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## Opening message from the SAO president

Dear readers,

Section 18 of the Act on the Supreme Audit Office requires us to publish the SAO annual report no later than three months after the end of the financial year. You thus have in front of you the report documenting our work and our key findings and proposed measures for 2019.

It is clear that we are currently facing a serious threat in the form of the COVID-19 pandemic. The Czech Republic, like other countries, has declared a state of emergency: essential measures are being adopted and certain rights and freedoms are being restricted to the necessary degree.

I wish all my fellow citizens great strength and health so that we can overcome this threat together.

I would also like to thank all the front-line workers: doctors and nurses, social services staff, integrated rescue system and security services personnel, and everyone else keeping the country on its feet.

And I am grateful to all my Supreme Audit Office colleagues and staff for their responsible and calm response to the adopted measures and their unceasing devotion to duty. The Supreme Audit Office has always been and will remain on the side of the country's citizens.

***Miloslav Kala***  
***SAO president***

## I. Status and Powers of the SAO

### 1. Basic information on the status and powers of the SAO

The existence of the Supreme Audit Office (SAO) is rooted directly in the Constitution of the Czech Republic which guarantees its independence from the legislative, executive and judicial powers. The SAO thus represents one of the indispensable elements of parliamentary democracy.

More detailed rules on the status, powers, organisational structure and work of the SAO are contained in Act No 166/1993 Coll., on the Supreme Audit Office (the SAO Act). Under this Act, the SAO mainly scrutinises the management of state property and finances collected by law in favour of legal persons, the implementation of revenue and expenditure items of the state budget and the management of funds provided to the Czech Republic from abroad.

The SAO bodies are the President and the Vice-President, the Board, senates and the Disciplinary Chamber. In the interest of ensuring objectivity in the assessment of audit findings and in fundamental questions concerning the SAO's audit powers, the SAO Board and senates decide as collective bodies.

The SAO's independence guarantees that it is not influenced by the legislature, the executive or the judiciary when planning, preparing and conducting audit work. Besides institutional independence, the SAO has appropriate financial autonomy as well. The decisive body in this area is the Chamber of Deputies, which approves the state budget, including the Supreme Audit Office budget chapter.

The basis for the SAO's audit work is its audit plan. After its approval by the SAO Board, the audit plan, is submitted by the SAO President to the Parliament of the Czech Republic and the Government of the Czech Republic for information and published in the SAO Bulletin. Audit results are presented in audit reports, which summarise and assess audit findings. Audit reports are approved by the SAO Board or by the appropriate SAO senates.

Under its defined powers the SAO performs audits in line with its audit standards, which are based on the international standards of supreme audit institutions. The SAO performs compliance, financial and performance audits.

The SAO's compliance audits check whether the audited activities comply with the law and review the substantial and formal correctness of audited activities to the extent necessary for achieving the audit goals.

The SAO's financial audits check whether the audited entities' financial statements give a true and fair view of the subject of accounting in accordance with the law. This type of audit is a tool for verifying the accuracy of information that is presented in the closing accounts of state budget chapters and which the SAO uses when formulating its opinions on the draft State Closing Account.

The SAO's performance audits assess the effectiveness, efficiency and economy of the use of state budget finances, state property or other finances which the SAO audits in line with its powers.

## 2. SAO Board

The SAO Board is composed of the President, the Vice-President and Members of the SAO. The SAO Board approves the audit plan, audit reports, the draft budget of the SAO submitted to the Chamber of Deputies of the Parliament of the Czech Republic, the closing account of the SAO budget chapter and the SAO financial statements prepared as at the balance-sheet date. The SAO Board also approves the Annual Report, the SAO Board's and senates' rules of procedure, the organisational rules and changes thereto and the disciplinary rules. It decides on appeals against decisions on objections to audit protocols and on objections claiming bias if raised by the audited entity against a member of the SAO.

Members of the SAO perform audits, manage audit activities and prepare audit reports according to the audit plan, participate in the activities of the SAO senates and the SAO Board. They manage audits from the authorization to perform the audit to the approval of the audit reports. In the following overview, completed audits published in audit reports in 2019, are marked in blue, and unfinished audits are marked in green.<sup>1</sup>

## 3. SAO management

The SAO management consists of employees directly subordinate to the SAO President. These are the Senior Director of the Audit Section, the Senior Director of the Administrative Section, the Director of the SAO President's office, the Board secretary, the Director of the Security Department and the Director of the Internal Audit Department.

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<sup>1</sup> In the Annual Report, audits are referred to by the number under which they are listed in the audit plan for the given year. The texts of the audit reports published in 2019 can be found in the *SAO Bulletin* or in the electronic version of the Audit Report. The texts of audit reports published in 2019 can be found in individual issues of the SAO Bulletin or in the electronic version of the annual report by clicking on the blue highlighted number of the audit.

**Table 1: Overview of audits conducted in 2019**

SAO Member	Member since	Number of audits managed up to the end of 2019	Audits managed by the SAO Member in 2019	
			Completed	Not completed
Mr Adolf Beznoska	Mar 14, 2017	6	18/18 18/28	19/06 19/19
Mr Pavel Hrnčíř	Dec 11, 2009	25	18/27	19/15 19/24 19/28
Ms Hana Hykšová	Feb 13, 2014	14	18/06 18/35	19/12 19/22
Mr Jiří Kalivoda	Sept 17, 1993	72	18/19 18/22 19/27*	19/09 19/30
Mr Jan Kinšt	Jan 25, 2018	6	18/33 18/34 19/01	19/11 19/18
Mr Vladimír Koniček	Dec 4, 2018	1	–	19/33
Mr Josef Kubíček	Jun 10, 2014	14	18/08 18/29 19/32**	18/32 19/05
Mr Jan Málek	Jun 21, 2016	10	18/16 18/21 18/24	19/10 19/16
Mr Petr Neuvirt	Dec 21, 2010	32	18/17 18/23	19/04 19/13 19/17
Mr Roman Procházka	Jan 25, 2018	3	18/36	19/07 19/26
Ms Hana Pýchová	Oct 24, 2014	10	–	19/25 19/34
Mr Daniel Reisiegel	Apr 30, 2010	27	18/05 18/07 18/31	19/08 19/29
Mr Jan Stárek	Jun 4, 2015	11	18/11 18/14 18/20 18/30 19/02	19/20
Ms Jaromíra Steidlová	Nov 16, 2006	30	18/13 18/25 19/03	19/21
Mr Jan Vedral	Apr 25, 2001	58	18/03 18/09 18/26	19/14 19/23 19/31

\* Audit No 19/27 was removed from the audit plan by SAO Board Resolution No 8/XIV/2019 of 30 September 2019.

\*\* Audit No 19/32 was removed from the audit plan by SAO Board Resolution No 7/XVII/2019 of 25 November 2019.



#### 4. Mission and benefits of the SAO's work

The SAO's strategic mission is to provide objective information on the state's management of public funds<sup>2</sup>. Results in the form of audit reports, opinions on the implementation of the state budget, opinions on the state closing accounts and other outputs of the SAO's work provide important feedback on the legality, economy, efficiency and effectiveness of the use of public funds and state property. This information is important for parliament and government, which are the SAO's key partners, and as well as for the general public and for the correct functioning of public control.

The SAO has a solid footing for its work as a result of its independence from the executive and, above all, because of its long-standing status as a reliable, professional and trustworthy partner and provider of necessary information. The SAO's ambition is for its objective, targeted, and comprehensible audit reports to go beyond mere reporting on the identified state of affairs. They should result in shortcomings being remedied, the management of public funds and property being improved, and good practice being promoted in the state's financial management.



Consequently, one of the most important impacts of the SAO's work is pressure on the appropriate authorities to eliminate identified shortcomings and implement measures arising from systemic recommendations. Audit results also have a crucial preventive effect on other entities, encouraging them to avoid management and control errors and strengthen the accountability of public administration and the enforceability of the law in general. That is linked to the results of the SAO's work in the field of assessing the working of legislation and making legislative recommendations. Last but not least, and although it is not the principal goal of audit work, the SAO has an important impact in the form of its fulfilment of its reporting duty in connection with breaches of budgetary discipline and criminal liability.

The key data on the SAO's activities in 2019, as well as the numerous findings presented in other parts of the annual report, are clear and comprehensible evidence of the results and benefits of the SAO's work.

<sup>2</sup> The SAO's mission is part of the *Strategy of the Supreme Audit Office for 2018–2022*.

## 5. Audit plan for 2019

The SAO audit plan for 2019 was the fundamental document defining the focus and timing of audits. When compiling the plan the SAO, in accordance with its strategy, focused mainly on those areas and issues that are important in terms of the functioning of government policies in various areas of citizens' lives and in terms of the effectiveness of state administration. In key areas the SAO also scrutinised the CR's standing in international comparison as regards its competitiveness and performance.

The SAO's approach was mainly risked-based in order to ensure its audit work was effective. The guiding principle was to identify real risks in the state's financial management arising from the failure to proceed economically, efficiently and effectively or to comply with the law. The goal is for audit results to help promote good practice in the state's financial management and bring about improvements in areas where the SAO sees shortcomings.

State support channelled into education and services to citizens, investments in infrastructure, research, innovation, eGovernment, security and defence, and scrutiny of state organisations' financial management and governance were the main focuses of audits included in the plan for 2019.

<b>People</b>	<ul style="list-style-type: none"> <li>• State support in the field of inclusive schooling</li> <li>• Training in the education, police and army sectors</li> <li>• State support focusing on positive ageing</li> </ul>
<b>Infrastructure</b>	<ul style="list-style-type: none"> <li>• Investment programmes in the education and defence sectors</li> <li>• Road bridges repairs and maintenance and passenger stations renovation</li> <li>• State support for anti-flood measures</li> </ul>
<b>Research and Development</b>	<ul style="list-style-type: none"> <li>• State support for medical research</li> <li>• State support for security research</li> </ul>
<b>Enterprise and Innovation</b>	<ul style="list-style-type: none"> <li>• Technical assistance from OP Enterprise and Innovation for Competitiveness</li> <li>• Support for agriculture and forestry</li> </ul>
<b>Electronisation</b>	<ul style="list-style-type: none"> <li>• State support for high-speed internet development</li> <li>• Development of state cyber security</li> <li>• Introduction of electronic ID cards</li> </ul>
<b>Organisations and governance</b>	<ul style="list-style-type: none"> <li>• Financial management by selected state organisations</li> <li>• Reliability of data for financial management through which institutions are accountable for the management of state budget funds</li> </ul>

The audits included in the 2019 audit plan were based largely on suggestions arising out of the SAO's own independent monitoring and analysis work. The plan also featured one audit based on an external suggestion from the Control Committee of the Chamber of Deputies of Parliament of the CR.

The audit plan for 2019 was approved by the SAO Board at its 15 October 2018 session. 32 audits were approved in total. During 2019, two audits were cancelled and two other audits were added, so the total number of audits for 2019 remained at **32**.

An overview of the audits included in the 2019 audit plan, and their specific focus and timing, is presented in Annex 1. The audits were commenced in sequence during the year in line with the timetable. Depending on the start time and audit duration, the planned completion times (i.e. approval of the audit reports) are in 2019 and 2020.

## II. Assessment of Audit and Analysis Work in 2019

The assessment of audit and analysis work presented in this section is based mainly on the results of audits that were completed in 2019 when their audit report was approved by the SAO Board. In addition, the assessment draws on findings from the SAO's opinions on the draft state closing account for 2018 and on the report on the implementation of the Czech state budget for the first half of 2019, information from other SAO reports<sup>3</sup> and other findings from the SAO's analysis work.

In total, **32 audits** were completed in 2019. The SAO thereby implemented its mandate in all segments of its competence in accordance with Section 3(1) and (3) of the Act on the SAO<sup>4</sup>. An overview of the audits completed in 2019 is given in Annex 2. The audits mainly targeted the 2015–2018 period.

### 1. Opening summary

The year 2019 can be characterised by the key data from the 32 performed audits that provide information on the number of audited entities and the value of the audited state property and funds, but also on the systemic recommendations the SAO formulated with a view to encouraging good practice in the state's financial management. The key data also point to very important cooperation in the promotion of the audit results – for the SAO, this means the discussion of audit results by the Czech parliament and government. That in turn influenced the number of measures adopted by the government to remedy the identified shortcomings and the SAO's satisfaction<sup>5</sup> with the measures in terms of their response to the deficiencies and recommendations. In cases where the SAO concluded that either a breach of budgetary discipline or a crime had been committed, it fulfilled its reporting duty in line with the applicable legislation.

<b>32</b>	<b>audits</b>
<b>180</b>	<b>audited entities</b>
<b>CZK 63 bill.</b>	<b>audited state property and funds</b>
<b>54</b>	<b>systemic recommendations</b>
<b>36</b>	<b>audit reports discussed by the Control Committee</b>
<b>33</b>	<b>audit reports discussed by the Czech government</b>
<b>231</b>	<b>measures adopted by the Czech government</b>
<b>65%</b>	<b>SAO satisfaction with the adopted measures</b>
<b>CZK 617 mill.</b>	<b>in notifications on breaches of budgetary discipline</b>
<b>6</b>	<b>criminal notifications</b>

Besides documenting the SAO's work in the past year, these data contain much more valuable information. In particular, that means findings about the reality of and problem areas in the state's financial management, including the reasons for them, and recommendations formulated to deliver improvements. The SAO regards providing objective and independent information on the state's financial management primarily as an opportunity to help put things right where the state, through its institutions, is not functioning properly.

<sup>3</sup> E.g. *Report on EU Financial Management in the CR for 2019* (EU Report); *Report on Taxes in the CR in the Years 2014 to 2017*; and *Report on the Digitalisation of Public Administration in the Czech Republic*.

<sup>4</sup> 29 of these audits were commenced according to the audit plan in 2018 and three in 2019. The audit work covered all segments of competence bar the Czech National Bank and the issuance and amortisation of state securities, where the SAO's audits are performed over longer intervals.

<sup>5</sup> The SAO rates its satisfaction with adopted measures on the basis of the number and quality of the measures adopted in response to identified shortcomings and the recommendations formulated by the SAO.

The SAO's findings point to the following strengths and weaknesses in the state's financial management in the previous period:

**Strengths:**

- + favourable economic growth;
- + low rate of unemployment;
- + rising pay in the public and private sectors;
- + significant growth in state budget tax revenues;
- + high household final consumption;
- + growth in state budget investment expenditure;
- + progress in drawdown from the EU budget and financial mechanisms (FM);
- + government debt falling as a proportion of GDP.

**Weaknesses:**

- deficit budget at a time of economic growth;
- marked growth in current expenditure outstripping the growth in state budget tax revenues;
- state budget revenues' high dependence on economic development (risk for future sustainability of public finances);
- inadequate electronisation of tax administration and persisting complexity and difficulty of the tax system;
- problems in IT contracts and high investment in eGovernment without any fundamental improvement in efficiency;
- taxes' low motivational role in progress towards the goals of climate and energy policy;
- failure to fulfil the goals of and conditions for long-term sustainability of the system of accessible social services;
- limited effectiveness and efficiency of youth employment support and the fight against poverty and social exclusion;
- funding system for ICT development and operation in schools is highly dependent on EU funding, which is unsustainable for the future;
- failure to achieve the goals of improving businesses' innovation performance and of supporting ICT for improved competitiveness in small and medium-sized enterprises;
- room for improvement in the management of universal health insurance finances and haphazard support for investment in regional healthcare;
- persisting inefficiency of processes in the preparation of construction projects and strategic management errors hindering the achievement of transport infrastructure development objectives and value for money;
- unmet kit requirements and obsolete system for distributing kit to Czech army personnel;
- failure to achieve the expected cost savings or improve the efficiency of the police training system despite reorganisation measures;
- failure to evaluate the benefits of support for crime prevention and low support in regions with the highest crime rates;
- high levels of support in the field of animal production with no impact on the achievement of goals, and inefficiency and wastefulness of national subsidies;
- absence of fundamental measures and legislation for the fight against drought.



Assessment of the results of audit and analysis work in 2019 reveals that the weaknesses identified in the state's financial management were the cause of reduced efficiency in the state's functioning and in its provision of high-quality services to citizens. These weaknesses were also an obstacle on the road to greater competitiveness in the international environment.

**The favourable economic conditions did not have a profound impact on improved state budget results or improved future sustainability of public finances.**

In 2019 the Czech Republic registered another economically successful year in its modern history. That statement is borne out by a series of macroeconomic indicators, such as GDP growth, the low rate of unemployment, real pay growth or increasing household final consumption. These favourable conditions had a positive effect on state budget revenues, which grew mainly because of the year-on-year increase in tax revenues and in the use of extraordinary revenues and the utilisation of reserves, e.g. privatisation revenues. However, even the considerable pace of growth in total state budget revenues was not enough to cover the growth in total state budget expenditure, and in particular current expenditure. Mandatory and quasi-mandatory expenditure dominated the structure of current expenditure, mainly because of marked increases in spending on pensions and pay. The resulting deficit thus amounted to CZK 28.5 billion. Even though the state budget deficit for 2019 was lower than planned, it was the biggest deficit since 2016.

*The growth in state budget current expenditure in 2019 exceeded the growth in tax revenues by CZK 52.8 billion. In 2014, for example, when the economic crisis was coming to an end, the year-on-year increase in this spending was covered by increased tax revenues.*

State budget revenues for 2019 were **CZK 119.3 billion** higher year-on-year (i.e. up **8.5%**) – this is one of the highest increases in revenues since 1993. The biggest driver was tax revenues, which grew by **CZK 75.3 billion**. The increased tax revenues were in turn driven mainly by economic growth combined with high employment and wage and salary increases; improved tax collection also played a role. Total state budget expenditure, however, registered year-on-year growth of **CZK 150.8 billion (10.8%)**. Here the biggest factor was increased current expenditure of **CZK 128.1 billion**. The state's increased revenues were thus essentially consumed in their entirety by current expenditure.

The SAO asserts that the state has repeatedly failed to make use of the period of economic growth to draw up a budget that is at least balanced and takes into account the principles of economic cycles. At the same time, it became absolutely clear that the implementation of the state budget was highly dependent on economic growth and an underestimation of the risk of increased current or mandatory government spending. Unless appropriate measures are taken, in the event of unfavourable economic development the state will not be able to respond to future risks linked to increased expenditure due to population ageing, for example, or to covering increased investment requirements. Consequently, it will be unable to ensure the sustainability of public finances in the long term.

**In many areas, the state's fulfilment of its indispensable role in delivering goals and value for money was impeded by low accountability, poor management and insufficient control.**

If programmes, projects and measures are to be effective and deliver the required results, they have to be properly managed and controlled. That makes it necessary to have an idea about specific economically and socially justified requirements and to have the right conditions in place for preparing and implementing them, including realistic sources of funding on the given time

scale. Defining specific targets and indicators is a key condition for evaluating programmes and projects and for steering them in the right direction. On top of that, demonstrating that resources were used effectively, efficiently and economically (the 3 Es<sup>6</sup>), is a legal obligation.

**One serious finding is that violations of these fundamental principles of sound management and control are among the most common shortcomings identified by the SAO at a number of responsible ministries and organisations when auditing government policies. In other words, these shortcomings are found in places where the application of these principles is paramount. The most common shortcomings included flouting of the 3E principles and inadequate definition of government policies' goals and the relevant indicators for meaningful evaluation of policy goals, as well as failure to achieve these policy goals. When combined with inefficient processes, an inability to learn from repeated mistakes, a merely formal approach to compliance and an inability to respond to changes, that ultimately led to ineffective, inefficient or uneconomical spending of public money.**

There are numerous examples of the responsible authorities not fulfilling their role. By failing to achieve long-term strategic goals and carry out a number of measures in the social services, chief among them the failure to adopt a fundamental amendment of the Act on Social Services, the Ministry of Labour and Social Affairs (MoLSA) did not put in place the right conditions for the long-term sustainability of the accessible social services system. And that was despite the increased need for this system's future sustainability owing to population ageing and the expected pressure on increased state budget spending. In the years 2015–2017 the state contributed approx. **47%** of the total sources of social services funding, an amount of **CZK 105 billion**.

*The identified deficiencies were also the reason why society's needs in a number of areas were not met effectively, efficiently or economically. Audits completed in 2019 quantified the spending that flouted the 3E principles at in excess of CZK 900 million.*

In youth employment support, the MoLSA did not make allowance for the fact that the youth unemployment rate was very low, which impacted on the effectiveness of the provided support. Even so, the ministry provided over **CZK 1.3 billion** from operational programme *Employment* (OP Em) for youth employment projects. The City of Prague did something similar in the fight against poverty, channelling support from operational programme *Prague – Growth Pole* (OP PGP) into projects that were ineffective and inefficient. The total allocation of this axis, which can be drawn down until 2023, however, also amounts to **CZK 1.3 billion**.

The SAO found a high risk of ineffective and inefficient spending by the Ministry of Transport (MoT) in the field of waterborne transport in a situation where fundamental issues linked to the unreliable navigability of the Elbe-Vltava watercourse remain unresolved. That also applies to money already spent, whose total value the MoT put at **CZK 160 billion**.

The SAO concluded that the construction of 1<sup>st</sup> class roads by the Roads and Motorways Directorate (RMD) was marked by a failure to implement conceptual plans, inefficient processes in the form of inordinately long preparation times (averaging 12 years) and the execution of construction projects regardless of their priority in terms of social necessity and effectiveness. A total of almost **CZK 25 billion** was spent on this area from 2013 to 2018.

In the field of support for animal production, the SAO found that national subsidies were inefficient and uneconomical and the set goals were not achieved. Even though the subsidies were increased substantially from 2015 to 2017, five out of eight animal production indicators worsened during this period, e.g. numbers of farm animals and the CR's self-sufficiency in terms of meeting the demand for beef and pork. In that period the agriculture department provided animal production support subsidies amounting to **CZK 21 billion** out of national and European sources.



**Substantial investments in IT contracts and eGovernment did not result in significant changes in its efficiency or in communication between state and citizens via online services.**

Digitalisation is a huge opportunity for the CR's development and improved competitiveness. The SAO pointed out that the currently mismanaged eGovernment project is a significant obstacle to this progress. In the past eight years, organisational units of the state have spent almost CZK 85 billion on information and communication technologies (ICT) linked to eGovernment, but even so there has been insufficient improvement in the efficiency of eGovernment processes and in communication between the state and its citizens via electronic services.

The main reasons are haphazard management and decision-making in ICT development, the creation of new information systems without analysing the need for them and without ensuring they will be put to use, and the award of public contracts without tenders. Combined with an undesirable dependence on technologies and services suppliers, insufficient staffing levels and high operating costs, this resulted in unsatisfactory standards of economy, efficiency and effectiveness in the use of public money. One example is the support for tax proceedings in expanding the automated tax information system (ATIS). Expanding the obsolete information system on which the tax administration spent almost CZK 4.8 billion in the audited period did not bring any qualitative improvement in the form of reducing the heavy workload on staff performing administrative operations or a more user-friendly system.

*In 22 audits focusing on the digitalisation of public services in the past eight years, the SAO found violations of the 3E principles worth as much as CZK 7.8 billion, which was approximately one quarter of the funds audited.*

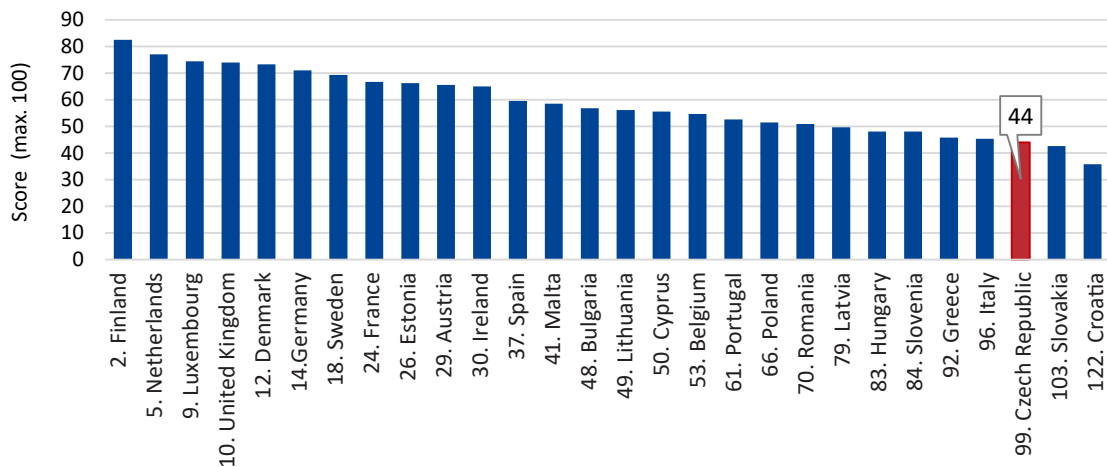
In eGovernment the CR lags behind by international benchmarking as well. According to the *digital public services* indicator of the Digital Economy and Society Index (DESI)<sup>7</sup>, the CR was in **20<sup>th</sup> place out of 28 EU countries** in 2019, i.e. below average.

**The persisting poor performance of public and state administration is holding back the country's competitiveness and makes it harder to address society's future needs.**

The performance of the CR and the performance of state administration can also be viewed through the lens of international benchmarking. The regular evaluation of competitiveness via the global competitiveness index (GCI) published by the *World Economic Forum* put the CR in 32<sup>nd</sup> place out of 141 rated countries, a fall of three places from its previous ranking. The CR's overall competitiveness was heavily influenced by the public sector's poor performance. According to the *public sector performance* indicator that is part of the overall GCI, the CR was as far down as in 99<sup>th</sup> place and the third worst EU country (see Chart 1).

<sup>7</sup> *Digital Economy and Society Index 2019* is a composite indicator assessing the following aspects: connectivity, human capital, use of online services, integration of digital technologies, digital public services; European Commission 2019; <https://ec.europa.eu/digital-single-market/en/desi>.

**Chart 1: Rankings of EU countries in international comparison by public sector performance**



Source: *The Global Competitiveness Report 2019*; World Economic Forum 2019; <http://reports.weforum.org/global-competitiveness-report-2019>.

What had the biggest impact on the ranking? According to the World Economic Forum it was the following factors:

- **burgeoning bureaucracy;**
- **the efficiency of the legal framework for settling disputes;**
- **the level of e-participation, i.e. the standard of online government services in communication with citizens.**

The situation in all these factors got worse compared to the 2018 assessment. It is evident that the common denominator is inefficient processes in the performance of the state’s functions.

**The problems with poor management and control are linked to the generally low degree to which state administration is performance-based. The SAO has long drawn attention to the fact that the compilation and implementation of the state budget is not tied to performance indicators and specific and measurable policy goals that are binding on the budget chapter administrators. Audit results have repeatedly shown, for example, that programme funding under the state budget has become nothing more than a formal tool, without any clear link to performance and impact. Although programmes co-funded from abroad are largely results-based, finances from abroad are just one of the sources of policy funding and implementation.**

Focusing the budget on performance indicators while putting in place motivation and managerial accountability for achieving these indicators is one of the principles applied by countries with a highly developed and efficient public administration. The introduction of key performance indicators in public administration in the Netherlands, Great Britain, Germany and Austria serves as an example. And these countries’ standings in international benchmarking of public administration performance bear this out. Implementing performance-based budgeting delivers the information necessary for transparent and responsible decision-making on budgets, savings of budget finances and improved services provided by the state.

*The aim of performance-based budgeting is to get answers to the following questions: What are we trying to achieve? How do we plan to achieve it? How much will it cost?*

*Then, the state closing account is supposed to answer the following key questions: Did we achieve what we intended? Did we do what we planned? Did it cost what we expected?<sup>8</sup>*

8 For an example see Performance Budgeting, Responsible Budgeting in the Netherlands chapter; Parliamentary Institute, 2019, <https://www.psp.cz/sqw/text/orig2.sqw?idd=163582>.



The following parts of this chapter we took a closer look at the main systemic shortcomings, with recommendations and other information structured in line with the areas the SAO focused on in the previous period. The SAO hopes and trusts that, besides mapping the reality of the state's financial management, this will help tackle key problems that are important for the Czech Republic's current and future development.

## 2. Public funds

### The state's rising current expenditure and state budget revenues' high dependence on economic growth jeopardise the future sustainability of public funds.

Based on its opinions on the draft state closing account and reports on the implementation of the state budget<sup>9</sup>, the results of audit and analysis work and up-to-date data for 2019, the SAO responds to the development of the economic situation and the results of the management of public funds or the state budget.

In 2019 the Czech Republic had similar economic performance as at the end of 2018. The key driver of economic growth was again consumption by households and government institutions, supported by rising pay levels. Total employment increased at a gentle pace, while the rate of unemployment continued to be the lowest in the entire EU.

**In the SAO's view, the state, despite the lower state budget deficit, did not capitalise on the good economic situation in 2019 and did not achieve at least a balanced state budget. Increased state budget revenues were driven mainly by the year-on-year increase in tax revenues and also by the utilisation of extraordinary revenues and reserves (e.g. privatisation revenues). State budget current and overall expenditure grew at a much faster pace than total revenues, however. Total expenditure mainly comprised mandatory and quasi-mandatory expenditure, which is dominated by spending on pensions and public sector pay and has been rising for a long time. The implementation and drawdown of EU budget funds and financial mechanisms on both the revenues and expenditure side and the increase in state budget investment expenditure can be welcomed. Their share of total spending still remained below the level from the period of economic crisis, however.**

The state budget for 2019<sup>10</sup> set total revenues at CZK 1,465.4 billion, total expenditure at **CZK 1,505.4 billion**, a deficit of **CZK 40.0 billion**. For the third consecutive year, the deficit planned for 2019 was therefore **CZK 10 billion** lower than in the previous year. Actual total revenues and expenditure in 2019 amounted to **CZK 1,523.2 billion** and **CZK 1,551.7 billion** respectively, so the deficit ended up at **CZK 28.5 billion**. Even though the state budget deficit for 2019 was lower than planned, it was the biggest deficit since 2016.

**Table 2: Balance of the state budget in the years 2014–2019** (CZK billion)

Indicator	2014	2015	2016	2017	2018	2019
Planned balance	-112.0	-100.0	-70.0	-60.0	-50.0	-40.0
Balance	-77.8	-62.8	61.8	-6.2	2.9	-28.5
Balance excl. EU/FM	-64.1	-41.7	-13.6	-1.3	-3.5	-27.7

Source: MONITOR information website and MoF press release of 3 January 2020.

<sup>9</sup> In 2019 the SAO, in accordance with Section 5 of Act No 166/1993 Coll., on the Supreme Audit Office, submitted to the Chamber of Deputies of Parliament of the CR its *Opinion on the Draft State Closing Account of the CR for 2018* and *Opinion on the Report on Implementation of the State Budget of the CR for the 1st Half of 2019*.

<sup>10</sup> Act No 336/2018 Coll., on the state budget of the Czech Republic for 2019.

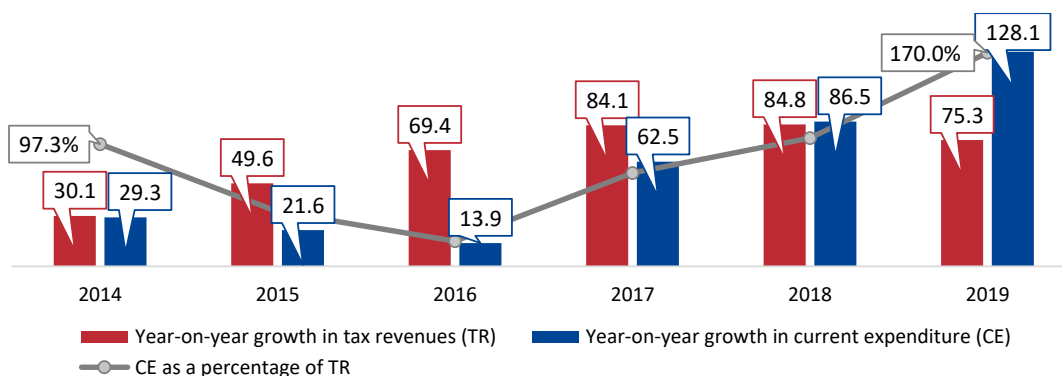
State budget revenues for 2019 were **CZK 119.3 billion** higher year-on-year (i.e. up **8.5%**) – this is one of the highest increases in revenues since 1993. The biggest driver was tax revenues (up by **CZK 75.3 billion**), where revenues from social security insurance premiums, natural persons' income tax and VAT registered the biggest increases (increases of **CZK, 38.4 billion, CZK 18 billion** and **CZK 12.3 billion** respectively). Revenues were also increased year-on-year *inter alia* by the planned transfer of **CZK 18 billion** from the “privatisation account” and by increased proceeds from the sale of emissions permits, which was not factored into the approved capital revenues budget.

The dominant factor pushing up total revenues in recent years has been the high rate of employment accompanied by rising pay. Combined with the high rate of taxation on labour, revenues are therefore highly dependent on direct taxes. Nevertheless, attained tax revenues lagged behind the expected figure for the first time since 2013: after adjustments, only **99.3%** of the budgeted tax revenue was collected. Revenue from value added tax (**97.8%**), for example, fell short of the planned higher collection target defined by the Ministry of Finance in the budgetary documentation accompanying the draft state budget for 2019<sup>11</sup>.

**In connection with slowing economic growth the SAO continues to see a significant risk for the future achievement of tax revenues that are highly dependent on direct taxes, including social security insurance premiums.**

Total state budget expenditure registered year-on-year growth of **CZK 150.8 billion (10.8%)**. Here the biggest factor was increased current expenditure of **CZK 128.1 billion**, with the remaining **CZK 22.7 billion** coming from increased capital expenditure. As Chart 2 shows, the trend of current expenditure growing at a faster rate than tax revenues is evident from 2018. In 2019, the growth in current expenditure exceeded the growth in tax revenues by as much as **70 percentage points**, making it much higher than at the time of the ending economic crisis in 2014, when the year-on-year increase in this spending was covered by rising tax revenues.

**Chart 2: Year-on-year changes in tax revenues and current expenditure and current expenditure growth as a percentage of tax revenues growth in the years 2014–2019 (CZK billion, %)**



Source: MONITOR information website.

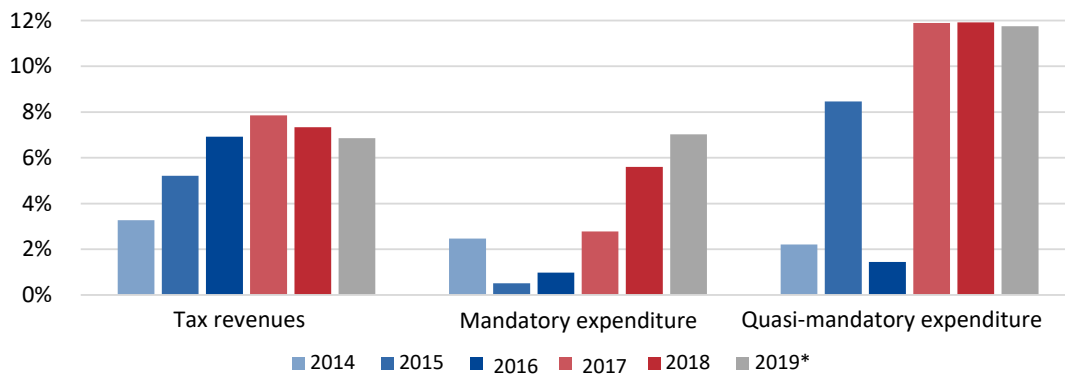
The year-on-year increase in overall revenues was not even enough to cover the increased current expenditure. A considerable portion of current expenditure is made up of mandatory and quasi-mandatory expenditure<sup>12</sup>, whose rate of growth in 2019 was higher than that of state budget tax

<sup>11</sup> The *Report on the State Budget of the Czech Republic for 2019* states that increased VAT collection will be caused mainly by positive economic development; another factor would be the positive impact of measures introduced in previous years, such as electronic sales records, or the additional impact of control statements or the additional positive impact deriving from the increase in households' disposal revenues as a result of rising pay. At the same time, it is reckoned with the negative impact of the transition of some services to the 10% VAT rate, expected to amount to CZK 1 billion.

<sup>12</sup> Mandatory expenditure is money which the government must spend by law or other legal norms or which follow from other treaty obligations of the state; these are pensions, social benefits etc. Quasi-mandatory expenditure is necessary for the working of the state; it includes public sector pay, spending on active labour market policy and defence spending.

revenues, as Chart 3 shows. Quasi-mandatory spending has been outstripping increases in tax revenues since 2017. It is also evident that the rate of growth of state budget tax revenues has been falling since 2018.

**Chart 3: Year-on-year change in selected financial indicators in the years 2014–2019 (%)**



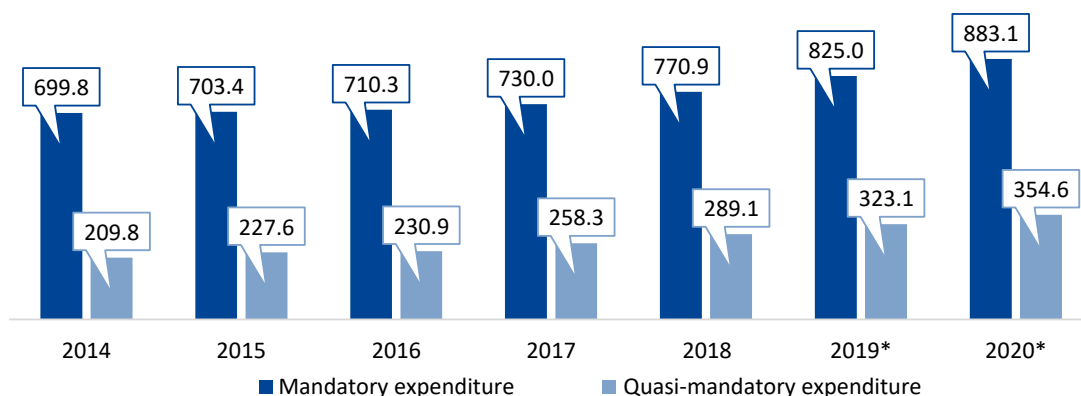
**Source:** MONITOR information website and documentation accompanying the draft act on the state budget of the Czech Republic for 2020.

**NB:** \* Budgeted values for 2019 and actual values for 2018 were used to calculate the year-on-year changes.

The constantly rising mandatory and quasi-mandatory expenditure (see also Chart 4) and the high dependence on the realisation of tax revenues, which are very sensitive to any economic slowdown, mean that the state budget is not well prepared for a possible recession. Even a slight economic slowdown can cause high deficits when budgets are set up this way. Given demographic developments, the pay-as-you-go financing of the pension system and social benefits appears long-term unsustainable, as more and more pensioners will in future be dependent on fewer and fewer economically active citizens. The National Budget Council<sup>13</sup> also flagged up the unsustainability of public finances in the current situation.

*The budgeted values of mandatory and quasi-mandatory expenditure totalled CZK 1,148.1 billion in 2019 and swallowed up more than ¼ of all state budget revenues, while accounting for an equivalent share of total expenditure.*

**Chart 4: Mandatory and quasi-mandatory expenditure in the years 2014–2020 (CZK billion)**



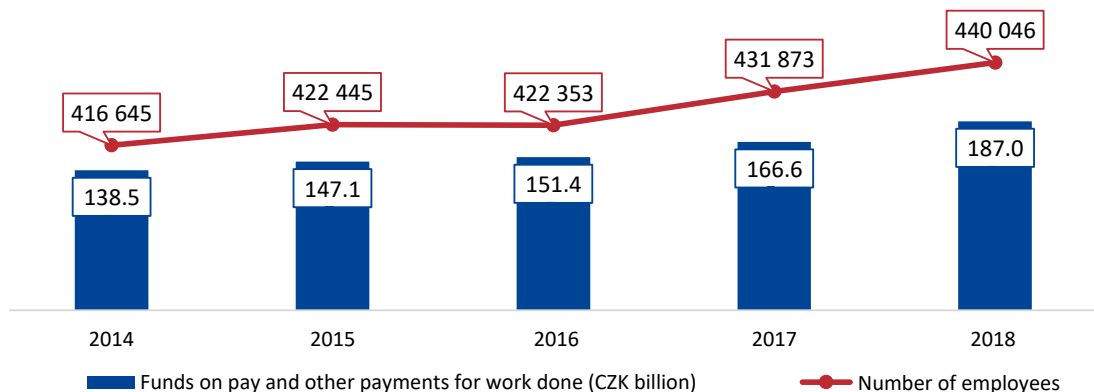
**Source:** documentation accompanying the draft act on the state budget of the Czech Republic for 2020.

**NB:** \* Budgeted values were given for 2019 and 2020.

<sup>13</sup> See <https://unrr.cz/wp-content/uploads/2019/06/Zpr%C3%A1va-o-dlouhodob%C3%A9-udr%C5%BEitelnosti-ve%C5%99ejn%C3%BDch-financ%C3%AD-2019.pdf>.

The rise in current expenditure in recent years is partly driven by the increasing amount of money going on public sector pay (a quasi-mandatory expenditure item), linked to the marked growth in the public sector workforce. The number of public sector employees increased by **23,400** between 2014 and 2018. Increasing the size of the workforce and expenditure on pay is planned for the coming period as well.

