	Ing. Hykšová
14/41	Peněžní prostředky vynakládané Ministerstvem obrany na zajištění úkolů biologické ochrany	11/2014	8/2015	Hospodaření s majetkem a peněžními prostředky státu	MO	Ing. Kubiček



Appendix No. 2 to the SAO Annual Report for 2015

Overview of audits whose audit conclusions were approved in 2015							
Audit No. ³¹	Subject of audit	Chapter administrator	Audit conclusion drawn up by a Member of the SAO	Audit conclusion approved by	Date of approval	Published in SAO Bulletin (issue/year)	
14/11	Property under the management of selected state-owned enterprises (basin administrators) that are under the authority of the Ministry of Environment	MoA	Mr Kalivoda	SAO Board	2. 2. 2015	1/2015	
14/12	Management of the state property and state funds allotted to the projects concerning IT and communication technology at the Ministry of Environment	MoE	Mr Vedral	SAO Board	19. 1. 2015	1/2015	
14/14	State budget funds under the state budget chapter General Treasury Management	MoF	Ms Profeldová	SAO Board	2. 2. 2015	1/2015	
14/15	<i>Funds spent on the projects and measures for support and fulfilment of efficient public administration including savings of expenditures implementation</i>	MoT, MoIT, MoI, OG CR	Mr Neuvirt	SAO Board	18. 5. 2015	2/2015	
14/17	Value added tax administration and the impacts of legislative amendments for the state budget revenues	MoF	Ms Profeldová	SAO Board	30. 3. 2015	2/2015	
14/18	Financial statements and financial records of the Labour Office of the Czech Republic for the year 2013 which are submitted as a supporting document for the closing account of the state budget chapter the Ministry of Labour and Social Affairs	MoLSA	Mr Vedral	SAO Board	2. 2. 2015	1/2015	
14/19	Closing account of the state budget chapter the Ministry of Environment for the year 2013, their financial statements and financial records for 2013	MoE	Ms Steidlová	SAO Board	30. 3. 2015	2/2015	
14/20	State funds spent on development, operation and using of data-centres services Show	MoF, MoI	Mr Reisiegel	SAO Board	30. 3. 2015	2/2015	
14/21	Funds earmarked for repair and maintenance of state and regional railways	MoT	Mr Adámek	SAO Board	30. 3. 2015	2/2015	

Overview of audits whose audit conclusions were approved in 2015							
Audit No. ³¹	Subject of audit	Chapter administrator	Audit conclusion drawn up by a Member of the SAO	Audit conclusion approved by	Date of approval	Published in SAO Bulletin (issue/year)	
14/22	Funds earmarked for the infrastructure of university education	MoEYS	Mr Macháček	SAO Board	27. 4. 2015	2/2015	
14/23	Funds earmarked for development and renewal of the material-technical base of the Fire Rescue Service of the Czech Republic	MoI	Mr Neuvirt	SAO Board	30. 3. 2015	2/2015	
14/24	EU and state budget funds provided for settlement of expenditures of national projects within the Operational Programme Education for Competitiveness	MoLSA, MoEYS	Mr Kalivoda	SAO Board	8. 6. 2015	3/2015	
14/25	Accounting of the Ministry of Finance as the administrator of the state budget chapters of the Ministry of Finance, State Debt, State financial assets operations and General Treasury Management	MoF	Mr Reisiegel	SAO Board	27. 7. 2015	3/2015	
14/26	Funds spent on the projects of the Rural Development Programme	MoA	Mr Reisiegel	SAO Board	18. 5. 2015	2/2015	
14/27	<i>Funds of the EU Solidarity Fund provided for the Czech Republic in relation to catastrophic floods</i>	MoF	Mr Sehoř	SAO Board	27. 4. 2015	2/2015	
14/28	Spirit and tobacco excise tax administration and administration of revenues from the sales of tobacco duty stamps, including the management of these duty stamps	MoF	Mr Macháček	SAO Board	31. 8. 2015	3/2015	
14/29	Funds spent on settlement of expenses related to operation and management of state property within selected state-funded organisations	MoC, MoEYS	RNDr. Pýchová	SAO Board	29. 6. 2015	3/2015	
14/30	State property and funds allotted to the State Fund for Transport Infrastructure	–	Mr Adámek	SAO Board	8. 6. 2015	2/2015	
14/31	State property and funds allotted to selected state-funded organisations of the Ministry of Regional Development	MoRD	Mr Macháček	SAO Board	10. 8. 2015	–	
14/32	Funds earmarked for the construction of line A of the Prague underground	MoT	Mr Sehoř	SAO Board	27. 7. 2015	3/2015	