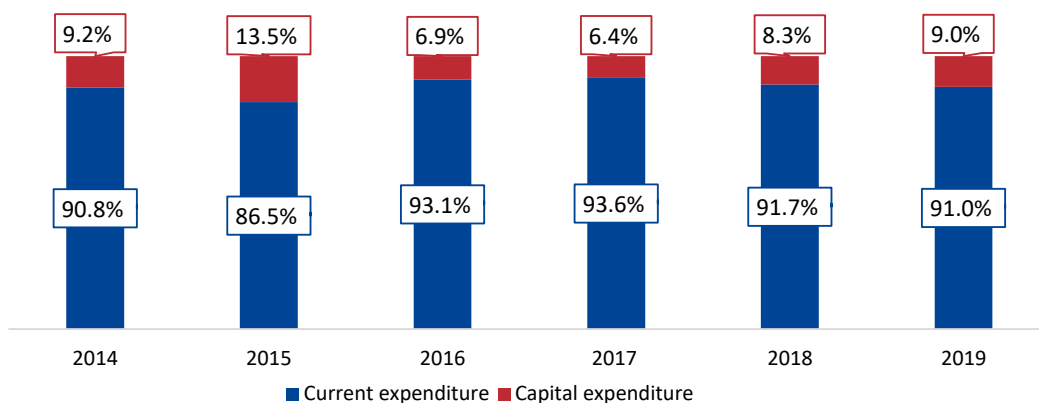
**Chart 5: Spending on pay and number of employees in the government-regulated sphere**



Source: state closing accounts for 2014–2017; draft state closing account for 2018.

Capital expenditure increased year-on-year by **CZK 22.7 billion** to **CZK 139.1 billion**, accounting for **9%** of total state budget expenditure. The year-on-year percentage increase can be welcomed, but it still falls short of the level from the crisis period.

**Chart 6: Current and capital expenditure as a proportion of total expenditure (%)**



Source: MONITOR information website.

**The high rate of growth in mandatory and quasi-mandatory expenditure, outstripping the growth rate of state budget tax revenues, poses a risk for future fiscal sustainability.**

Thanks to increased utilisation of claims from unused expenditure linked to expected refunds from the EU budget, there was a marked year-on-year fall in the total state of claims, as the following table shows (fall of **CZK 36.5 billion**).

**Table 3: State of claims from unused expenditure as at 1 January in the years 2012–2019 (CZK billion)**

Indicator	2012	2013	2014	2015	2016	2017	2018	2019
Claims from unused expenditure	129.9	133.2	146.6	154.9	151.2	157.7	167.6	131.1

Source: state closing account for 2017; draft state closing account for 2018.

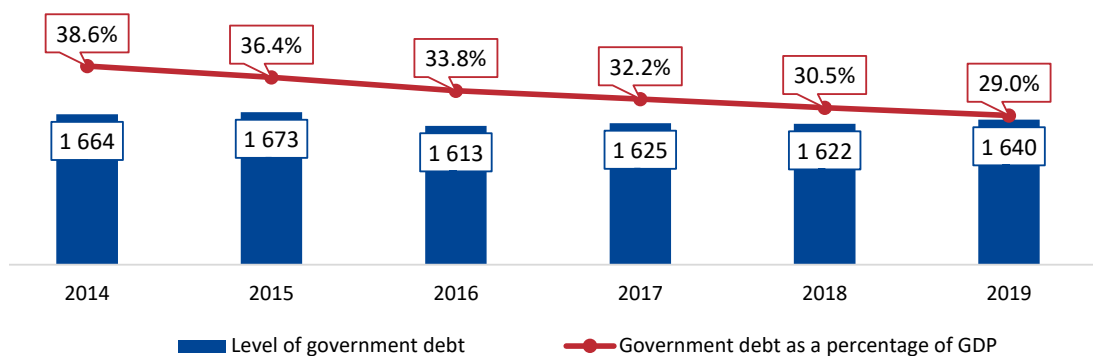
The state of claims from unused expenditure is mainly influenced by the ability to make use of available funds earmarked for projects and programmes co-funded out of the EU budget, which are the primary source of claims.

**The SAO commends the improved ability to implement and draw down EU and FM finances, on the side of both revenues obtained from the EU/FM budget and expenditure paid out of the state budget.**

Partly because of the state budget deficit, government debt registered a year-on-year increase, reaching **CZK 1,640.2 billion**. Government debt is still falling as a proportion of GDP, however, thanks to the Czech economy’s good performance. At year end 2019 it stood at **29% of GDP**. Government debt is the main component of public debt; comparing the proportions of gross domestic product accounted for by public debt shows that the CR is one of the countries with the smallest share in the EU.

*The state reckons with further budget deficits in the years 2020, 2021 and 2022 (CZK 40 billion each year).*

**Chart 7: Government debt and its share of GDP in the years 2014–2019 (CZK billion, %)**



Source: draft state closing account for 2018 and *Report on the Management of the Czech Republic’s Government Debt in 2019*.

**The SAO has long drawn attention to the fact that the compilation and implementation of the state budget is not tied to performance indicators and specific and measurable policy goals that are binding on the budget chapter administrators.**

Two consequences of this are the limited accountability of budget chapter administrators for the transparency, economy, efficiency and effectiveness of the use of public money and the reduced performance of state administration as a whole.

As demonstrated by the results of a series of audits done by the SAO in various government policies, assessment of the achievement of the goals of programmes, projects or measures relative to the money spent on them is not done sufficiently and properly. That is despite the fact that conclusive assessment whether public money was spent economically, efficiently and effectively is required by law (see also Chapter II.4 of this annual report).

One reason for the above is the fact that budget compilation and management of budget funds is primarily determined by defined expenditure indicators of the budget. These mainly motivate budget chapter administrators to use up the budgeted funds, not to allocate state funds to the achievement of specific outcomes and tasks, with accountability for their achievement. In the SAO's opinion, the employed budgeting method does not promote either the efficient use of limited resources or the principles of strategic management.

Basing the budget on performance indicators, while bringing to bear motivation and managerial responsibility on policy implementers for achieving targets, including a much stronger control role for the central authority, are among the principles of the "new management model" in public administration and are good practice applied by states with highly developed and efficient public administration<sup>14</sup>.

The SAO draws attention to the fact that the long-standing reluctance to introduce performance budgeting principles presents a serious risk for the efficient use of public money and provision of quality services by the state, and will cause the CR's state administration and competitiveness to fall further behind that of other countries.

### 3. Government revenues

**The complex and complicated nature of the tax system and shortcomings in its electronisation act as a brake on the efficiency of tax administration. The tax system does not contribute to the achievement of climate and energy policy goals and the measures that have been implemented are not effective and practical.**

The creation of sufficient funds is an essential condition of the implementation of the state's expenditure policies and requirements. The implementation of government revenues and, above all, the implementation and impacts of tax policy are a constant focus of attention in the SAO's audit and analysis work.

In 2019 the SAO performed an assessment of the working of the tax system and progress towards the state's strategic objectives in tax policy<sup>15</sup>. This assessment was based on the results of a series of audits targeting this area in the past years<sup>16</sup>. This allowed the SAO to present comprehensive information about the effectiveness of the system and flag up fundamental deficiencies, as well as the causes of the identified state of affairs<sup>17</sup>.

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<sup>14</sup> The new public administration management model emphasizes a results-based and performance-based evaluation in terms of 3E, a focus on the quality of services, and the motivation and accountability factors. The principles of this management model and performance indicators in public administration have been applied e.g. in Great Britain, Germany and the Netherlands; see Analysis of the Measurement and Assessment of the Performance of Public Administration in the Czech Republic, Mol, 2016, <https://www.mvcr.cz/soubor/4-analyza-sc-1-4-hodnoceni-a-mereni-vykonu-vs-v-cr-f-pdf.aspx>; případně Performance budgeting - rozpočtování zaměřené na výkonnost, Parlamentní institut, 2019, <https://www.psp.cz/sqw/text/orig2.sqw?idd=163582>.

<sup>15</sup> These were primarily goals linked to simplifying the tax system, cutting red tape in the administration and processing of taxes and making tax collection more efficient.

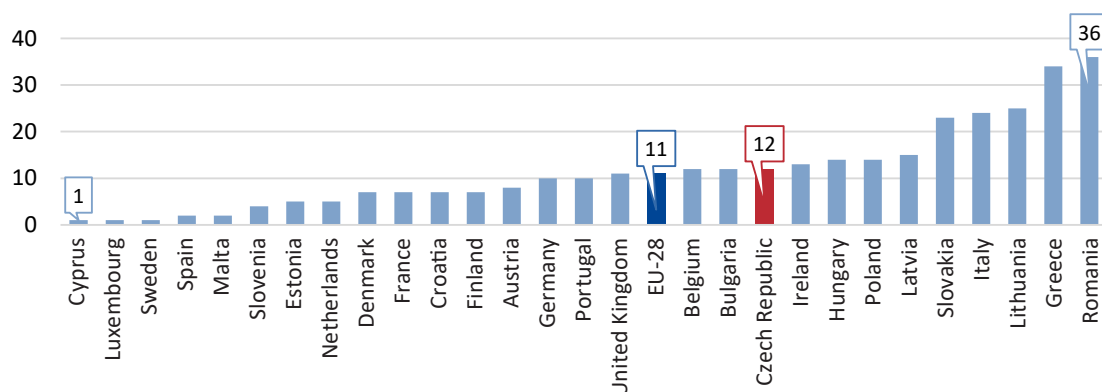
<sup>16</sup> E.g. audit No 15/17 – Funds spent on streamlining of tax and insurance collection and administration, mainly within the project "Setup of single collection point for state budget revenues" (audit report published in volume 4/2016 of the SAO Bulletin); 15/33 – Excise duty administration (audit report published in volume 1/2017 of the SAO Bulletin); 16/21 – Income tax administration and the impacts of legislative amendments on the state budget revenues (audit report published in volume 4/2017 of the SAO Bulletin); 17/12 – Value added tax administration (audit report published in volume 4/2108 of the SAO Bulletin); 17/21 – Administration of legal persons' income tax (audit report published in volume 1/2019 of the SAO Bulletin).

<sup>17</sup> The SAO published the results in its Report on Taxes in the Czech Republic; [https://www.nku.cz/assets/publikace-a-dokumenty/ostatni-publikace/zprava-danich\\_1.pdf](https://www.nku.cz/assets/publikace-a-dokumenty/ostatni-publikace/zprava-danich_1.pdf).

**The SAO's principal conclusions are:**

- The tax targets defined in strategic materials of the EU and the Czech government are being achieved mainly in the fight against tax fraud.
- The collection of taxes has improved, but the new measures are imposing additional duties on taxpayers.
- The sustainability of state budget tax revenues is highly dependent on positive economic development and household consumption.
- No significant savings have been made in tax administration; neither new procedures nor electrification have led to significant savings in personnel costs or made tax administration more efficient.
- No significant progress was made in simplifying the tax system or cutting red tape.

In the previous years, the CR's tax administration focus was mainly on measures to combat tax evasion, which did result in reduced tax evasion. This is confirmed e.g. by a report drawn up for the European Commission in 2019<sup>18</sup>, which states that the CR registered an improvement in the indicator concerning the estimated difference between expected and actual amount of value added tax collected, known as the VAT gap. The VAT gap has been falling since 2015, and in 2017 the CR's VAT gap was slightly above the EU average, as Chart 8 shows. The report envisaged that in 2018 the VAT gap would remain at the 2017 level of approx. **12%**.

**Chart 8: VAT gap in EU countries in 2017 (%)**

Source: *Study and Reports on the VAT Gap in the EU-28 Member States: 2019 Final Report*; TAXUD/2015/CC/131; [https://ec.europa.eu/taxation\\_customs/sites/taxation/files/vat-gap-full-report-2019\\_en.pdf](https://ec.europa.eu/taxation_customs/sites/taxation/files/vat-gap-full-report-2019_en.pdf).

**One fundamental problem in tax administration is that the new measures entailed increased bureaucracy on the part of both the tax administration and taxpayers, but this increased bureaucracy has not been offset in any meaningful way yet. The electrification of the tax administration has not delivered greater efficiency either.**

This was confirmed by the results of audit No **18/07**, in which the SAO focused on the acquisition and use of ICT in support of the tax proceedings agenda and scrutinised how the General Financial Directorate (GFD) spent money on operating, supporting and expanding the ATIS information system. The Financial Administration of the CR (FA CR) spent **CZK 4.8 billion** on this IS from 2011 to October 2018.

<sup>18</sup> Conclusions from the report issued on 4 September 2019 by the Centre for Social and Economic Research (CASE) for the Taxation and Customs Union Directorate-General of the European Commission.



The SAO declared that the GFD spent money on operating and expanding the ATIS uneconomically, inefficiently and ineffectively. This system has been operated by the financial administration since 1993 and is one of the state's most out-of-date information systems. In contrast to the systems used in some European countries, the routine administration of tax accounts in this system represents a huge workload for personnel, reducing the time they could devote to supporting taxpayers and performing tax inspections. The SAO audit also found the following:

- When expanding this system to include electronic sales records (known as "EET") and other application components the GFD did not even respect the rules for ICT project approval by the main architect of eGovernment. The biggest shortcomings concerned uneconomical spending of **CZK 428 million** in connection with electronic sales records, control statements and further development of the IS, and in the award of public contracts: almost half the contracts in the audited period were awarded without a tender, usually in negotiated procedure without publication. The SAO concluded that the GFD wrongfully opted for non-competitive procedures to award public contracts worth over **CZK 400 million**, which compounded vendor lock-in.

**Based on the identified shortcomings in information support for the tax proceedings agenda the SAO made the following principal recommendations:**

- funds should be concentrated on the fastest possible launch of a new information system to support the tax proceedings agenda; further IS development should proceed according to the principles of the national architecture of public administration of the CR;
- full use should be made of ICT infrastructure already acquired; when new components are being acquired, those that will be optimally utilised should be chosen; penalties for violating guaranteed accessibility should be defined and rigorously applied vis-à-vis contractors.

In response to the audit results the GDP took measures to eliminate vendor lock-in. In addition, the GFD will ensure that the public administration ICT services development strategy complies with the new strategy of the FA CR by 2021.

The time-consuming and complicated nature of the tax system in the CR is also confirmed by a number of international comparisons. The Czech Republic's score according to the "time to comply" indicator used by the World Bank and PricewaterhouseCoopers (PwC)<sup>20</sup> to measure the amount of time required to fulfil taxpayers' tax duties in respect of the state remained unchanged between 2017 and 2018. The CR remains far behind the EU and EFTA average of **161 hours**: the total time necessary to fulfil tax obligations in the CR was **230 hours**.

*While the management of accounts and other administrative operations took up 11% to 19% of the working hours of financial administration employees in Belgium, Austria or Estonia, in the CR the figure was two-thirds.*

*By contrast, supporting taxpayers took up just 4% of working time in the CR, compared to between 24% and 37% in the other countries named.<sup>19</sup>*

*The complexity of the tax system is also indicated by the corporation tax complexity index<sup>21</sup>, which put the CR down in 85<sup>th</sup> place out of 100 rated countries in 2016. Italy, Greece and Croatia are the only European countries with a more complicated system.*

<sup>19</sup> OECD, Tax Administration 2017 – Comparative Information on OECD and Other Advanced and Emerging Economies; [https://read.oecd-ilibrary.org/taxation/staff-allocation-by-function\\_0bb97d15-en#page1](https://read.oecd-ilibrary.org/taxation/staff-allocation-by-function_0bb97d15-en#page1).

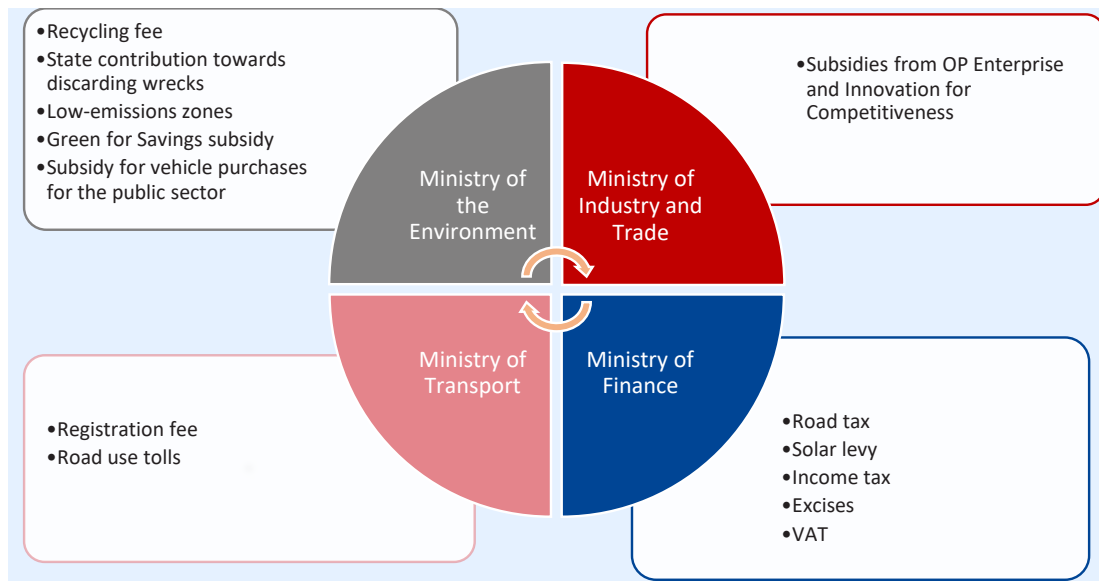
<sup>20</sup> Paying Taxes, PwC, World Bank Group, 2020, available at: <https://www.pwc.com/gx/en/services/tax/publications/paying-taxes-2020/explorer-tool.html>.

<sup>21</sup> Global MNC Tax Complexity Project; based on research by BDO in collaboration with universities in Germany; <https://www.taxcomplexity.org/>.



The goal of tax policy is not just to achieve state revenues. In some fields it should also have a regulatory or motivational role steering the behaviour of society and citizens. The Czech tax system contains some mechanisms that can support goals in climate and energy policy. In 2019 the SAO completed audit no **18/22**, scrutinising whether support in the fields of taxes, fees, road tolls and other revenues of public budgets had been designed by the Ministry of Finance (MoF), Ministry of Transport (MoT) and Ministry of the Environment (MoE) in a way that contributed effectively towards the achievement of climate and energy policy targets while keeping public revenues sustainable in the long run. The selected areas were emissions reductions and increasing the share of renewables in the transport sector and in households.

**Figure 1: Financial support for climate and energy policy by ministries in selected sectors**



**Source:** information from audit No **18/22**.

**NB:** The Ministry of Industry and Trade was not audited.

The SAO concluded that the audited ministries did not draw up effective and practical tax measures that would have made a significant contribution towards achieving the goals of climate and energy policy. There is little tax-based motivation for the public to cut energy consumption and switch to cleaner energy sources. The impact is that the Czech automobile transport sector lags behind most EU countries in terms of greening and the dependence of fulfilling EU targets on first-generation biofuels<sup>22</sup> with all the negatives this brings, e.g. the increase in farmland area set aside for growing biofuel crops to the detriment of land for food production. The SAO also stated the following:

- Unlike other EU countries, the CR fails to leverage the potential of taxes, fees and subsidies to make transport greener, even though the relevant fees and taxes are part of the legislation. The rates of taxes and fees linked to the operation of vehicles and to greener transport have fallen in real terms since their introduction and no longer fulfil the function they were introduced for. The effectiveness of the applied tax reductions that are supposed to support transport greening is low. Businesses acquiring vehicles when updating and operating their fleets are guided instead by the motivation of cutting the corporation tax base than improving vehicles' environmental parameters. In the household sector the rates of taxes for

*While significant financial measures in support of climate and energy policy are actively promoted in most EU states, in the CR the MoF, MoT and MoE are still exploring them in the transport sector.*

<sup>22</sup> Liquid or gas fuel made from plants by special methods.

gas, electricity and coal do not reflect their carbon footprint. Consumers are motivated to switch to greener energy sources solely by heating convenience and possible subsidies provided for new heating devices.

- There is room for greater support for greener transport through taxes and fees: any tax increase could be offset in the form of increased investment in infrastructure, and subsidies in the transport sector or by reducing direct taxes, for example. Similarly, there is room in the households sector for greater support for greener energy sources and reducing coal use.

An audit was conducted in cooperation with the Supreme Audit Office of the Slovak Republic. By May 2020 the two supreme audit institutions will have drawn up a joint final report on the results of coordinated audits targeting support in selected areas of climate and energy policy.

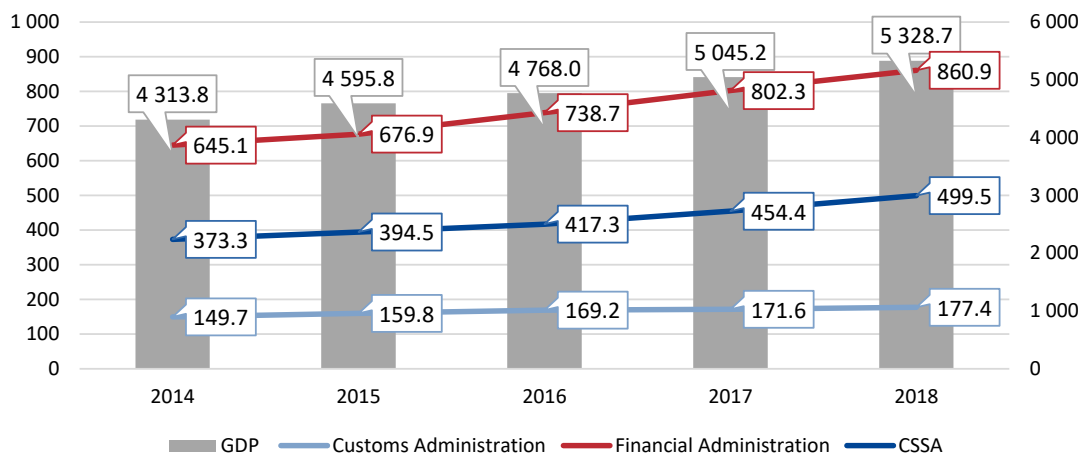
*Support in the form of lower consumption tax for alternative fuels (LPG, CNG and electricity) amounted to at least CZK 2.8 billion in 2018 alone, but even so the number of vehicles using alternative fuels grew more slowly than the increase in purchases of conventional-fuel vehicles. The effectiveness of road tax measures worth CZK 2 billion is also disputable.*

**With a view to ensuring the goal of the greening of transport and heating are achieved, the SAO recommended making greater use of the “polluter pays” principle in the system of taxes and other fees, i.e. defining conditions for making tax and fee rates dependent on compliance with the objectives of climate and energy policy.**

**Tax collection and expenditure on tax collection**

The SAO pays systematic attention to changes in the collection of taxes, the expenditure involved and its effectiveness. Total tax collection is increasing as a result of economic development and improved collection of tax revenues, as the following chart shows.

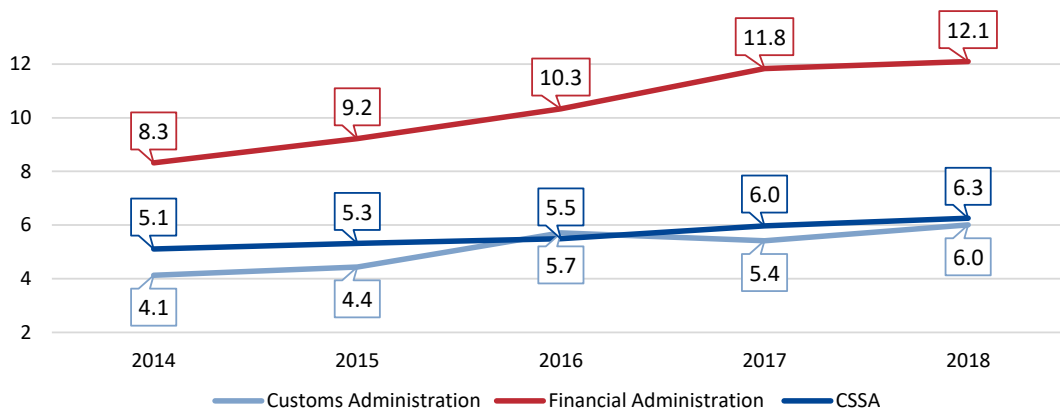
**Chart 9: Total tax collected and GDP in the years 2014–2018 (CZK billion)**



**Source:** reports on the work of the Financial Administration and Customs Administration of the CR; reports on the work of the Czech Social Security Administration; annual reports.

Chart 9 confirms that the growth trend in the said revenues continued from 2017 to 2018. The collection of tax revenues grew by almost **CZK 370 billion** from 2014 to 2018, i.e. by **31.6%**. It was primarily excises, income taxes and insurance premium and social security payments that increased during this period. The principal reasons were strong economic growth, high employment and the related consumption of the population. The increase in tax revenues was therefore largely linked to the development of GDP. Other factors influenced the growth, e.g. the launch of control statements and electronic sales records, but here the SAO sees a risk in the expected benefits not being achieved while the related costs and paperwork increase. The continuing economic growth in the CR is also confirmed by the significant increase in the number of taxpayers between 2017 and 2018. The FA CR registered almost **255,000** more taxpayers in 2018 than in 2017; the Customs Administration of the CR (CA CR) almost **179,000** more active entities; and the Czech Social Security Administration approx. **45,000** more entities.

**Chart 10: Total expenditure on tax collection in the years 2014–2018 (CZK billion)**



**Source:** closing accounts of chapters 312 (Annex 5) and 313 (Annex 3).

The increase in tax revenues brings with it increased expenditure on tax administration, but here the FA CR registered a lower increase between 2017 and 2018 than in previous years. Wage costs were the biggest driver of FA CR expenditure. Even so, the total increase in spending on tax administration of almost **CZK 7 billion** between 2014 and 2018 corresponds to an increase of **39.4%**, which exceeded the rate of growth in tax revenues in the same period.

**Comparison of the rate of growth of total tax revenues and expenditure on tax administration in the years 2014–2018 points to lower cost-effectiveness in tax administration in this period. One positive aspect is that the growth in FA CR expenditure fell in 2018 compared to the previous periods, so the rate of growth of expenditure on tax administration also fell.**

2019 was another exceptional year in terms of the collection of tax revenues. State budget tax revenues, including social security revenues, grew by **6.1%** in 2019 over the previous year to reach almost **CZK 1,316 billion**, accounting for **86%** of total state budget revenues. As mentioned in the previous chapter, however, the rate of growth in tax revenues is slowing year-on-year.

## 4. Government expenditure areas

### Recurring systemic obstacles limiting the effectiveness of a number of policies

The following parts of the annual report are devoted to the results of the SAO’s audit and analysis work in the main expenditure areas of government policies covered by the SAO last year. These expenditure areas were the focus of more than two thirds of the audits performed in 2019. In these audits the SAO sought to check whether state funds were spent in compliance with the principles of economy, efficiency and effectiveness. In other words, not only whether the money was used correctly, but also whether the correct things were done with the money spent. This feedback is intended for policymakers, so that they apply good practice and manage public funds better. At the same time, it serves lawmakers, experts and the general public as objective information on the reality of the state’s financial management for external control purposes.

As a number of findings in the following parts indicate, the common features of the reports of a number of audits are systemic shortcomings in management and control that were significant obstacles to effective policy execution. The main shortcomings include:

<b>Failure to put in place conditions for policy execution</b>	Unsatisfactory conditions that often prevent effective execution of policies, such as insufficient legislation, absence of or poor cooperation between concerned government sectors (audit No <b>18/27</b> and insufficient legislation in the fight against drought).
<b>Lack of coordination of strategies, measures, needs</b>	A haphazard approach where public spending is not based on legitimate social needs or priorities or demonstrable effectiveness is another identified shortcoming (audit No <b>18/21</b> in the building of 1 <sup>st</sup> class roads with no regard to conceptual objectives and priorities).
<b>Shortcomings in setting goals and monitoring</b>	Goals and indicators are often not assessable or are not relevant, which prevents management and evaluation of the benefits of the policy (e.g. audit No <b>18/19</b> and only setting general goals and failing to define indicators for assessing the benefits of support for cultural activities).
<b>Funding released even though 3E not demonstrated</b>	The responsible government sectors do not assess economy, efficiency and effectiveness or the benefits of spending; or, if they do, the assessment is not meaningful (e.g. audit No <b>18/16</b> and impracticality and ineffectiveness in terms of goals in the field of water transport).
<b>Formalism and inertia</b>	A purely formal approach to management and control is seen in a number of processes. One typical example is programme financing, which is not a tool for objective-based budgeting and investment (e.g. audit No <b>18/11</b> in material and technical support for regional healthcare).

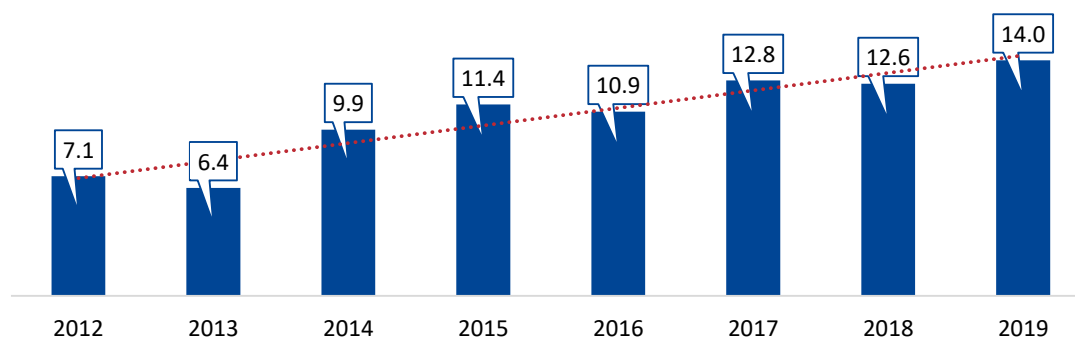
Violation of the 3E principles, poor setting of targets and indicators and failing to achieve the strategic objectives of policies were among the most commonly detected deficiencies. In some cases, these were the reason why the state was not able to provide for society’s legitimate needs in an economical, efficient and effective manner.

## 4.1 DIGITALISATION OF PUBLIC ADMINISTRATION

### Persisting shortcomings in the roll-out of eGovernment are an obstacle to making use of the potential of the digitalisation of public administration and expanding online state services

The digitalisation of public administration is supposed to make the processes and agendas of public administration, including cooperation between public authorities, more efficient. It is also supposed to provide electronic services for communication between citizens and public administration when addressing citizens' needs and issues. Organisational units of the state have spent approx. **CZK 85 billion** on ICT linked to eGovernment over the past eight years. A closer look reveals that this expenditure is constantly rising (see Chart 11). eGovernment is a Europe-wide trend supported, for example, by the recently passed Act on the Right to Digital Services<sup>23</sup>. This legislation should in future guarantee the possibility of communicating with state authorities entirely electronically. To achieve this, however, the shortcomings that have dogged eGovernment right from the start have to be eliminated.

**Chart 11: Spending by organisational units of the state on ICT in the years 2012–2019 (CZK billion)**



Source: State Treasury Integrated Information System (STIIS); budget items 5042, 5162, 5168, 5172, 6111 and 6125.

In 2019 the SAO followed up its previous audits in the field of high-risk information systems and eGovernment. In audit No **18/07** it scrutinised information support for the tax proceedings agenda when the ATIS was expanded to cover electronic sales records and other components. The results confirmed serious deficiencies that involved flouting of the ICT project approval rules, unauthorised use of non-competitive award procedures and worsening vendor lock-in (see Chapters II.3 and II.5.1 of this annual report for more details).

**The fact remains that despite the state's considerable investments in ICT and eGovernment in general – bar some partial results – there has still been no fundamental change in the situation leading to more efficient public administration and easier communication with it.**

This is confirmed by the results of the audits the SAO performed in the past years in this field and by the results of its own analysis and monitoring work. In 2019 the SAO therefore focused on summarising its eGovernment-related findings since 2012, when it began to devote regular and systematic attention to this issue with a view to uncovering the systemic reasons for this state of affairs and helping bring about appropriate solutions<sup>24</sup>.

In this way the SAO demonstrated that the problems dogging ICT projects keep being repeated. The upshot is uneconomical, inefficient and ineffective use of money, with a negative impact on the accessibility of online services provided by the state to its citizens. At the same time, in the audits performed between 2012 and 2019 money spent in violation of the 3E principles amounted

<sup>23</sup> Act No 12/2020 Coll., on the right to digital services and amending certain acts.

<sup>24</sup> In 2019 the SAO published the Summary Report on eGovernment in the CR; <https://www.nku.cz/cz/publikace-a-dokumenty/ostatni-publikace/zprava-o-digitalizaci-verejne-spravy-v-ceske-republice-id10937/>.

to as much as **CZK 7.8 billion**. The principal problems identified as barriers to the development of eGovernment include:

- **haphazard management/decision-making when building and developing information systems as a consequence of the inability to achieve the necessary consensus on the public administration development concept, which results in the continuing fragmentation of information systems;**
- **the creation of new public administration information systems without thorough analysis of requirements, without integrating them into the enterprise architecture of the organisational component of the state, or of eGovernment as a whole, and without suitable legislation and other conditions ensuring their effective use being in place;**
- **prolonging of the development and implementation time for new information support solutions as a result of errors during project preparation or in the award process;**
- **undesirable dependence on external contractors caused by the use of negotiated procedure without publication or the in-house exemption, which makes spending on information systems less economical;**
- **high operating costs of information systems;**
- **unreliability and incompleteness of data in information systems and published open data, which undermines the required benefits and purpose of information systems;**
- **insufficient staffing capacities in ICT for basic activities.**

The SAO arrived at similar findings in 2019 when performing a comparative analysis of ICT management by state authorities encompassing 14 organisational units of the state and 6 contributory organisations<sup>25</sup>. The data acquired during the analysis were compared with the available information from the private financial sector in the CR and they largely support the findings made by the SAO during its audits. The main results of the analysis were:

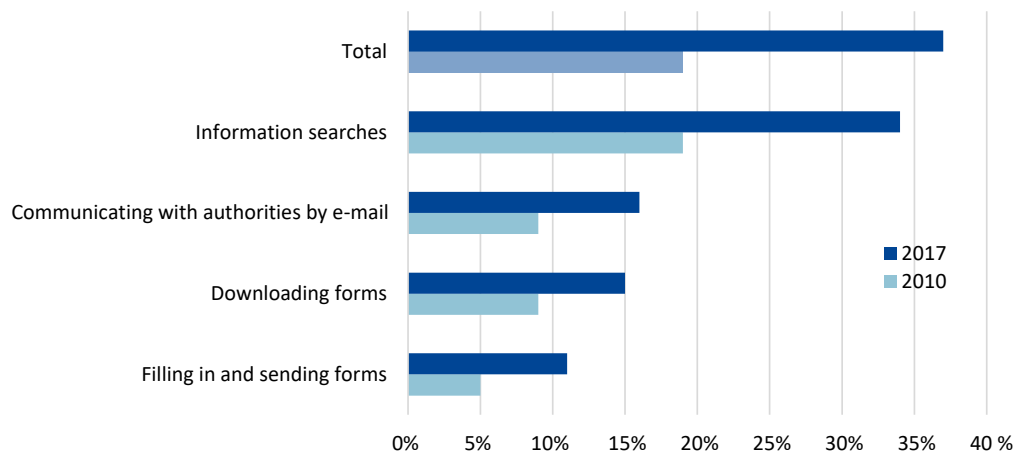
- The shortage of internal IT employees is one of the most serious findings. The results showed that internal IT workers account for **3.3%** of the total number of approx. **108,000** systematised positions in these organisations, while in 2012 the global average was already **5.7%** and in the same year the proportion in the private financial sector was **9.6%**.
- Staff pay is closely linked to the issue of staffing capacities. In this context the SAO found that when addressing the shortage of expert staff organisational units of the state that are “service authorities” do not make sufficient use of the key ICT service positions institute which, under government regulation No 327/2016, makes it possible to use financial motivation.

**These findings represent a summary of the weaknesses in the development of eGovernment. Despite a slight improvement, the CR lags behind in international benchmarking from the perspective of the actual use of the digital services made accessible and of the scope of these services. In general it is fair to say that eGovernment in the CR has potential that is still underused.**

This fact is also documented by the Czech Statistical Office (CSO) in its *Development of Information Society in the Czech Republic and EU Countries*. Published in 2018, this report states that **37%** of individuals in the CR aged 16 and over use the internet in their dealings with the authorities for selected activities. A closer look reveals, however, that this mainly involves searching for information, which accounts for **34%**. Filling in and sending forms online is a key activity that has the greatest value added for citizens of the CR. Even though the proportion of forms filled in and sent online almost doubled from 2010 to 2017, the total use of this service is still just **11%** (see Chart 12).

*The slow development of eGovernment in the CR is also illustrated by the fact that the number of users of the state’s Citizen’s Portal in June 2019, almost a year after it was put into operation, is only around **22,000**.*

25 E.g. the General Financial Directorate, Czech Social Security Administration, State Agricultural Intervention Fund, Institute of Health Information and Statistics of the CR et al.

**Chart 12: Proportion of individuals in the CR aged 16 and over using the internet when dealing with the authorities for selected activities (%)**

Source: *Development of Information Society in the Czech Republic and EU Countries 2018*, CSO.

The results of the regular international DESI survey by the European Commission (“the Commission”) focusing on standards of digital economy and society show that the CR registered a slight improvement in the *digital public services* indicator, mainly thanks to improvements in the electronisation of healthcare (the introduction of electronic prescriptions) and an increased number of eGovernment services users. Nevertheless, its ranking in **20<sup>th</sup> place out of 28 EU countries** shows that the standard of public administration digitalisation in the CR lags behind and the CR, despite the improvements, is below the EU average in all of the indicators.

**In 2018 a new government programme called Digital Czechia<sup>26</sup> was launched, which could improve the current state of eGovernment in the country. The programme targets more effective and user-friendly online services for citizens and businesses, legislation, support for technologies and employee skills and centrally coordinated development of ICT in public administration. The SAO points out that this programme and the follow-up measures may have the desired impact, but only if the aforementioned barriers to progress in eGovernment are resolved and removed.**

## 4.2 ENTERPRISE SUPPORT

**The goals of supporting enterprises in research and development for innovations are not being achieved; support for ICT projects to enhance the competitiveness of small and medium-sized enterprises was ineffective in terms of achieving the objectives.**

In the context of strengthening the Czech economy’s competitiveness and innovation performance, support for expanding businesses’ research and development for innovation (RDI) and information and communication technologies is key. The state’s interventions thus target areas that should in future become the cornerstone of the CR’s competitiveness. The question remains, however, whether state support in this sector is effective and delivers the required results.

In 2019 the SAO focused on enterprise support provided out of EU funding for operational programme *Enterprise and Innovation* (OP EI) in the 2007–2013 programming period and operational programme *Enterprise and Innovation for Competitiveness* (OP EIC) in the 2014–2020 programming period. In this year the SAO completed three audits targeting:

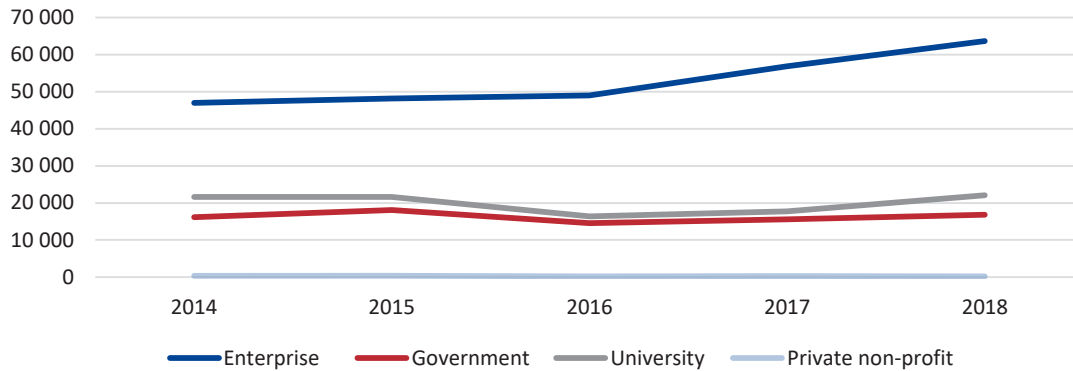
- support for the development of research and development for innovation under OP EIC (audit No **18/06**),
- support for SME ICT projects under OP EI and OP EIC (audit No **18/29**),
- technical assistance from OP EIC (audit No **19/01**).

<sup>26</sup> See <https://www.mvcr.cz/clanek/rada-vlady-pro-informacni-spolecnost.aspx?q=Y2hudW09Ng%3D%3D>.



Business spending accounted for the majority of the increase in total expenditure on RDI, growing by almost **36%** from 2014 to 2018, but the lion’s share of this spending in the CR was taken by foreign firms. Meanwhile, government investment in R&D is stagnating, as Chart 13 shows.

**Chart 13: RDI expenditure by sector (CZK million)**



Source: CSO, Public Database.

**One fundamental shortcoming in enterprise support under OP EI and OP EIC is the fact that support provision did not respect the purpose of the support and there was a significant risk of failing to fulfil goals or the purpose of support. That ultimately jeopardises any benefits for the CR’s competitiveness.**

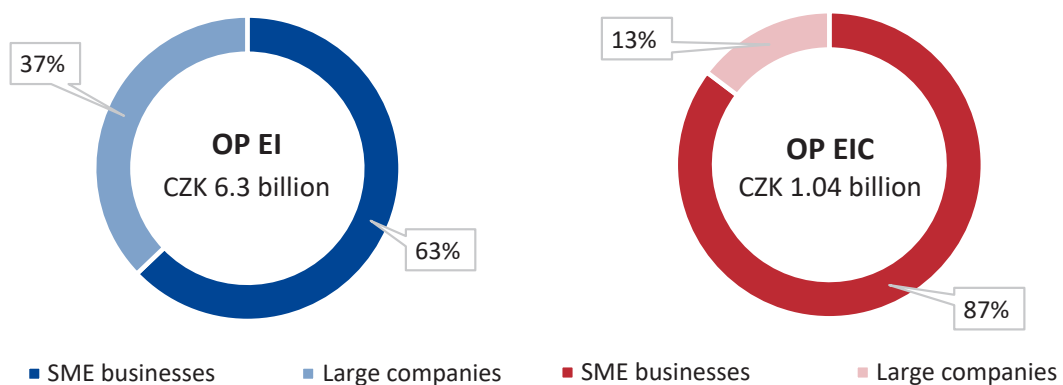
*The average duration of the process for approving applications filed in calls announced in 2016 was 345 days.*

- In the case of RDI support provided out of priority axis 1 of OP EIC with a total allocation of **CZK 34.8 billion** the SAO flagged up the risk that the priority axis’s goals, i.e. improving enterprises’ innovation performance and increasing the intensity and effectiveness of cooperation in RDI, will not be achieved. The SAO based this risk assessment on the fact that the rationale of the support is the need to increase the number of businesses with the potential of raising the technological ceiling in the field in question, while the emphasis is supposed to be placed on expanding cooperation in RDI. By the time the audit ended, however, the MoIT had provided just **22%** of the total allocation to projects focusing on increasing the intensity and effectiveness of RDI cooperation. Out of a planned number of **2,950** enterprises cooperating with research organisations, for example, at the end of 2017 only **326** of them were actually involved in cooperation, i.e. **11%**, and out of a planned **195** research organisations cooperating with firms only **14** were in fact doing so, i.e. **7%**. The SAO also drew attention to the insufficient pace of drawdown of the allocation. As of the end of the audit in October 2018 the Industry of Trade and Industry (MoIT) had approved a total of **CZK 16.7 billion** for projects, i.e. just **48%** of the total allocation. And only projects worth **CZK 3.5 billion** had been reimbursed, i.e. just **10%** of the total allocation. The insufficient drawdown was influenced by the low interest in support among SME businesses and the long project application approval process. In addition, the drawdown of **CZK 2.1 billion** earmarked for integrated territorial investments had not even begun (audit No **18/06**).
- In the context of strengthening competitiveness through ICT projects, since 2007 the MoIT supported a total of **727** completed projects, providing public funds of **CZK 7.3 billion** for them, with **CZK 5.2 billion** of that coming from the EU budget. The intended purpose of support under OP EI and OP EIC is growing the ICT sector in the CR and making Czech businesses more competitive on the global market. Even though funding under both operational programmes was supposed to be channelled into ICT support primarily to SME businesses, large companies could also be supported under the calls – in the audited period the MoIT provided a total of **CZK 2.5 billion** to large companies. As Chart 14 shows, up to the end of the audit support under OP EIC was channelled more towards SMEs. Large companies could be supported only if they would cooperate with SMEs as subcontractors. According to the SAO’s findings, however,



the MoIT also approved applications and paid out support to large companies who provided no proof of this cooperation. It provided **CZK 702 million** for **16 projects** of Czech branches of transnational concerns for building shared services centres, for example, even though the beneficiaries' primary objective was to cut costs for the entire concern, not to support the competitiveness of the Czech beneficiary on the free market. These projects were based mainly on creating a large number of jobs, numbering tens to hundreds, even though the programmes' primary objective was not creating jobs or paying wages. That kind of support also had a pronounced impact on the labour market at a time when it had to contend with a shortage of IT experts. The MoIT was informed of these negative impacts by an external project assessor (audit No **18/29**).

**Chart 14: Support provided for boosting competitiveness through ICT projects in the years 2012–2018 by size of enterprise**



Source: information from audit No **18/29**.

The results of all three audits confirmed that the absence of a comprehensive and informative system for evaluating the benefits of support, the result of goals that were too general and not measurable, was another key long-term shortcoming in enterprise support. That had a negative impact on the management and control system and the ability to evaluate the effectiveness of supported projects and their contribution towards achieving the programme's goals. Having scrutinised the realisation of the declared benefits of support the SAO concluded:

- In the case of ICT projects for boosting enterprises' competitiveness, the MoIT and intermediate bodies<sup>27</sup> failed to ensure effective support provision or the achievement of the goals of support, as the operational programmes management system designed by the ministry did not make it possible to demonstrate what effect the support had on boosting the CR's competitiveness in ICT. The MoIT evaluated the support's impact in terms of the proportion of the CR's GDP accounted for by the value added of IT services. Although this proportion grew between 2011 and 2017, it did so independently of the provided support. The target values of the indicator for 2023 were already achieved in 2017. The MoIT correlated the effectiveness and success of the support mainly with the ability to draw down the allocation. The SAO was critical of the fact that in the case of the equivalent support under

*Under the programme of support for ICT and strategic services, the MoIT, without any scrutiny of the project's effectiveness, paid out over CZK 31 million to one beneficiary for buying a used airplane and building a hangar, even though it was not clear whether the airplane had been used for the purposes of the project.*

<sup>27</sup> The OP EI intermediate body in the 2007–2013 programming period was CzechInvest; the OP EIC intermediate body in the 2014–2020 programming period is the Business and Innovation Agency.

OP EIC the MoIT did not resolve the problems identified by the SAO in OP EI in the previous programming period in audit No **16/01**<sup>28</sup>. The designed projects control system displayed similar shortcomings, where neither the intermediate bodies nor the MoIT performed thorough checks of the implementation of projects and the eligibility of expenditure. In this contact the SAO identified a risk of ineligible expenditure with a value of up to **CZK 33 million** (audit No **18/29**).

- The SAO also detected serious shortcomings in the design of the support assessment system in the case of technical assistance under OP EIC, through which the MoIT is supposed to ensure effective programme management. The ministry did not define the indicators in a way making it possible to evaluate the overall benefits of the support and the achievement of the specific goals of technical assistance. What is more, the MoIT made no progress towards one of the indicators relating to staffing stabilisation in the implementation structure, as one of the preconditions for effective management and control of OP EIC. OP EIC had the lowest rate of drawdown out of all operational programmes in the CR<sup>29</sup>. Another indicator was the number of on-the-spot inspections. By the middle of the programming period the MoIT had performed just **366** of the planned **2,400** inspections. The SAO also found one case of ineligible expenditure by the MoIT worth a total of approx. **CZK 1.3 million** and mainly comprising the cost of three “anniversary seminars” for approx. **CZK 1.2 million** that which were not educational, as the nature of the project would suggest, but mainly social events for implementation structure employees (audit No **19/01**).
- In the case of support for enterprises’ RDI, both specific objectives of priority 1 of OP EIC and most of the ascribed outcomes the CR wanted to achieve with EU support were not defined sufficiently concretely and lack measurable parameters. The MoIT prepared for the priority axis a set of indicators that is insufficient for monitoring progress towards the specific objectives and cannot be used to identify the actual realisation of individual results (audit No **18/06**).

**The failure to evaluate actual benefits is a significant obstacle to ensuring that support is efficient and effective for boosting enterprises’ competitiveness.**

In its opinion on the state closing account the SAO drew attention to the fact that according to the European Innovation Scoreboard<sup>30</sup> (EIS) the CR is unable to match the pace of improvements in the EU’s innovation performance. The CR has long lagged behind in areas that represent greater value added in the economy. One of the EIS indicators, called Innovators<sup>31</sup>, is a measure of SME innovation performance. Chart 15 shows how the CR stands compared to other EU Member States. Unlike the majority of European countries which displayed an increase in enterprises’ innovation activity between 2011 and 2018, the CR went in the opposite direction. Even though RDI expenditure is increasing in the enterprise sector in the CR, enterprises’ innovation activity is declining and fell to slightly below the European average in that period.

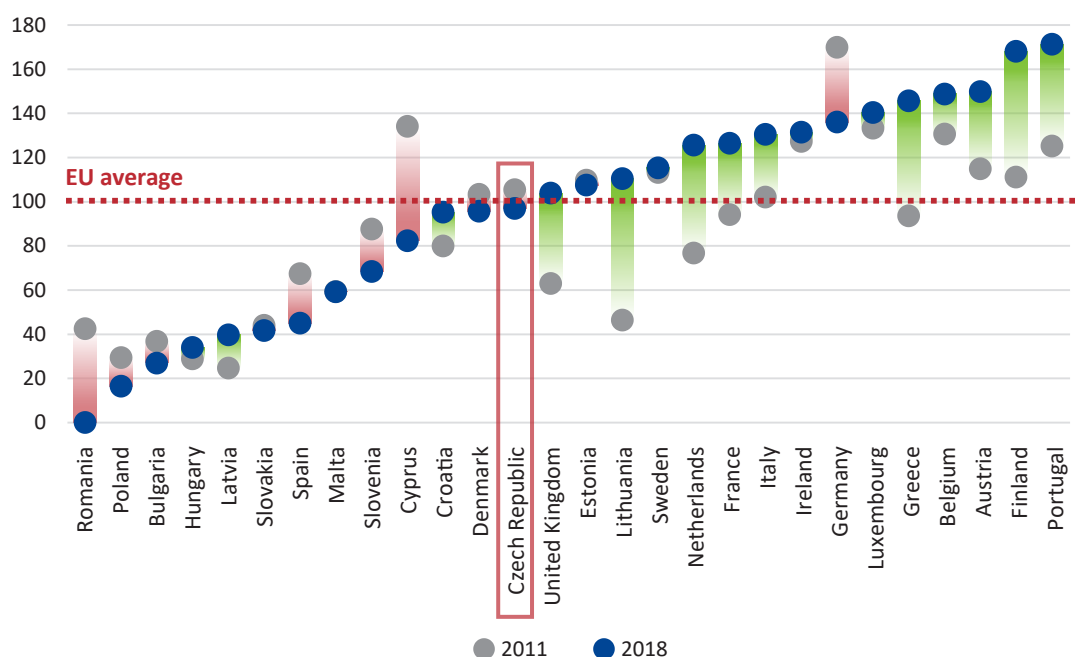
<sup>28</sup> Audit No 16/01 – EU and state budget funds earmarked for financing of interventions within the Operational Programme Enterprise and Innovation with focus on the fulfilment of objectives; audit report published in volume 1/2017 of the SAO Bulletin.

<sup>29</sup> Shortcomings concerning the implementation and state of drawdown of the entire operational programme are described in Chapter II.5.2 of this annual report.

<sup>30</sup> European Innovation Scoreboard 2019, European Commission.

<sup>31</sup> The *Innovators* indicator is made up of three proportional innovation indicators. These rate the quantity of SMEs that launched an innovation on the market or innovated in their companies as a proportion of the total number of these enterprises. The green colour in the chart represents countries where business innovation activities increased and red indicates a fall.

**Chart 15: International comparison of SME innovation performance as measured by the Innovators indicator (%)**



Source: *European Innovation Scoreboard 2019*.

NB: The chart shows the change in the *Innovators* indicator between 2011 and 2018 (correlated to the EU average in 2019).

The SAO considers it important that the provision of support for RDI primarily target projects that will be able to significantly influence the innovation environment in the CR. It is also essential to continue to make use of the potential of research centres by greater cooperation between the public and private sectors so that results can be applied in practice.

The falling trend in marketing organisation innovation in enterprises or the stagnating trend in the field of projects and processes concerning SME innovation performance in the CR in comparison with other European countries was also confirmed by the World Bank report entitled *Czech Republic Assessment of the SME Policy MIX*<sup>32</sup>, which was published in October 2019.

The SAO welcomes the fact that the Czech government responded to the results of audit No 18/06 by instructing the trade and industry minister to regularly assess the benefits and results of RDI support programmes under OP EIC and to take the necessary measures to increase absorption capacity and accelerate drawdown.

### 4.3 TRANSPORT

**If the transport infrastructure development goals and value for money are to be achieved, errors in strategic management and inefficient processes in the preparation of construction projects have to be eliminated.**

The appropriate development of transport infrastructure and services is essential for meeting society’s needs, putting in place the right conditions for economic growth and making the state more competitive. Achieving strategic objectives in this area is one of the state’s fundamental roles. The long-standing unsatisfactory state of affairs in transport infrastructure and the need to identify the causes in order to bring about improvements are reasons why the SAO regards audit work in this area as crucial.

32 See <https://openknowledge.worldbank.org/bitstream/handle/10986/33114/Czech-Republic-Assessment-of-the-SME-Policy-Mix.pdf?sequence=1&isAllowed=y>.

In 2019 the SAO completed audits scrutinising the following areas:

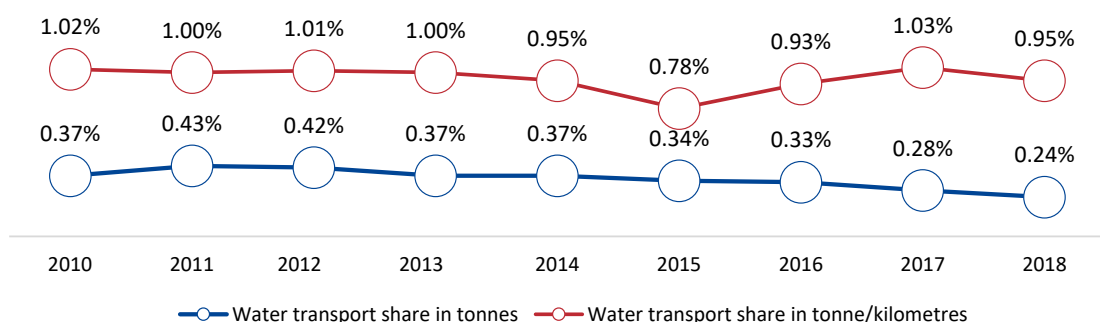
- development of watercourses and support for waterborne transport (audit No **18/16**);
- construction and modernisation of 1<sup>st</sup> class roads (audit No **18/21**);
- support for urban and regional public transport (audit No **18/24**);
- implementation of smart transport systems in road infrastructure (audit No **18/34**).

**Systemic problems at the strategic level and in the design of the transport policy implementation conditions are the causes of the failure to achieve many transport policy objectives and goals. As the SAO stated in 2019, these problems have persisted for a long time in the preparation and execution of road building projects and in the support for the development of watercourses. These problems also have a negative impact on the economy, efficiency and effectiveness of spending. Measures adopted to speed up construction projects have so far delivered no improvements.**

- In audit No **18/16** targeting waterborne transport the SAO declared that the goals set for waterborne transport by transport policy and related documents are not being achieved. The SAO drew attention to waterborne freight transport’s continuing low share of total freight transport volumes, which has stood at around **1%** since 2010. The switch of part of freight transport from roads to watercourses has not materialised. The SAO therefore does not consider the money spent to be effective and efficient in terms of the prescribed goals. The main reason is the insufficiently reliable navigability of the Elbe-Vltava watercourse in the Ústí nad Labem – state frontier stretch and in the stretch at Přelouč. According to the MoT, the solution is to build a system of locks at Děčín, but the MoE fundamentally opposes this move on the grounds of environmental protection. The environmental impact assessment was terminated by the MoE in December 2019 after a period of 14 years. The reason was that the Watercourses Directorate had failed to submit reworked documentation on the project’s environmental impact assessment within the 3-year time limit. Similarly, preparations for a system of locks at Přelouč have been going on since 1994, but these have been dogged by repeated legal disputes between environmental organisations and the state. This is despite the fact that the Watercourses Directorate has spent almost **CZK 928 million** on the preparations for the two projects. Regarding the Danube–Odra–Elbe water corridor the SAO stated that the *Danube–Odra–Elbe Water Corridor Feasibility Study* revealed numerous risks that could result in ineffective and inefficient spending on the project’s preparation and implementation.

*The MoT quantified the value of completed infrastructure projects on the Elbe-Vltava watercourse at CZK 160 billion, spending which the SAO judged to be potentially partially ineffective and inefficient.*

**Chart 16: Waterborne transport’s share of goods transport in the CR (%)**



Source: 2015 and 2018 transport yearbooks.

NB: the data do not include air freight and oil pipelines.

The SAO has repeatedly<sup>33</sup> pointed out that there are enduring discrepancies in the conceptual documents and follow-up documents on watercourse development. The assessment of the effectiveness of investments is based on insufficiently documented input data, so the SAO does not regard the reasons of public interest to have been objectively and unequivocally proven. Further expenditure on watercourse development for goods transport without resolving all the problems mentioned above brings a risk of ineffective and inefficient use of state budget funds.

- Similarly, the results of audit No **18/21** confirmed that conceptual objectives were also not being achieved in the construction and modernisation of 1<sup>st</sup> class roads. This is mainly because preparations for road infrastructure construction projects get bogged down – even construction projects that are relatively small compared to motorway building projects have an average preparation time of **12 years** (i.e. just one year shorter than the motorway building preparation times identified in audit No 17/05<sup>34</sup>). Another reason why objectives are not being achieved is that the preparations for a considerable quantity of construction projects began in the period before the economic crisis, after which there was insufficient funding available. Only **seven** out of **35** construction projects were successfully completed on schedule. 1<sup>st</sup> class road building projects were not given priority as required by the government's strategic document<sup>35</sup>; instead, priority was given to projects with lower pan-societal benefit that had been prepared for commencement. The SAO repeatedly criticised this procedure in the past and the said strategy was supposed to remedy the situation. The SAO also stated that the legislative changes<sup>36</sup> had not yet had a significant impact on speeding up construction project preparatory work because the legislation had not been in effect long enough. On average just **17.8 km** of 1<sup>st</sup> class roads was opened per year from 2013 to 2018.

*The preparations for the "1/3 Olbramovice Road Relaying" project, for example, had been going on for **21 years** at the time of the SAO audit. The building permit issued in August 2018 was contested by several appeals and was annulled in July 2019.*

**Audits targeting transport development also uncovered other major systemic shortcomings at the strategic management level and in the implementation of follow-up measures. Above all, the organisations implementing programmes and measures either defined no targets and indicators measuring the resultant effect or used unsuitable ones, which makes it possible to manage and control the impact of the money spent in terms of the achievement of objectives and their benefit on the given time scale. That in turn has a negative impact on the responsible authorities' ability to demonstrate credibly that money was spent in accordance with the 3E principles.**

- In audit No **18/24** the SAO scrutinised the management of **CZK 12.6 billion** by the Ministry of Regional Development (MoRD) at systemic level and pointed out that certain factors had significantly diminished the benefit of the support given to urban and regional public

<sup>33</sup> The SAO already drew attention to this in previous audits Nos 08/19 – Funds allotted for waterways and ports development and modernisation (audit report published in volume 1/2009 of the SAO Bulletin) and 14/03 – Funds earmarked for the development and modernisation of waterways and ports and for the support of multimodal cargo transportation (audit report published in volume 4/2014 of the SAO Bulletin).

<sup>34</sup> The audit report from audit No 17/05 – Construction, modernisation and reconstruction of motorways was published in volume 1/2018 of the SAO Bulletin).

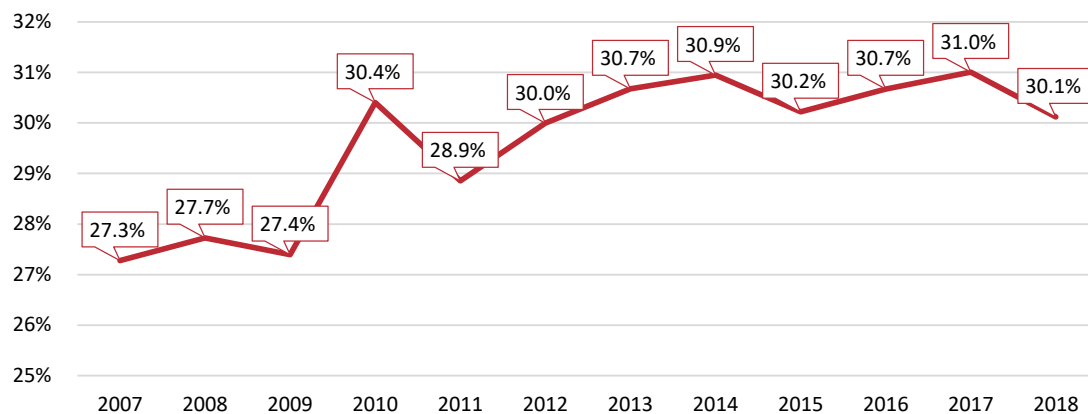
<sup>35</sup> The priority of individual 1st class road construction projects was defined by the Transport Sector Strategy, Phase 2, approved by the government in 2013.

<sup>36</sup> One step taken to speed up the preparatory phase of construction projects was the adoption of an amendment of Act No 183/2006 Coll., on spatial planning and the building code (the Building Act), effective from 1 January 2018, and an amendment of Act No 416/2009 Coll., on the acceleration of the construction of transport, water and energy infrastructure and electronic communications infrastructure, effective from 31 August 2018.

transport projects out of the *Integrated Regional Operational Programme (IROP)*. For example, mere renewal of the vehicle fleet was inadequate for achieving the planned outcome of support for sustainable forms of transport, i.e. increasing public passenger transport’s share of overall passenger transport. The SAO concluded that just **21%** (38 units) of the vehicles were acquired with the goal of expanding the fleet and increasing the volume of passenger transport, while the remaining **79%** (141 vehicles) were acquired merely to renew the fleet. Although these projects had a positive environmental impact, their specific impact on strengthening public transport and reducing private transport could not be ascertained. The monitoring system did not capture the projects’ impacts in terms of either environmental impact or the strengthening of public transport. The SAO also drew attention to the unreliability of certain data on the effectiveness of the provided support, where beneficiaries wrongly reported the number of persons transported for the network as a whole and not just for the improved stretches, or where there was multiple reporting of the same passengers over multiple projects. The SAO also pointed out that the target of increasing public passenger transport’s share of total passenger transport to **35%** is overambitious and hard to achieve, as the proportion has for long hovered around **30%** (see Chart 17).

*In one of its projects for acquiring trolleybuses, for example, the beneficiary defined values for the entire public transport network (323 km) even though it only planned to deploy the acquired trolleybuses on a route 7.5 km long. Another beneficiary used a subsidy to buy trams, but included bus passengers among the number of the trams’ passengers.*

**Chart 17: Total passenger transport accounted for by public passenger transport (not including air and water) (%)**



Source: information from audit No **18/24**.

**IROP-funded support for urban and regional public transport has not yet delivered increased use of public passenger transport. Projects focusing on greener vehicles were beneficial.**

- In audit No **18/34** the SAO assessed the management of the development of selected smart road transport systems (“smart road systems”) and their implementation in the context of progress towards the goals of the related action plan<sup>37</sup>. Among other things, these smart road systems were supposed to improve road traffic safety and congestion and reduce road traffic’s environmental impact. The SAO audit, however, uncovered serious deficiencies in smart road systems project management in the context of the action plan. Implementation delays were found in **32** out of **54 projects** covered by the smart road systems action plan. The SAO declared first and foremost that there were serious limitations on the ability of the MoT and RMD to



monitor, manage and transparently assess the economy, efficiency and effectiveness of smart road systems, as the goals set by the MoT were very general and no evaluation indicators had been defined at all as of the end of the audit. Consequently, the MoT and RMD conducted no performance assessments of the implemented smart road systems, not even in fundamental areas like their benefit for road traffic safety and congestion. This was despite the fact that the MoT envisaged spending **CZK 9 billion** in the context of this action plan. One of the smart road system components that was being tested was a weighing system for high-speed weighing to prevent damage to the roads and motorways network from overloaded goods vehicles.

In response to the SAO's recommendations, the MoT committed itself to monitoring the impacts of the roll-out of smart road systems by means of indicators. As part of a new action plan it will also identify problematic stretches of roads and motorways where the deployment of smart road systems could bring improvements in traffic congestion, accident rates or impacts on the environment or public health.

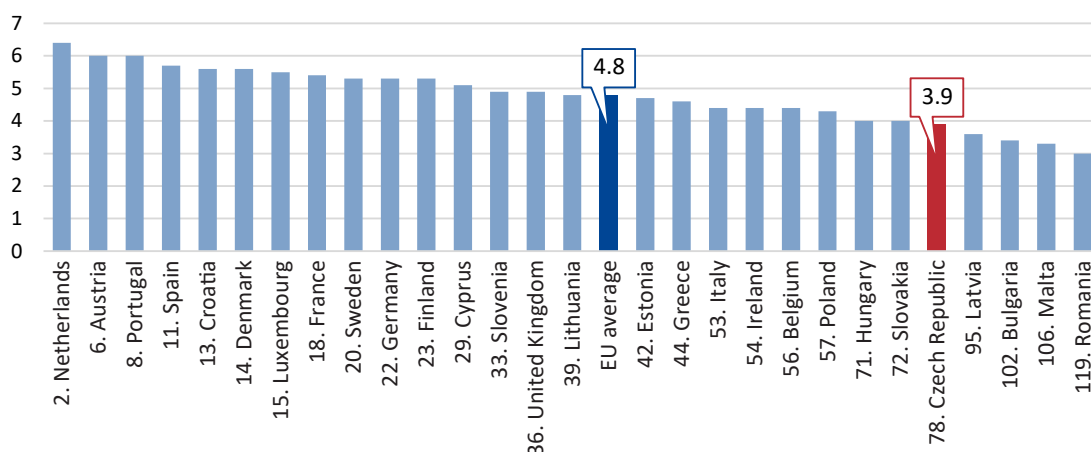
**The SAO has repeatedly flagged up the unsatisfactory state of road transport infrastructure and the need for effective solutions for its causes. Neither the condition nor the results of the development of road infrastructure are meeting society's needs at present. These are evident from the increasing traffic levels linked to the growth in road freight, for example, and the growing number of registered road vehicles. It is obvious that this unsatisfactory state of affairs has a negative impact on the economic environment and regional development<sup>38</sup>.**

*By the end of 2018 the RMD had not put into operation a single weighing system for high-speed weighing on motorways and 1st class roads to prevent damage by overloaded goods vehicles, even though the first weighing systems were supposed to be operating in 2016 and 2017.*

The country's development is also influenced by the poor quality of roads. Road quality is one of nine infrastructure quality indicators assessed by the regular global competitiveness analysis done by the International Monetary Fund and Global Economic Forum. Even though the CR's overall ranking for 2019, the most recent analysis, was **32<sup>nd</sup>** out of 141 countries, in road quality the country was down in **78<sup>th</sup> place**. This indicator rates the CR as the **fifth** worst EU Member State (see Chart 18). Although the road quality score has not deteriorated, greater progress is being made in other countries, which caused the CR to fall **ten places**. In Europe, for example, Poland and Croatia have long been achieving marked improvements.

*That is despite the fact that five such weighing systems were already in operation in the regions at that time.*

**Chart 18: Road quality in EU countries in 2019**



Source: *The Global Competitiveness Report 2019.*

<sup>38</sup> According to a 2019 analysis by Raiffeisenbank, for example, the poor condition of roads in the CR brings losses of several billions of koruna in unrealised production and wasted time. Yet the Czech Republic has long lagged behind the EU and V4 average in investment in the roads network. The quality of roads also has a direct impact on the development of GDP and unemployment in the affected regions. See [https://investice.rb.cz/zpravy-a-analyzy/hledani-zprav-a-analyz/?c15404\[key\]=2740](https://investice.rb.cz/zpravy-a-analyzy/hledani-zprav-a-analyz/?c15404[key]=2740).

As the audit results showed, the state of affairs in the building of motorways and 1<sup>st</sup> class roads is basically the same: it is mainly the protracted preparation of construction projects that is preventing the achievement of strategic goals in the completion of the roads and motorways network. This continues to be influenced by the duration of building authorisation proceedings, which is extreme compared to the rest of the world. According to the World Bank, in 2019 the CR occupied one of the bottom places in the global ranking of the bureaucracy involved in building authorisation. The CR was ranked in **157<sup>th</sup> place** out of 188 assessed countries – and it came last in the EU.<sup>39</sup>

**In its opinion on the state closing account for 2018 the SAO also drew attention to the fact that support for the transport sector, expressed in terms of its share of total state budget expenditure, has fallen in recent years, partly because of the complicated procedure for authorising construction projects and the lack of preparedness of these projects. This is creating a pronounced investment debt and the risk of further delays in transport infrastructure development.**

The government has repeatedly addressed the delays in building authorisation proceedings and project preparation. In November 2019 it approved a draft amendment of the law on accelerating the construction of road, water and energy infrastructure and electronic communications infrastructure<sup>40</sup>. The impact of the amendments may be registered in the coming years.

**The SAO points out that the intensity of support for road infrastructure development needs to be increased and more work must be done to ensure that the adopted measures are effective at speeding up the construction of road infrastructure and improving the unsatisfactory quality of road infrastructure.**

*Road traffic levels and the numbers of registered vehicles are both rising. Compared to 2014, for example, road goods traffic increased by **24%** and the number of registered road vehicles by **17%**<sup>41</sup>.*

*There was **1,281 km** of motorways in the CR at the end of 2019. Almost **800 km** remains to be built to achieve the target state of **2,073 km** in 2050. **33 km** of motorways was opened in 2019.*

#### 4.4 SOCIAL SERVICES AND EMPLOYMENT

**The long-term sustainability of the social services support system depends on the execution of fundamental measures in its design; support for employment and the fight against poverty and social exclusion needs to target the truly needy.**

The goal of the state's support for social services is to provide assistance and support to people in a difficult social situation. This kind of situation may be caused by age, for example, poor health or a social emergency. Putting in place a sustainable system of accessible social services and support for informal care for persons in difficult situations is the goal of the *National Strategy of the Development of Social Services for 2016–2025* (the "National Strategy"). This issue is also linked to state support in the field of employment, where, as well as increasing the total rate of employment, the support targets various national goals (increased employment of women, increased employment of older people, cutting youth unemployment and cutting unemployment among the low-skilled), which the CR defined as part of the *Europe 2020* strategy and the *Strategy for Smart and Sustainable Growth Supporting Inclusion*. Putting in place a balanced and sustainable system of support for the social services and employment and achieving its goals is a key role of the state. The main reason for the SAO's focus on this area has been the unsatisfactory state of its functioning at present, its social importance, and current and future risks.

<sup>39</sup> *Doing Business 2020*, World Bank Group, 2019.

<sup>40</sup> The government approved this draft by resolution No 831 of 25 November 2019. At the time of writing of this annual report, the draft act was being discussed by parliamentary committees.

<sup>41</sup> 2018 Transport Yearbook, MoT.



In 2019 the SAO completed three audits in the field of social policy and employment, targeting support for:

- social services on a local and regional level in the form of MoLSA subsidies (audit No **18/09**);
- increasing employment and the adaptability of the youth workforce out of OP Emp (audit No **18/28**);
- social inclusion and the fight against poverty out of OP PGP (audit No **18/33**).

**The unsatisfactory state of the social services support system and the causes of this were revealed by the results of an audit of the social services system (audit No 18/09). The SAO pointed out that the MoLSA was not achieving the main strategic goal, which is linked to the design of a sustainable system of accessible social services. The main risks are that the demands on state funding will increase in future as a result of population ageing in the CR. What is more, multi-source funding of the system meant that the MoLSA lost the legal possibility of checking the use of state finances in the form of subsidies to social services providers with local and regional competence and the possibility of influencing the magnitude of subsidies paid out to the regions and the City of Prague, even though the amount involved in the audited period of 2015–2017 alone was CZK 28 billion.**

- In the audited period the MoLSA failed to implement the long-term visions, goals and measures defined in the National Strategy. 17 measures were supposed to have been fulfilled by 2017 at the latest, but the MoLSA failed to fulfil 14 of them. One of the main reasons was that an amendment of the Act on Social Services was not adopted – this legislation was supposed to take force in 2017 and to stabilise the funding of the social services, among other things. Similarly, the department failed to resolve the shortage of social workers, which was mainly influenced by the absence of an act on social workers that was supposed to take force in the same year. The MoLSA also had problems checking the effectiveness of subsidies. The SAO found that the MoLSA had not made use of the legal possibility of binding regions and the City of Prague to return unused subsidies and thus could not verify whether all the money provided was used for the defined purpose. The amount involved in the subsidies provided in support of local or regional social services was almost **CZK 91 million** in the audited period.

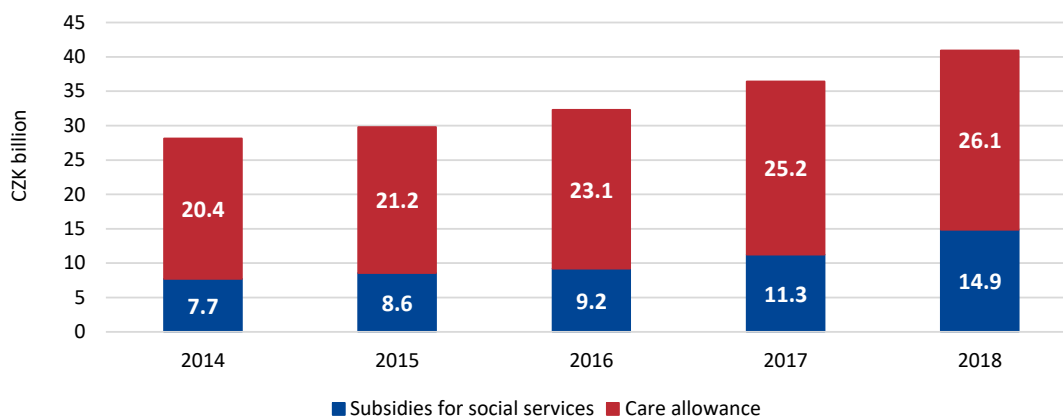
Residential social services were used by **76,000 clients** in 2017. There were approx. **2,000** registered providers in **33 types** of social services<sup>42</sup>. The demographic development of society, i.e. population ageing, will increase the importance of the funding provided to social services and will also increase the demands on staffing. According to the CSO's forecast, the proportion of the Czech population aged 65 and over will rise from **20%** to **30%** in the next 40 years. This will mean that the social services require a marked increase in state budget funding and personnel. Besides subsidies on social services, the state also provides care allowances. Between 2014 and 2018 alone the subsidy provided to social services increased by **CZK 7.2 billion**, i.e. by **93%**, and care allowance by **CZK 5.7 billion**, i.e. **28%**.

*In the audited period of 2015–2017 the state provided approx. 47% of the total funding of CZK 105 billion on the social services. Local government units provided approx. 17% of the total social services funding in that period.*

**The SAO warns that without appropriate measures in the design of the social services system the state will in future be unable to fund the system and maintain its existing form, mainly as a result of demographic development.**

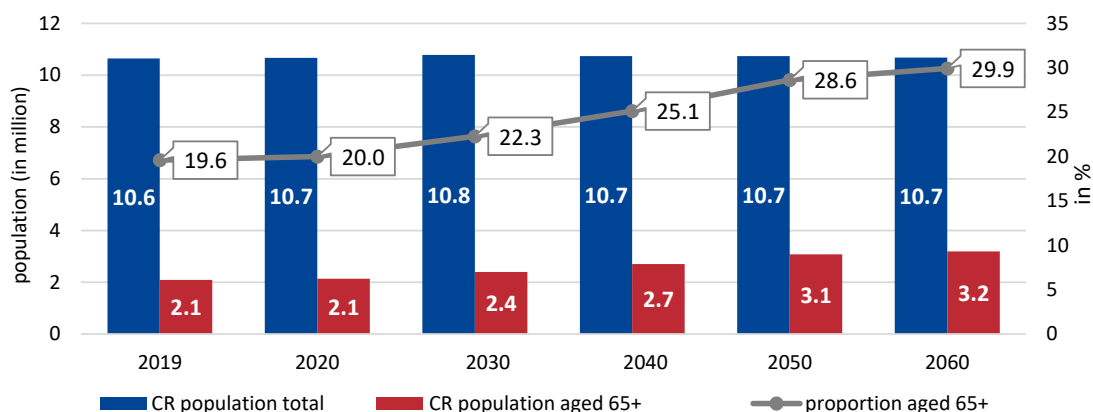
<sup>42</sup> Additional information on selected social services can be found on the SAO's website; see <https://www.nku.cz/cz/kontrola/analyzy/analyza---vybrane-socialni-sluzby-id10288/>.

**Chart 19: Subsidies for social services and care allowance out of the MoLSA budget chapter in the years 2014–2018 (CZK billions)**



Source: closing accounts of the MoLSA budget chapter for 2014 to 2018.

**Chart 20: Forecasted development of the age of the Czech population and proportion of persons aged 65+ up to 2060 (%)**



Source: CSO.

In response to the audit results, a number of measures were taken to remedy the identified shortcomings. For example, the MoLSA modified the methodology for providing state budget subsidies to regions and the City of Prague for 2020, laying down a binding procedure for returning subsidies not used by the regions and the City of Prague. At the same time, social services workers' pay is being regularly increased. The SAO considers it important for the MoLSA to submit an updated draft amendment of the Act on Social Services that should be fundamental for designing and stabilising the system and achieving conceptual goals in this area.

**The SAO found serious shortcomings, at both systemic and project levels, in programmes targeting the fight against poverty and support for youth employment. These shortcomings substantially undermined the efficiency and effectiveness of the provided support. The main shortcomings were the insufficient definition or absence of targets and indicators for evaluating the support's benefits and checking whether money was provided in**

*It was clear that some of the LO's clients had no barriers to finding a job. These young people found an internship or employment themselves. The SAO regards this as an example of the dead weight effect.<sup>43</sup>*

<sup>43</sup> A situation where a subsidy is received by a beneficiary who would have done the activity/investment even without public funding (in this case the mediation of employment for a subsidised job for a client who is able to find work or an internship unassisted).

accordance with the 3E principles. The targeting of the support was not based on the needs of target groups genuinely at risk of unemployment, poverty and social exclusion and did not react to the situation on the job market. That contrasted with fundamental shortcomings in the social services funding system, for example, where conversely the need for increased support is growing. In audits Nos 18/28 and 18/33 the SAO also found the following:

- The MoLSA provided over **CZK 1.3 billion** out of OP Em for youth employment projects without responding to the substantial positive development on the labour market during the programme, which significantly undermined the effectiveness of the provided support. The MoLSA continued to provide the same amount of support on the same conditions as at the start of the operational programme, i.e. towards the end of the 2008–2013 economic crisis. And it did so in spite of the fact that the youth unemployment rate in the CR fell constantly from 2013 and was very low compared to the EU average (see also Chart 21). In 2017 the MoLSA even increased it by **CZK 339 million**, without focusing it on young people with a disability who needed it most. The MoLSA only reacted to the low rate of unemployment almost two years later, i.e. in 2019 during the SAO audit. Another serious failing was that the MoLSA did not set measurable targets for projects so that it could assess whether OP Em projects fulfilled their purpose. It is not possible to assess whether spending was effective in any of the audited projects, worth a total of **CZK 470 million**, done by the Labour Office of the Czech Republic (LO), because the LO did not monitor the projects' participants and their subsequent success or failure in finding a job after the project ended (audit No 18/28).
- Similarly, the City of Prague, as the OP PGP managing authority, failed to respond to the improving situation on the capital city's job market as regards the design of support for social enterprises: it gave the full subsidy to projects targeting the employment of persons from target groups and in professions that are generally in demand on the job market. The SAO also concluded that the support for projects under OP PGP, which received **CZK 393 million** at the time of the audit, was significantly one-sided in favour of social enterprises and cultural and community centres with a very general focus – **92%** of the projects were of this kind. Support for other activities, such as shelters, protected workplaces, social housing or social services, was utterly marginal, so it is highly likely that the relevant goals in this area will remain largely unachieved. The SAO concluded that **40%** of the audited OP PGP projects, which received a total of **CZK 44 million**, were ineffective or of limited effectiveness, and **45%**, which received **CZK 49 million**, were inefficient or of limited efficiency. The SAO also declared that the City of Prague failed to define adequately the goals of support under the operational programme in terms of SMART<sup>44</sup>, and even failed to define indicators that would show how the programme helped reduce poverty and social exclusion. In this context it will also be very difficult to evaluate how successfully the programme has contributed to delivering the national targets of *Europe 2020* (audit No 18/33).