Overview of audits whose audit conclusions were approved in 2015							
Audit No. ³¹	Subject of audit	Chapter administrator	Audit conclusion drawn up by a Member of the SAO	Audit conclusion approved by	Date of approval	Published in SAO Bulletin (issue/year)	
14/33	Funds collected in accordance with law in favour of the Health Insurance Company of the Ministry of the Interior of the Czech Republic	–	Mr Kalivoda	SAO Board	30. 11. 2015	1/2016	
14/34	Establishment of the State Land Office according to the Act No. 503/2012 Coll. on State Land Office and its management of state property and funds	MoA	Ms Profeldová	SAO Board	27. 7. 2015	3/2015	
14/35	State property and funds allotted to selected regional directorates of the Police of the Czech Republic	MoI	Mr Kufa	SAO Board	14. 12. 2015	1/2016	
14/36	Funds spent on purchase of boarding, facility management and facility security services within the Ministry of Defence	MoD	Mr Hrnčíř	SAO Board	31. 8. 2015	1/2016	
14/37	State budget, EU budget funds and other funds acquired from abroad	MoA, MoEYS	Ms Steidlová	SAO Board	31. 8. 2015	3/2015	
14/38	Financial statements of the Czech Social Security Administration for the year 2014 and the data submitted by the Czech Social Security Administration for the assessment of the state budget fulfilment	MoLSA	Mr Vedral	SAO Board	10. 8. 2015	3/2015	
14/40	Funds earmarked for remittance of costs for land area amendments	MoA	Ms Hykšová	SAO Board	18. 5. 2015	2/2015	
14/41	Funds spent by the Ministry of Defence on tasks related to biological protection	MoD	Mr Kubiček	SAO Board	31. 8. 2015	3/2015	
15/01	Funds earmarked for the infrastructure of sewerage and duct systems	MoA	Mr Adámek	SAO Board	21. 9. 2015	1/2016	
15/02	Funds earmarked for the infrastructure of sewerage and duct systems	MoRD, MoIT, MoE	Mr Neuvirt	SAO Board	19. 10. 2015	1/2016	
15/03	Funds earmarked for projects related to introduction of electronic public administration under the supervision of the Ministry of the Interior	MoI	Ms Hykšová	SAO Board	30. 11. 2015	1/2016	

Overview of audits whose audit conclusions were approved in 2015						
Audit No. ³¹	Subject of audit	Chapter administrator	Audit conclusion drawn up by a Member of the SAO	Audit conclusion approved by	Date of approval	Published in SAO Bulletin (issue/year)
15/04	Funds earmarked for the infrastructure of the project "Pilsen - European cultural capital 2015" under the Regional Operational Programme of Cohesion Region South-West for period 2007 - 2013	–	Mr Kufa	SAO Board	30. 11. 2015	1/2016
15/05	Equity holdings of the state in business companies	MoIT, MoA, MoF	Mr Hrnčíř	SAO Board	30. 11. 2015	1/2016
15/06	State budget funds and EU structural funds earmarked for financing of operational programmes with respect to projects sustainability	MoRD, MoLSA, MoI, MoH, MoEYS	Mr Macháček	SAO Board	14. 12. 2015	1/2016
15/07	Closing account of the state budget chapter the Ministry of Health for the year 2014, the financial statements of the Ministry of Health for 2014 and data submitted by the Ministry of Health for the assessment of state budget fulfilment for the year 2014	MoH	Ms Steidlová	SAO Board	30. 11. 2015	1/2016
15/08	State property and funds allotted to the selected organisational units of the state within the Fire Rescue Service of the Czech Republic	MoI	Mr Kubiček	SAO Board	14. 12. 2015	1/2016