*Out of the planned number of 137 supported social housing apartments, for example, only four had been implemented and only one of the target of 112 social work and services facilities had been implemented at the time of the audit.*

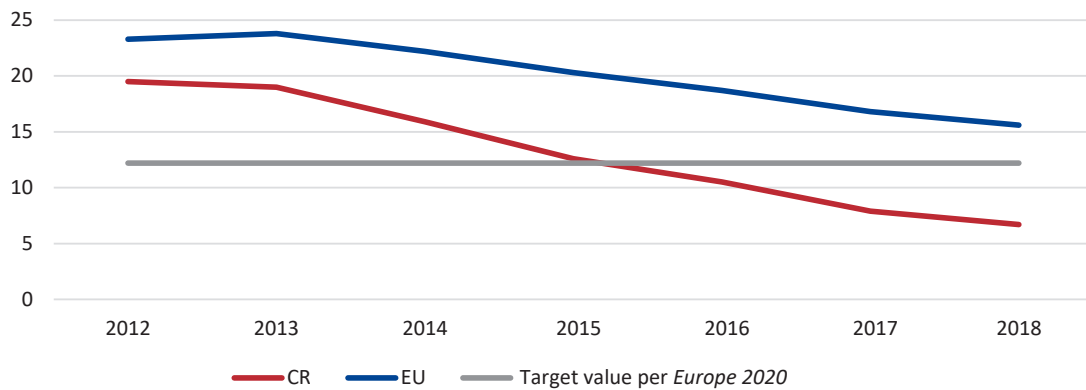
*The SAO found that a project by a contributory organisation of the City of Prague received almost CZK 4 million for the creation of a new field programme for homeless people, but this project was not new – it had been operating for a number of years already and the only outcome of the project was that the project's fleet of vehicles was replaced. The SAO thus judged the project to be ineffective and inefficient.*

**Shortcomings in the focus, management and provision of support significantly diminished their benefits for social inclusion and the fight against poverty and unemployment.**

44 Specific, measurable, attainable, realistic and time-based.

The need for support for youth employment is not consistent with developments in the rate of unemployment in this population segment. The youth unemployment rate in the CR had fallen to **6.7%** in 2018, compared to the EU average of **15%**, and the target value the CR pledged to achieve as part of *Europe 2020* had also been achieved. This target was in fact achieved back in 2015, before the audited projects even began.

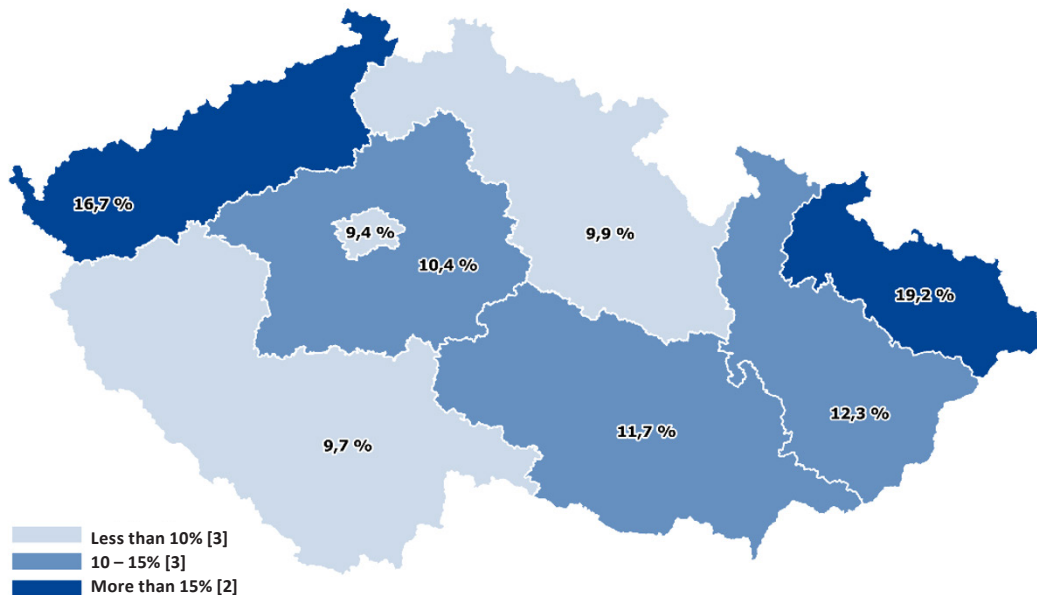
**Chart 21: Unemployment rate among young people aged 15–24 in the years 2014–2018 (%)**



Source: CSO and Eurostat.

Similarly, the CR has long been one of the countries with a lower risk of poverty and social exclusion. According to Eurostat data, in 2017 **12.2%** of the population bordering on poverty, which meant that the CR had one of the lowest population proportions at risk of poverty in the EU. In the context of the CR, the figures for Prague too are very low, with **9.4%** of its population at risk of poverty.

**Chart 22: Risk of poverty and social exclusion in the CR (% of the population)**



Source: Eurostat.

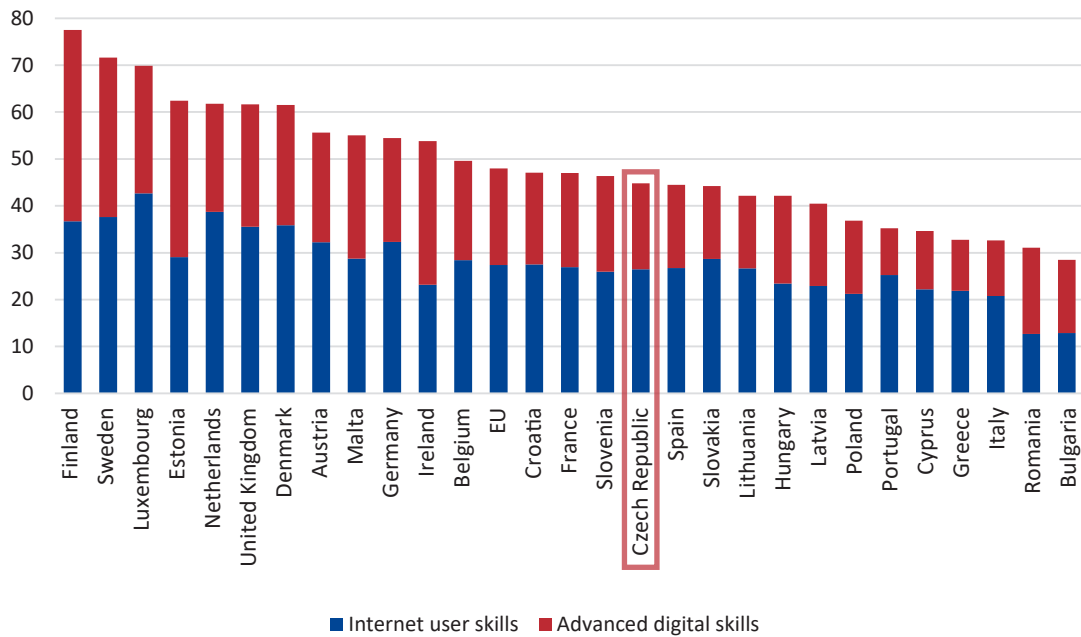
## 4.5 EDUCATION

### Putting in place the right conditions for improving schoolchildren’s and teachers’ digital skills is crucial for making education more efficient and improving school-leavers’ digital skills.

Advancing the digitalisation of the economy and society is one of the fundamental conditions for further economic growth and boosting the Czech Republic’s competitiveness. Digital education encompasses both education that makes effective use of digital technologies in support of tuition and learning and education that develops children’s digital literacy and prepares them for success in society and on the job market, where the requirements for information technologies skills and abilities are constantly growing. This education ought to contribute to important changes in society and the economy linked to the development of digital technologies and their use in a plethora of fields. The SAO consequently regards digital education as very important.

The standard of the digitalisation of society and the economy is measured by many international benchmarking indicators. Within the EU, the European Commission measures this standard every year by means of the DESI. This index’s “human capital” indicator assesses the standard of internet user skills and advanced digital skills in the population. The percentage of the population in EU Member States who possessed these skills in 2019 is shown in Chart 23. According to this indicator, the CR was in 16<sup>th</sup> place in the EU in terms of digital skills, i.e. in the lower average bracket.

**Chart 23: Human capital per DESI 2019 (% of the population)**



Source: [https://digital-agenda-data.eu/charts/desi-components#chart={%22indicator%22:%22desi\\_2\\_hc%22,%22breakdown-group%22:%22desi\\_2\\_hc%22,%22unit-measure%22:%22pc\\_desi\\_2\\_hc%22,%22time-period%22:%222019%22}](https://digital-agenda-data.eu/charts/desi-components#chart={%22indicator%22:%22desi_2_hc%22,%22breakdown-group%22:%22desi_2_hc%22,%22unit-measure%22:%22pc_desi_2_hc%22,%22time-period%22:%222019%22}).

In audit No **18/18** focusing on support for the development of digital education in the Czech Republic, the SAO scrutinised whether the measures taken and projects supported by the Ministry of Education, Youth and Sports (MoEYS) made an effective contribution to delivering the goals of the *Digital Education Strategy up to 2020* (the “DE Strategy”). 6,660 projects linked to digital education were executed in the audit period, receiving a total of **CZK 22.2 billion** in support from EU funds (OP *Education for Competitiveness* (OP EC), OP *Research, Development and Education* (OP RDE) and IROP).



The SAO judged that the MoEYS did not implement 12 of the 18 audited DE Strategy activities the ministry had planned. That is despite the fact that the SAO regards most of these activities as essential for implementing the digital education strategy. Even five years after the DE Strategy's approval the MoEYS had not defined and applied in schools a standard for pupils' key ICT skills and had not put in place a corresponding offer of further training for teachers and digital education resources. In addition, the MoEYS had not made a digital skills standard part of teachers' practice. The MoEYS thus failed to make the systemic changes in education that would deliver schoolchildren's and teachers' desired digital skills and demonstrably improve their digital literacy.

The SAO also stated the following:

- In OP EC primary and secondary schools drew down **CZK 5.5 billion**, for which they did acquire ICT equipment, but at the same time they had to create over **1.8 million** digital teaching materials, which were often poor-quality, overlapped in terms of content and were hardly used. Under this OP the MoEYS also supported training for teachers in effective use of ICT. Teachers from just a third of primary and secondary schools received training under 45 projects that received **CZK 1.4 billion**. The SAO therefore judged this support to be haphazard. As the SAO went on to declare, funding provided to schools out of the state budget in the regional education funding system make it possible to finance the acquisition, professional administration and regular replacement of ICT merely to a limited degree. There is thus a real risk that schools will not have enough money for digital education when the existing programming period of the European Structural and Investment Funds (ESI) ends.

*According to MoEYS analysis, funding out of the regional education financing system will have to be increased by CZK 500 per pupil from 2019 to provide for ICT. In 2019, however, the MoEYS only increased state budget expenditure per pupil by CZK 50–59, depending on the pupils' age.*

The results of a questionnaire-based survey and analysis of the data reported by schools<sup>45</sup> that the SAO performed at 2,303 schools<sup>46</sup> as part of the audit are considered beneficial. The survey delivered unique information that helps illustrate the identified shortcomings. The survey's results included the following:

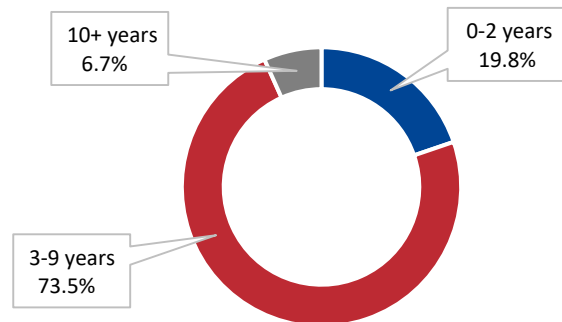
- 80% of all computers available to pupils are more than 3 years old.
- There is on average a sufficient number of computers at secondary schools (one computer per 4 pupils), but at primary schools there are on average 6.5 children per computer.<sup>47</sup>
- Only 9.7% of schools directly support the use of own equipment in tuition.
- Around 62.6% of schools use an external ICT administrator.
- Schools fund the acquisition of ICT mainly from a contribution from the founding organisation and from EU funds, not from the state budget, even though the state defines the direction the digitalisation of education is to proceed in and stipulates the related requirements.

<sup>45</sup> According to *Statement on School Principals R-13-01*.

<sup>46</sup> The results of the online survey, including data analysis, is visualised here: <https://www.nku.cz/scripts/detail.php?id=10616>.

<sup>47</sup> The average number of pupils to a computer was calculated only for primary and secondary schools whose replies the SAO processed when evaluating the questionnaire-based survey.



**Chart 24: Distribution of computers by age (%)**

Source: information from audit No **18/18**.

**The SAO warns that the current system for funding the development and operation of ICT in schools is highly dependent on EU funds and is unsustainable in this form for the coming period.**

### **Recommendations**

**One of the main obstacles to greater digitalisation of education at primary and secondary schools is the lack of funding for replacing, operating, expanding, developing or administering ICT. For that reason the SAO recommends re-evaluating the regional education financing system so that schools have access to funding that will enable effective achievement of strategic objectives in this area, even after the programming period is over.**

National Institute for Education (NIE) has already drawn up a *Teachers' Digital Skills Framework*. The SAO therefore proposes that this framework be implemented. The SAO simultaneously proposes that the MoEYS revise the framework educational programmes and integrate the already proposed digital skills for primary and secondary school children into these programmes.

**It is positive that the MoEYS started to implement certain measures that could help improve teachers' digital skills in particular in response to the results of the SAO audit. Based on the prepared teachers' digital skills framework the MoEYS plans to provide intensive support for teacher training in digital technologies and other methodological support.**

## **4.6 SUPPORT FOR THE NON-PROFIT SECTOR**

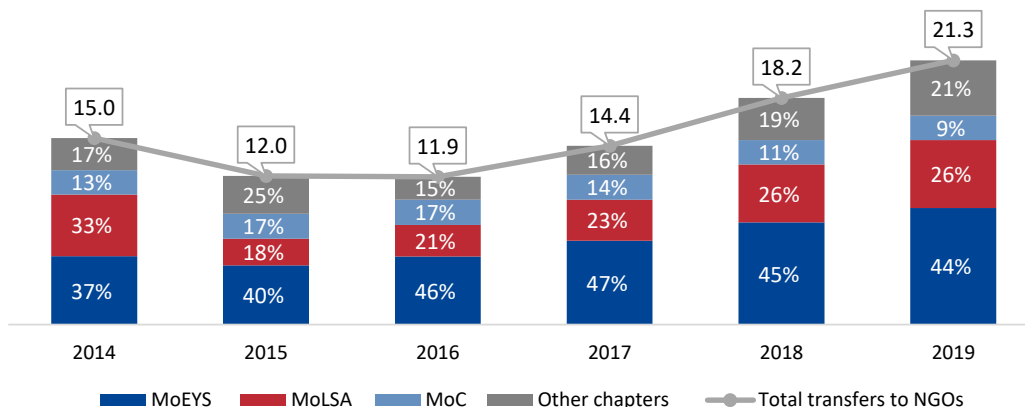
**Despite the significant magnitude of and constant increases in support, the state has not defined any specific goals it wants to achieve with the money spent.**

The goal of state support for the non-profit sector is to help boost citizens' participation in public life and tackle social problems. The state supports non-governmental non-profit organisations (NGOs) through subsidies. With these subsidies, organisations implement state policy in areas where it is supposed to be more effective and efficient for services to be provided in this way.

This is a significant area of state expenditure and one that has long been growing. As Chart 25 shows, the funding provided to NGOs out of the state budget exceeded **CZK 21 billion** in 2019 and has amounted to almost **CZK 93 billion** since 2014. This involves investment and non-investment finances which the state spends primarily in sport and hobby activities, social services and employment, educational and school services and support for culture and churches. Funding out of state budget chapters corresponds to this – approx. **70%** is provided out of the chapters of the MoEYS and MoLSA.



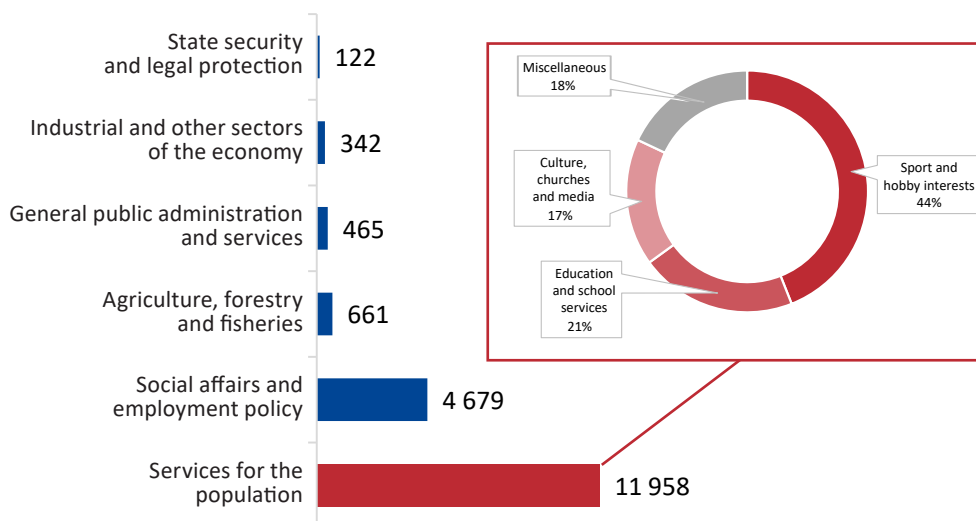
**Chart 25: Transfers provided to NGOs from the state budget (CZK billion)**



Source: STIIS.

Legend: Transfers to publicly beneficial companies – state budget expenditure under budgetary items 5221 and 6321; transfers to clubs – 5222 and 6322; transfers to churches and religious societies – 5223 and 6323; transfers to miscellaneous NGOs and similar organisations – 5229 and 6329.

**Chart 26: Total transfers to NGOs by sector in 2018 (CZK million)**



Source: MONITOR information website.

The SAO has long paid attention to auditing support provided to the non-profit sector. In previous years it performed a number of audits covering, to a greater or lesser extent, projects and services executed through NGOs and the performance of the role of the state and subsidy providers<sup>48</sup>. In 2019 the SAO conducted the following audits:

- **18/03** – Funds provided to non-state non-profit organisations;
- **18/19** – Funds spent on cultural activities from the budget chapter of the Ministry of Culture;
- **18/33** – Subsidy from the operational programme Prague – Growth Pole of the Czech Republic provided for promoting social inclusion and combating poverty.

The results of audits Nos **18/19** and **18/33** are mainly presented in the relevant chapters II.4.8 and II.4.4 of this annual report.

<sup>48</sup> Previously e.g. in audit No 17/01 – State funds provided from the Programme of Architectural Heritage Preservation for the preservation and renewal of cultural sights (audit report published in volume 6/2017 of the SAO Bulletin); Audit No 17/17 – State funds provided for support of youth and children activities (audit report published in volume 1/2018 of the SAO Bulletin); Audit No 16/20 – State funds provided by the Ministry of Education, Youth and Sports on the development and renewal of the material-technical base of sports (audit report published in volume 3/2017 of the SAO Bulletin);

In system audit No **18/03** the SAO scrutinised the design and implementation of the goals of state policy vis-à-vis NGOs and the procedure followed by the Office of the Government of the CR (OoG), the MoRD, the Ministry of the Interior (MoI), the MoE and the Ministry of Agriculture (MoA) when provided subsidies to NGOs in the years 2016 to 2017. It also checked the execution of tasks (measures) defined by the strategic document *State Policy towards Non-governmental Non-profit Organisations for the Years 2015–2020* (State Policy on NGOs 2015–2020)<sup>49</sup> by subsidy providers.

**One fundamental shortcoming of state support for NGOs is that the government’s strategy on NGOs was not based on analysis of social requirements and on a greater role for the state in its management and control. Implementation of the strategy is not subject to regular evaluation and neither the state nor the public have clear information about the provided transfers.**

In audit No **18/03** the SAO reached the following conclusions:

- At the strategic management level the state had fewer representatives in the Government Council for NGOs<sup>50</sup> than there were representatives of the non-profit sector, so it could not exert decisive influence over strategy. One upshot of that was the creation of State Policy on NGOs 2015–2020, a strategic document was based not on analysis of society’s needs but entirely on studies drawn up by non-profit sector representatives. It was also found that the measures set out in State Policy on NGOs 2015–2020 were vague and general and the Office of the Government does not perform regular assessments of this strategy’s goals. The state did not even possess exact information on the total value of transfers it had provided to NGOs in 2015 and 2016. The value reported in the budget information system for the two years differed by more than **CZK 3 billion** from the amount reported in funding analyses done by the Office of the Government. There was also a risk of providers providing funds for activities for which applicants would obtain subsidies from other providers, as, with the exception of the OoG and partially the MoI, the various departments did not cooperate on the assessment of applications and did not share information about selection procedures. Providers also had inadequate information for monitoring the concurrence of subsidies in order to comply with the maximum limit of **70%** of project funding out of the state budget.

*The audited subsidy providers were not transparent in their procedure when they failed to publish compulsory information on subsidies amounting to **CZK 3.5 billion** (the difference compared to the value of transfers to NGOs in the budget information system for 2016) in the central records of subsidies.*

**The fundamental requirements for the effective functioning of support are that it is based on an analysis of society’s needs, is provided transparently and the required goals are evaluated.**

**In addition to shortcomings at the strategic management and coordination level, serious deficiencies of an equivalent nature were found in some providers’ management and control systems. Providers were unable to assess the required impacts of the support and to demonstrate that the state budget funds were spent efficiently and economically. The effects of the support were further diminished by a non-transparent or inefficient support provision method and by a lackadaisical approach to checking fulfilment of the subsidy conditions by support beneficiaries.**

<sup>49</sup> Strategic document approved by the Czech government on 29 July 2015 (Czech government resolution No 608).

<sup>50</sup> The Government Council for NGOs is the Czech government’s permanent advisory, initiatory and coordinating body in the field of NGOs.

The following are among the principal recurring shortcomings identified in the field of support for NGOs:

- failure to perform special analyses of society's needs in relation to departments' provision of subsidies to NGOs (audit No **18/03**);
- absence of measurable subsidy goals and indicators making it possible to evaluate the achievement of goals and actual benefits (audit No **18/03** and **18/19**);
- inefficient support provision method, non-systematic and non-transparent approach to support provision (audit No **18/19**);
- selection of ineffective or only partially effective projects and failure to assess benefits (audit No **18/33**);
- lackadaisical approach to checking subsidy beneficiaries (audit No **18/19**);
- violations of subsidy conditions by beneficiaries, e.g. use of the subsidy to cover ineligible costs, failure to perform activities, failure to inform the public about execution of a project receiving state support (audit No **18/03**).

The SAO flagged up similar management and control shortcomings in previous audits. In audit No **17/17**, for example, the SAO discovered that it was not clear what the MoEYS wanted to achieve as the provider of support for work with children and youth and that the impact of the support and the achievement of strategic goals could not be assessed because measurable goals and indicators were not defined. Similarly, the SAO detected non-transparent project selection and a failure to check implemented projects by this provider. In audit No **17/01** the SAO concluded that the Ministry of Culture (MoC) did not set sufficient goals and did not evaluate the benefits of support under the architectural heritage salvage programme. In audit No **16/20** the SAO found serious shortcomings at the MoEYS, as the provider of subsidies for the development and material and technical upgrading of sport and physical exercise, in the form of a lack of transparency, unequal conditions for applicants and compliance with the conditions, failure to scrutinise the benefit of the support and inadequate control work.

*Out of 17 beneficiaries, the SAO found that ten had violated the conditions underpinning the provision of state budget funds.*

Based on audit No **18/03** the SAO issued the following systemic recommendations:

- the state should increase its influence in the Government Council for NGOs, e.g. by increasing its number of members, so that state representatives exert decisive influence;
- when drawing up materials linked to funding analyses the Office of the Government should work on the basis of the figures contained in the budget information system and should demand that all organisational units of the state that provided subsidies to NGOs provide underlying data for the budget information system;
- the state should use the same legal forms of NGOs in all its materials when defining and assessing areas of subsidy policy for NGOs;
- providers should share information about applications filed for state budget subsidies so that other providers can make sure that project activities are not duplicated;
- the list of conditions for use of a subsidy defined by the provider in the subsidy provision decision should be expanded in the *government principles for providing subsidies out of the state budget of the Czech Republic*, e.g. to include the submission of interim reports on project implementation or compulsory publication of annual reports on activities, including financial statements – these conditions should apply to all beneficiaries of state budget subsidies.

**It is positive that in response to the SAO audit the government adopted measures which should strengthen the state's influence in the Government Council for NGOs and make it compulsory for beneficiaries of all state budget subsidies to publish activity reports. In addition, the government**

will take measures to prevent duplicate project funding (including adding representatives of the central authorities to assessment commissions) and measures to prevent differences in the reporting of provided state budget subsidies and unify the set of legal forms of NGOs. The SAO will continue to monitor and assess the execution of the measures and their effect.

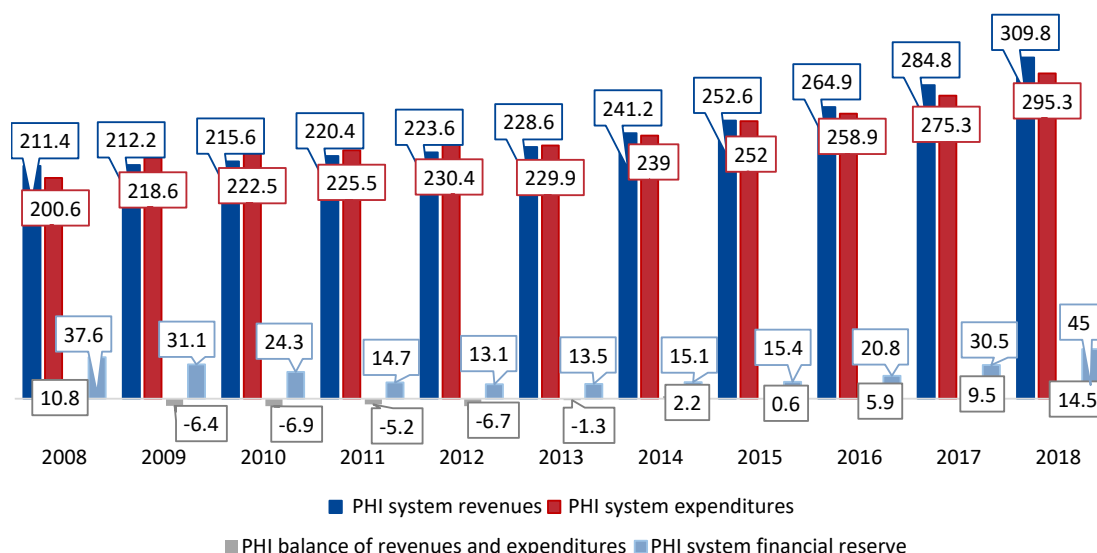
#### 4.7 HEALTHCARE

**The public health insurance system has failed to create sufficient reserves for future sustainability; support for investment in regional healthcare needs to be conceptual and based on genuine needs.**

Viewed as a whole, the standard of the Czech health system is above average in terms of the quality of healthcare provision and is less costly compared to many developed countries of the world<sup>51</sup>. The CR has long paid attention to the sustainability of funding and improving the healthcare system. Healthcare is funded mainly out of health insurance premiums, which are sensitive to economic downturns. In addition, in the present demographic conditions of a constantly increasing proportion of economic inactive population the risk of declining revenues from insurance is growing.

The SAO has repeatedly drawn attention to the financial unsustainability of the public health insurance system in the medium-term and long-term outlook. The SAO continues to see the biggest risk to the system's stability in the fact that despite the current period of economic growth neither the state nor health insurance companies have created sufficient reserves that would enable financial equilibrium in the system even if the economy were to slow down. The public health insurance system ended 2018 **CZK 14.5 billion** in the black (see Chart 27). At the same time, the financial balances on health insurance companies' current accounts increased to **CZK 45 billion**, which is over **15%** of the system's total expenditure. These reserves are still smaller in relative terms than in 2008 (**18.7%**), for example. The use of the large balances in health insurance companies' funds meant that the quality and accessibility of healthcare did not decline significantly during the economic crisis (2009–2013).

**Chart 27: Indicators of the public health insurance system in the years 2007–2018 (CZK billion)**



**Source:** Institute of Health Information and Statistics; healthcare yearbooks 2004–2018, healthcare statistics of the CR; summary assessment of the development of the public healthcare insurance system in the years 2007–2018; Czech government resolution of 17 December 2018 No 858, *assessing the envisaged development of the public healthcare insurance system on the basis of active health insurance companies' draft health insurance plans 2019 and medium-term outlooks for 2020 and 2021*.

<sup>51</sup> According to the Euro Health Consumer Index (EHCI), see <https://healthpowerhouse.com/media/EHCI-2018/EHCI-2018-report.pdf>; or according to the OECD and healthcare spending as a proportion of GDP (see <https://stats.oecd.org/viewhtml.aspx?datasetcode=SHA>).

**A fall in public health insurance premium collections caused by an economic slowdown, increased expenditure linked to the introduction of modern and highly costly treatment methods and population ageing pose risks to the Czech healthcare system's future stability. Almost 29% of the Czech population will be over the age of 65 in 2050 compared to approx. 20% now.**

In 2019 the SAO again scrutinised the management of public money in the healthcare system, performing two audits that targeted:

- management of finances collected by law in favour of the Military Health Insurance Company of the Czech Republic (audit No **18/14**);
- programme of material and technical provision for regional healthcare (audit No **18/11**).

**As in previous audits of other health insurance companies<sup>52</sup>, when auditing the Military Health Insurance Company of the Czech Republic (MHIC) the SAO identified room for savings in expenditure, while also drawing attention to the possibility of increasing revenues, primarily by rigorous management of receivables. The SAO also flagged up the lackadaisical control of provided healthcare covered out of health insurance. Last but not least, it found uneconomical and inefficient use of finances in certain funds of the health insurance company and an inadequate internal control system, which should have detected these deficiencies. Specifically:**

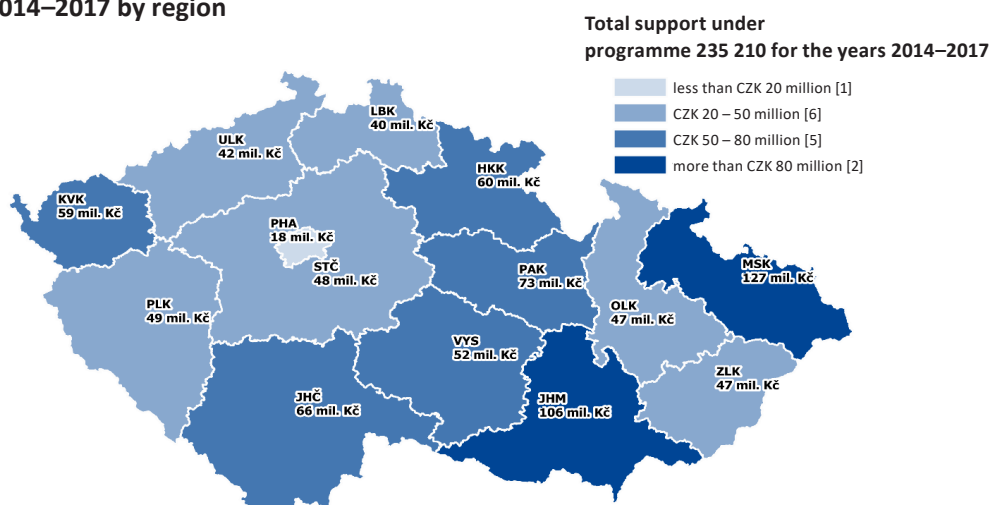
- In audit No **18/14** the SAO found that the MHIC's records included **81** deceased insured persons for whom it had wrongfully received insurance premiums worth over **CZK 1.5 million** from the state. For half of these insured persons it moreover paid doctors per-head payments of almost **CZK 112,000**, which the SAO judged to be an uneconomical use of this money. As a result of its defective internal control system the MHIC proceeded uneconomically in other cases as well. The insurer spent **CZK 407,000** from its operating fund inefficiently and uneconomically for two analyses whose results it made almost no use of, for example. When drawing down finances from the prevention fund the MHIC proceeded non-transparently and discriminatorily in that it did not publicly announce two preventive programmes (*Managerial Programme* and *Prevention Package*) but paid out a total of **CZK 12 million** to a selected group of insured persons. Under *Managerial Programme*, for example, only insured persons selected by the managing director and by directors of the insurer's branches could receive the money.

*The MHIC discarded almost 25,000 insured persons from the category of state-covered insured persons without having the conclusive documentation necessary. It thus both reduced insurance premiums revenue from the state and increased the receivables due from these insured persons.*

After its systematic scrutiny of financial management by state hospitals and other state medical facilities, in 2019 the SAO focused audit No **18/11** on support for investments in regional healthcare and, above all, on the exercise of the role of the Ministry of Health (MoH) as the responsible authority in this area. In the years 2014–2017 the MoH provided this support through the investment programme *Support for the Development and Renewal of the Material and Technical Base of the Regional Healthcare System* (see Figure 2).

<sup>52</sup> The audit report of audit No 09/29 – *Funds collected by law in favour of the General Health Insurance Company of the Czech Republic* was published in volume 1/2011 of the *SAO Bulletin*. The audit report of audit No 13/22 – *Funds collected in accordance with law in favour of the Czech Industrial Health Insurance Company of the Czech Republic* was published in volume 2/2014 of the *SAO Bulletin*. The audit report of audit No 14/33 – *Funds collected in accordance with law in favour of the Health Insurance Company of the Ministry of the Interior Czech Republic* was published in volume 1/2016 of the *SAO Bulletin*.

**Figure 2: Support from the programme *Support for the Development and Renewal of the Material and Technical Base of the Regional Healthcare System* in total for the years 2014–2017 by region**



Source: MoH information; datasets from the subsidies records system.

The SAO described the haphazard provision of support for investments in regional healthcare as a serious shortcoming. Between 2014 and 2017 the MoH provided CZK 833 million without any kind of strategy or concept; this money went on 181 investment operations focusing mainly on purchases of medical apparatus, development of real estate, information technologies etc. In many cases the MoH failed to exercise its role as the programme administrator and failed to plan properly. It prolonged the programme several times, ultimately to more than three times the originally approved duration (14 years), and the planned state budget amount almost doubled to CZK 3.6 billion. Even though the MoH is responsible for the management of state budget finances for funding programmes, in the audited period it confined its role to processing subsidy applications instead of focusing on whether submitted projects were necessary and beneficial for the regional healthcare system.

Other SAO findings:

- To all intents and purposes the MoH did not manage the implementation of the programme; in most cases, the selection of investments for support was done on its behalf by the regions, which were often the subsidy applicants. The MoH also failed to put in place equal conditions for the programme's participants, accepted applications filed late, did not discard incomplete applications and did not insist on compliance with the defined conditions. The SAO found that more than **80%** of the scrutinised applications were incomplete. Throughout the four-year period the MoH did not perform one on-site inspection at a programme participant; not one on-site inspection was planned for 2018 either. This was in spite of the fact that in 2014 the MoH, as part of measures adopted to remedy shortcomings identified in the previous audit No **13/13**<sup>53</sup>, pledged to improve preliminary and interim control work – it was even tasked with executing these measures by a government resolution<sup>54</sup>. The failure to fulfil this resolution is also evident from the errors the SAO identified in the administration of investment projects.

*For example, the MoH provided a subsidy beneficiary with over CZK 4 million for an investment that included renovation of accommodation facilities, which was entirely inconsistent with the programme's goals, i.e. supporting essential investments linked to healthcare provision.*

<sup>53</sup> The audit report of audit No 13/13 – *State funds allotted to regional healthcare institutions* was published in volume 1/2014 of the SAO Bulletin.

<sup>54</sup> Government resolution No 414 of 4 June 2014, regarding the Supreme Audit Office's audit report from audit No 13/13 – *State funds allotted to regional healthcare institutions*.



The SAO drew attention to the fact that providing substantial financial support without clearly defined goals is not systemic. In the case of the haphazard support for investments in regional healthcare the MoH was merely a place where funding was distributed among the regions, without any awareness of the reality of this healthcare and without any clear idea of its needs.

In response to these findings identified in the SAO’s two audits, the responsible authorities declared a series of measures:

- The MHIC adopted a total of **39** measures to remedy the shortcomings. These concerned shortcomings in the records of insured persons and incorrect payments to healthcare providers, the award of public contracts and also modernisation of IT systems and the design of the internal control system. The Ministry of Defence (MoD) pledged to update contracts for drawdown of specific MHIC funds that are drawn down by members of the Czech army (audit No **18/14**);
- The MoH pledged not to run any more programmes that are not grounded in strategies and long-term plans, underpinned by relevant analyses of requirements. It also declared that it would improve its preliminary and interim control work, made systemic changes to its organisational structure and implement a tool to ensure the subsidy process is computerised (audit No **18/11**).

The SAO will monitor the implementation of the declared measures and their effectiveness and will perform follow-up audits to assess whether the measures have helped to improve the state of the Czech healthcare system.

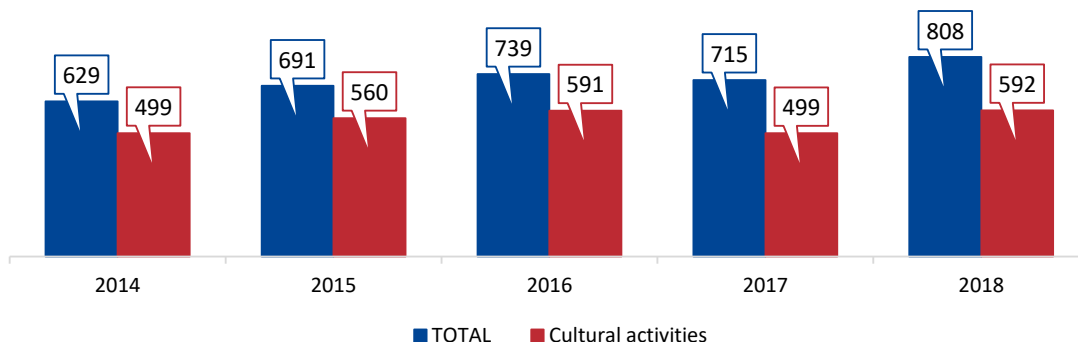
#### 4.8 CULTURE

**Effective support for cultural activities is still hindered by the system’s complexity and lack of uniformity and transparency, including the failure to assess real benefits.**

Culture is an integral part of civic society and contributes significantly to social integration. It connects the Czech Republic to the rest of the world, while differentiating it and distinguishing it from other countries. The state plays an indispensable role in supporting the preservation and creation of culture.

One key form of this support is subsidies provided by the MoC for cultural services and live art. The MoC paid out more than **CZK 3.5 billion** on cultural services and support for live art between 2014 and 2018. This expenditure has been on a long-term growth curve, despite a slight fall in 2017. The majority of this expenditure goes on supporting cultural activities: these have long accounted for **70% to 80%** of spending on cultural services and support for live art.

**Chart 28: MoC expenditure on cultural services and support for live art (CZK million)**



Source: closing accounts of the MoC budget chapter for 2014 to 2018.



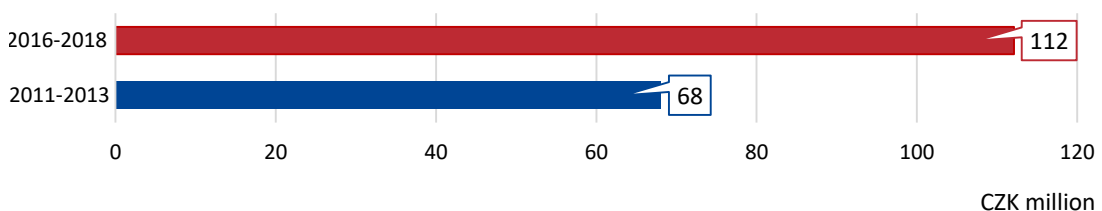
The SAO completed two audits in the field of culture in 2019. One (audit No **18/36**) targeted financial management by the National Library of the CR (NL) and the Moravian Library in Brno (ML). The results of this audit are mainly presented in Chapter II.5.1 of this annual report. The second (audit No **18/19**) focused on funds distributed by the MoC for cultural activities such as dance, theatre, literature, music or fine art in the years 2016 to 2018.

**The audit showed that the MoC lacks a systematic approach to this support as a whole: its distribution was fragmented, highly bureaucratic and, ultimately, inefficient. The MoC defined merely general goals of the support, without any indicators that would make it possible to evaluate the benefit. The MoC thus did not assess real benefits in the realm of cultural activities at all. Its support provision was moreover not transparent in that it supported projects that did not take part in selection procedures for subsidies. At the same time, the MoC awarded support to applicants that did not satisfy the conditions and insufficiently checked the use of funding by the support beneficiaries. In a number of cases the SAO also found shortcomings among beneficiaries.**

- The MoC holds roughly **25** tenders a year in support of cultural activities; in the audited period it distributed roughly **CZK 500 to 600 million** between these activities per year. **Nine** different sections of the Ministry of Culture were responsible for providing subsidies, and the approaches followed by these sections were different and uncoordinated. The requirements placed on beneficiaries thus often differed and extra bureaucracy was required. One cause of the complexity of support provision was the absence of a unified information system for keeping records of and management support, even though the MoC undertook to establish one in response to the results of the previous audit No **14/10**<sup>55</sup>. In response to that audit the government tasked the MoC additionally with reducing the high share of funding provided without tenders. That share kept increasing every year, however. Whereas the MoC awarded more than **CZK 68 million** without tenders in the years 2011 to 2013, the figure was over **CZK 112 million** in the years 2016 to 2018.

*One example of inadequate control work was that the MoC repeatedly provided subsidies to a beneficiary that reported a profit in the first financial statement and a loss in the second, without the MoC demanding that the reported profit be paid back into the state budget. The amount involved in the audited period was at least CZK 27 million.*

**Chart 29: Support for cultural activities awarded without tenders**



Source: information from audit No **18/19**.