Appendix No. 3 to the SAO Annual Report for 2015

Overview of audits whose approved audit conclusions were discussed by the Committee on Budgetary Control of the Chamber of Deputies of the Parliament of the Czech Republic in 2015						
Committee resolution No.	Session date	Audit No. ³¹	Govt. material ref. No.	Govt. resolution (number/year)	Summary of Committee resolution	
162	3. 12. 2015	14/06	Not drawn up yet	Not discussed yet	Committee adjourned discussion of the audit conclusion.	
161	3. 12. 2015	13/05	338/14	302/14	The Committee notes: a) audit conclusion 13/15; b) the MoIT's opinion on the audit conclusion as contained in Part IV of govt. material ref. no. 338/14; c) govt. resolution no. 302/14 on the audit conclusion.	
148	15. 10. 2015	13/16	445/14	411/14	The Committee notes: a) audit conclusion 13/16; b) the MoT's opinion on the audit conclusion as contained in Part IV of government material ref. no. 445/14.	
146	15. 10. 2015	12/08	467/13	416/13	The Committee I. notes: a) audit conclusion no. 12/08; b) the MoIT's opinion on the audit conclusion as contained in Part IV of govt. material ref. no. 467/13; c) the MoD's opinion on the audit conclusion as contained in Part IV of govt. material ref. no. 467/13; d) the MoI's opinion on the audit conclusion as contained in Part IV of govt. material ref. no. 467/13; e) the MoF's opinion on the audit conclusion as contained in Part IV of govt. material ref. no. 467/13; II. requires the prime minister to notify the Committee by 30. 11. 2015 of the government's position on the use of industrial (cooperation offset) programmes.	
145	15. 10. 2015	12/33	1428/13; 1489/14	8/14	The Committee I. notes: a) audit conclusion no. 12/33; b) the MoD's opinion on the audit conclusion as contained in Part IV of govt. material ref. no. 1428/13; c) the evaluation of the MoD's measures regarding the audit conclusion as contained in Part II of govt. material ref. no. 1489/14; II. requires the defence minister to ensure that the acquisition of armaments and technology for the Czech army take place systematically.	

Overview of audits whose approved audit conclusions were discussed by the Committee on Budgetary Control of the Chamber of Deputies of the Parliament of the Czech Republic in 2015						
Committee resolution No.	Session date	Audit No. ³¹	Govt. material ref. No.	Govt. resolution (number/year)	Summary of Committee resolution	
144	15. 10. 2015	13/29	1275/14; 776/15	1027/14	<p>The Committee I. notes:</p> <p>a) audit conclusion no. 13/29;</p> <p>b) the MoD's opinion on the audit conclusion as contained in Part IV of govt. material ref. no. 1275/14;</p> <p>c) the evaluation of the implementation of the MoD's measures regarding the audit conclusion as contained in Part II of govt. material ref. no. 776/15;</p> <p>II. requires the President of the SAO to submit to the Committee by 30. 11. 2015 an opinion regarding the evaluation of the fulfilment of the MoD's measures as contained in Part II of govt. material ref. no. 776/15;</p>	
128	3. 6. 2015	13/39	1516/14	73/15	<p>The Committee notes:</p> <p>a) audit conclusion no. 13/39;</p> <p>b) the MoT's opinion on the audit conclusion as contained in Part IV of govt. material ref. no. 1516/14;</p>	
127	3. 6. 2015	12/14	300/13	314/13	<p>The Committee notes:</p> <p>a) audit conclusion no. 12/24;</p> <p>b) the MoT's opinion on the audit conclusion as contained in Part IV of govt. material ref. no. 300/13;</p>	
126	3. 6. 2015	13/14	444/14	410/14	<p>The Committee notes the information from the transport minister (ref. no.) PS2015/5482).</p>	
125	3. 6. 2015	12/11	447/13	415/13	<p>The Committee notes the information from the transport minister (ref. no.) PS2015/5482).</p>	
124	3. 6. 2015	12/05	103/13	183/13	<p>The Committee notes:</p> <p>a) audit conclusion no. 12/05;</p> <p>b) the opinion of the Office of the President of the Republic on the audit conclusion as contained in Part IV of govt. material ref. no. 103/13;</p>	
113	7. 5. 2015	14/13	387/15	689/15	<p>The Committee notes:</p> <p>a) audit conclusion no. 14/13;</p> <p>b) the MoE's opinion on the audit conclusion as contained in Part III of government material ref. no. 387/15.</p>	



Overview of audits whose approved audit conclusions were discussed by the Committee on Budgetary Control of the Chamber of Deputies of the Parliament of the Czech Republic in 2015					
Committee resolution No.	Session date	Audit No. ³¹	Govt. material ref. No.	Govt. resolution (number/year)	Summary of Committee resolution
112	7. 5. 2015	12/25	832/13	655/13	<p>The Committee I. notes:</p> <p>a) audit conclusion no. 12/25;</p> <p>b) the MoH's opinion on the audit conclusion as contained in Part III of govt. material ref. no. 832/13;</p> <p>c) the MoEYS's opinion on the audit conclusion as contained in Part III of govt. material ref. no. 832/13;</p> <p>d) the opinion of the Government Office of the CR on the audit conclusion as contained in Part III of govt. material ref. no. 832/13;</p> <p>II. requires</p> <p>a) the health minister to submit to the Committee by 26. 6. 2015:</p> <ul style="list-style-type: none"> - an enumeration of the costs of treating drug addicts, at least for substitution treatment; - minutes from the meetings of commissions/committees where the conclusions of the performed audits of state funds allocated to anti-drug policy projects were discussed; - additional data for 2014 - how many projects were supported in total, how many projects were supported with the full sum applied for and how many projects were supported partially, and in respect of these projects to supply the modified adjusted for the provided amount, and how many projects were not supported at all and why; <p>b) the minister of education, youth and sports, the health minister and the national anti-drug coordinator to submit to the Committee by 26. 6. 2015 additional data for 2014 - how many projects were supported in total, how many projects were supported with the full sum applied for and how many projects were supported partially, and in respect of these projects to supply the modified adjusted for the provided amount, and how many projects were not supported at all and why;</p> <p>c) the Government Office of the CR to submit to the Committee by 26. 6. 2015:</p> <ul style="list-style-type: none"> - additional data for 2014 - how many projects were supported in total, how many projects were supported with the full sum applied for and how many projects were supported partially, and in respect of these projects to supply the modified adjusted for the provided amount, and how many projects were not supported at all and why; - a precise specification of new instruments to coordinate the allocation of state funds to anti-drug policy; - to provide evidence of the audit of the allocated subsidy amounting to at most 70% of the total budget costs of the project, if the project is to be financed from multiple state sources (state budget headings); <p>III. recommends that the government concentrate the finances spent on anti-drug policy within a single state budget heading.</p>

Overview of audits whose approved audit conclusions were discussed by the Committee on Budgetary Control of the Chamber of Deputies of the Parliament of the Czech Republic in 2015						
Committee resolution No.	Session date	Audit No. ³¹	Govt. material ref. No.	Govt. resolution (number/year)	Summary of Committee resolution	
109	16. 4. 2015	12/31	1193/13; 1526/14	4/14	<p>The Committee I. notes:</p> <p>a) audit conclusion no. 12/31;</p> <p>b) the MoD's opinion on the audit conclusion as contained in Part IV of govt. material ref. no. 1193/13;</p> <p>c) the information on implementation of government resolution no. 4/14 as contained in Part II of govt. material ref. no. 1526/14;</p> <p>II. requires the managing director of the Road and Motorway Directorate of the CR to submit to the Committee by 31. 5. 2015:</p> <p>a) an evaluation of the economy of spending on automobile repairs and maintenance for 2014;</p> <p>b) information on the tender for legal services;</p> <p>c) directive of the managing director of the Road and Motorway Directorate of the CR concerning transport.</p>	
108	16. 4. 2015	13/07	356/14; 1535/14	307/14	<p>The Committee I. notes:</p> <p>a) audit conclusion no. 13/07;</p> <p>b) the MoE's opinion on the audit conclusion as contained in Part III of govt. material ref. no. 356/14;</p> <p>c) the information of the environment minister on the implementation of measures adopted to eliminate the shortcomings referred to in the audit conclusion as contained in Part II of govt. material ref. no. 1535/14;</p> <p>II. requires the environment minister to submit to the Committee by 31. 8. 2015 information about personnel developments at the MoE in the years 2014-2015 with the emphasis on advisory and consulting work and agreements on the performance of work.</p>	
107	16. 4. 2015	13/17	637/14	894/14	<p>The Committee I. notes:</p> <p>a) audit conclusion no. 13/17;</p> <p>b) the MoIT's opinion on the audit conclusion as contained in Part IV of govt. material ref. no. 637/14;</p> <p>II. requires the industry and trade minister to submit to the Committee by 30. 10. 2015 information about how the achievement of the basic goals of OPEI and its binding and monitoring indicators is assessed, with the emphasis on assessing the effectiveness of the expenditure of the subsidy finances.</p>	
106	16. 4. 2015	12/29	1358/13; 1355/14	6/14	<p>The Committee notes:</p> <p>a) audit conclusion no. 12/29;</p> <p>b) the MoI's opinion on the audit conclusion as contained in Part IV/1 of govt. material ref. no. 1358/13;</p> <p>c) the opinion of the Police President on the audit conclusion as contained in Part IV/2 of govt. material ref. no. 1358/13;</p> <p>d) information about the implementation of measures as per the annexes to government resolution no. 6/14 with regard to the audit conclusion contained in Part II of govt. material ref. no. 1355/14.</p>	