**The shortcomings detected by this audit are long-term – the SAO already drew attention to many of them in 2014. Even so, five years later the MoC had still not introduced the measures imposed on it by the government in order to eliminate these shortcomings and help make the cultural activities support system more efficient.**

<sup>55</sup> Audit No 14/10 – State budget funds earmarked for the support of cultural activities from the state budget chapter Ministry of Culture; the audit report was published in volume 4/2014 of the SAO Bulletin.



### **Recommendations**

Based on its assessment of the identified shortcomings the SAO recommended that the MoC do the following in its support for cultural activities:

- **put in place uniform methodological management and procedures for the various sections;**
- **put in place a uniform information system for keeping records of and managing support;**
- **specify clear and comprehensible conditions and binding parameters for projects;**
- **specify categorically the benefits expected from support for cultural activities and evaluate the degree to which these are delivered;**
- **draw up a list of events of special importance and simplify the system for providing subsidies for these projects;**
- **when administering support, make thorough use of the internal control system in accordance with the Act on Financial Control.**

According to a statement from the MoC<sup>56</sup>, it responded to the shortcomings identified by the audit by means of an internal regulation that is supposed to rectify the fragmentation, complexity, bureaucracy and inefficiency of subsidy tenders. The MoC also declared that it had adopted additional systemic measures reacting to the detected shortcomings.

Another way in which the MoC supports culture is by supporting contributory organisations that are important cultural institutions, such as libraries, through which cultural services are provided to the public. Even though the number of public libraries in the CR is falling, the network's density (5 libraries per 10,000 people) puts the country in a leading place in Europe. At this point in time, when the volume of lending services of digital documents is growing sharply compared to traditional printed items, the process of digitising library collections is growing in importance.<sup>57</sup>

**Regarding the digitisation of library collections, the SAO pointed out that there is currently no legislation covering the conservation of cultural heritage in digital form (audit No 18/36). This legislation should cover the issue of a compulsory print copy<sup>58</sup> with regard to electronic publications. In this context, the MoC should analyse the current concept of the compulsory print copy and evaluate whether its subsequent regulation is appropriate *inter alia* in terms of the extent of this obligation (e.g. with reference to advertising and promotional leaflets, for example).**

- The audit also examined the NL's position in the system of European national libraries. The SAO performed an international comparison applying to 2017 and using data from 12 European national libraries. The comparison revealed that the CR is one of the leaders in digitisation. As Chart 30 shows, the NL is in second position in terms of the number of library units digitised – it is behind Poland in terms of the number digitised pages based on its own digitisation capacity and behind Austria if digitised versions done on the basis of the NL's cooperation under the PPP project<sup>59</sup> *Mass Digitalisation of Historic and Rare Documents* are counted. In the case of the Czech NL, PPP accounted for **61%** of total digitisation, while in Austria PPP accounted for **95%** of the digitisation of the holdings of the Austrian National Library.

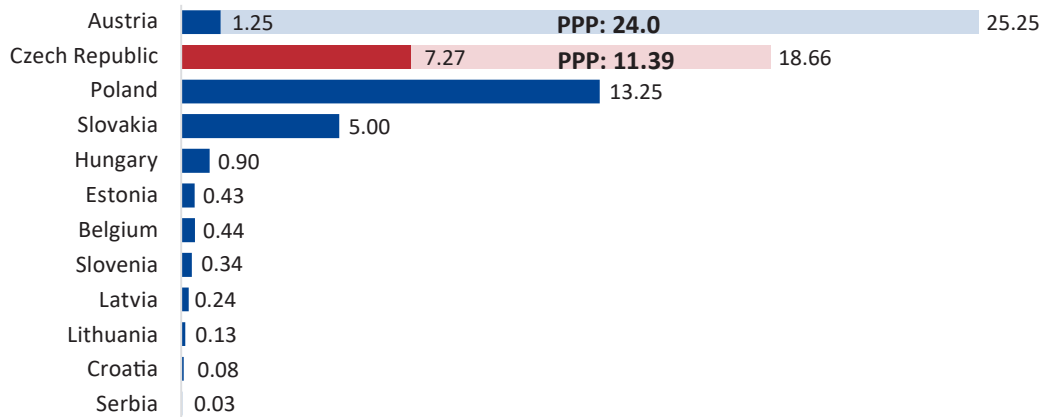
<sup>56</sup> See <https://www.mkcr.cz/novinky-a-media/vyjadreni-k-tiskove-zprave-nku-ze-dne-1982019-4-cs3423.html>.

<sup>57</sup> More detailed information is published here: <https://www.nku.cz/assets/kontrola/analyzy/doplnujici-informace-ka-18-36.pdf>.

<sup>58</sup> The right of NL and ML to a compulsory print copy is laid down by law. Every publisher has to comply by handing over free of charge publications disseminated publicly in the CR within 30 days after their issue and by handing over free of charge periodical printed matter within 7 days after issue.

<sup>59</sup> Public private partnership.

**Chart 30: Number of pages converted into electronic form (million pages)**



**Source:** information from audit No **18/36**.

**NB:** PPP: PPPs for the digitalisation of old prints took place in the Czech Republic and Austria.

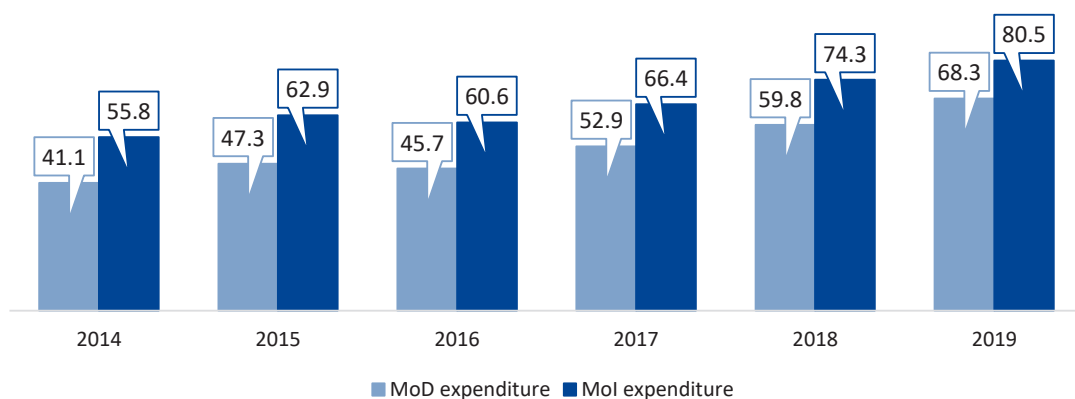
## 4.9 SECURITY AND DEFENCE

### Effective planning and funding is necessary for meeting the needs of the army and achieving the goals of police training.

Protecting citizens and defence are among the key functions of a state. The state's security and defence must constantly adapt to dynamic changes in the security environment, whether that means migration issues, disruption of supplies of strategic raw materials, or local or international crime. One precondition of defence and security is the availability of human and financial resources.

That is why spending on defence and security remains one of the most important expenditure items in the CR's state budget. Expenditure by both the MoD and MoI have registered significant growth since 2017. Compared to 2017, total spending by the MoI was over **29%** higher and total MoI expenditure was over **21%** higher in 2019.

**Chart 31: Total expenditure of the defence and security departments (CZK billion)**



**Source:** STIIS.



In 2019 the SAO focused mainly on the effectiveness and efficiency of expenditure and its benefit for defence and security. Specifically, the SAO scrutinised the following:

- management of state property and finances in connection with the acquisition and distribution of equipment of the Czech army in audit No **18/17**;
- provision and use of state finances for crime prevention in audit No **18/20**;
- management of state finances and property by selected police academies of the MoI in audit No **18/30**;
- management of property for the maintenance and development of the capabilities of the Czech army's air forces in audit No **18/31**<sup>60</sup>.

The aim of audit No **18/17** was to scrutinise whether in the years 2015–2017 the MoD proceeded in a manner fulfilling the Czech army's legitimate requirements when planning and distributing the required equipment for military personnel. As part of the audit, the SAO also examined three public tenders for the acquisition of equipment with a total value of **CZK 748 million**.

**The equipment for military personnel is a fundamental requisite of the proper and safe fulfilment of their duty. When acquiring and distributing equipment in the years 2015–2017, however, the MoD did not meet the requirements of military personnel, as the money spent on kit did not correspond to the army's requirements. In that period alone the difference between the value of the equipment to which military personnel were entitled and the money spent on acquiring kit totalled CZK 3.1 billion. The related low levels of stocks led to the quantity of issued kit being regulated.**

- By imposing kit regulation the MoD violated its legal obligation to guarantee military personnel the right conditions for the proper and safe performance of their duty<sup>61</sup>. Moreover, in 2018 the MoD increased the value of basic kit for servicemen by **85%** and for servicewomen by **90%**, but only increased the planned funding for acquiring this kit by **31%**, and the approved equipment purchasing budget was actually **16%** lower than in 2017. The SAO also concluded that the kit distribution process put in place by the MoD was more expensive than it needed to be. It is out-dated and inconsistent with present-day technological capabilities. In response to the audit results the MoD therefore declared that on 1 January 2020 it would launch a trial of a kit issue ordering system that will be one step towards establishing a fully-fledged e-shop.

**The SAO judged that the MoD failed to put in place the right conditions for military personnel's proper and safe performance of their duty.**

The MoD accepted the SAO audit as an aid to improving its management and its efforts to secure the necessary equipment for the Czech army. One fundamental measure by the MoD was the adoption of the *Concept of Logistical Support of the Army of the Czech Republic*, further to which it is drawing up a *Concept of the Development of the Equipment Service*, which will cover the issue of the modernisation of kit services. The MoD also adopted a measure to gradually increase the kit acquisition budget, and it is expected that the equipment deficit (caused by past underfunding) will be eliminated by 2026.

The recruitment and preparation of candidates to serve in the Police of the CR as part of the police training process is another key aspect of state security. In 2019 the Police of the CR again failed to take on the planned number of police officers according to the *Concept of the Development of the Police of the CR up to 2020*. In 2019 the MoI increased the number of officially listed positions by a further 1,000, even though the force is already approx. **3,000 police officers short**. This is despite the fact that securing personnel for the Police of the CR was one of the reasons for the reorganisations of police academies.

<sup>60</sup> This audit comprises classified information according to Act No 412/2005 Coll., on the protection of classified information and on security qualifications, so its audit report was not published in line with Section 30 of Act No 166/1993 Coll.

<sup>61</sup> According to Act No 221/1999 Coll., on professional soldiers.

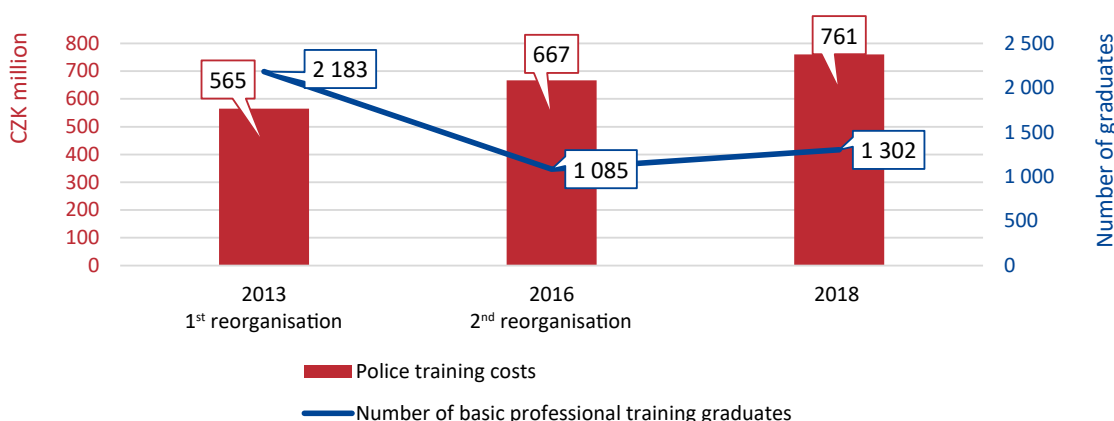
Following these reorganisations and the in response to the identified risks, the SAO performed audit No **18/30**, scrutinising the management of property and finances of selected police academies in Holešov and Prague<sup>62</sup> in the years 2012–2017 worth a total of **CZK 1.2 billion**.

**The SAO concluded that the reorganisation of police academies done by the MoI did not deliver the envisaged financial savings and did not make the police training system more efficient. In certain cases the MoI’s police academies broke the law when acquiring, inventorising and depreciating property.**

- Police training costs grew year-on-year from 2013 even though, after a marked decline, the number of basic professional training<sup>63</sup> graduates fell short of the numbers from 2013 and 2014. Police academies were not even a significant source of new police officers. Fewer than **2%**, i.e. **84** out of the total number of **5,160** candidates accepted from 2013 to 2017, graduated from the Holešov academy, for example. The MoI did not evaluate the impacts of the reorganisation in terms of the improvement in police training or the effectiveness of the spending on police training, partly because it did not know what the cost per student was.

*20% of the total number of police academy graduates were taken on by the Police of the CR in the 2013 to 2017 period.*

**Chart 32: Police training costs and number of basic professional training graduates**



Source: information from audit No **18/30**.

**The SAO found that the reorganisation of the MoI’s police academies did not deliver the planned cost savings or make the police training system more efficient.**

Based on the changes being introduced by the MoI in response to the SAO’s findings, the number of secondary-school-level professional training graduates in police academies may rise. The MoI envisages that 50% of the graduates of this professional training will join the Police of the CR. To this end the MoI adopted a number of measures that will be evaluated every year. These measures will now be implemented by the Police of the CR as well as by the MoI and police academies. Other measures involve monitoring and assessing costs at study and training facilities of the Police of the CR in terms of the 3E principles in all types of professional training for police officers.

<sup>62</sup> Higher Police Academy and Secondary Police Academy of the Ministry of the Interior in Holešov and Higher Police Academy and Secondary Police Academy of the Ministry of the Interior in Prague.

<sup>63</sup> Basic professional training is compulsory for all police officers as soon as they are recruited.

Crime prevention has been an integral part of government policy since 1993 and has developed at national and local level since then. Activities are also carried out by state administration and local government to prevent various types of crime, to tackle the security situation in at-risk localities and to deal with the victims and perpetrators of crime. The goals and starting points of crime prevention are currently defined in the *Strategy of Crime Prevention in the Czech Republic for the Years 2016 to 2020*. The MoI, Ministry of Justice (MoJ) and MoD spend around **CZK 75 million** per year on subsidy programmes for crime prevention.

*88% of the MoD's crime prevention programme went on leisure activities for department staff or their families, such as buying tickets to cultural and sporting events.<sup>64</sup>*

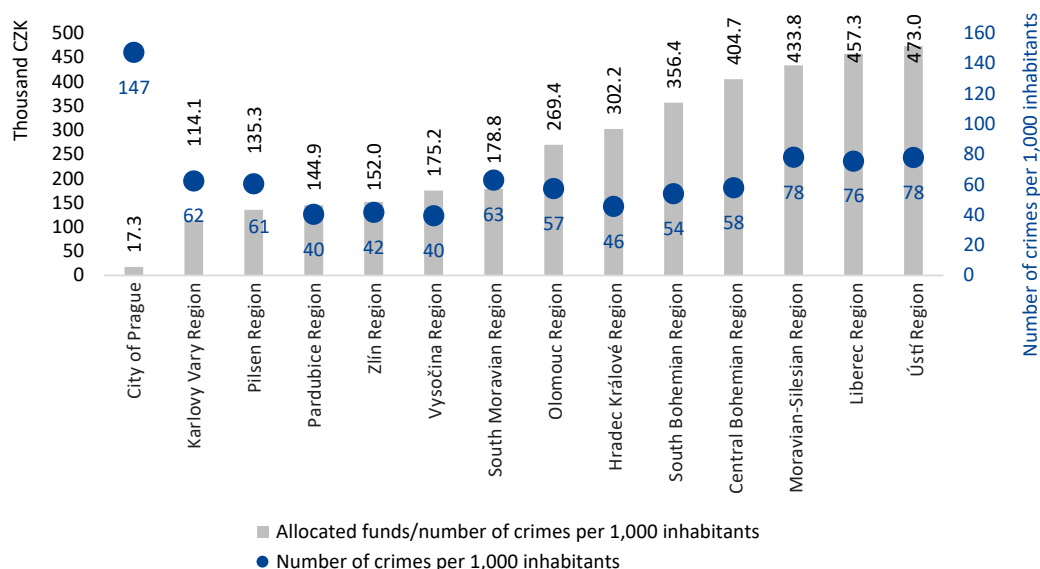
In audit No **18/20** the SAO scrutinised the provision and use of state finances provided by the MoI, MoJ and MoD on crime prevention in the years 2015–2018 and assessed whether the provided support contributed to achieving this field's objectives. In total, the ministries spent a total of **CZK 295 million** in support of 1,230 projects targeting e.g. the acquisition of camera systems, community work with children and young people, probation and resocialisation programmes or prevention of risk behaviour by soldiers.

**As part of its audit of crime prevention, the SAO identified systemic shortcomings: the administrators of subsidy programmes did not define specific, measurable goals for evaluating the benefits of the provided support or measurable indicators for assessing individual projects. The crime prevention system thus did not make it possible to quantify the benefit of the provided support. When evaluating the impacts of the provided support the SAO found that the MoI did not channel crime prevention funding into the regions with the high crime rates per population size.**

- In their decisions on subsidy provision the MoI and MoJ did not define uniform, measurable criteria and indicators of success. Support beneficiaries defined these themselves in their applications for subsidies, but often in a way that was not measurable. What is more, the MoI, which distributed more than **78%** of the crime prevention funding, did not target the support at the regions with the highest crime rates converted per thousand inhabitants or in line with the *regional risk rate index* which the MoI itself draws up. The SAO also found that in roughly half the probation programmes the MoJ did not achieve the planned number of clients; owing to the low interest from applicants in the supported priorities, it approved all the subsidy applications it received. The MoD, it was found, used crime prevention funding mainly to pay for soldiers' leisure activities, with just **12%** of crime prevention funding spent on diagnostic and educational activities.

**The failure to define uniform, measurable criteria and indicators of projects' success prevented evaluation of the provided support's benefits.**

<sup>64</sup> This procedure was consistent with Act No 221/1999 Coll., on professional soldiers.

**Chart 33: Finances allocated by the MoI compared to the number of crimes<sup>65</sup> per 1,000 inhabitants**

Source: information from audit No [18/20](#).

According to the crime statistics published by the Police of the CR, the total number of registered crimes has been falling over the years. That makes it desirable for funding to be concentrated where it is most necessary. As the results of the SAO's audit work showed, funding under the *Programme of Crime Prevention at Local Level* (the "CP Programme")<sup>66</sup> was not prioritised for the most high-risk regions of the CR in terms of crime rate per 1,000 inhabitants. The City of Prague, for example, has the highest crime rate per 1,000 inhabitants (**147**) and received the lowest amount of support (**CZK 17,300/crime per 1,000 inhabitants**). By contrast, the Ústí Region has the third highest number of crimes per 1,000 inhabitants (**78**) and received the most funding (**CZK 473,000/crime per 1,000 inhabitants**). This was partly caused by the lack of activity among applicants, bureaucracy and the possibility of claiming support from another funding source. A visualisation of the number of registered crimes and provided subsidies from the CP Programme was created to illustrate the information from the audit<sup>67</sup>.

### Recommendations

Based on its findings the SAO recommended that the MoI and MoD define measurable goals for crime prevention programmes to specify what it intends to achieve and, in cooperation with the MoJ, to define uniform measurable criteria and indicators of projects' success.

In response to the results of the SAO audit, the MoI would ensure that measurable goals and benefits are defined for the CP Programme, placing the emphasis on assessing projects' effectiveness and impacts. The MoD is incorporating measurement of the performed activities' effectiveness into the new concept for the prevention of risk behaviour by MoD department personnel for 2020–2027.

<sup>65</sup> Murders, white-collar crime and anti-constitutional military acts were not included in registered crime.

<sup>66</sup> The CP Programme organised by the MoI every year is designed to reduce crime, eliminate crime-risk phenomena, reduce opportunities for the commission of crimes, increases the risk of being caught for perpetrators and inform citizens about legal ways to protect themselves against crime.

<sup>67</sup> See <https://www.nku.cz/cz/kontrola/analyzy/analyza---prevence-kriminality-id10661/>.



#### 4.10 AGRICULTURE

**Despite the significant long-term growth in subsidies for animal production, the state is failing to achieve its strategic objectives, most notably to boost self-sufficiency in meat production. Even though the harm caused by drought runs into the billions of koruna, there are still no fundamental measures in place to combat drought.**

One of the principal goals of the state's agriculture policy is sustainable food provision and attaining a reasonable level of self-sufficiency in the production of basic commodities, taking into account ongoing climate change. One long-term problem in the CR's efforts to boost production and self-sufficiency is animal production, where constant improvements are not being achieved despite the adopted measures and the targeted financial support. In fact, the CR has gradually lost its self-sufficiency in the production of certain basic commodities, most notably pork, poultry and eggs. In this state policy the SAO has long focused on areas where the state of affairs is unsatisfactory and seeks to help promote long-term sustainable solutions.

In 2019 the SAO completed audits scrutinising the following areas:

- subsidies to support animal production (audit No **18/08**);
- implementation of measures to mitigate the negative impacts of drought and water shortages (audit No **18/27**).

In audit No **18/08** the SAO focused on support in the animal production sector, seeking to find out whether the large amount of funding provided had made this sector self-sufficient, whether it was systematically run and whether the support for meat and milk production were helping achieve the expected benefits and effects. From 2015 to 2017 the MoA provided a total of **CZK 21 billion** in support of animal production through seven national subsidy programmes, the *Rural Development Programme* (RDP) or direct payments, with **CZK 10 billion** of that coming from EU funds.

**The SAO identified the biggest shortcomings of the MoA, as the provider, in national subsidies. Here, the SAO drew attention to a series of significant deficiencies in the management and control system and in the conditions defined for providing national subsidies. These deficiencies had a negative impact on the efficiency and economy of spending. By contrast, the SAO rated the management system and conditions put in place for support out of European funds as functional and effective, bar some minor flaws.**

Other audit findings included the following:

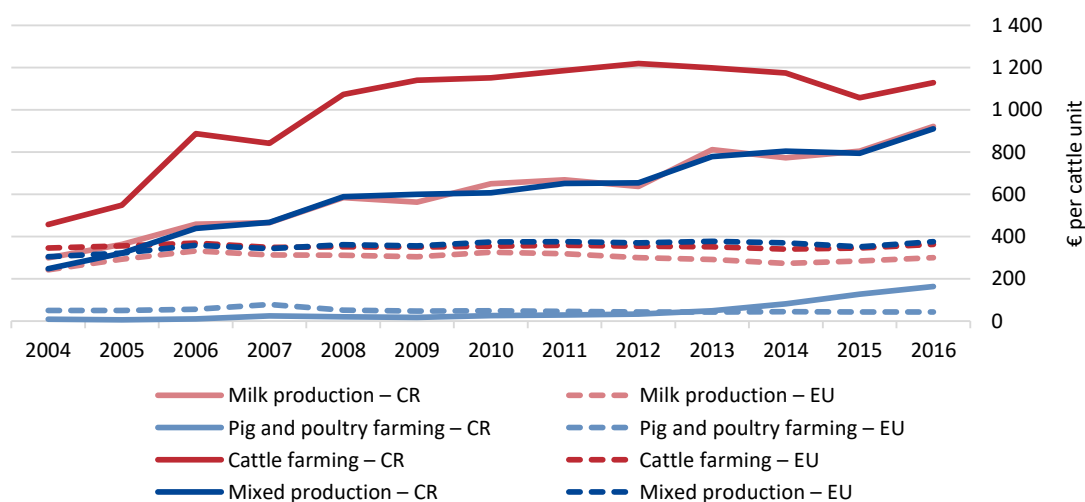
- Under a subsidy programme intended to help pig and poultry farmers fight infections the MoA paid out **CZK 5.3 billion** in reimbursements without making any assessment whether the expenditure was efficient and economical. At the same time, it put in place the kind of conditions that did not compel beneficiaries to behave economically. Consequently, the beneficiaries used the subsidies e.g. to pay overpriced fees for rent of cleaning and disinfecting machines or to pay for expert supervision for stable cleaning that they performed themselves. Under a subsidy programme intended to improve milk quality the MoA provided subsidies of **CZK 203 million** to cover dairies' ordinary operating costs instead of supporting improvements in milk quality. That was despite the fact that the dairies had long reported annual profits in the tens or hundreds of million koruna. That contravenes the European Union's instructions that the support must not subsidise the costs of activities that an enterprise would incur anyway. Insufficient checking of subsidy applications by the MoA and State Agricultural Intervention Fund (SAIF) meant that **CZK 23.7 million** was wrongly paid out under this subsidy programme.

*One example of wastefulness is the case of a subsidy beneficiary that received over **CZK 1 million** from 2015 to 2017 to cover the cost of renting a disinfecting machine, even though the cost of buying the machine would have been **117 times lower** at around **CZK 9,000**.*

**The MoA failed to achieve five out of eight strategic objectives in the animal production sector. The numbers of farm animals and the CR's self-sufficiency in meeting the demand for beef and pork fell between 2015 and 2017, even though subsidies for animal production have long been rising. Subsidies for pig and poultry farming, for example, increased by 300% between 2012 and 2016.**

The Czech Republic is one of the EU countries that significantly subsidise animal production. EU benchmarking data provide evidence of the high level of subsidies and low profitability of animal production in the CR. The SAO analysed data from the *Farm Accountancy Data Network* (FADN), which is the main source of information on the real economic situation of farms in EU Member States. Using these data, the SAO checked which animal production sectors receive subsidies and compared these subsidies with the EU average<sup>68</sup>; see Chart 34. A conversion to one cattle unit was used to make the output data comparable.

**Chart 34: Operational subsidies provided to farms by production sector, converted to one cattle unit**



Source: FADN PUBLIC DATABASE, [http://ec.europa.eu/agriculture/rica/database/database\\_en.cfm](http://ec.europa.eu/agriculture/rica/database/database_en.cfm).

A comparison of the amount of subsidies provided for animal production in the CR and other EU Member States shows that subsidies in the Czech Republic have long been far above the EU average in all production sectors, apart from pig and poultry farming. There has been an increase in subsidies since 2013 in this production sector. The analysis also showed that cattle breeding farms are the least profitable, with the ratio between total costs and total production reaching **165%** in 2016. The ratio for pig and poultry farming was roughly **104%**.

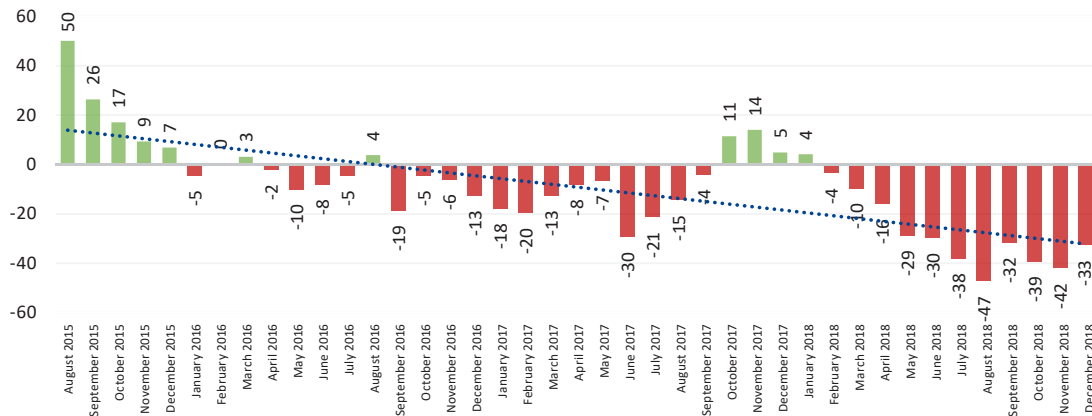
**The MoA and SAIF accepted the vast majority of the SAO's audit findings and adopted measures to eliminate the identified shortcomings. Given the major deficiencies in the national subsidies administration and control process, the MoA proposed transferring the administration of national subsidies to the SAIF, starting in 2020. Thanks to the SAO's audit, changes are gradually taking place, e.g. as regards making the national subsidy support conditions more precise so that the efficiency and economy of spending is checked or the introduction of on-the-spot checks by the SAIF, including adjustments to control procedures.**

One general problem in agriculture is large-scaling farming: large expanses of farmland are less resistant to climate change and have worse water retention properties. Farmland's constantly declining ability to retain water is reflected in the increasing intensity of drought, which brings

<sup>68</sup> Data annex to the audit report of audit No **18/08** and visualisation of the analysis results; see <https://www.nku.cz/scripts/detail.php?id=10222>.

considerable damages in agriculture and forestry. These problems then lead the responsible authorities to expand their subsidy measures and adopt extraordinary subsidy mechanisms (compensation and emergency support), which results in increased state budget expenditure. This state of affairs has been evident since 2015, as shown by Chart 35 illustrating the increasing intensity of drought in the CR<sup>69</sup>.

**Chart 35: Soil moisture deficit in the CR (in mm)**



**Source:** drawn up by the SAO using data from the InterSucho project.

**NB:** The soil moisture deficit is deviation of soil moisture (in mm) from the usual level of water in the soil ascertained between 1961 and 2010.

In audit No **18/27** targeting the implementation of measures for mitigating the negative impacts of drought and water shortages in the years 2013–2018 in the agriculture and environment departments<sup>70</sup>, the SAO drew attention to the fact that the fight against drought lacks fundamental measures to mitigate the negative impacts of drought and water shortages and that there was no legislation laying down rights and obligations for the various stakeholders in this area<sup>71</sup>. There was also no “anti-erosion decree” that is supposed to specify the rules for farming on land vulnerable to erosion. The fight against drought was also hindered by differences between the MoA and MoE and conflicting attitudes. That was demonstrated *inter alia* by the failure to agree on the draft anti-erosion decree and the implementation of conflicting subsidy programmes.

- In the 2016–2018 the MoA and MoE ran **37** subsidy programmes linked to tackling drought, involving a total amount of almost **CZK 28 billion**. In the vast majority of cases, however, these were long-standing programmes that these departments have operated and are not primarily designed to tackle drought. Most of the programmes lacked specific and measurable goals for mitigating the negative impacts of drought and water shortages, so their benefits for achieving objectives in this area cannot be known. Bar the “Rainwater” subsidy programme, there have been no new programmes whose primary focus is to tackle the negative impacts of drought and water shortages in line with the *Concept of Protection against the Consequences of Drought for the Territory of the Czech Republic* (the “Concept”).

*The MoA and MoE implemented contradictory measures in the fight against drought. The MoE, for example, distributed funding for building artificial beds of small watercourses, while the MoA supported the elimination of artificial beds on the grounds that they speed up water runoff from the landscape.*

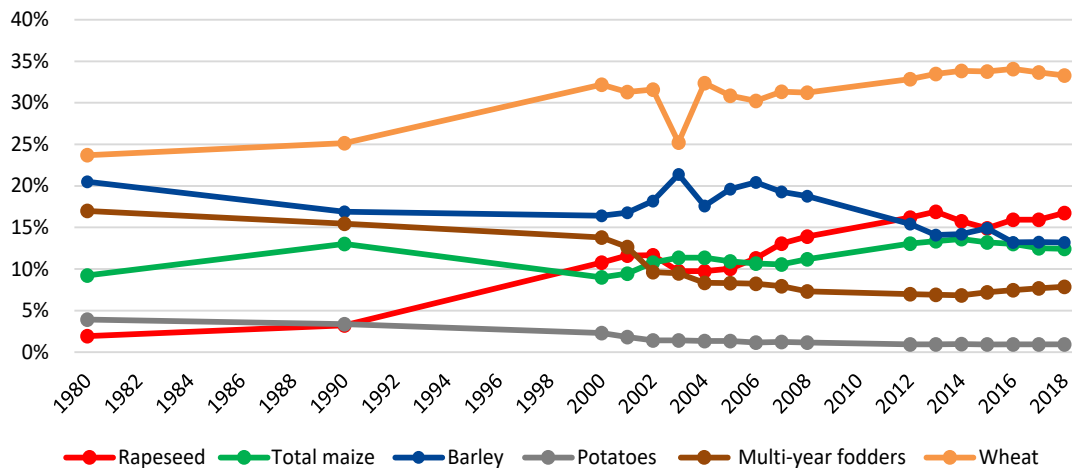
<sup>69</sup> A visualisation of selected parameters of drought and rainfall in the CR can be found at: <https://www.nku.cz/cz/nezarazene/vizualizace-vybranych-parametru-sucha-a-prehled-srazek-v-cr-id10704/>.

<sup>70</sup> The SAO focused on the links between the MoA’s and MoE’s national subsidy programmes, i.e. *Rural Development Programme for 2014–2020*, operational programme *Fisheries 2014–2020* (OP F) and operational programme *Environment 2014–2020* (OP Env).

<sup>71</sup> On 26 July 2019, during the audit, the government put before the Chamber of Deputies a draft amendment of the water act containing a new section entitled *Coping with Drought and Water Shortages*.

In the context of water retention measures, the approach to growing crops for energy purposes has not yet registered the change the government envisaged in the Concept. Using CSO data, the SAO examined developments in the use of sowing areas for certain technical crops. Chart 36 shows that rapeseed's share of total sowing area has increased sharply since 1990, growing almost fivefold to amount to **16.7%** in 2018. The share of maize has also increased in recent years. These two energy crops' combined share in 2018 was **29.2%** of the total sowing area, making energy crops a very large category of crops cultivated in the CR.

**Chart 36: Development of certain crops' share of total sowing area in the CR**



Source: drawn up by the SAO using CSO data.

The audit results also revealed that the damages caused by drought are constantly increasing. According to the MoA's estimates, the damages caused by drought were approx. **CZK 3 billion** in 2015 but as much as **CZK 24 billion** in 2018. In the years 2016–2018 the MoA disbursed almost **CZK 2.4 billion** in compensation for damages and **CZK 2.9 billion** on measures to combat drought. The increase in compensation indicates that the preventive measures are not sufficiently effective, however.

**In the SAO's opinion, effective and sustainable solutions are required to mitigate the impacts of drought and water shortages; this means eliminating differences of opinion and narrowly departmental attitudes. That will not be possible without effective cooperation between the MoE and MoA.**

The findings from the SAO's audits in agricultural policy have drawn attention to the fact that the provision of subsidies from European funds is managed and controlled better than the provision of national subsidies, where clear rules and procedures for subsidy administration and control do not exist. These shortcomings have kept being repeated for a long time, right across the various areas of agricultural policy. Given that the volume of national subsidies has been growing constantly since 2014, it is important that the distribution and checking of the provided national support is transparent, effective and efficient. This would prevent the payment of ineligible and wasteful expenditure.

## 4.11 ENVIRONMENT

### The state has long lacked a comprehensive strategy for the development and funding of national parks and a concept of multi-source funding for care for nature and landscape

The principal aim of state policy on the environment is to ensure a healthy and high-quality environment for citizens, to contribute significantly to the efficient use of all resources and to minimise the negative impacts of human activity on the environment. The methods for protecting the environment are set out in *State Environmental Policy of the Czech Republic 2012–2020* – nature and landscape conservation is one of the thematic areas in this policy. According to the *Report on the Environment of the Czech Republic for 2018* and MoF data, state budget expenditure on protection of the environment amounted to **CZK 40.9 billion** in 2018, with spending on biodiversity and landscape conservation accounting for **CZK 3.5 billion** of that sum, i.e. **8.6%**<sup>72</sup>.

The environment in the CR is negatively affected by farming methods. The *Report on the Environment of the Czech Republic for 2018* approved by the government states *inter alia* that there is a long-term decline in the area of farmland as it is converted into built-up land and other land. In connection with the use of the landscape, there has been a decline in the populations of specialised and less numerous animal and plant species, which are partly replaced by more common species that is leading to a unification of species populations and lack of biodiversity. The state of forest ecosystems in 2018 was mainly influenced by the large volume of overall and unplanned felling, which was the highest ever recorded. Most of this felling was done in connection with the spread of drought and, in particular, the bark beetle calamity.

In the field of nature and landscape conservation, in 2019 the SAO completed audit No **18/23** targeting the financial management of four national park administrations<sup>73</sup> and the fulfilment of the MoE's obligations as the central authority for nature conservation. As at 31 December 2018 the national park administrations managed assets worth **CZK 7.2 billion**. Their total costs for 2018 were approx. **CZK 1.1 billion**.

**The fundamental failing in the SAO's opinion is the fact that the MoE did not create a concept of multi-source funding for care for nature and the landscape by the deadline set by the government, i.e. by 2017. This concept is supposed to ensure sufficient funding for care for nature and the landscape, including national parks. The MoE also has not created a comprehensive strategy for national parks, which was supposed to be done in 2011. The SAO already drew attention to its absence in audit No 11/06<sup>74</sup>. The MoE's failure to fulfil these obligations is given greater importance by the risk that the funding of the national park administrations will place increased demands on the state budget because of the expected fall in revenues from timber sales. The SAO's other findings included:**

- Timber production and sales are not the priority of care for forests in national parks, but even so revenues from timber sales that were influenced by the growing volume of unplanned timber extraction in connection with abiotic and biotic agents<sup>75</sup> in national parks accounted for **44%** of total revenues in 2018. The contribution towards operations from all the national park administrations' founder made up just **32%** of total revenues. Given the expected fall in these revenues, the SAO warned of the risk that the national park administrations will in future place greater demands on the state budget for funding.

**Almost 432,000 m<sup>3</sup> of timber was extracted in forests in national parks in 2018, an increase of 61% over 2016.**

<sup>72</sup> Viz [https://www.mzp.cz/C1257458002F0DC7/cz/zpravy\\_o\\_stavu\\_zivotniho\\_prostredi\\_publikace/\\$FILE/OPZPUR-Zprava\\_ZP\\_CR\\_2018\\_20200207.pdf](https://www.mzp.cz/C1257458002F0DC7/cz/zpravy_o_stavu_zivotniho_prostredi_publikace/$FILE/OPZPUR-Zprava_ZP_CR_2018_20200207.pdf).

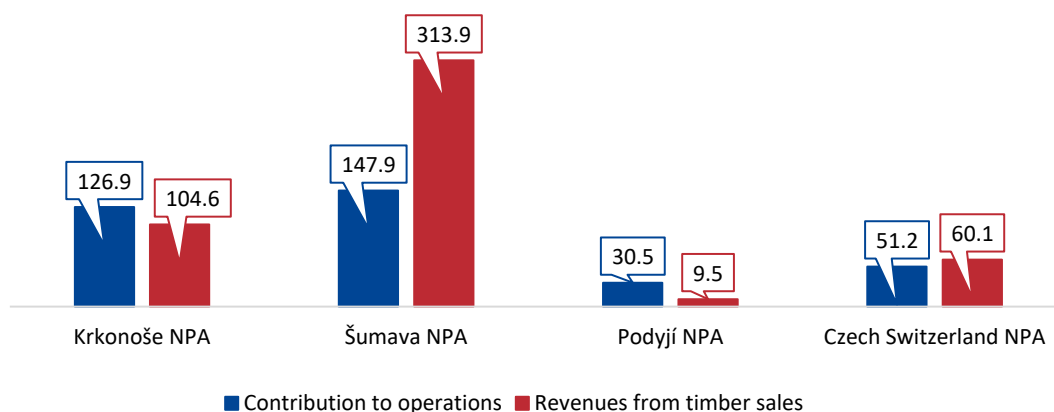
<sup>73</sup> Krkonoše, Šumava, Podyjí and Czech Switzerland national park administrations.

<sup>74</sup> Audit No 11/06 – *Funds and state property under the management of several national park administrations* (audit report published in volume 4/2011 of the *SAO Bulletin*).

<sup>75</sup> Abiotic agent – influence of non-living nature, e.g. wind, snow, frost; biotic agent – influence of living organisms, e.g. insects that are harmful to trees.

The following chart shows the founder's contribution to operations and revenues from timber sales for each national park administration in 2018, when all the national park administrations were supposed to have the same means of financing in view of their legal form.

**Chart 37: Contribution to operations and revenues from timber sales for 2018 (CZK million)**



**Source:** information from audit No **18/23**.

The amendment of the Act on Nature and Landscape Conservation<sup>76</sup> prepared by the MoE was supposed to set clear rules for the exercise of the state's right of first refusal to land in national parks. The SAO found that the lack of clarity in this legislation prevented the MoE from fulfilling its obligation to register the state's right of first refusal. Consequently, naturally valuable land in national parks was transferred without the state being able to exercise its right of first refusal and thus expand its territory of natural value and manage it more efficiently. According to MoE figures, over **711** parcels of land were transferred in three national parks. The shortcomings detected by the SAO in its audit of property and finances are described in Chapter II.5.1 of this annual report.

**From the long-term perspective it is fundamental that the MoE, as the central state authority for nature conservation, did not carry out measures of the basic strategic framework of nature and landscape conservation. In this context the SAO again recommended that the MoE draw up a concept of multi-source funding for nature and landscape care and a comprehensive strategy for the development of national parks.**

The SAO pays systematic attention to responses to its audit work in the field of protection of the environment. In 2018 the SAO completed audit No **18/04**<sup>77</sup> focusing on the implementation of measures to support improvements in air quality. The key finding from the SAO's analysis of data from the years 2015–2017 was that air quality did not improve in the CR. The levels of certain key pollutants continued to exceed the legally specified limits, and there was a risk that the delay in the implementation of measures adopted to improve air quality would mean that the imissions limits were not complied with in the target 2020 either. The biggest air polluters in the CR were transport, industry and households. The CR was thus one of the countries with the worst air quality in Europe. That was confirmed by a report by the Organisation for Economic Cooperation and Development (OECD) on the Czech Republic's environmental performance<sup>78</sup>, which states that the mortality rate from ambient air pollution in the CR is almost double the OECD average.

<sup>76</sup> Act No 114/1992 Coll., on nature and landscape protection.

<sup>77</sup> Audit No 18/04 – *Funds earmarked for support of air quality improvement* (audit report published in volume 1/2019 of the SAO Bulletin);

<sup>78</sup> OECD *Environmental Performance Reviews: Czech Republic 2018*, <https://www.oecd.org/env/czech-republic-2018-9789264300958-en.htm>.



The MoE announced a series of measures in response to the SAO's findings, which should lead to reduced air pollution. The MoE, for example:

- **drew up an update of the *National Emissions Reduction Programme* and started work to prepare new national commitments on reducing emissions for 2025 and 2030;**
- **adopted additional measures for complying with emissions limits in the context of the reports from the “Dialogue on Clean Air” and started work on the preparation of an update of the development concept for the State Emissions Monitoring Network;**
- **consulted with the European Commission on methodology for reporting reductions in exposure to fine dust particles and subsequently prepared an amendment of Decree No 330/2012 Coll.<sup>79</sup>**

The SAO will continue to monitor and evaluate the effectiveness of the measures adopted in this important area.

## 5. Institutional management

As well as covering significant spending policies, the SAO's audit and analysis work does not overlook the management of state institutions, which encompasses a wide spectrum of activities linked to their financial management, governance and control. An important focus of the SAO's audit work in this field is the management of state property and finances, which are used by state institutions for their operation and to carry out their tasks. The SAO also pays close attention to the management of funds provided to the CR from abroad, primarily from the EU budget.

This chapter summarises the SAO's findings in these areas. The SAO continues to see room for improvement in the degree to which the fundamental principles demanded of the relevant state authorities, including their responsibility for the economy, efficiency and effectiveness of their financial management, are respected.

### 5.1 Institutions' financial management

#### **Respecting the rules when acquiring, looking after and using property is crucial to more efficient financial management by state institutions.**

State institutions' financial management is one of the areas regularly scrutinised by the SAO. Recently, when the SAO has focused its audits primarily on the main expenditure areas of government policies, scrutinising state institutions' financial management has often been part of these audits. In 2019 the SAO completed five audits targeting the financial management of selected organisational units of the state and contributory organisations:

- Krkonoše National Park Administration, Šumava National Park Administration, Podyjí National Park Administration, Czech Switzerland National Park Administration (audit No **18/23**);
- selected police academies of the MoI (audit No **18/30**);
- Czech Mining Office (audit No **18/35**);
- National Library of the Czech Republic and Moravian Library in Brno (audit No **18/36**);
- General Directorate of Customs (audit No **19/02**).

**In the past year the SAO again systematically monitored state budget expenditure linked to the operation of state institutions and to the management of state property. The huge growth in overall expenditure was largely driven by current expenditure, which was dominated by mandatory and quasi-mandatory spending. However, some current expenditure that is part of state organisations' operating expenditure also grew. The marked increase in current**

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<sup>79</sup> Decree No 30/2012 Coll., on the method for assessing and evaluating pollution levels and the scope of informing the public about pollution levels and in smog situations.

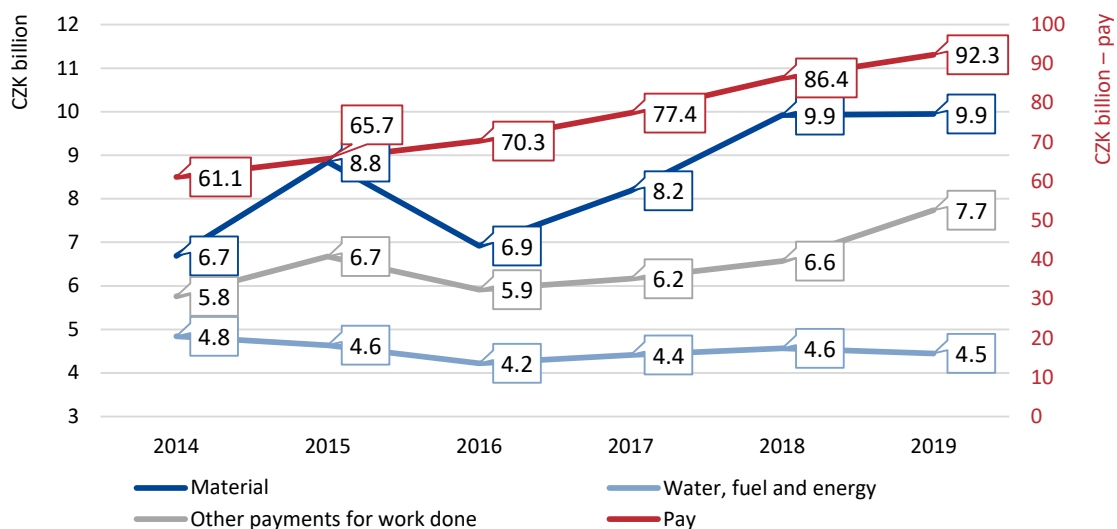


expenditure was confirmed in the *Report on the Implementation of the State Budget of the Czech Republic for the 1<sup>st</sup> Half of 2019* and by up-to-date data that are described in detail in Chapter II.2 of this annual report.

According to the state closing account for 2018, a total of **CZK 99.1 billion** was spent on pay and other payments for work done at organisational units of the state in 2018; of that sum, pay accounted for **CZK 91.9 billion**, a year-on-year rise of **CZK 9.5 billion**, i.e. **11.5%** more than in 2017. Other payments for work done totalled **CZK 7.2 billion**, a year-on-year increase of **CZK 498 million (7.4%)**. Non-investment purchases and related expenditure also increased year-on-year by **CZK 5,7 billion**; here, the biggest increase was registered in the “purchases of material” item, which grew by **CZK 1.7 billion**, or **18.8%**.

The developments in selected items of ministries’ non-investment expenditure in 2019 confirm the negative trend of rising current expenditure on certain items. As Chart 38 shows, in the context of selected items of this expenditure, there was a marked increase of **CZK 1.1 billion (16.7%)** in other payments for work done compared to 2018, in addition to the rising expenditure on pay. It is evident from the chart that pay has experienced the most dynamic growth of the various categories since 2014. Pay in 2019 amounted to **CZK 92.3 billion**, a year-on-year increase of **CZK 5.9 billion (6.8%)**. The slightly reduced expenditure on buying water, fuel and energy and the stagnation of spending on purchasing material are positive. This expenditure mainly covers the ministries’ own operation and includes items such as spending on petty long-term tangible assets etc.

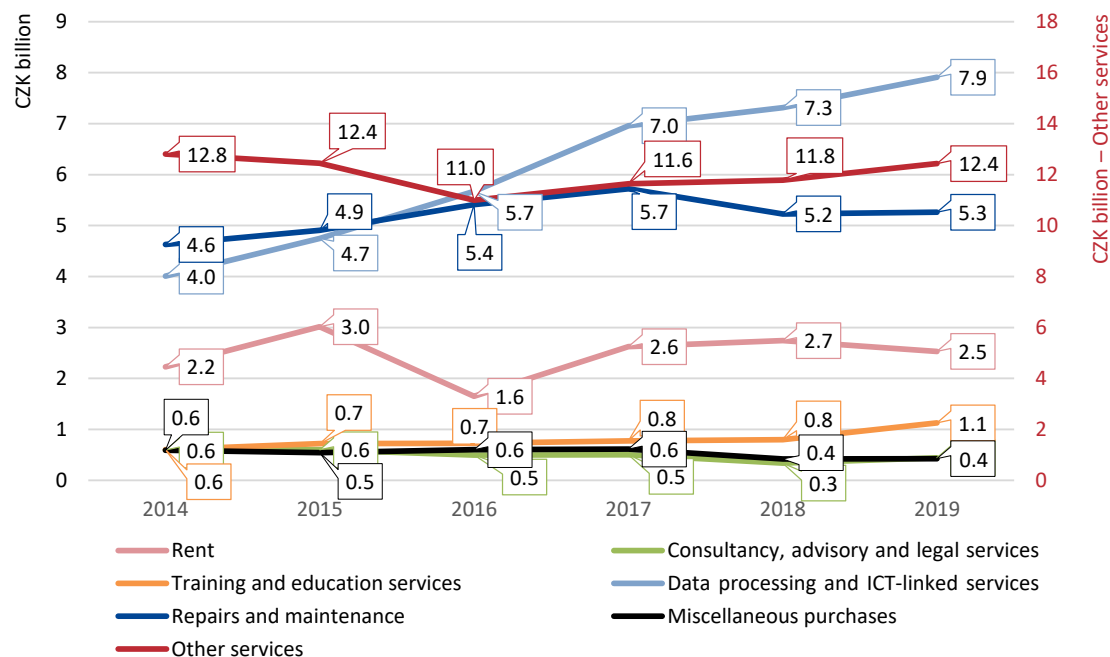
**Chart 38: Selected items of non-investment expenditure by ministries 2014–2019 (CZK billion)**



Source: STIIS.

Purchases of services are part of non-investment purchases. Chart 39 shows how ministries’ expenditure on purchasing selected categories of services has evolved. There has been significant and enduring yearly growth in spending on data processing and services linked to information and communication technologies. In 2019 there was marked growth in spending on training and education services, which had long remained almost unchanged by spiked by **37.5%** in 2019. Increased spending on purchases of other services has been evident since 2017 and in 2019 this expenditure registered **5.1%** year-on-year growth. After a significant year-on-year fall in 2018, there was slight growth in spending on consultation, advisory and legal services and on repairs and maintenance. Spending on other purchasing not classified elsewhere has long remained almost unchanged. The reduction in expenditure on rent, which had risen from 2017 following a sharp fall, can be regarded as positive.

**Chart 39: Ministries' expenditure on selected services in the years 2014–2019 (CZK billion)**



Source: STIIS.

The fact that expenditure on acquiring property and services continues to show room for more efficient use of money is again showed by the results of audits done in 2019. Some audited entities did not manage their operations economically, efficiently and effectively. Specifically, spending on ICT purchases and related services that were not necessary or were not used was uneconomical and inefficient. Complying with the procedures for awarding public contracts is another precondition of economical use of state finances.

- In audit No **18/07**, for example, the SAO found that the GDC inefficiently acquired IT linked to electronic sales records for over **CZK 70 million**, when the work could have been done using hardware already acquired. For example, the GDC did not make efficient use of two servers acquired for electronic sales records for **CZK 48 million** – just **1.4%** of these servers' computing power was used on average. The SAO judged this purchase to be uneconomical, because money would have been saved if the GDC had bought additional computing power for these servers gradually and as required. The SAO calculated that the price of purchased technology fell by almost **12%** year-on-year. What's more, the GDC paid a further **CZK 6.6 million** for post-warranty support for the servers. In most cases these were simple operations like disconnecting and reconnecting an optical cable, generating a key according to the instructions etc. The GDC thus paid the equivalent of over **CZK 824,000** for every such service operation. The GDC also bought **six XML accelerators for CZK 33 million**, but stress testing and actual workloads showed that just **two** would have sufficed. Based on these findings the SAO recommended that the GDC make full use of already acquired ICT infrastructure for information support for tax proceedings and, when acquiring new components, choose those that would be used to the optimal degree as soon as possible and would not require inordinately expensive maintenance.
- In audit No **18/14** the SAO pointed out that the MHIC spent **CZK 407,000** from its operating fund inefficiently and uneconomically for two analyses whose results it made almost no use of.
- In audit No **18/23** targeting financial management by national park administrations the SAO found that the Czech Switzerland National Park Administration did not comply with the rules laid down by the Act on Public Contracts<sup>80</sup>. Accordingly, the SAO notified the tax administrator

of a breach of budgetary discipline by the national park administration with a value amounting to **CZK 20 million**.

**There is also room for saving on costs and maximum revenues for the state in the area of real estate. The audit results pointed to deficiencies in the way certain state institutions care for the property entrusted to them. The most common failings concerned surplus assets, bad pricing of property for sale or rent and, last but not least, reducing the proceeds from lettings.**

- In audit No **18/23** the SAO found that in 2018 the Krkonoše National Park Administration rented out land for a ski lift and ski run at a price over **CZK 861,000** lower than was specified in the lease agreement, and did not charge any rent for two other parcels of land. This uneconomical behaviour reduced its proceeds from lettings by a total of **CZK 870,000** without justification. Based on this fact, the SAO filed a notification of suspicion of the crime of breach of trust.
- According to the results of audit No **18/36**, both the National Library and the Moravian Library in some cases failed to do anything about late payment for leased spaces and did not impose the agreed penalties on the tenants. In some cases the two libraries made state property available for use without a written agreement or did not hold tenders to find suitable prospective buyers for property and instead sold the property directly to selected entities, in some cases at a price inconsistent with the location and time. In 2017, for example, the Moravian Library spent almost **CZK 611,000** on fitting out two offices and installing an arrivals registration system even though it did not have a written agreement on the use of the spaces with the building owner.

**In 2019 the SAO also drew attention to state organisations' failure to fulfil their legal obligations, with a whole series of shortcomings in the reporting, record-keeping and accounting for assets and liabilities, including their inventorisation. In some cases the SAO declared that the organisations' accounting was not correct, complete and conclusive.**

- In audit No **18/36** the SAO found that both the National Library and Moravian Library entered purchases of library units as costs of consumption of material, so the acquirement of books, some of which cost **hundreds of thousands of koruna**, was not reflected in an increase in the value of the libraries' long-term assets. In several cases it was found that the National Library failed to put in place sufficient legal protection for library documents when lending them out to other entities for exhibitions. In response to the results of the audit the SAO therefore recommended that the MoC lay down the correct and uniform application of the legal regulations regarding the accounting for and reporting of library holdings.
- In audit No **19/02** targeting financial management by the GDC the SAO drew attention to the fact that in the years 2016–2018 the GDC did not perform proper inventorisation of long-term assets worth a total of **CZK 301 million**. For example, the inventory missed that the fact in that the GDC's accounts passenger cars worth almost **CZK 1.7 million** were registered as not put into operation, even though they had been used since 2014. In addition, the GDC's accounts reported the renovation of an entrance hallway at a price of more than **CZK 1 million** as a transport vehicle.

The SAO's financial audits also detected errors in the working of a number of audited entities' internal control systems as regards the completeness, conclusiveness and correctness of the information presented in financial statements and other financial reports. These findings were mainly linked to shortcomings and risks in the fields of financial control and inventorisation (see also the details in Chapter II.6.2 of this annual report).

**The performed audits make it possible to declare that, bar the failings presented above, serious shortcomings were not found in the audited institutions' fulfilment of their financial management obligations. Even so, the presented failings show that there is room for more efficient management of state resources.**

## 5.2 Management of funds provided to the CR from abroad

### The CR made progress in its drawdown of operational programme funding but still falls short of the EU average

In 2019 the SAO completed 10 audits which, to a greater or lesser degree, touched on the management of funds provided to the CR from abroad. In all these cases the funds provided to the CR came from the EU budget. These audits targeted the following areas:

- measures in the field of support for R&D for enterprise (audit No **18/06**) and support for competitiveness through ICT projects (audit No **18/29**), including funds spent on technical assistance (audit No **19/01**), co-funded mainly out of OP EIC;
- measures to increase employment and labour force adaptability (audit No **18/28**) and for social inclusion and the fight against poverty (audit No **18/33**), co-funded out of OP Em and OP PGP;
- support for agriculture and rural development (audit No **18/08**) and for mitigating the consequences of drought and water shortages (audit No **18/27**) provided out of the *Rural Development Programme for 2007–2013* and *Rural Development Programme for 2014–2020*, *OP Environment 2014–2020* (OP Env) and *OP Fisheries 2014–2020* (OP F);
- support for the development of waterways and support for waterborne transport (audit No **18/16**) and support for urban and regional public transport (audit No **18/24**) funded out of *OP Transport 2007–2013*, *OP Transport 2014–2020* (OP T) and IROP;
- measures in support of digital education in the Czech Republic (audit No **18/18**), funded out of OP EC, OP RDE and IROP.

The results of these audits, which were evaluated in line with their priority focus on various spending areas of government policies in the previous sections of this annual report, revealed a number of systemic shortcomings in drawdown from EU funds. The principal shortcomings in terms of their frequency were:

- **SMART goals were not set for programmes, so the benefits of various measures under programmes could not be evaluated or even identified.** This fact was compounded by the absence of monitoring indicators or by the application of unsuitable indicators for checking progress, e.g. in the area of support for research and development for innovation under OP EIC (audit No **18/06**).
- **Evaluation for project selection was not based on the principles of economy, efficiency and effectiveness and often took no account of evaluators' negative opinions,** e.g. in the case of support for ICT projects under OP EI and OP EIC (audit No **18/29**).

The SAO detected a whole series of procedural errors in project implementation, most notably:

- **ineligible expenditure**, i.e. expenditure that should not have been reimbursed, e.g. in the field of support for animal production in the implementation of projects for the modernisation of agricultural enterprises (audit No **18/08**);
- **design and functioning of management and control systems** – this mainly involved shortcomings in the administration of applications, monitoring of interim results, adoption of measures, performance of effective control and rules for determining and assessing eligibility of expenditure, with the resulting risk that beneficiaries were not all treated in the same way, e.g. in support for urban and regional public transport under IROP (audit No **18/24**);
- **public procurement** – contractors were selected in ways contravening the legal regulations, e.g. in support for urban and regional public transport under IROP (audit No **18/24**).

**Table 4: Representation of typical shortcomings in the given audits**

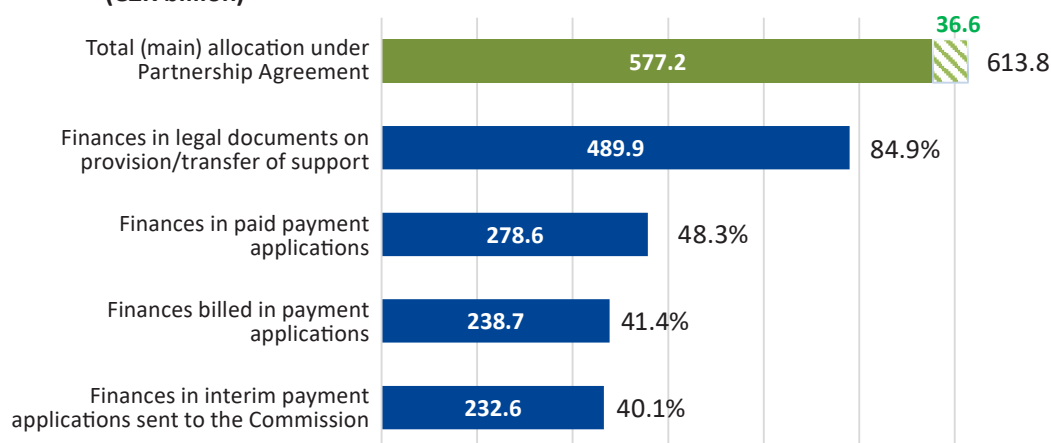
	18/06	18/08	18/16	18/24	18/27	18/28	18/29	18/33	19/01
Programme goals	●		●	●	●	●	●	●	●
Ineligible expenditure		●				●	●	●	●
MCS design				●			●	●	●
Project selection							●	●	●
Public procurement				●					

Source: SAO.

**The use of funds provided to the CR from ESI funds in 2019 was marked by accelerated improvement in the development of the various drawdown indicators.**

Chart 40 shows the state of drawdown. **85%** of the main allocation<sup>81</sup> was covered by legal documents on support provision; **48%** was paid out; and the amount involved in interim payment applications sent to the European Commission was **40%**. Compared to the figures reported as at the end of 2018, these figures represent an increase of **18** percentage points on average, i.e. practically a third to a half the original figure. In the monthly ESI funds implementation report for December 2019 the National Coordinating Body (the MoRD) also stated that there would be a switch to a new reporting system in 2020, which will specify proportional drawdown values relative to the total allocation, i.e. the main allocation including the allotted performance reserve. The reason for this is that the European Commission has already decided on the allotment of the performance reserve, which amounts to approx. **6%** of the allocation, for the priorities of individual programmes that hit their milestones.

**Chart 40: State of drawdown of ESI funds as a % of the main allocation as at 31 December 2019 (CZK billion)**



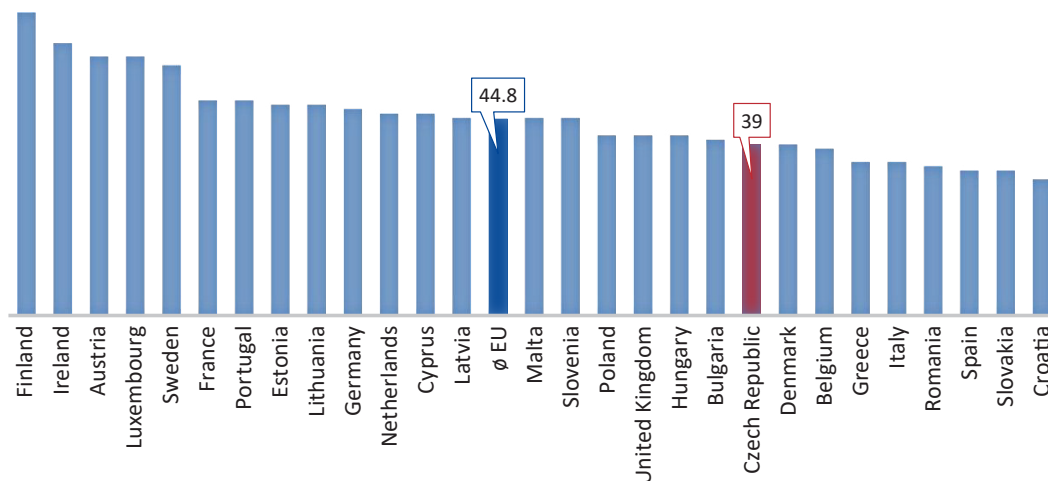
Source: *Monthly Information on the Implementation of ESI Funds in the Czech Republic in the 2014–2020 Programming Period, December 2019*, published by the MoRD, National Coordinating Body, under identification code 2019–12.

\* The green part of the column expresses the main allocation of the *Partnership Agreement for the 2014–2020 Programming Period*; the cross-hatched part indicates the performance reserve. The main allocation and the performance reserve combined make the total allocation.

<sup>81</sup> The main allocation is the value of the total allocation minus the 6% performance reserve.

According to European Commission figures<sup>82</sup>, the CR and Denmark are in joint **20<sup>th</sup>/21<sup>st</sup>** place in drawdown of the allocation from the perspective of funds paid out to beneficiaries (See Chart 41). In terms of the volume of finances covered by concluded legal documents, the CR is in **22<sup>nd</sup>** position among EU Member States.

**Chart 41: Proportion of finances in paid payment applications relative to the main allocation in EU Member States as at 31. 12. 2019 (%)**

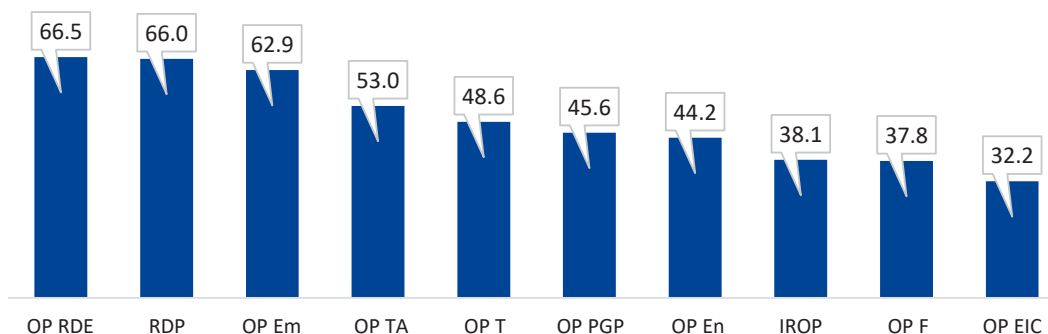


Source: <https://cohesiondata.ec.europa.eu/overview>.

In connection with the obligation to fulfil the n+3 rule<sup>83</sup>, i.e. to utilise the allocation for 2016 by 31 December 2019, the National Coordinating Body (the MoRD) published information in its quarterly report<sup>84</sup> stating that this condition had been fulfilled for all operating programmes. Consequently, the Czech Republic did not forfeit any ESI fund finances in that year.

Even though drawdown of the total allocation sped up in 2019, the SAO draws attention to the much slower utilisation of the allocated finances in operational programmes IROP, OP F and OP EIC. To illustrate the situation we present a comparison of the attained drawdown of allocated funding in the context of the various operational programmes (see Chart 42).

**Chart 42: Proportion of funds in paid payment applications relative to the main allocation for the various operational programmes of the CR as at 31 December 2019 (%)**



Source: MoRD – Monthly information on the implementation of the ESI funds in the Czech Republic in the 2014–2020 programming period, December 2019.

<sup>82</sup> The data were available on the Commission website (<https://cohesiondata.ec.europa.eu/overview>) on 28 February 2020. These data apply to the situation up to 31 December 2019, but are regularly updated as more information comes in.

<sup>83</sup> The n+3 rule is a tool for ensuring ESI funding is utilised. If the condition is not met, there is the risk that unutilised money will be forfeited, known as decommitment. Under the new rules, fulfilment of this condition is assessed at programme level.

<sup>84</sup> Quarterly Report on the Implementation of ESI Funds in the Czech Republic in the 2014–2020 Programming Period for the 4<sup>th</sup> Quarter of 2019, published on 21 February 2020.



**The lowest interim rate of drawdown out of all the CR's operational programmes in 2019 was seen in OP EIC, which is the third biggest programme in funding terms with an allocation of CZK 112 billion.**

This was pointed out by audit No 19/01 targeting support under technical assistance provided in priority axis 5 of OP EIC with an allocation of CZK 3.8 billion. In the audit the SAO drew attention to the fact that even though the goal of technical assistance is to make the management and control system of the operational programme more effective, OP EIC has the lowest drawdown rate of all operational programmes in the CR and the auditor found a high error rate in projects. In April 2018, after finding an error rate of 14%, the Commission suspended payment of expenditure for a year and a half.

- The SAO also found that the MoIT defined the allocation for technical assistance without showing that this amount was necessary for achieving its goals. At the same time, it overestimated the funding requirement for certain technical assistance projects (apart from projects concerning staff costs), as the drawdown level at the end of May 2019 was less than **30%** of the defined limits. In a publicity project, for example, the MoIT set an expenditure limit of **CZK 81 million**, but the total amount utilised for this project was just **CZK 7 million**, i.e. less than **9%** of the defined expenditure limit. The SAO's scrutiny of a sample of projects did not reveal significant shortcomings, with the exception of approx. **CZK 1.3 million** in ineligible expenditure of the MoIT.<sup>85</sup> More details were presented in Chapter II.4.2 of this annual report.

**The SAO concluded that the lowest drawdown rate, the high error rate in projects and the need to take corrective measures are indicative of room for improvement in management and control work by employees involved in the implementation of OP EIC. This management and control work was actually paid for out of technical assistance, as the vast majority of spending is earmarked for implementation structure staff costs.**

### ***Management of finances from abroad and assessment of applicants' eligibility***

One of the SAO's strategic objectives is to check that management and control systems comply with the European and national legislation and are functional – that applies to all programmes of the Common Agricultural Policy, Structural Policy, and other EU policies. Auditors examined all these key requirements in the recent period. One of the focuses of this work was “beneficiary eligibility”, mainly in terms of ownership structure, as regards both conflicts of interests and size of enterprise, which in many cases is key for determining various kinds and rates of support.

In the previous period the SAO dealt with the issue of conflicts of interests and the eligibility of applicants/beneficiaries with the understanding that the subsidies audited previously were not covered by the new Regulation (EU, Euratom) 2018/1046<sup>86</sup> of the European Parliament and of the Council effective from 2 August 2018, which deals with the issue of assessing eligibility for European subsidies in persons whose position might put them in a conflict of interests with the EU's financial interests. In its audits<sup>87</sup> the SAO flagged up a number of shortcomings:

- **Management and control systems did not perform verification procedures. The size of an enterprise, its ownership and assets structure (and the enterprise's economic health, absence of debts etc.) are often merely attested to by the applicant in a sworn statement.**

<sup>85</sup> A detailed visualisation of technical assistance project drawdown under OP EIC can be found here:

<https://www.nku.cz/cz/kontrola/analyzy/analyza---op-podnikani-a-inovace-pro-konkurenceschopnost--id10918/>.

<sup>86</sup> Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18. 6. 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014 and (EU) No 283/2014 and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012.

<sup>87</sup> E.g. audit No 16/01 – *EU and state budget funds earmarked for financing of interventions within the Operational Programme Enterprise and Innovation with the focus on the fulfilment of objectives* (audit report published in volume 1/2017 of the SAO Bulletin); audit No 17/26 – *Funds earmarked for the measures of cooperation within the Rural Development Programme CR 2014–2020* (audit report published in volume 3/2018 of the SAO Bulletin).



- **Programmes claiming to support small and medium-sized enterprises actually supported large enterprises generating significant profits, so there can be reasonable doubt about the motivational effect of such support and the support might have been unnecessary.**
- **Some decision-making processes were marred by an insufficient audit trail, meaning that they could not be rigorously verified after the fact and were not transparent.**

Additionally, the SAO drew attention to a series of equivalent problems linked to verifying beneficiaries' eligibility in audit No **18/08** targeting support for animal production in the years 2014–2020. The SAO's findings included the following:

- An applicant could be an enterprise coming under the category of large firms, but it had to prove that the support was essential for it and had a motivational effect. Applicants submitted insufficient documentation for the MoA to check this condition. That is despite the fact that the EU's conditions stipulate that support compatible with the internal market must not subsidise costs that an enterprise would incur in any case and must not be used to eliminate ordinary business risks. The SAO found that **11** of the **19** audited subsidy beneficiaries came under the large enterprise category. These large firms merely provided a formal description of a situation that would arise if they did not receive the support, without any documentary evidence. Even so, the MoA did not perform any effective control: it merely performed a formal assessment of the large enterprises' substantiation for the application for support and provided the subsidy. As the SAO demonstrated, all the beneficiaries were companies making annual profits in the tens or hundreds of million koruna, but they received subsidies for operating expenditure even so.

**The Act on Conflict of Interests<sup>88</sup> prohibits the provision of a subsidy according to a legal regulation governing the budgetary rules to a commercial enterprise in which a public functionary or person controlled by him owns a stake of at least 25%. Some public entities (e.g. the State Agricultural Intervention Fund or the Farming and Forestry Support and Guarantee Fund) connected to the state budget do not provide subsidies according to the Act on Budgetary Rules but according to other regulations, e.g. the Act on the SAIF<sup>89</sup> or the Act on Agriculture<sup>90</sup>. What is more, powers for implementing national subsidies have been transferred from the MoA to the SAIF from 1 January 2020<sup>91</sup>.**

## 6. SAO opinions on the state's financial reporting

### 6.1 Opinion on the draft state closing account

In 2019 the SAO gave its opinion on the accuracy of reported data in its *Opinion on the Draft State Closing Account of the CR for 2018*<sup>92</sup>, i.e. its opinion on the completeness and accuracy of the state budget revenues and expenditure reported in the draft SCA.

The main tool used by the SAO for checking the figures is financial audit, which systematically scrutinises the closing accounts of state budget chapters, data submitted for assessing the implementation of the state budget in terms of classification by budgetary composition and data in financial statements. In addition, the method of comparing SCA data with data in the relevant budget and accounting information systems was used and the internal consistency of components of the draft SCA and evaluation reports was checked.

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<sup>88</sup> Act No 159/2006 Coll., on conflict of interests.

<sup>89</sup> Act No 256/2000 Coll., on the State Agricultural Intervention Fund and amending certain other acts.

<sup>90</sup> Act No 252/1997 Coll., on agriculture.

<sup>91</sup> Based on Act No 52/1997 Sb., on agriculture, as amended, and the amendment of Act No 256/2000 Coll., on the State Agricultural Intervention Fund and amending certain other acts, as amended.

<sup>92</sup> These are data contained in books G and H of the draft SCA 2018.

The SAO expressed the opinion that the data<sup>93</sup> contained in the draft SCA for 2018 can be considered accurate<sup>94</sup>. However, the SAO has long drawn attention to the fact that closing accounts make minimal use of accrual-based data from financial statements. Given that accrual-based data provide very meaningful information about state budget chapters, the SAO considers it appropriate that the relevant legal regulations place greater emphasis on the use of these data in closing accounts.

## 6.2 Opinions on the state's financial reporting

The purpose of regularly scrutinising the state's financial reporting is to obtain and present information about its reliability and meaningfulness, which makes it possible to boost users' confidence in this information and also help ensure the information is accurate. Accounting units use the financial information to account for their finances, and the data are supposed to be used for monitoring and managing public finances. The utility of this information depends on its reliability, however. For that reason the SAO devotes part of its capacity to financial audit so that it can check the reliability of financial statements and data for assessing implementation of the budget and closing accounts.

In 2019 the SAO completed the following four financial audits, as part of which it issued an opinion on the financial reporting:

- Audit No **18/13** – *Closing account of the state budget chapter of the Ministry of Health for the year 2017, Ministry of Health financial statements for 2017 and data for 2017 submitted by the Ministry of Health for the assessment of implementation of the state budget for 2017;*
- Audit No **18/25** – *Financial statements of the Municipal Court in Prague for 2017;*
- Audit No **18/26** – *Closing account of the state budget chapter of the Ministry of Labour and Social Affairs for 2018, financial statements of the Ministry of Labour and Social Affairs for 2018 and data submitted by the Ministry of Labour and Social Affairs for assessment of the implementation of the state budget for 2018;*
- Audit No **19/03** – *Closing account of the Ministry of Culture state budget chapter for 2018, Ministry of Culture financial statements for 2018 and data submitted by the Ministry of Culture for assessment of the implementation of the state budget for 2018.*

The SAO also audited the legality of accounting (audit No **18/05** – *Accounting of the Ministry of Finance for 2017*), without issuing an opinion on financial statements.

### ***Audit results with regard to financial statements***

The focus of attention in financial audit is book-keeping and the preparation of financial statements. The SAO checked whether the audited entities kept their accounts in a manner ensuring that the financial statements they underpin give a true and fair view of the subject of the accounting.

<sup>93</sup> I.e. data contained in books G and H of the draft SCA 2018.

<sup>94</sup> For more on the opinion on the accuracy of SCA data: [www.nku.cz/cz/publikace-a-dokumenty/stanoviska-nku-ke-statnimu-rozpocetu/stanovisko-nku-k-navrhu-statniho-zaverecneho-uctu-cr-za-rok-2018-id10735/](http://www.nku.cz/cz/publikace-a-dokumenty/stanoviska-nku-ke-statnimu-rozpocetu/stanovisko-nku-k-navrhu-statniho-zaverecneho-uctu-cr-za-rok-2018-id10735/).

**Table 5: Results of financial audits with regard to financial statements (CZK billion)**

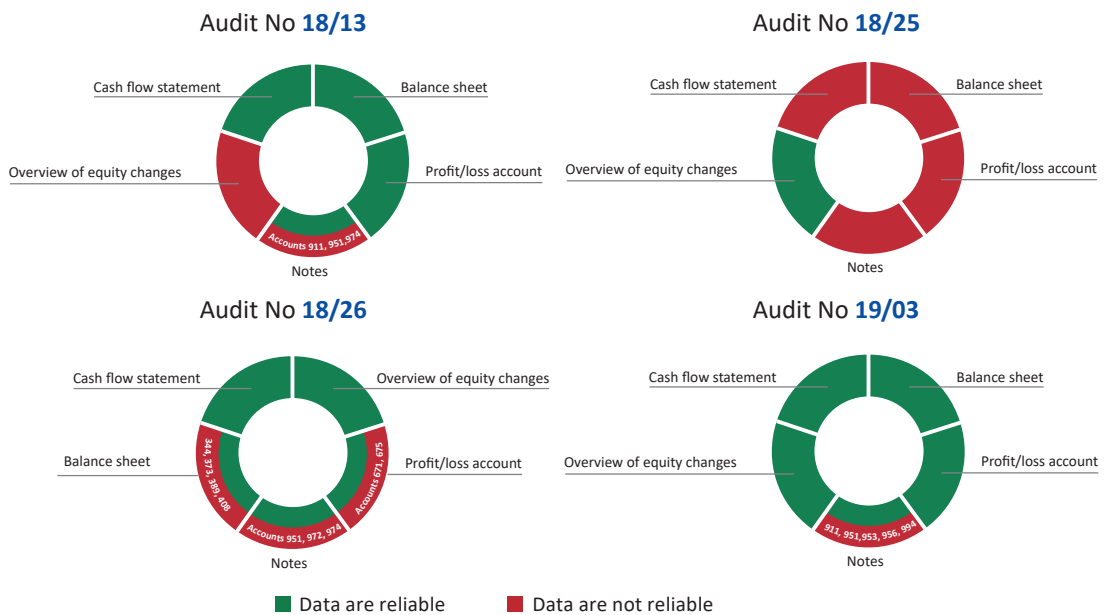
Audit No	Audited entity	Type of financial audit	Audited volume			Quantified inaccuracies	Most serious misstatements	Opinion on financial statements
			Net assets/liabilities	Costs	Revenues			
18/13	Ministry of Health	Ex post	3.073	4.545	0.34	3.203	<ul style="list-style-type: none"> <li>• Incorrect accounting for existence of contingent liabilities from contracts (CZK 1.98 billion).</li> <li>• Incorrect algorithm used to calculate certain items in the overview of equity changes (CZK 1.20 billion).</li> </ul>	Except for the detected material misstatements, the financial statements give a true and fair view of the subject of the accounting
18/25	Municipal Court in Prague	Ex post	1.051	1.041	0.24	1.049	<ul style="list-style-type: none"> <li>• Failure to enter contingent receivables and liabilities stemming from the court's decision-making activities (min. CZK 0.91 billion).</li> <li>• Costs for remuneration and reimbursement of expenditure linked to court proceedings assigned to the wrong accounting period (min. CZK 0.04 billion).</li> <li>• Incorrect accounting for refunded court fees (CZK 0.04 billion)</li> <li>• Incorrect reporting of certain items in the cash flow overview.</li> </ul>	The financial statements do not give a true and fair view of the subject of the accounting.
18/26	Ministry of Labour and Social Affairs	Interim	8.211	26.981	6.762	12.43	<ul style="list-style-type: none"> <li>• Advance payments provided in the form of subsidies not reported (CZK 7.19 billion).</li> <li>• A receivable due from the National Fund and related circumstances from 2016 not reported (CZK 2.88 billion).</li> <li>• Incorrect balance reported for long-term contingent receivables from transfer prefinancing (CZK 1.82 billion).</li> <li>• Incorrect reporting of long-term contingent liabilities from contracts on procurement of long-term assets and other contracts (CZK 0.27 billion).</li> </ul>	Except for the detected material misstatements, the financial statements give a true and fair view of the subject of the accounting

Audit No	Audited entity	Type of financial audit	Audited volume			Quantified inaccuracies	Most serious misstatements	Opinion on financial statements
			Net assets/liabilities	Costs	Revenues			
19/03	Ministry of Culture	Ex post	3.818	10.36	0.473	2.758	<ul style="list-style-type: none"> <li>Long-term contingent liabilities from issued decisions on provision of subsidies to founded contributory organisations in the context of national subsidy projects were not reported (min. CZK 1.88 billion).</li> <li>Incorrect accounting of the expected amount of finances to be provided to founded contributory organisations for expenditure prefinancing (min. CZK 0.75 billion).</li> <li>Contingent receivables from the prefinancing of transfers provided to the CR from the EU budget were not reported (min. CZK 0.060 billion).</li> </ul>	Except for the detected material misstatements, the financial statements give a true and fair view of the subject of the accounting
<b>Total</b>	<b>x</b>	<b>x</b>	<b>16.153</b>	<b>42.927</b>	<b>7.815</b>	<b>19.44</b>	<b>x</b>	<b>x</b>

Source: audit reports from the respective audits.

The audit results showed that in three cases the SAO issued a qualified opinion; in one case errors of such magnitude were found in respect of the overall reported circumstances that an adverse opinion was expressed.