Overview of audits whose approved audit conclusions were discussed by the Committee on Budgetary Control of the Chamber of Deputies of the Parliament of the Czech Republic in 2015						
Committee resolution No.	Session date	Audit No. ³¹	Govt. material ref. No.	Govt. resolution (number/year)	Summary of Committee resolution	
102	19. 3. 2015	12/26	1078/13; 640/14	770/13	<p>The Committee I. notes:</p> <p>a) audit conclusion no. 12/26;</p> <p>b) the MoD's opinion on the audit conclusion as contained in Part IV of govt. material ref. no. 1078/13;</p> <p>c) the evaluation of the MoD's measures in response to the audit conclusion (govt. material ref. no. 640/14);</p> <p>II. requires the defence ministry to submit to the Committee by 30. 4. 2015:</p> <p>a) information about new medium-term strategies with regard to the fact that the Medium-term VOP Strategy for 2014-2015 currently applies;</p> <p>b) information regarding the sale of surplus assets of VOP CZ</p>	
101	19. 3. 2015	13/13	507/14	414/14	<p>The Committee I. notes:</p> <p>a) audit conclusion no. 13/13;</p> <p>b) the MoH's opinion on the audit conclusion as contained in Part III of govt. material ref. no. 507/14;</p> <p>II. requires the health minister to inform the Committee by 30. 4. 2015 according to what criteria finances were allocated, according to what documentation and why the programme was repeatedly extended.</p>	
100	19. 3. 2015	13/23	449/14	413/14	<p>The Committee I. notes:</p> <p>a) audit conclusion no. 13/23;</p> <p>b) the MoEYS's opinion on the audit conclusion as contained in Part III of govt. material ref. no. 449/14;</p> <p>c) the MoD's opinion on the audit conclusion as contained in Part V/I of govt. material ref. no. 449/14;</p> <p>c) the MoI's opinion on the audit conclusion as contained in Part V/II of govt. material ref. no. 449/14;</p> <p>II. requires the minister of education, youth and sports to do the following by 30. 4. 2015:</p> <p>a) acquaint the Committee with the work of the National Sports Council advisory body;</p> <p>b) submit to the Committee the rules for awarding subsidies to sport;</p> <p>III. requires the minister of education, youth and sports to notify the Committee by 31. 5. 2015 about the preparation of the sport financing reform as the government proposed in its resolution in connection with the government's programme declaration and the coalition agreement;</p> <p>IV. submits to the SAO a suggestion pursuant to Section 17 (2) of Act No. 166/1993 Coll. to audit the use of funds provided out of the state budget to Autoklub ČR and the Czech Olympic Committee in connection with the fundamental legislation on sports organisations for 2014 and 2015, and where appropriate previous years.</p>	