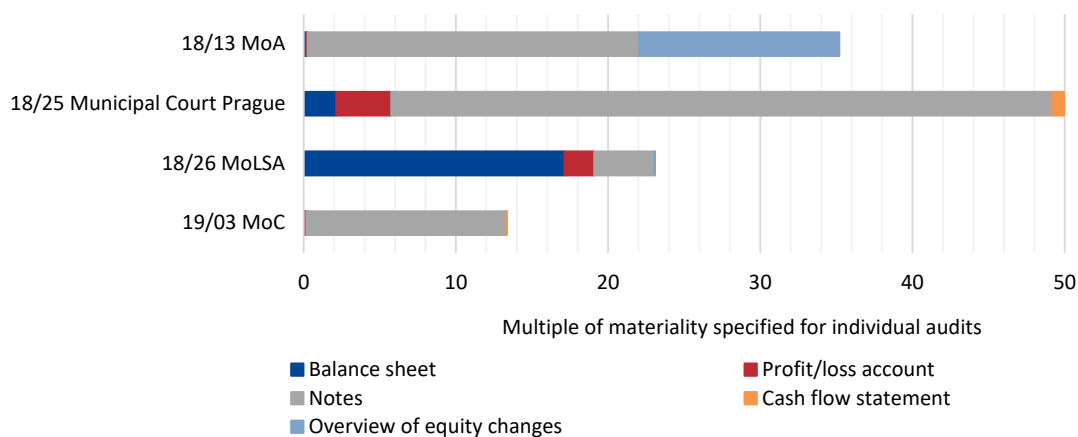
Chart 43: Opinions on financial statements expressed as part of audits



Source: information from audits.

From the perspective of the extent of errors, it was mainly the Notes to Financial Statements that were affected, where information on contingent receivables and liabilities from transfers and from contracts were often missing or incorrectly reported.

Chart 44: Inaccuracies in financial statements by type of statement



Source: information from audits.

### Audit of accounting by the Ministry of Finance

Audit No 18/05<sup>95</sup> included scrutiny of the Ministry of Finance's accounting in selected areas<sup>96</sup>.

The SAO's audit found shortcomings in accounting for the National Fund. Specifically, non-existent receivables of the National Fund from the European Commission amounting to at least CZK 600.5 million were reported (this risk concerned the entire claim of CZK 5.69 billion reported in the balance sheet) and there were shortcomings in the reporting of a liability towards prefinancing entities for unpaid aggregate applications amounting to CZK 5.62 billion, where it is not certain that they will be paid in full. In addition, an inaccuracy in the reporting of operating cash flows worth CZK 71.6 billion was detected.

The SAO also identified risks and contexts that were not inaccuracies, but in the light of these the SAO recommends that the MoF, as the central state authority for accounting<sup>97</sup>, modify the accounting regulations and draws attention to significant systemic impacts on accounting:

- the legislation inappropriately regulates the method for certain items in cash flow statements, which leads to a lack of uniformity in their compilation. The SAO recommended that the legislation establish a clearly defined method for adjusting reported cash flows to include non-monetary transactions<sup>98</sup>;
- comments cannot be presented on data on contingent assets and liabilities in the Notes to Financial Statements, even though this would enhance their informational value;
- a lack of clarity persists about how to account for and report ownership interests in the financial statements of organisational units of the state.

<sup>95</sup> Audit No 18/05 – Accounting of the Ministry of Finance for 2017.

<sup>96</sup> The audit scrutinised operations and balances of the National Fund, national transfers, cash flow statements, overview of equity changes and corrective measures impacting on the accounting identified in audit No 16/03 – Closing accounts of state budget chapters of the Ministry of Finance, State Debt, State Financial Assets Transactions and General Treasury Management for 2015 and data for 2015 submitted for assessment of the fulfilment of the state budget for 2015.

<sup>97</sup> According to Act No 2/1969 Coll., on the establishment of ministries and other central authorities of state administration of the Czech Republic.

<sup>98</sup> According to IPSAS 2 – Cash flow statement, transactions not linked to cash flow must be excluded from all the main cash flow statements (operating activities, investment activities and financing). The draft legislation would thus comply with good accounting practice and the purpose of cash flow statements.

**Results of audits with regard to financial reporting**

As part of its financial audit work, the SAO also scrutinises data for assessing the implementation of the state budget and the financial reports compiled on their basis.

**Table 6: Results of financial audits with regard to financial statements (CZK billion)**

Audit No	Audited entity	Type of financial audit	Audited volume		Quantified inaccuracies	Most serious errors	Reliability of financial statements
			Revenues	Expenditure			
18/13	Ministry of Health	Ex post	0.153	1.359	0.053	Misclassification of revenues and expenditure	Non-material errors relative to the overall reporting
18/25	Municipal Court in Prague	Ex post	x	x	x	x	x
18/26	Ministry of Labour and Social Affairs	Interim	1.803	10.899	0.326	Misclassification of expenditure	Non-material errors relative to the overall reporting
19/03	Ministry of Culture	Ex post	0.376	6.678	0.865	Misclassification of expenditure in the "Support for Care for National Cultural Treasure" programme in respect of sector-based classification	Material errors relative to the overall reporting
<b>Total</b>	<b>x</b>	<b>x</b>	<b>2.332</b>	<b>18.936</b>	<b>1.244</b>	<b>x</b>	<b>x</b>

Source: audit reports from the respective audits.

The table shows that material errors were found solely in audit No 19/03; the errors found by the other audits were not material relative to the overall reporting.

**Audit results with regard to closing accounts of state budget chapters**

Scrutiny of the covering reports accompanying the audited closing accounts revealed isolated shortcomings concerning a failure to present some of the information required by the legal regulations. Numerical sets and tables in annexes containing data from financial reporting were not found to contain material errors that would aggregate to have a significant impact on the closing accounts' informational value.

In its audits of closing accounts the SAO repeatedly declared that more use should be made of accrual-based data, including their use for drawing up closing accounts, and presented a comparison of certain accrual-based and cash-based data (audits Nos 18/13 and 19/03).

In the case of audit No **19/03** the greater informational value of accrual-based accounting information is demonstrated in the disbursement of financial compensation to registered churches and religious societies, known as church restitution. The total cost of the financial compensation amounting to **CZK 59 billion** and the related long-term liability (with a payment period of 30 years)<sup>99</sup> was reported in the MoC's financial statements as at 31 December 2012. Since 2013 the MoC has begun to pay, on the state's behalf, thirty consecutive annual instalments of financial compensation and simultaneously reduces the long-term liability. In the cash flow balance only information about the annual instalment is presented; information about the remaining long-term liability that accrual-based accounting generates is not shown in the cash flow balance.

In addition, the Notes to the Financial Statements also report contingent liabilities that represent potential claims on budgets of future periods<sup>100</sup>.

**In the SAO's opinion, the compulsory presentation of information stemming primarily from the differences between profit/loss reported on a cash and accrual basis would make the information presented in the closing accounts of state budget chapters more meaningful. The SAO regards this as a systemic shortcoming of Decree No 419/2001 Coll. and not the fault of the audited entities.**

In audit No **19/03** the SAO also paid attention to information from the MoC's closing account concerning an assessment of expenditure. Decree No 419/2001 Coll.<sup>101</sup> provides that the choice of the method, extent and form of assessment of the economy, efficiency and effectiveness of a budget chapter's expenditure corresponds to the chapter's specific conditions; for example, comments may be directed towards a comparison of cost per employee. In this context the SAO declared that in its closing account for 2018 the MoC published an indicator that was not meaningful and did not enable a relevant comparison between state budget chapter administrators.

The audit reports from audits Nos **18/05** and **18/13** were discussed by the Czech government in 2019. The statements of the audited entities in response to the audit reports revealed an endeavour to eliminate the identified shortcomings; the audited ministries reacted to all the shortcomings presented in the audit report.

### ***Results of audit work in the field of reporting with regard to the internal control system***

One aspect of financial audit is scrutiny of the internal control system. The SAO checks whether for tested operations the internal control system is designed in line with the relevant legislation<sup>102</sup> and tests selected control mechanisms in the accounting system. The effective and reliable functioning of the internal control system has a fundamental impact on the completeness, conclusiveness and correctness of information presented in financial statements and other reports. The SAO's financial audits found shortcomings and risks mainly in the fields of financial control (audits nos. **18/13, 18/25, 19/03**) and inventurisation (audits Nos **18/13, 18/25, 18/26, 19/03**).

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<sup>99</sup> This had a significant impact on government debt for 2012 as reported by the Czech Republic and presented to the European Commission via Eurostat in the European System of Accounts (ESA 2010). For details see: [https://www.czso.cz/csu/czso/notifikace\\_vladniho\\_deficitu\\_a\\_dluhu\\_20130422](https://www.czso.cz/csu/czso/notifikace_vladniho_deficitu_a_dluhu_20130422).

<sup>100</sup> In the case of contingent liabilities a potentially significant impact on future state budget expenditure can be expected, or cannot be ruled out; this follows from Act No 23/2017 Coll., on the rules of budgetary responsibility. Even so, these circumstances are not defined by Decree No 419/2001 Coll. as compulsory information in the cover report accompanying the closing account.

<sup>101</sup> Decree No 419/2001 Coll., on the scope, structure and times of data submitted for the drafting of the state closing account and on the scope and times of the compilation of draft closing accounts of state budget chapters, Annex 1, Part 1, Title 2, Section 1, Item 8.

<sup>102</sup> In particular, Section 3 of Act No 320/2001 Coll., on financial control in public administration and amending certain acts (Act on Financial Control).



### 6.3 Promoting good accounting and audit practice

The SAO is an expert and professional institution as well as an audit institution. It has long devoted attention to international standardisation for accounting and the possible use of internationally recognised good public sector reporting practice in the CR.

**Through its audit work, the SAO helps identify systemic risks and problems in the reporting of accounting and budget data, looks for possible solutions and promotes greater use of accrual-based accounting data on the state's financial situation and performance, e.g. when compiling closing accounts for budget chapters and the state closing account. This is a process whose goal is to ensure that data are usable and reliable for the purposes of rendering accounts and decision-making.**

- The SAO's financial audits draw attention to any shortcomings in the reliability of reported data and thus help the responsible authorities avoid them.
- In 2019 the SAO also made use of its findings from scrutiny of the reliability of reported accounting and budget information in the consultation process for draft legislative amendments (e.g. Decree No 323/2002 Coll., on the budgetary composition) and other materials (legislative intention for an act on accounting).

**The SAO is aware of the importance of some accounting information for national accounts, for example. In response to the *cooperation memorandum* signed with the Czech Statistical Office, the SAO regularly monitors the situation in state accounting for these purposes and others.**

To enable the SAO to plan and conduct audits better and more effectively for verifying the reliability of reported accounting and budgetary data, it created and maintains an automated tool for analysing accounting and financial reporting from the *Central System of Accounting Information of the State*. It also uses some data from open sources, e.g. from the real estate register, the register of contracts or the central records of state budget subsidies.

In 2019 the SAO received the draft of a legislative intention of an act on accounting for comments. In the SAO's opinion, it will be necessary to devote greater consideration and attention to additional aspects that are important for the further development of public sector accounting and for the informational value of information from financial statements, as the draft legislative intention did not mention these areas in detail. The main aspects are:

- the goal of public sector reporting – rendering accounts;
- specific features of the public sector;
- use of existing information from public sector accounting;
- ensuring that vague or insufficiently regulated areas in the accounting regulations are made precise.

## III. Financial Evaluation of Audit Work

### 1. Overall financial evaluation of audits

Summary financial evaluation of audit work is performed every year via the indicator of the total volume of audited finances, assets and liabilities. This information gives an insight into the total state budget revenues and expenditure, state assets and liabilities, funds provided to the CR from abroad and miscellaneous finances (e.g. state funds or funds collected by law) audited by the SAO in the previous period. This indicator is influenced by the number of audits, their focus and the length of the audited period.

The total value of audited finances and property was **CZK 63 billion**. This volume is based on audits whose audit report was approved in 2019. This amount does not include data from audits scrutinising the closing accounts of state budget chapters (see Chapter 6.2 of this annual report) or data on finances assessed solely at system level (e.g. when auditing strategic and conceptual materials and scrutinising programme finances as part of audit of their administrators or intermediary bodies). The value of finances audited at system level in audits completed in 2019 was **CZK 835 billion**.

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

Based on its findings, the SAO passes on to the appropriate tax administrators relevant information presented in audit protocols and related to tax administration. Specific audit findings concerning violations and shortcomings can be used by the appropriate tax administrators to initiate tax inspections to check whether a penalty is due for a breach of budgetary discipline.

In 2019 **23** notifications from **17** audits were sent to tax administrators in connection with tax administration and the audited entities' tax obligations. The total financial sum quantified in these notifications amounted to almost **CZK 617 million**. The notifications mainly concerned breaches of obligations identified at subsidy beneficiaries (13) and breaches of obligations by organisational units of the state and contributory organisations (10).

## IV. Assessment of Other Activities

### 1. Cooperation with the criminal justice authorities in 2019

In 2019 the SAO filed **six** notifications of suspicion of a crime under the terms of Section 8(1) of Act No 141/1961 Coll., on criminal proceedings (the Criminal Code) and based on **five** audits.

These notifications were based on suspicions of the crime of breach of trust; the crime of breach of trust by neglect; the crime of harming the European Union's financial interests; the crime of fraud; the crime of subsidy fraud; the crime of seeking to benefit from public procurement, public tenders and public auctions; and the crime of violation of the regulations on the rules of economic competition.

The criminal justice authorities requested the SAO's cooperation in **nine** cases in 2019. In response to these requests the SAO provided audit materials from **three** audits. In 2019 the SAO President released **five** employees from their confidentiality duty pursuant to Section 23 of the Act on the SAO and on the grounds of important public interest.

### 2. Opinions on draft legislation in 2019

In interministerial consultation under the Government Legislative Rules the SAO gave its opinion on draft legislation touching on its competences or concerning it as a state organisation. In 2019 the SAO received for assessment a total of **139** legislative drafts and other materials relating to legislation. The SAO issued specific comments on **44** drafts, mainly based on findings from its audit work.

The more significant draft legislation the SAO issued an opinion in 2019 included the government draft of an act amending Act No 218/2000 Coll., on the budgetary rules and amending certain related acts (the Budgetary Rules), as amended, and other related legislation submitted by the Ministry of Finance; the government draft of an act amending acts linked to eGovernment, submitted by the Ministry of the Interior; and the government draft of an act amending Act No 248/2000 Coll., on support for regional development, as amended, and other related acts submitted by the Ministry of Regional Development. The lawmakers largely accepted the SAO's comments on these drafts; having been discussed by the government, the said drafts were put before the Chamber of Deputies.

The SAO also issued comments on a government draft act on support for dependant children paid in advance and amending certain related acts, submitted by the Ministry of Labour and Social Affairs; a government draft of a new building act, submitted by the Ministry of Regional Development; and a government draft act amending Act No 412/2005 Coll., on the protection of classified information and security competence, as amended, submitted by the National Security Authority. These drafts were not placed on the agenda of government meetings before the end of 2019, however.

In its comments issued on the draft legislative intention of a new act on accountancy, which the Ministry of Finance sent out for external consultation in December 2019, the SAO drew attention to the insufficient attention paid to the issue of public sector accounting and to problems in this area that need to be addressed in a substantive and conceptual manner.

The government draft of an act amending Act No 166/1993 Coll., on the Supreme Audit Office, as amended, and certain related acts (parliamentary print 360), governing the extension of the SAO's powers to include audit of the management of public funds and funds provided from public budgets and audit of management of the property of self-governing territorial units (regions and municipalities with extended competence) and with the property of legal persons in which the state or a self-governing territorial unit has a majority stake in registered capital or relative to which

are in the position of controlling person, a parliamentary deputy’s draft act covering the same issue (parliamentary print 230), and a related draft constitutional act amending Constitutional Act No 1/1993 Coll., the Constitution of the Czech Republic, as amended (parliamentary print 229), amending Article 97 of the Constitution of the Czech Republic, were debated by the Chamber of Deputies in their first reading in February 2019. In the following months of the year these draft acts were discussed on committees of the Chamber of Deputies, where proposed changes were submitted.

In December 2019 the Chamber of Deputies, in the third reading, approved the draft amendment of the Act on the Supreme Audit Office (parliamentary print 236) submitted by a group of parliamentary deputies who were members of the Chamber of Deputies Control Committee. Its aim is to set specific rules on pay for employees of the Supreme Audit Office by establishing a pay code for the Supreme Audit Office, to be issued by the president of the Supreme Audit Office after approval by the Budgetary Committee of the Chamber of Deputies. The legislation seeks to eliminate unwarranted differences in pay between SAO employees and state employees.

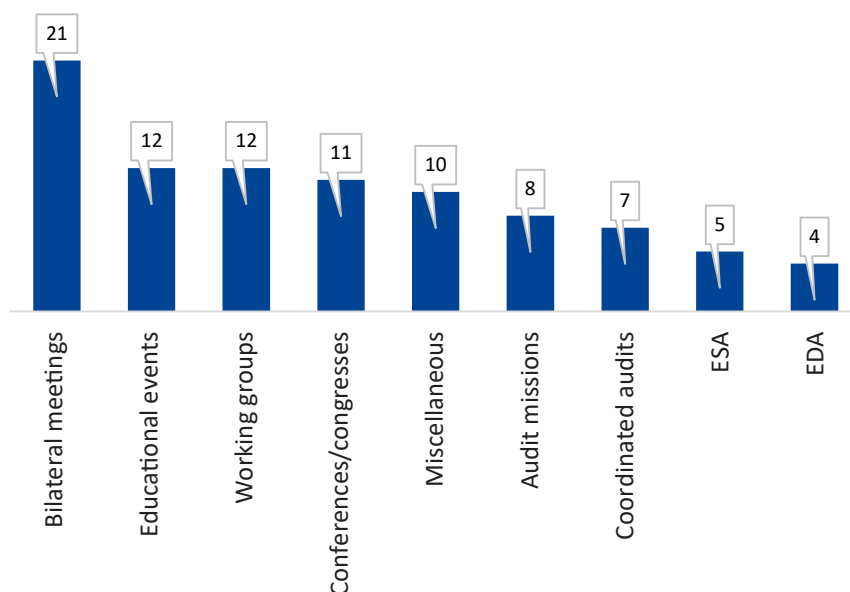
In December 2019 the Chamber of Deputies rejected a parliamentary deputies’ draft act relocating the offices of certain state authorities, including the envisaged relocation of the SAO from Prague to Olomouc.

### 3. International cooperation

In 2019 the SAO’s international cooperation centred on preparations for XI EUROSAI Congress, which the SAO is staging in 2020 from 31 May to 4 June 2020; on activities in the context of EUROSAI, INTOSAI, Contact Committee and ECA working groups; and on bilateral meetings and joint audits. SAO representatives thus attended a total of 90 international events, both abroad and in the Czech Republic.

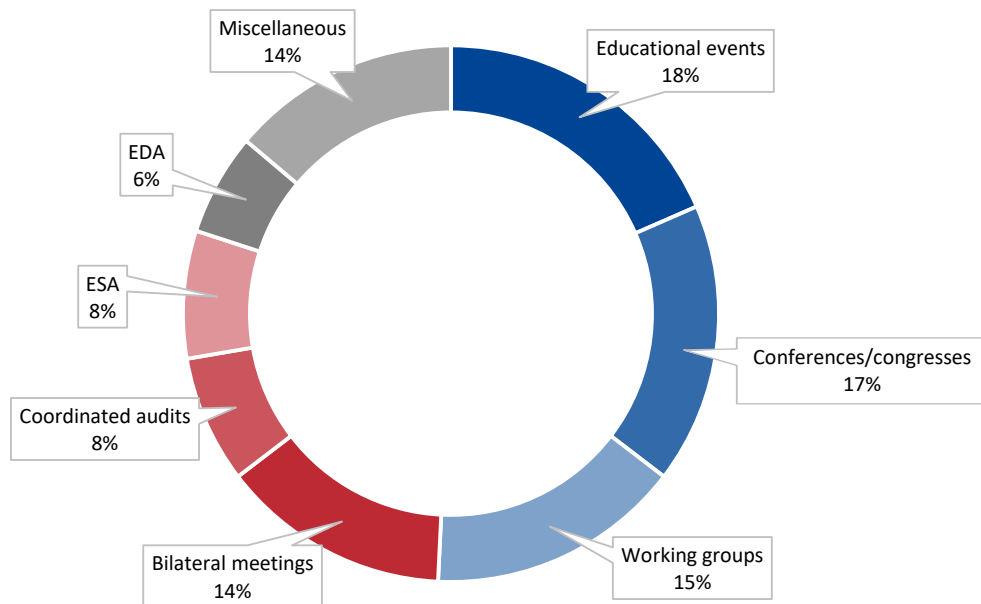
Innovations in audit, digital agendas, the role of supreme audit institutions (SAIs) in society and their preparedness for changes became important topics of debate at international level. The upcoming congress and presidency of EUROSAI are an opportunity for the SAO to shape these and other ideas thrown up by the discussions into specific steps and activities, thus raising its international prestige.

**Chart 45: International events in the CR and abroad**



SAO representatives took part in 65 events abroad. Most of these trips comprised educational events, participation in international conferences and congresses and at meetings of working groups. Bilateral meetings also accounted for many foreign trips. The SAO president, as first vice-president of EUROSAI and member of the EUROSAI Governing Board, accepted invitations to visit the SAIs of Germany, Poland, Spain, Slovakia, Croatia, Ukraine and Great Britain, among others. The SAO's involvement in the work of the European Space Agency (ESA) and European Defence Agency (EDA) were other factors in the SAO's foreign activities. Chart 46 presents an overview of SAO representatives' trips abroad in 2019.

**Chart 46: Foreign trips by SAO employees and representatives**



In January the SAO president accepted an invitation for a reciprocal visit from the president of the SAI of Germany, Mr Kay Scheller, and visited him at the institute's head office in Bonn. The presidents of the two SAIs discussed audit of sustainability goals, bilateral cooperation in parallel audits, progress on EUROSAI's strategic goal 1 and, last but not least, the preparations for XI EUROSAI Congress to be held in Prague in 2020. They also spoke about the transformation of the energy industry, cyber security, data analysis and the Contact Committee's next meeting.



*The SAO president visiting the president of the SAI of Germany*



In February the first meeting between representatives of the SAO and the SAI of Slovakia focusing on preparations for an international coordinated audit in the field of the administration of social security premiums and state employment policy took place in Bratislava. The preliminary studies drawn up by the two institutions in this field were presented during the meeting. Specific areas for the two institutions to focus their audit work on were also defined so that it would be possible to write a joint final report. One benefit of the joint final report should be a comparison of the different social security administration systems.

SAO member Daniel Reisiegel took part in a meeting of the European Defence Agency Audit Board in Brussels in March. The main item on the agenda was familiarising new auditors with the agency's organisational structure and work (circulation of documents, responsibilities when acquiring property etc.) and with the accounting and budgeting system. Members of the Audit Board elected an auditor from Cyprus as the chair and planned and distributed work for the period to come.

On 25 and 26 April 2019 SAO representatives took part in the 13<sup>th</sup> meeting of the *INTOSAI working group for the fight against corruption and money laundering (WGFACML)*. The aim of the meeting was to perform regular information exchange on current activities of this working group's members, assess the work done to date by its subgroups and define the future focus of the working group's activities. The SAO representatives acquired important materials they will utilise when preparing a workshop that will target the role of audit institutions in the fight against corruption and will take place as part of XI EUROSAI Congress.

On 25 to 28 June 2019 SAO representatives, headed by the SAO president, took part in meetings of V4+2 and the Contact Committee. At the V4+2 meeting there was a discussion on the specific features of legislation on and mandates of SAIs in V4+2 countries. Besides, the SAI representatives presented examples of conducted audits that had a specific and demonstrable impact. The Contact Committee centred on the digital agenda: challenges and opportunities for EU SAIs. The Contact Committee seminar was devoted to the EU's digital strategy and the challenges linked to audit of the EU's digital development. The SAO president hosted an *in camera* meeting reserved for the senior representatives of SAIs.

A significant international event in September was the participation of our delegation led by the SAO president at the XXIII INCOSAI in Moscow. The aim was to bolster cooperation at the international level, to promote the SAO's projects and spread information about XI EUROSAI Congress. During XXIII INCOSAI the discussion focused on the challenges of the present day and how auditors can face them. All the SAIs agreed that audit work should leverage modern artificial intelligence technologies, work with big data, scrutinise progress towards the UN's sustainable development goals (perform strategic planning and strategic audits) and strengthen the international sharing of experience.



*The SAO delegation with other delegates at XXIII INCOSAI in Moscow*

The SAO's four-year term in the European Space Agency review commission ended in autumn 2019. The SAO representative regularly attended meetings of the review commission and chaired the commission for one year.

Young representatives of the SAO had the opportunity to take part in the 4<sup>th</sup> young auditors' conference, known as the YES conference, in London in November. The conference's theme was "relevance". On the website ([yes2019.org.uk](http://yes2019.org.uk)) the organisers pointed out that SAIs must prove that their work has a positive impact on individuals, communities, society, businesses and governments they serve in order to stay relevant. The event was designed for EUROSAI auditors up to the age of 36 and gave them the opportunity to share information and experience. Another purpose was to present the BIEP<sup>103</sup> project and find out whether young auditors see any obstacles to the use of this form of cooperation.

In December the auditor general of the SAI of Great Britain invited the SAO president to a bilateral meeting in London. The two SAIs presented their strategies. The SAO also provided information on the BIEP project and the current situation in the EUROSAI Governing Board and the preparations for XI EUROSAI Congress in Prague. The SAO went on to highlight several cases of real impacts of its audits and informed about the social impact of the 2018 annual report. The UK SAI presented its data analysis (known as "rapid audits") which it introduced five years ago and which has led to good results, including influence on the government. It also gave examples of how it prepares and publishes audit reports and other products. At the meeting, the two institutions' representatives discussed the UK SAI's possible involvement in EUROSAI, which the SAO will lead for three years after XI EUROSAI Congress in Prague.



*The SAO president with a delegation visiting the auditor general of the UK SAI*

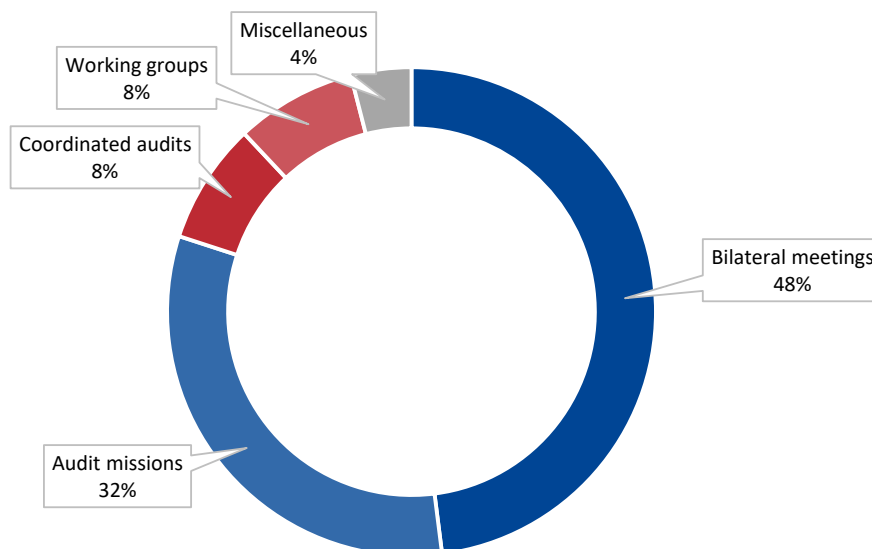
The SAO was also active in organising international events in the Czech Republic in 2019. Out of a total of 25 events, most of them took place under bilateral cooperation in connection with the approaching XI EUROSAI Congress in 2020. The president's invitations to meetings were accepted by the senior representatives of the SAIs of Finland, Latvia, Kosovo and Slovakia. In addition, an audit mission by the European Court of Auditors occupied a central position in international cooperation. Activities in the context of working groups were a frequent occurrence.

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**103** The *Benchmarking Information Exchange Project* was initiated by the SAO, which wants it to promote effective cooperation between SAIs. BIEP enables secure exchange of information and data between audit institutions, generates methodological materials applicable in audit work and makes it possible to identify good practice in various fields. BIEP also contributes to the use of benchmarking in SAI's audit work.



**Chart 47: International visits to the CR**



In January the auditor general of the SAI of Finland Mrs Tytti Yli-Viikari came to Prague at the invitation of the SAO president. The main topics of their meeting were the SAO’s plans in connection with the organisation of XI EUROSAI Congress, a meeting *in camera* in the context of the Contact Committee and “emerging issues”, a topic which the SAI of Finland is to devote one of the workshops at XI EUROSAI Congress.



*The auditor general of the SAI of Finland Mrs Tytti Yli-Viikari visiting the SAO*

In March the auditor general of the SAI of Latvia Mrs Elita Krūmina and her delegation paid a visit to the SAO. The two institutions exchanged information about the results of their work. Other important topics of discussion were communication, in particular communication with lawmakers and the public, and financial audit. The SAO also presented information about the preparations for XI EUROSAI Congress and progress made by the *EUROSAI working group on professional cooperation* (SG1), which the SAO leads jointly with Germany’s Bundesrechnungshof. The Latvian representatives gave the SAO president a detailed insight into the new communication framework created with a view to improving cooperation between EUROSAI members and the organisation’s overall image.

The auditor general of the SAI of Kosovo Mr Besnik Osmani came to Prague in April at the invitation of the SAO president. The visit was the outcome of cooperation between the two institutions that was established in October 2018 at the celebrations marking the 15<sup>th</sup> anniversary of the founding of the Kosovo SAI in Pristina. The main topics of discussion were the structure and organisation of the SAO, the legal framework, the SAO's powers, and its position in relation to other state entities. The SAO president also presented the results of audits done by the SAO over the past several years. The guests were informed about the work and results of the EUROSAI SG1 working group, which the SAO leads jointly with the SAI of Germany. In addition, the guests were familiarised with the BIEP project.



*Auditor general of Kosovo Mr Besnik Osmani on his visit to the SAO*

In April the SAO president invited ambassadors of EU countries, representatives of the Ministry of Foreign Affairs and the Representation of the European Commission in the CR to the traditional annual meeting at the SAO head office. The guests were informed about the preparations for XI EUROSAI Congress, the BIEP project and the report on the financial management of EU finances in the CR.



*Meeting of ambassadors of EU Member States and representatives of the MoFA at the SAO*

On 27 and 28 June 2019 the SAO head office hosted the annual meeting of Core Group 2 of the EU Contact Committee working group on value added tax. There, auditors discussed European and national measures to combat VAT evasion, new legislation on VAT, e-commerce and the design of the final VAT system. On behalf of the CR the meeting was attended by experts from the Ministry of Finance and General Directorate of Customs as well as SAO representatives. A representative of the European Commission was among the foreign speakers at the meeting.

In September, representatives of the SAI of Sweden headed by the auditor general, Mrs Helena Lindberg, honoured the SAO with their visit. The SAO president acquainted his guests with the results of the SAO's work, before the discussion turned to audit in the fields of healthcare, social housing, road tolls collection, agricultural subsidies and more. The ongoing automated translation project and BIEP were also presented to the guests, as well as the state of preparations for XI EUROSAI Congress and progress by the EUROSAI SG1 working group. Mrs Helena Lindberg informed the SAO president about new legislative rules that would have a fundamental impact on the working of the SAI of Sweden from April 2020 onwards. She mentioned the organisational changes her institution faced in the immediate future, before moving on to the subject of international cooperation and activities in the INTOSAI Capacity Building Committee (CBC), such as expert support for institutions in the AFROSAI-E region.



*Auditor general of Sweden Mrs Helena Lindberg on her visit to Prague*

On 9 and 10 October 2019, the 3rd meeting of the strategic goal 1 implementation team took place, led by the SAO. Held in Liberec, the 3<sup>rd</sup> meeting's goal was to discuss work and progress in the individual projects and working groups of EUROSAI. The participants had the opportunity to find out about new developments in EUROSAI and preparations for its XI Congress. Workshops prepared by the SAO and foreign SAIs will be an integral part of the congress. In Liberec, the representatives of the foreign SAIs had a unique opportunity to acquaint the assigned SAO representatives with their workshops and to discuss preparations in person. The meeting also featured a BIEP workshop and several brainstorming sessions. EUROSAI members who lead project groups for strategic goal 1 of the *EUROSAI Strategic Plan 2017–2023* and chairpersons of EUROSAI working groups were invited to the event. Representatives of the SAIs of Hungary and Great Britain attended the meeting for the first time.





*Participants in the 3<sup>rd</sup> meeting of the strategic goal 1 implementation team in Liberec*

## **4. The SAO's work in respect of the public**

### **4.1 Provision of information pursuant to act No 106/1999 coll., on free access to information**

In 2019 the SAO received sixteen written requests for information pursuant to Act No 106/1999 Coll., on free access to information, as amended (the Information Act). In response to seven requests the SAO provided the full information: e.g. information about awarded contracts, how certain agendas are handled and the results of audit work. The SAO shelved two requests according to Section 14(5)(c) of the Information Act, as the requested information did not concern the SAO's competence. In the case of one request the SAO provided part of the requested information and according to Section 2(4) of the Information Act rejected another part of the request demanding the performance of an audit. One applicant withdrew his application after being asked for more specific information. Four applicants requested information from the course of audits or an audit report from an audit that was not yet completed. In these cases the SAO did not provide the requested information and issued a decision rejecting the applications. Appeals were filed against two of the issued decisions rejecting applications; in both cases the SAO president rejected the appeals and affirmed the contested decisions. In response to one request for several hundred pieces of information from various areas of the SAO's work and for many documents to be sent, the SAO collated the required information and notified the applicant of the fee for the extraordinarily extensive information search and for copies made of the requested documents. The applicant filed a complaint against the SAO under the terms of Section 16a of the Information Act, disagreeing with the amount of the fee. The SAO president rejected the filed complaint and affirmed the amount of the fee. When the fee was not forthcoming within the statutory time limit, the SAO shelved this request in accordance with Section 17(5) of the Information Act.

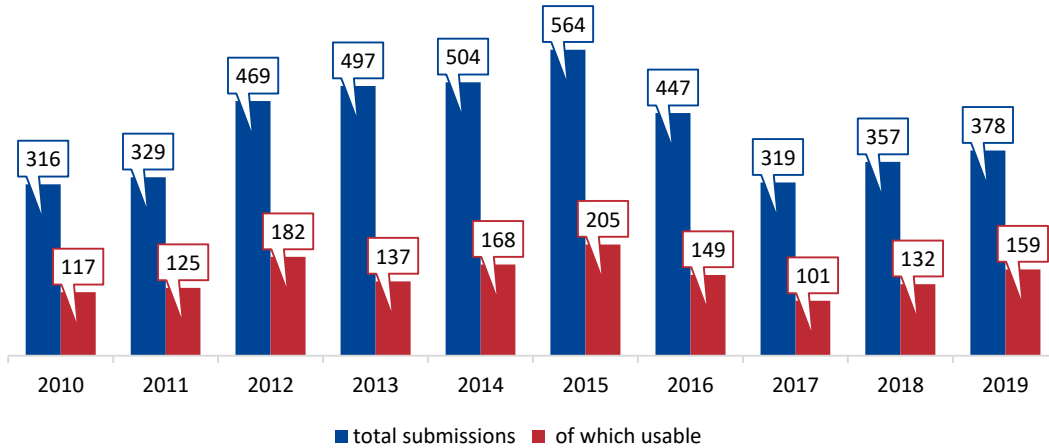
All the requests for information were dealt with within the statutory time limits.

### **4.2 Citizens' submissions**

In 2019 the SAO's communication department registered 378 written submissions (suggestions, complaints, requests, enquiries etc.) from citizens and legal persons. The content of all submissions is judged with regard to the SAO's powers and from the perspective of the possible use of information from the submissions in audit work. Submissions concerning areas covered by the SAO's competence are used as a supplementary information source in the context of related

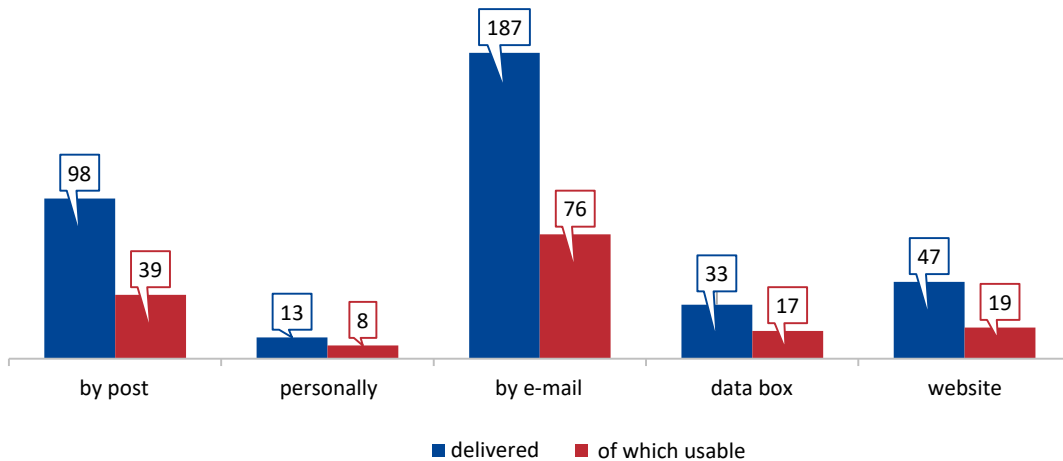
planned audits and when preparing ideas for audits in the coming period. In 2019 the SAO received 159 external suggestions that could be acted on, i.e. 42% of the total number of submissions received. In its audit work the SAO made use of information from submissions focusing mainly on management of state property and state budget finances and the use of subsidies provided from national sources and from European funds to state organisations, territorial self-governing units and other beneficiaries; 120 suggestions, i.e. three quarters of the actionable external suggestions, concerned these areas.

**Chart 48: Overview of the total number of submissions and their usability for audit work in the years 2010–2019**



Most communication – over 70% of submissions – from citizens to the SAO in 2019 was again in electronic form, primarily e-mail, data box and the Write to us application on the SAO website.

**Chart 49: Breakdown of submissions in 2019 by manner of delivery and their usability**



## 5. Management of finances allocated to the SAO budget chapter in 2019

### 5.1 Implementation of mandatory indicators of the SAO budget chapter

The approved budget of chapter 381 – *Supreme Audit Office* for 2019 was set by Act No 336/2018 Coll., on the state budget of the Czech Republic for 2019.

**Table 7: Overview of the implementation of defined mandatory indicators in 2019 (CZK thousand)**

	Approved budget	Budget after changes (BC)	Final budget (FB)	Actual	Implementation (BC) in %	Implementation (FB) in %
<b>Summary indicators</b>						
Total revenues	468	468	–	2,079.34	444.36	–
Total expenditure	894,508	894,508	919,141	587,108.47	65.63	63.88
<b>Specific indicators – revenues</b>						
Total non-tax revenues, capital revenues and received transfers	468	468	–	2,079.34	444.36	–
in which:						
Total revenues from the European Union budget without the Common Agricultural Policy	0	0	–	270.86	–	–
Total miscellaneous non-tax revenues, capital revenues and received transfers	468	468	–	1,808.47	386.48	–
<b>Specific indicators – expenditure</b>						
Expenditure on performance of the SAO's duties	894,508	894,508	919,141	587,108.47	65.63	63.88
<b>Cross-cutting indicators</b>						
Staff pay and other payments for work done	331,715	331,715	331,715	329,946.02	99.47	99.47
Obligatory insurance premiums paid by the employer	112,783	112,783	112,783	111,588.65	98.94	98.94
Transfer to the cultural and social needs fund	6,096	6,096	6,096	6,095.26	99.98	99.98
Salaries of employees only	304,816	304,816	304,816	304,751.80	99.98	99.98
Pay to employees in civil service positions pursuant to the Act on the Civil Service	–	–	–	–	–	–
Total expenditure registered in EDS/SMVS programme financing information system	359,850	359,850	371,220	66,428.62	18.46	17.89

### Revenues

Actual revenues in the SAO budget chapter were CZK 2,079,340, i.e. 444.36% of the approved budget revenues **CZK 467,940**.

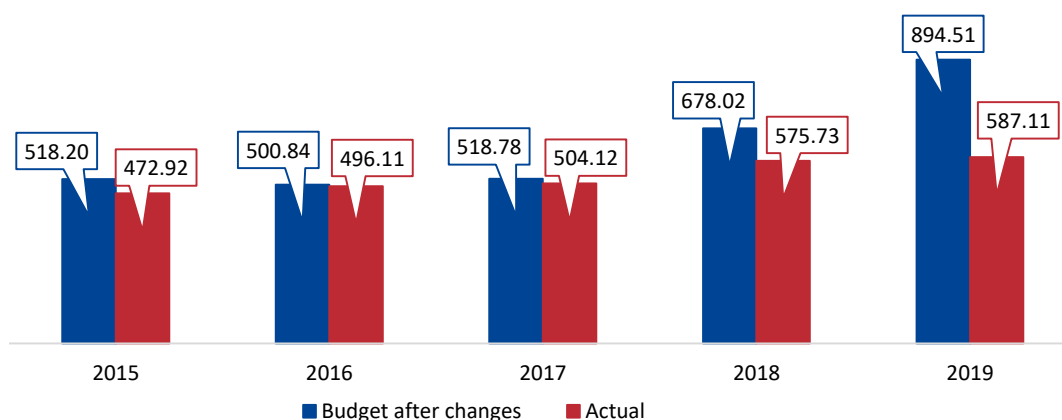
### Expenditure

The approved expenditure for the budget chapter was **CZK 894,507,530**; actual expenditure was CZK 587,108,470, i.e. 65.63% of the budgeted figure. Savings from previous years totalling CZK 24,633,000 were factored into the budget, making the total budgeted expenditure CZK 919,140,530 (63.88% of that sum was utilised). The biggest expenditure item (CZK 447,687,270, i.e. 76.25%) is pay and other payments for work done (including spending on SAO representatives' pay) and related expenditure, i.e. statutory insurance premiums and the contribution to the cultural and social needs fund.