Overview of audits whose approved audit conclusions were discussed by the Committee on Budgetary Control of the Chamber of Deputies of the Parliament of the Czech Republic in 2015						
Committee resolution No.	Session date	Audit No. ³¹	Govt. material ref. No.	Govt. resolution (number/year)	Summary of Committee resolution	
99	19. 3. 2015	12/04	211/13; 1461/13	182/13	<p>The Committee I. notes:</p> <p>a) audit conclusion no. 12/04;</p> <p>b) the MoA's opinion on the audit conclusion as contained in Part IV of govt. material ref. no. 211/13;</p> <p>c) the information of the agriculture minister on the state of implementation of measures adopted to eliminate the shortcomings referred to in the audit conclusion (govt. material ref. no. 1461/13);</p> <p>II. declares that in the years 2005 to 2011 the MoA did not proceed economically and:</p> <p>a) violated the Act on Public Procurement;</p> <p>b) violated the Act on Accounting;</p> <p>c) violated the Act on Financial Control;</p> <p>III. requires the agriculture ministry to submit to the Committee by 30. 4. 2015:</p> <p>a) an overview of information and communication technology projects implemented in the years 2012 to 2014 at the MoA and SAIF;</p> <p>b) information about unused SAP licences at the MoA and SAIF.</p>	
98	19. 3. 2015	13/14	444/14	410/14	<p>The Committee I. notes:</p> <p>a) audit conclusion no. 13/14;</p> <p>b) the MoT's opinion on the audit conclusion as contained in Part IV of govt. material ref. no. 444/14;</p> <p>II. requires the transport minister:</p> <p>a) to submit to the Committee by 30. 4. 2015 a methodological instruction for evaluating the effects achieved by the implemented projects;</p> <p>b) to submit to the Committee information about the bridge on the Znojmo - Šatov line;</p> <p>c) to ensure that remedial measures to eliminate the shortcomings referred to in the audit conclusion are implemented.</p>	
97	19. 3. 2015	12/11	447/13	415/13	<p>The Committee I. notes:</p> <p>a) audit conclusion no. 12/11;</p> <p>b) the MoT's opinion on the audit conclusion as contained in Part IV of govt. material ref. no. 447/13;</p> <p>II. requires the transport minister:</p> <p>a) to submit to the Committee by 30. 4. 2015 an overview of the number and price of vehicles washed in the Brno carwash in 2014;</p> <p>b) to ensure that remedial measures to eliminate the shortcomings referred to in the audit conclusion are implemented.</p>	



Overview of audits whose approved audit conclusions were discussed by the Committee on Budgetary Control of the Chamber of Deputies of the Parliament of the Czech Republic in 2015					
Committee resolution No.	Session date	Audit No. ³¹	Govt. material ref. No.	Govt. resolution (number/year)	Summary of Committee resolution
95	26. 2. 2015	13/22	1236/14	1026/14	The Committee notes: a) audit conclusion no. 13/22; b) the MoH's opinion on the audit conclusion as contained in Part III of govt. material ref. no. 1236/14.
87	15. 1. 2015	12/35	1123/13; 324/14	766/13	The Committee I. notes: a) audit conclusion no. 12/35; b) the MoLSA's opinion on the audit conclusion as contained in Part IV of govt. material ref. no. 1123/13; c) the opinion of the Labour Office of the CR on the audit conclusion as contained in Part IV of govt. material ref. no. 1123/13; d) the information of labour and social affairs minister about the implementation of corrective measures adopted by the ministry (ref. no.: PS2014/14254); II. requires the labour and social affairs minister to submit to the Committee by 31. 1. 2015 the tender documentation for the <i>Single Labour and Social Affairs Information System tender</i> .
85	15. 1. 2015	12/18	1002/13; 1134/14	771/13	The Committee notes: a) audit conclusion no. 12/18; b) the MoT's opinion on the audit conclusion as contained in Part IV of govt. material ref. no. 1002/13; c) the materials submitted by the transport minister on the basis of Committee resolution no. 63 of 9. 10. 2014.
84	15. 1. 2015	12/12	741/13	652/13	The Committee I. notes: a) audit conclusion no. 12/12; b) the MoT's opinion on the audit conclusion as contained in Part IV of govt. material ref. no. 741/13; c) the information of the transport minister about the tolls collected, operating costs, investment costs and payments for Kapsch CarrierCom s.r.o. (formerly Kapsch s.r.o.); d) the report of the transport minister on the tender for a project manager and on the tender for an independent technical engineer; e) the report of the transport minister on the preparation of the tender for a supplier of the toll system based on road usage; III. requires the transport minister to provide to the Committee on a quarterly basis (31. 3. 2015, 30. 6. 2015, 30. 9. 2015 a 31. 12. 2015) interim information about the preparation and course of the tender to select a supplier of the toll system based on road usage.

Appendix No. 4 to the SAO Annual Report for 2015

Overview of audits whose approved audit conclusions were discussed by the government of the Czech Republic in 2015				
Govt. resolution No.	Session date	Govt. material ref. No.	Audit No ³¹	Measures imposed by the government
1005/15	7. 12. 2015	974/15	14/22	The government instructs the education, youth and sports minister to implement the measures contained in the opinion referred to in Part III of the material ref. no. 974/15.
1004/15	7. 12. 2015	331/15	14/04	The government instructs the education, youth and sports minister to implement the measures contained in the opinion referred to in Part III of the material ref. no. 331/15.
1003/15	7. 12. 2015	330/15	14/39	The government instructs the education, youth and sports minister to implement the measures contained in the opinion referred to in Part III of the material ref. no. 330/15.
1002/15	7. 12. 2015	773/15	14/21	The government instructs the transport minister to see to the implementation of the measures contained in the opinion referred to in Part IV of the material ref. no. 773/15.
1001/15	7. 12. 2015	107/15	14/03	The government instructs the transport minister to see to the implementation of the measures contained in the opinion referred to in Part IV of the material ref. no. 107/15.
1000/15	7. 12. 2015	1039/15	14/26	The government instructs the agriculture minister to implement the measures contained in the opinion referred to in Part IV of the material ref. no. 1039/15.
999/15	7. 12. 2015	961/15	14/40	The government instructs the agriculture minister to implement the measures contained in the opinion referred to in Part IV of the material ref. no. 961/15 and to inform the government of the implementation thereof by 31. 3. 2017.
998/15	7. 12. 2015	728/15	14/11	The government instructs the agriculture minister to implement the measures contained in the opinion referred to in Part IV of the material ref. no. 728/15 and to inform the government of the implementation thereof by 31. 12. 2015.
997/15	7. 12. 2015	1042/15	14/23	The government instructs the interior minister to implement the measures contained in the opinion referred to in Part IV of the material ref. no. 1042/15.
996/15	7. 12. 2015	963/15	14/20	The government instructs the 1st deputy prime minister for the economy and the finance minister in collaboration with the minister for regional development to draw up by 31. 12. 2016 proposals for measures to support the effective use of state assets when securing the strategic interests and needs of critical infrastructure of the state, enabling horizontal and vertical cooperation between public contracting organisations when performing public procurement.
692/15	26. 8. 2015	513/15	14/18	The government instructs the labour and social affairs minister to inform the government by 31. 12. 2015 about the implementation of the measures referred to in Part V of the material ref. no. 513/15 and adopted by the Labour Office of the CR to remedy the shortcomings referred to in the audit conclusion.
691/15	26. 8. 2015	425/15	14/08	No instruction
690/15	26. 8. 2015	889/15	14/19	The government instructs the environment minister to implement the measures referred to in the opinion contained in Part III of the material ref. no. 889/15 and to inform the government by 30. 6. 2015 of progress in the implementation of these measures.
689/15	26. 8. 2015	387/15	14/13	No instruction

Overview of audits whose approved audit conclusions were discussed by the government of the Czech Republic in 2015					Measures imposed by the government
Govt. resolution No.	Session date	Govt. material ref. No.	Audit No ³¹		
688/15	26. 8. 2015	373/15	14/12		The government instructs the environment minister to implement the measures referred to in the opinion contained in Part III of the material ref. no. 373/15 and to inform the government by 30. 3. 2016 of progress in the implementation of these measures.
687/15	26. 8. 2015	969/15	14/27		No instruction
–	26. 8. 2015	492/15	14/14		Withdrawn from the agenda
308/15	27. 4. 2015	279/15	14/09		The government recommends that the Mayor of Prague, in line with the applicable legislation, take into consideration the SAO's recommendations contained in the MoRD opinion contained in Part III of the material ref. no. 279/15 in points 1, 2, 4, 5 and 11, primarily in the 2014-2020 programming period.
307/15	27. 4. 2015	278/15	14/16		The government recommends that the chairman of the Regional Council of Cohesion Region Southwest and the director of the Office of the Regional Council of Cohesion Region Southwest acquaint themselves with the material ref. no. 278/15 and adopt measures to ensure the timely performance of ex-post checks of submitted monitoring reports.
306/15	27. 4. 2015	230/15	14/07		The government instructs the agriculture minister to implement the measures contained in the opinion referred to in Part IV of the material ref. no. 230/15 and to inform the government of the implementation thereof by 31. 12. 2016.
305/15	27. 4. 2015	178/15	14/05		The government instructs the labour and social affairs minister to implement the measures adopted to remedy and eliminate the shortcomings referred to in the audit conclusion and to inform the government of the implementation of these measures by 31. 12. 2015.
–	27. 4. 2015	107/15	14/03		Adjourned, see government resolution no. 1001/15
75/15	4. 2. 2015	59/15	14/02		The government instructs the agriculture minister and the president of the SALSC to implement the measures contained in the opinion referred to in Part IV of the material ref. no. 59/15 and to inform the government of the implementation thereof by 30. 9. 2015. At the same time the government recommends that the agriculture minister and the president of the SALSC issue an internal regulation governing procedures and responsibilities in public procurement pursuant to Act No. 137/2006 Coll., on public procurement, as amended, within the SALSC.
74/15	4. 2. 2015	1455/14	14/01		The government instructs the culture minister to implement the measures referred to in the opinion contained in Part IV of the material ref. no. 1455/14 and to inform the government by 30. 5. 2015 of the implementation of these measures.
73/15	4. 2. 2015	1516/14	13/39		The government instructs the transport minister to implement the measures referred to in the opinion contained in Part IV of the material ref. no. 1516/14.
72/15	4. 2. 2015	1135/14	13/33		The government instructs the transport minister: 1. to adopt and implement measures to remedy the shortcomings identified by the SAO audit; 2. to ensure there is repeated public administration control of financial management by the MoT's subordinate organisations, with the emphasis on the implementation of the measures to remedy the shortcomings identified by the SAO audit; 3. to draw up and submit to the government information about the management of let state-owned property in the city of Hamburg, Federal Republic of Germany.
71/15	4. 2. 2015	1536/14	13/37		The government instructs the 1st deputy prime minister for the economy and finance minister to adopt the corrective measures referred to in the opinion contained in Part III of the material ref. no. 1536/14.

Appendix No. 5 to the SAO Annual Report for 2015**List of acronyms**

ADIS	automated tax information system (from Czech Automatizovaný daňový informační systém)
BPC	Těchonín Biological Protection Centre
CC	Contact Committee
CEF	Center of Excellence in Finance
CERN	Conseil Européen pour la recherche nucléaire
CR	Czech Republic
CSO	Czech Statistical Office
CZK	Czech koruna
ECA	European Court of Auditors
EDA	European Defence Agency
EDS/SMVS	Information system of programmed financing (from Czech Evidenční dotační systém and Správa majetku ve vlastnictví státu)
EIPA	European Institute of Public Administration
ESA	European Space Agency
EUROSAI	European Organization of Supreme Audit Institutions
EU SF	European Union Solidarity Fund
FTI	FTI Treasury
FRS	Fire Rescue Service of the CR
GDC	General Directorate of Customs
GD FRS	General Directorate of the FRS
GFD	General Financial Directorate
GTA	General Treasury Administration
HIC MoI	Health Insurance Company of the Ministry of the Interior of the Czech Republic
ICT	Information a communication technology
INTOSAI	International Organization of Supreme Audit Institutions
IOP	Integrated Operational Programme
ISTR	Institute for the Study of Totalitarian Regimes
LO CR	Labour Office of the CR
MoA	Ministry of Agriculture
MoC	Ministry of Culture
MoD	Ministry of Defence
MoE	Ministry of the environment
MoEYS	Ministry of Education, Youth and Sports



MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoH	Ministry of Health
MoI	Ministry of the Interior
MoIT	Ministry of Industry and Trade
MoJ	Ministry of Justice
MoLSA	Ministry of Labour and Social Affairs
MoRD	Ministry of Regional Development
MoT	Ministry of Transport
NATO	North Atlantic Treaty Organization
NIPEZ	National Infrastructure for Electronic Public Procurement (from Czech Národní infrastruktura pro elektronické zadávání veřejných zakázek)
NPWP	negotiated procedure without publication
OG CR	Office of the Government of the Czech Republic
PwC	PricewaterhouseCoopers
RPD	Regional Police Directorate
SALSC	State Administration of Land Surveying and Cadastre
SAO	Supreme Audit Office
SAI	Supreme Audit Institution
SEIS	Single Environmental Information System
OCS	organisational component of the state
OECD	Organisation for Economic Co-operation and Development
OP	Operational Programme
OPE	Operational Programme Environment
OP EC	Operational Programme Education for Competitiveness
OP HRE	Operational Programme Human Resources and Employment
OP RDI	Operational Programme Research and Development for Innovations
OPT	Operational Programme Transport
RDP	Rural Development Programme
RIA	Railway Infrastructure Administration
SA	Smart Administration
SAIF	State Agricultural Intervention Fund
STC	Státní tiskárna cenin
STIF	State Transport Infrastructure Fund
TA CR	Technology Agency of the Czech Republic
VAT	Value Added Tax