**All the mandatory indicators of the SAO budget chapter were fulfilled in 2019.**

Chart 50 gives an overview of expenditure in budget chapter 381 – *Supreme Audit Office* from 2015 to 2019. The budget after changes increased by CZK 376,311,000 from 2015 to 2019. The increase in the budget is mainly driven by funds for pay, including mandatory contributions, which grew by CZK 95,920,210 from 2015, and in 2019 by funds of CZK 306,000,000 for the construction of a head office.

**Chart 50: Overview of expenditure in budget chapter 381 – *Supreme Audit Office* according to the approved budget after changes and implementation of the budget for the years 2015–2019**



### 5.2 Claims from unused expenditure

Claims from unused expenditure stood at CZK 416,510,410 as at year-end 2019. Claims amounting to CZK 24,633,000 were factored into the budget in 2019.

### 5.3 Expenditure on asset replacement programme financing

Budget funds were spent on the implementation of Programme 18101 – *Development and Renewal of the Material and Technical Resources of the Supreme Audit Office from 2011*, specifically on information and communication technologies, on asset replacement and construction of a head office. A total of CZK 66,428,620 was drawn down.



## 5.4 Information on external audits in the SAO

The audits listed below were performed in the Supreme Audit Office by external bodies in 2019:

- On 23 August 2019 the Universal Health Insurance Company (VZP) performed an inspection focusing on:
  - compliance with the notification duty;
  - specification of assessment bases and premium according to accounting records;
  - compliance with due dates for payment of premiums;
  - sending of copies of work accident records;
 for the 06/2016–07/2019 period.

**According to the inspection results, the SAO was not found to be in arrears with any payments to the health insurer or to have any other deficiencies in its records.**

- From 22 August 2019 to 27 August 2019 the Regional Labour Inspectorate for the City of Prague performed an inspection of compliance with obligations arising from the legal regulations on occupational safety.

**No shortcomings were found by the inspection.**

- On 15 October 2019 the Customs Office for the Central Bohemian Region performed an inspection to check compliance with the conditions of a “permit to buy liquefied petroleum gases put into free tax circulation pursuant to Sections 60 and 60a of Act No 353/2003 Coll., on excises, as amended”; the inspection’s reference number was 3878/-13/2015-510000-11.

**No shortcomings were found by the inspection.**

- On 22 October 2019 the Prague-based Regional Hygiene Authority of the Central Bohemian Region performed an inspection of compliance with the legal regulations, primarily Regulation (EC) No 852/2004 of the EP and of the Council on foodstuffs hygiene and Act No 258/2000 Coll., on the protection of public health and amending certain related acts, as amended, at the SAO’s Slapy nad Vltavou training centre. **A shortcoming was found, which was immediately eliminated during the inspection. Preventive measures were also adopted to eliminate equivalent risks.**
- On 29 October 2019 the Bulovka Hospital Preventive Care Centre performed an inspection of SAO employees’ working conditions and concluded that the **working environment for SAO employees at the office at Na Šibeníku 1179/5, 779 00 Olomouc were satisfactory. Additional artificial ventilation could improve air quality in the office premises.**
- The DIRECTORATE-GENERAL FOR COMMUNICATIONS NETWORKS, CONTENT AND TECHNOLOGY of the European Commission performed a review of project 825460-ELITR<sup>104</sup>, concluding that the **execution of the project is satisfactory and the technical aspect can be rated positively.**

## 5.5 Mandatory audit

The annual financial statements of the SAO were audited by an auditor within the meaning of Section 33(3) of Act No 166/1993 Coll., on the Supreme Audit Office, as amended. According to the auditor’s statement, *“the financial statements present a true and fair view of the Supreme Audit Office’s assets and liabilities as at 31 December 2019 and its expenses and revenues and profit/loss for the period from 1 January 2019 to 31 December 2019 in accordance with the Czech accounting regulations.”*

<sup>104</sup> According to Article 22 of HORIZON 2020.

## 6. Internal audit

The fundamental legal and regulatory norms governing the work of the internal audit department in 2019 were Act No 320/2001 Coll., on financial control in public administration and amending certain acts (Act on Financial Control), as amended, Decree No 416/2004 Coll., which implements the Act on Financial Control, and the *International Professional Practices Framework* of the Institute of Internal Auditors.

The internal audit department is divided into management and executive structures, is functionally independent and reports directly to the SAO president. The average annual converted number of employees carrying out internal audit in 2019 was 4.86.

The *Strategy of the Internal Audit Department for the Years 2019–2021* forms the basis of the internal audit department’s work in 2019, which was approved by the president of the Supreme Audit Office on 5 December 2018. The main materials underpinning the audit plan were a summary analysis of the Supreme Audit Office’s risks, including risks identified by internal audit, and the audit universe<sup>105</sup>. The annual plan was also based on the medium-term internal audit plan for 2019 to 2021, the results of audits done at the SAO by external bodies, the results of previously conducted internal audits, the fulfilment of obligations stemming from the Act on Financial Control and the Act on Cyber Security and the internal audit department’s capacity.

Based on the approved audit plan for 2019, the Internal Audit Department conducted four audits and two consultations.

**Table 8: Number of jobs done in line with the internal audit plan for 2019**

Number of completed internal audits included in the annual plan	Number of completed consultations included in the annual plan	Number of completed internal audits and consultations not included in the annual plan
4	2	0

Source: reports on findings.

When compiling the programmes of individual audits and selecting a sample of operations for audit, the main targets were:

- the impact of the functioning of the SAO and performance of tasks;
- the design of management and control mechanisms in the SAO’s operations and financial activities;
- assessment of activities’ standard of compliance with the legislation and internal regulations;
- state of implementation of measures adopted in response to shortcomings identified in previous internal audits, consultations and external audits done at the SAO;
- specification of the criteria of economy, efficiency and effectiveness with regard to the implementation of the approved SAO budget;

and possible risks linked to the audited areas and their potential impacts.

The internal audits were mainly intended to scrutinise:

- the continuity of the activities of selected SAO departments;
- record-keeping and reporting of the correct amounts of receivables, their timely application, classification and depreciation;
- the working and effectiveness of the internal control system;
- compliance with the relevant provisions of Act No 181/2014 Coll., on cyber security and amending certain acts (Act on Cyber Security), as amended.

<sup>105</sup> In line with the implementation of the international standard for the professional practice of internal audit “2010 – Planning” and its “Recommendation for Practice 2010 – 1”, the audit universe is a list of all possible internal audits that could be performed at the SAO.

The consultations included in the annual plan checked the risk management process at the SAO and the SAO's work linked to the administration and reporting of agendas pursuant to Act No 111/2009 Coll., on the basic registers, as amended.

The results of audits and consultations completed in 2019 were discussed with management staff of the audited units. Their findings delivered value added in suggestions for draft amendments to certain internal regulations or methodologies in the interest of bringing them into line with the legislation, in listing areas of risk, detecting errors or confirming that the selected audited processes are in place and are sufficiently functional. Shortcomings were identified mainly in the fields of cyber security.

From the perspective of the performed internal audits and consultations, there is no indication that the SAO financial statements did not give a true and fair view of the facts underpinning the accounts. In 2019 the internal audit department found no shortcomings with a significant risk for the management of public funds.

Relevant and specific measures with time limits for their implementation were adopted for all the shortcomings identified during the internal audit work and consultations. Audited persons are obliged to inform the SAO president of the state of implementation of measures. The internal audit department regularly assesses the implementation of adopted measures and monitors them until they are fully executed. The approved measures with a deadline of 31 December 2019 were executed by the responsible employees.

The performed internal audits produced no serious findings within the meaning of Section 22(6) of the Act on Financial Control. No possibility of corruption or fraud was detected.

In addition, throughout 2019 the internal audit department:

1. performed consultation work and methodological work, primarily in the following areas:
  - internal regulations;
  - supplier/customer relations;
  - implementation of measures;
  - management of property;
  - travel expenses;
  - personal data protection;
2. organised:
  - training for internal auditors;
  - a conference entitled *External and Internal Audit Quality Management*, held at the SAO head office on 26 September 2019. The contributions to the conference mainly focused on quality management and tools to achieve it. This was the sixth year of the regular meetings of representatives of the principal control and audit institutions of the Czech Republic, which the SAO organises with the help of the Ministry of Finance, the Chamber of Auditors of the CR, the Czech Institute of Internal Auditors and the Public Audit Oversight Board;
3. cooperated:
  - with the external audit firm of BDO Audit, s.r.o., for the purpose of audit of accounting and financial reports and the annual financial statements of the SAO for 2019 as necessary for verifying the effectiveness of the internal audit system.
4. analysed the results of external audits at the SAO.

On 4 February 2020 President of the Supreme Audit Office Mr Miloslav Kala received and signed the *Annual Report on the Results of Internal Audit for 2019*. This report contains the following declaration on internal audit: *“Based on the results of the audits, we declare that in the selected areas of the internal operational and financial management of the SAO in the audited period the design of management and control mechanisms was proportionate and effective, with the exception of shortcomings of intermediate and low significance. These identified shortcomings, however,*

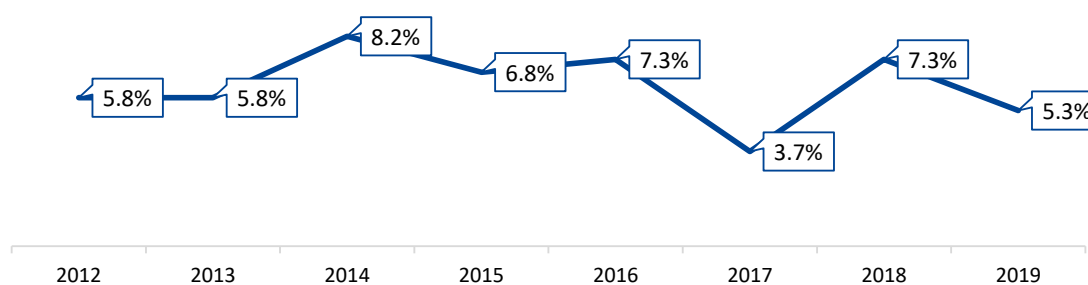
were not of such a nature as to materially affect the performance of financial management and the functionality of the internal audit system. They are an aid to improving the quality of the control environment, updating and complying with internal regulations, employee training, and the protection of the SAO’s rights and legitimate interests.”

The internal audit department’s *Quality Assurance and Improvement Programme* encompasses both internal and external audit in line with International Standard for the Professional Practice of Internal Auditing No 1310. An external quality assessment within the meaning of Standard No 1312 was performed at the SAO by an independent external assessor.

## 7. SAO staffing

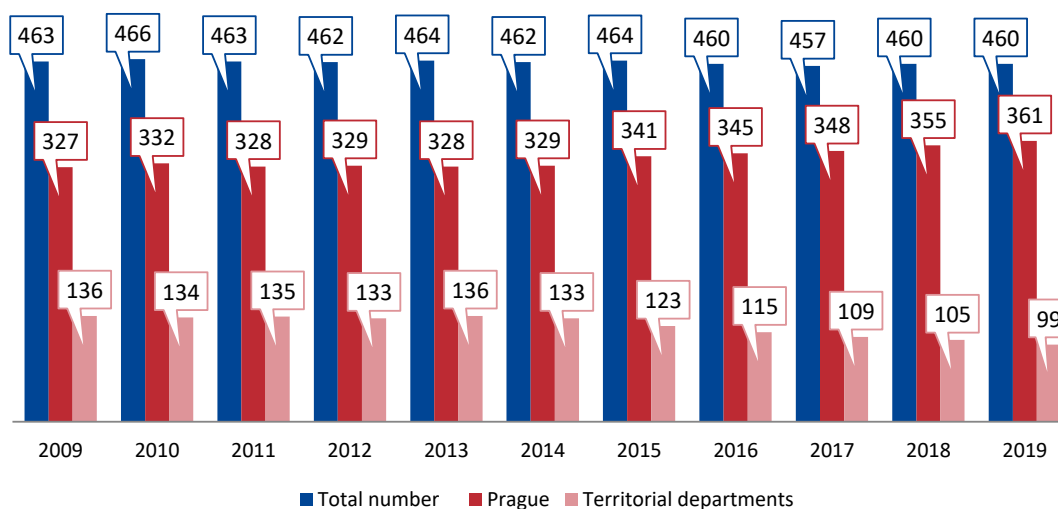
In 2019 the SAO had 468 employees<sup>106</sup>, 319 of whom worked in the audit section, i.e. 68.16% of the total registered average number of SAO employees in 2019. 51 new employees were hired in 2019 and 12 others returned to work after completing parental leave. 36 employees ended their employment. The fluctuation rate in 2019 was 5.34%. Chart 51 shows how the annual employee fluctuation rate evolved in the SAO from 2012 to 2019.

**Chart 51: Development of the annual employee fluctuation rate of the SAO, 2012–2019**



The converted average number of SAO employees for 2019 was 460; the converted average number of employees in the audit section for 2019 was 314. Chart 52 shows the converted average number of SAO employees and employees of the Prague and territorial departments for the 2009 to 2019 period.

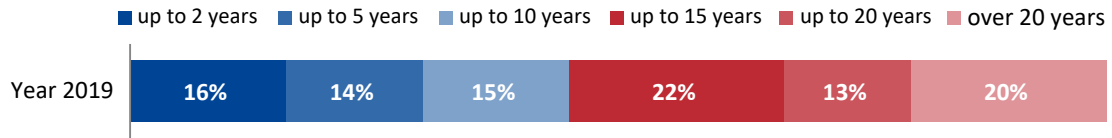
**Chart 52: Development of the converted average number of SAO employees, 2009–2019**



<sup>106</sup> Average registered number of employees for 2019.

Chart 53 shows the duration of SAO employees' employment as at 31 December 2019. 15.66% of the total number of employees had been employed by the SAO for less than two years as at that date. 20.25% of the total workforce had been employed by the SAO for over 20 years.

**Chart 53: Duration of employees' employment with the SAO as at 31 December 2019 (%)**



The SAO offers its employees equal working conditions and opportunities. Chart 54 shows the proportion of men and women employed at the SAO in 2019.

**Chart 54: Proportion of men and women employed at the SAO in 2019 (%)**

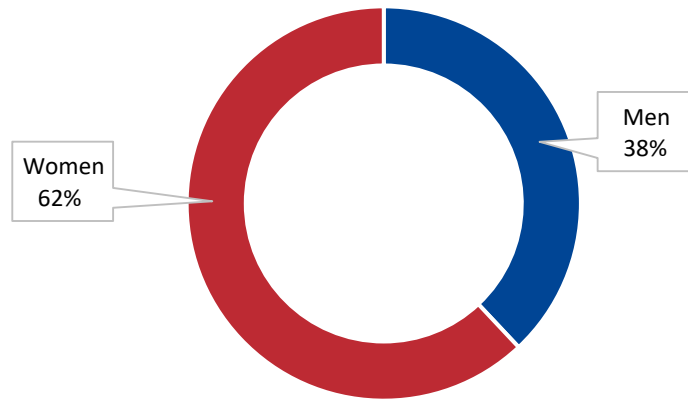
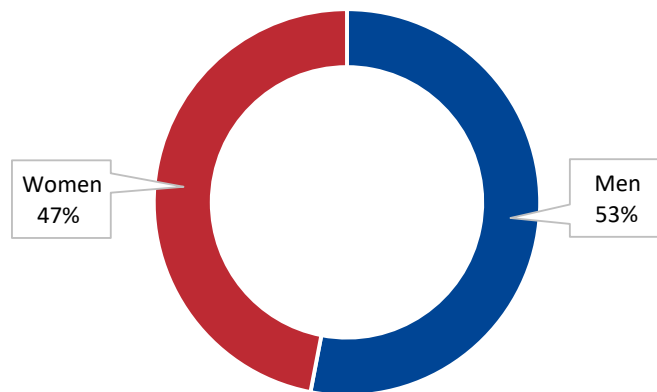


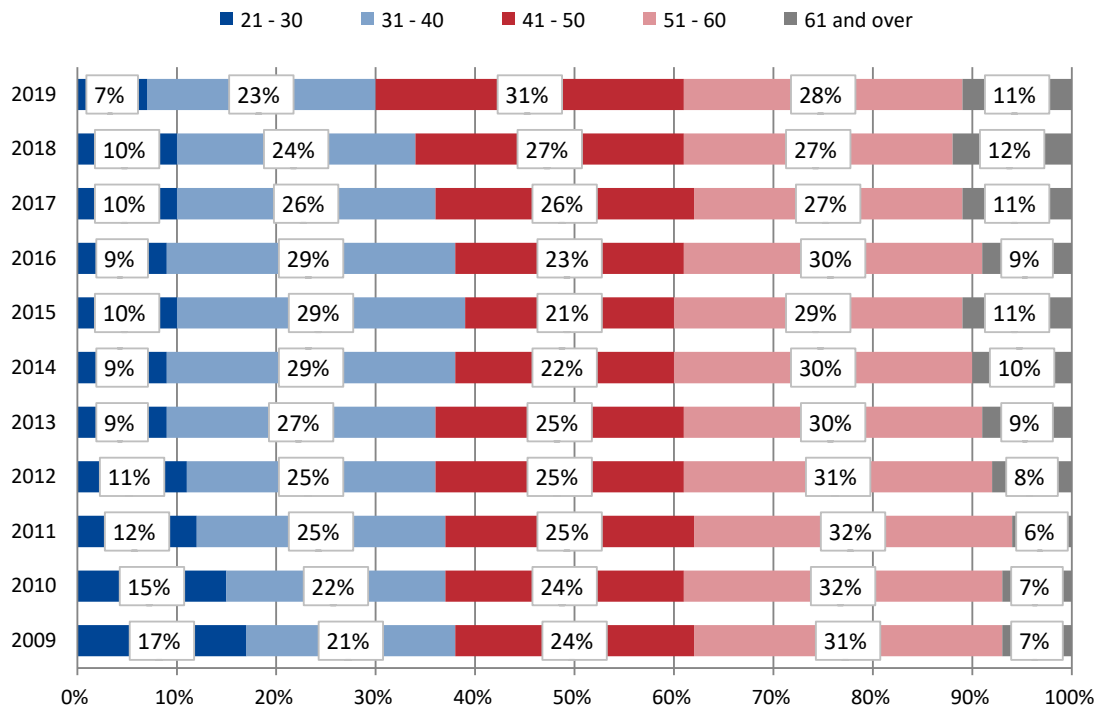
Chart 55 shows the proportion of men and women in management positions in the SAO as at 31 December 2019.

**Chart 55: Proportion of men and women in management functions in the SAO, state as at 31 December 2019 (%)**



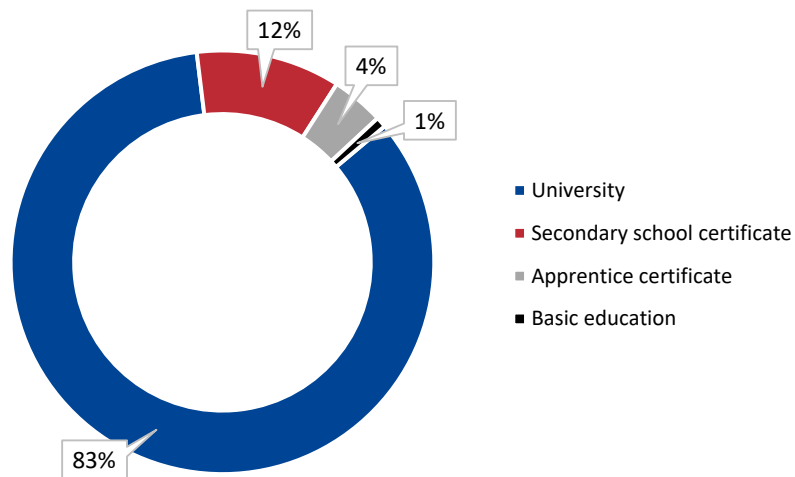
The average age of SAO employees in 2019 was 47. The age structure of the SAO workforce as at 31 December 2019, including a comparison with the years 2009–2018, is shown in Chart 56.

**Chart 56: Age structure of SAO employees for the 2009–2019 period (comparison of the states at year-end)**



83.1% of the SAO’s workforce were university-educated as at 31 December 2019. Chart 57 breaks down the educational structure of SAO employees as at 31 December 2019.

**Chart 57: Qualification structure of the SAO workforce by educational attainment as at 31 December 2019**



Labour-law, wage and other demands of SAO employees were satisfied in accordance with the valid collective agreement.

### **Training and development**

Professional training sought to broaden and deepen knowledge, skills and competences in a way appropriate to SAO employees' qualifications and directly applicable in a particular position. Training activities in line with the training and development plan for 2019 made it possible to adapt professional skills to current requirements, especially the requirements of the audit section, to new trends in audit work and to the dynamic development of the legislative environment in the CR.

Activities for new employees, provided as induction training and also in follow-up expert training cycles, accounted for a large part of the training plan.

Numerous training activities deepening employees' professional knowledge and abilities are done under the guidance of internal instructors, mainly drawn from audit section employees. For that reason, a specialisation programme for training skills has been prepared, and the first internal instructors took the course this year.

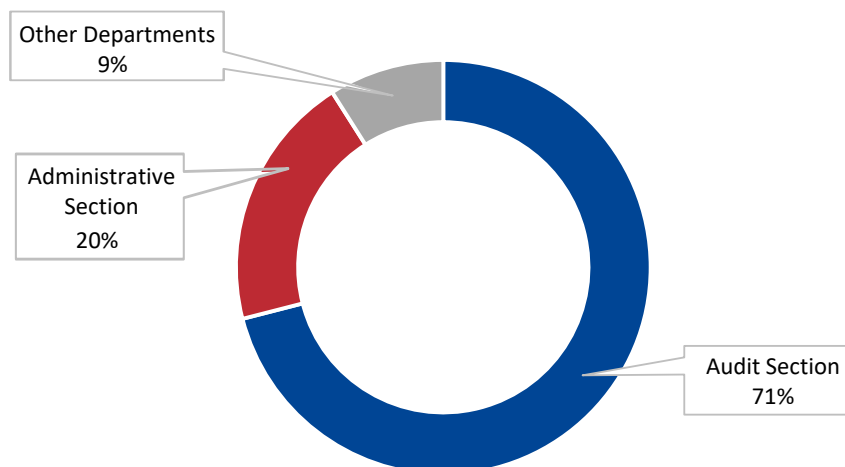
Heightened attention was paid in 2019 to training in "soft skills", mainly communication and presentation skills.

In the field of training for management employees and in addition to the cycle of management skills based on the *National Security Audit Action Plan*, a training programme focusing on intelligence risks was organised. The course, taught by instructors from the Security Intelligence service, was rated very positively.

In line with the SAO's important international role, language training continued in 2019. Taking the form of group courses or one-to-one tuition, this training focused on professional terminology, particularly the topics of workshops being prepared for EUROSAI 2020.

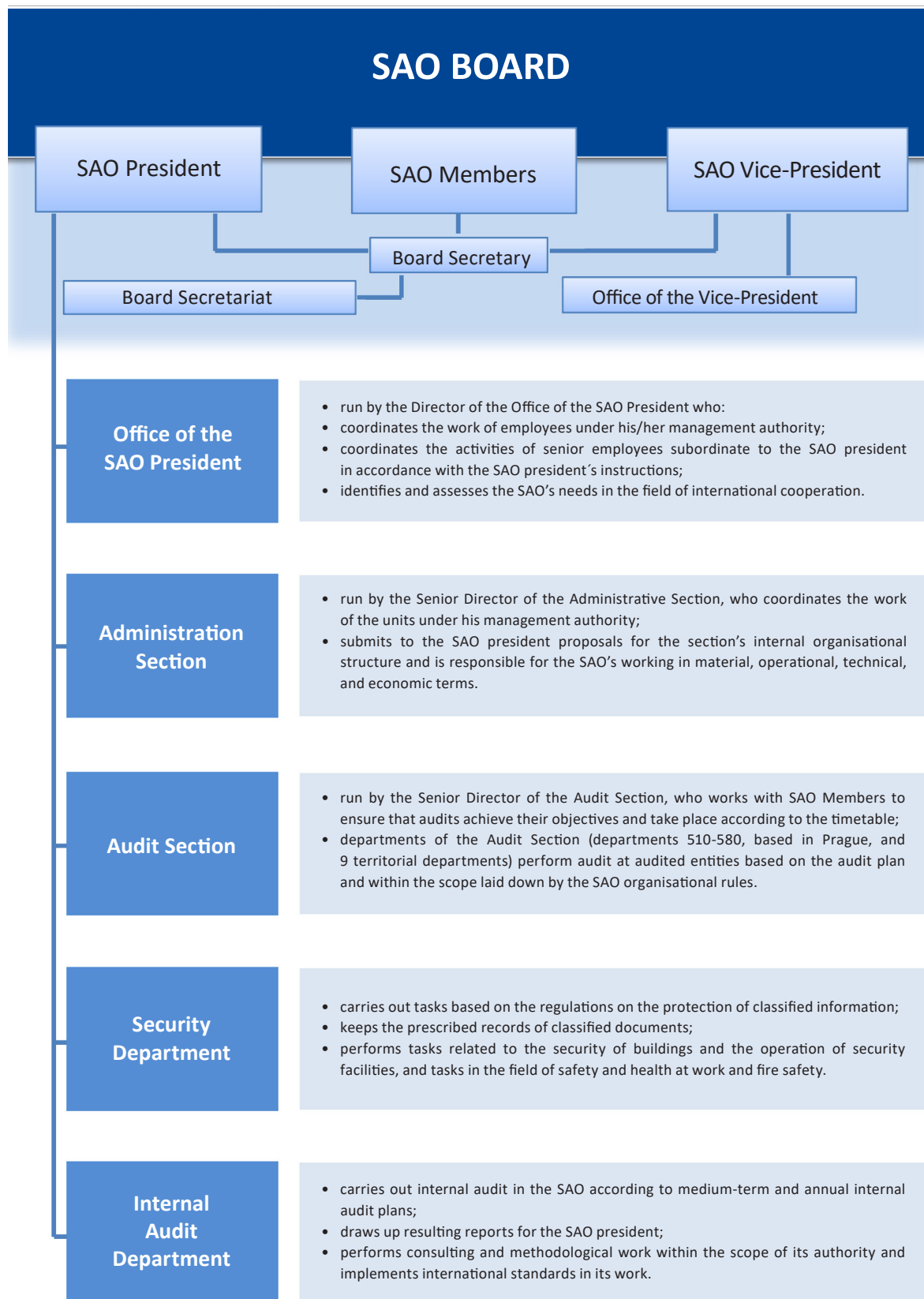
The structure of SAO employee training by unit in 2019 is shown in the following chart.

**Chart 58: Structure of SAO employee training by unit in 2019**





## 8. Organisational structure of the SAO



**Annex 1 to the SAO Annual Report for 2019**

Audit included in the Audit Plan for 2019								
Audit No	Subject of audit	Start of audit (month/year)	Audit Report for approval (month/year)	Chapter administrator	Audit Report elaborated by SAO member	Audit Report approved by		
19/01	Funds used for technical assistance from the Operational Programme Enterprise and Innovations for Competitiveness	01/2019	09/2019	MoIT	Mr Kinšt	SAO Board		
19/02	Assets and state funds intended for the operation of the General Directorate of Customs	02/2019	11/2019	MoF	Mr Stárek	SAO Board		
19/03	Closing account of the state budget chapter „Ministry of Culture“ for 2018, financial statements of the Ministry of Culture for 2018 and data submitted by the Ministry of Culture for evaluation of implementation of the state budget in 2018	02/2019	11/2019	MoC	Ms Steidlová	SAO Board		
19/04	Support for flood protection measures	03/2019	02/2020	MoA, MoE	Mr Neuvirt	SAO Board		
19/05	State funds provided for international organizations and expenditures relating thereto	03/2019	01/2020	MoEYS, MoFA	Mr Kubíček	SAO Board		
19/06	Funds provided on training of employees in health care	04/2019	02/2020	MoEYS, MoH	Mr Beznoska	SAO Board		
19/07	Property and state funds managed by the Prison Service of the Czech Republic	05/2019	02/2020	MoJ	Mr Procházka	SAO Board		
19/08	Closing account of the state budget chapter „Ministry of Transport“ for 2018, the Ministry of Transport's financial statements for 2018 and the data submitted by the Ministry of Transport for evaluation of implementation of the state budget in 2018	05/2019	01/2020	MoT	Mr Reisiegel	SAO Board		
19/09	Protection of museum collections owned by the Czech Republic	05/2019	02/2020	MoC	Mr Kalivoda	SAO Board		



Audit included in the Audit Plan for 2019										
Audit No	Subject of audit	Start of audit (month/year)	Audit Report for approval (month/year)	Chapter administrator	Audit Report elaborated by SAO member	Audit Report approved by				
19/10	Repair and maintenance of bridges	05/2019	03/2020	MoT, MoRD	Mr Málek	SAO Board				
19/11	Support for security research provided from the budget chapter of the Ministry of the Interior	05/2019	02/2020	Mol	Mr Kinšt	SAO Board				
19/12	Funds collected under the Act on employer's liability insurance for injury or for occupational disease	05/2019	03/2020	MoF, MoLSA	Ms Hykšová	SAO Board				
19/13	Armoured vehicles of the Army of the Czech Republic	06/2019	03/2020	MoD	Mr Neuvirt	SAO Board				
19/14	Introduction of electronic identification and enabling of electronic access to public administration services	06/2019	04/2020	Mol	Mr Vedral	SAO Board				
19/15	Support for the development of high-speed Internet access provided from the Operational Programme Enterprise and Innovations for Competitiveness	07/2019	04/2020	MoIT	Mr Hrnčíř	SAO Board				
19/16	Reconstruction and revitalization of railway stations	07/2019	04/2020	MoT	Mr Málek	SAO Board				
19/17	State funds from the budget chapter "Ministry of Health" earmarked for the health care research	07/2019	05/2020	MoH	Mr Neuvirt	SAO Board				
19/18	Support provided by the Podpůrný a garanční rolnický a lesnický fond, joint-stock company	07/2019	04/2020	MoA	Mr Kinšt	SAO Board				
19/19	Funds from the EU and state budget allotted for common education of pupils	07/2019	05/2020	MoEYS, MoRD, OoG	Mr Beznoska	SAO Board				
19/20	University education of members of the security forces and soldiers of the armed forces	09/2019	05/2020	MoD, Mol	Mr Stárek	SAO Board				

Audit included in the Audit Plan for 2019							
Audit No	Subject of audit	Start of audit (month/year)	Audit Report for approval (month/year)	Chapter administrator	Audit Report elaborated by SAO member	Audit Report approved by	
19/21	Closing account of the state budget chapter „Ministry of Regional Development“ for 2018, the Ministry of Regional Development’s financial statements for 2018 and the data submitted by the Ministry of Regional Development for evaluation of implementation of the state budget in 2018	09/2019	05/2020	MoRD	Ms Steidlová	SAO Board	
19/22	Funds earmarked for demolitions of buildings in socially excluded localities	09/2019	06/2020	MoRD	Ms Hykšová	SAO Board	
19/23	Support for employment of people over 50 and for the policy of positive ageing from the Operational Programme Employment	09/2019	06/2020	MoLSA, OoG	Mr Vedral	SAO Board	
19/24	Management by the Central Institute for Supervising and Testing in Agriculture with state property and state budget funds after its transformation	09/2019	07/2020	MoA	Mr Hrnčíř	SAO Board	
19/25	Property and state funds managed by the Radioactive Waste Repository Authority	10/2019	05/2020	MoIT	Ms Pýchová	SAO Board	
19/26	Cyber security of eGovernment of the Czech Republic	10/2019	08/2020	Mol	Mr Procházka	SAO Board	
19/27	Administration of insurance for social security and state employment policy	This audit was excluded from the Audit Plan					
19/28	Funds spent on selected investment programmes under the chapter „Ministry of Education, Youth and Sports“	10/2019	08/2020	MoEYS	Mr Hrnčíř	SAO Board	
19/29	Financial statements of the Czech Social Security Administration for 2019 and the data submitted by the Czech Social Security Administration for evaluation of implementation of the state budget in 2019	10/2019	07/2020	MoLSA	Mr Reisiegel	SAO Board	



Audit included in the Audit Plan for 2019						
Audit No	Subject of audit	Start of audit (month/year)	Audit Report for approval (month/year)	Chapter administrator	Audit Report elaborated by SAO member	Audit Report approved by
19/30	State property and funds under the management of institutes of public health, whose founder is the Ministry of Health	11/2019	07/2020	MoH	Mr Kalivoda	SAO Board
19/31	Closing account of the state budget chapter „Ministry of Education, Youth and Sports“ for 2019, the Ministry of Education, Youth and Sports’s financial statements for 2019 and the data submitted by the Ministry of Education, Youth and Sports for evaluation of implementation of the state budget in 2019	11/2019	08/2020	MoEYS	Mr Vedral	SAO Board
19/32	Management of property that has been confiscated, pledged, seized forfeited, and sold in criminal and tax proceedings	This audit was excluded from the Audit Plan				
19/33	Selected state property under the management of the Lesy České republiky (Forests of the Czech Republic), state-owned enterprise	05/2019	01/2020	MoA	Mr Koniček	SAO Board
19/34	Foreign claims of the Czech Republic administered by the Ministry of Finance	09/2019	04/2020	MoF	Ms Pýchová	SAO Board

## Annex 2 to the SAO Annual Report for 2019

Overview of audits with approved Audit Reports during 2019							
Audit No	Subject of audit	Chapter administrator	Audit Report elaborated by the SAO Member	Audit Report approved	Date of approval	Issued in SAO Bulletin No/Year	
<b>18/03</b>	Funds provided to non-state non-profit organisations	OoGH, MoRD, MoI, MoA, MoE	Mr Vedral	SAO Board	Feb 25, 2019	3/2019	
<b>18/05</b>	Accounting of the Ministry of Finance for 2017	MoF	Mr Reisiegel	SAO Board	Feb 04, 2019	3/2019	
<b>18/06</b>	Support for the promotion of research and development for innovation provided by the OP Enterprise and Innovations for Competitiveness	MoIT	Ms Hykšová	SAO Board	Jan 21, 2019	1/2019	
<b>18/07</b>	Information support for the tax management agenda	MoF	Mr Reisiegel	SAO Board	March 25, 2019	3/2019	
<b>18/08</b>	Funds spent on the support of the animal production sector	MoA	Mr Kubiček	SAO Board	March 25, 2019	3/2019	
<b>18/09</b>	Funds earmarked for the social services support	MoLSA	Mr Vedral	SAO Board	Jan 21, 2019	1/2019	
<b>18/11</b>	State funds earmarked for the development and renewal of the material-technical base of the regional healthcare system	MoH	Mr Stárek	SAO Board	Feb 04, 2019	1/2019	
<b>18/13</b>	Closing account of the state budget chapter „Ministry of Health“ for the year 2017, the financial statements of the Ministry of Health for 2017 and data submitted by the Ministry of Health for the assessment of state budget fulfilment for the year 2017	MoH	Ms Steidlová	SAO Board	Feb 04, 2019	1/2019	
<b>18/14</b>	Funds collected in accordance with the law in favour of the Military Health Insurance Company of the Czech Republic	-	Mr Stárek	SAO Board	April 15, 2019	3/2019	

Overview of audits with approved Audit Reports during 2019							
Audit No	Subject of audit	Chapter administrator	Audit Report elaborated by the SAO Member	Audit Report approved	Date of approval	Issued in SAO Bulletin No/Year	
<b>18/16</b>	Development of waterways and support of inland waterway transport	MoT	Mr Málek	SAO Board	Jun 24, 2019	4/2019	
<b>18/17</b>	State property and funds spent on the acquisition and distribution of the equipment for officers of the Army of the Czech Republic	MoD	Mr Neuvirt	SAO Board	May 20, 2019	3/2019	
<b>18/18</b>	Support for the development of digitalisation of education in the Czech Republic	MoEYS	Mr Beznoska	SAO Board	Jun 24, 2019	4/2019	
<b>18/19</b>	Funds spent on the cultural activities from the budget chapter of the Ministry of Culture	MoC	Mr Kalivoda	SAO Board	Jul 15, 2019	4/2019	
<b>18/20</b>	State funds earmarked for the crime prevention	MoD, MoI, MoJ	Mr Stárek	SAO Board	May 20, 2019	3/2019	
<b>18/21</b>	Construction and modernisation of A-class roads	MoT	Mr Málek	SAO Board	Oct 14, 2019	6/2019	
<b>18/22</b>	Support of environmental policies focused on public budget revenues	MoT, MoF, MoE	Mr Kalivoda	SAO Board	Oct 14, 2019	6/2019	
<b>18/23</b>	Funds and state property under the management of national parks' administrations	MoE	Mr Neuvirt	SAO Board	Aug 19, 2019	4/2019	
<b>18/24</b>	Support for public urban and regional transport financed under the Integrated Regional Operational Programme	MoRD	Mr Málek	SAO Board	Sept 30, 2019	4/2019	
<b>18/25</b>	Financial statements of the Municipal Court in Prague for 2017	MoJ	Ms Steidlová	SAO Board	Jul 29, 2019	4/2019	
<b>18/26</b>	Closing account of the state budget chapter „Ministry of Labour and Social Affairs“ for the year 2018, the financial statements and data for 2018 submitted for the assessment of fulfilment of the state budget 2018	MoLSA	Mr Vedral	SAO Board	Aug 19, 2019	4/2019	



Overview of audits with approved Audit Reports during 2019							
Audit No	Subject of audit	Chapter administrator	Audit Report elaborated by the SAO Member	Audit Report approved	Date of approval	Issued in SAO Bulletin No/Year	
18/27	Measures implemented in agriculture and the environment to mitigate the effects of drought and water scarcity	MoA, MoE	Mr Hrnčíř	SAO Board	Sept 30, 2019	6/2019	
18/28	Funds earmarked for the implementation of the measures of the 2014-2020 OP Employment to increase employment and adaptability of the workforce	MoLSA	Mr Beznoska	SAO Board	Aug 19, 2019	4/2019	
18/29	Promoting competitiveness through ICT-supported projects funded under the Operational Programmes Enterprise and Innovation and Enterprise and Innovation for Competitiveness	MoIT	Mr Kubiček	SAO Board	Sept 30, 2019	4/2019	
18/30	State funds and state property under the management of selected police schools of the Ministry of the Interior	MoI	Mr Stárek	SAO Board	Jul 29, 2019	4/2019	
18/31	Funds earmarked to maintain and develop the capabilities of the Air Force of the Czech Army, including the Supersonic Air Force	MoD	Mr Reisiegel	SAO Board	Sept 30, 2019	-	
18/33	Subsidy from the operational programme „Prague – Growth Pole of the Czech Republic“ provided for promoting social inclusion and combating poverty	MoRD	Mr Kinšt	SAO Board	Feb 25, 2019	3/2019	
18/34	Deployment of Intelligent Transport Systems in the road infrastructure of the Czech Republic	MoT	Mr Kinšt	SAO Board	Mar 25, 2019	3/2019	
18/35	State property and funds allotted to the Czech Mining Office	CMO	Ms Hykšová	SAO Board	Jun 24, 2019	4/2019	
18/36	State property and funds allotted to state-funded organisations (the National Library of the Czech Republic and the Moravian Library in Brno)	MoC	Mr Procházka	SAO Board	Nov 04, 2019	6/2019	
19/01	Funds used for technical assistance from the Operational Programme Enterprise and Innovations for Competitiveness	MoIT	Mr Kinšt	SAO Board	Sept 30, 2019	6/2019	



Overview of audits with approved Audit Reports during 2019						
Audit No	Subject of audit	Chapter administrator	Audit Report elaborated by the SAO Member	Audit Report approved	Date of approval	Issued in SAO Bulletin No/Year
<b>19/02</b>	Assets and state funds intended for the operation of the General Directorate of Customs	MoF	Mr Stárek	SAO Board	Dec 9, 2019	1/2020
<b>19/03</b>	Closing account of the state budget chapter „Ministry of Culture“ for 2018, financial statements of the Ministry of Culture for 2018 and data submitted by the Ministry of Culture for evaluation of implementation of the state budget in 2018	MoC	Ms Steidlová	SAO Board	Nov 4, 2019	6/2019



### Annex 3 to the SAO annual report for 2019

Overview of audits whose approved audit reports were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2019						
Committee resolution	Date discussed	Session No	Audit report	Government material	Government resolution	Summary of Committee resolution
150	12 Dec 2019	25	15/34	1594/16	233/17	<p>The Committee notes:</p> <ul style="list-style-type: none"> <li>a) audit report 15/34;</li> <li>b) the MoD's opinion contained in Section IV of government material 1594/16;</li> <li>c) the MoLSA's opinion contained in Section V of government material 1594/16;</li> <li>d) the MoA's opinion contained in Section VI of government material No 1594/16;</li> <li>e) government resolution No 233/17.</li> </ul>
149	12 Dec 2019	25	16/15	588/17 132/18	793/17	<p>The Committee notes:</p> <ul style="list-style-type: none"> <li>a) audit report 16/15;</li> <li>b) the MoC's opinion contained in Section IV of government material No 588/17;</li> <li>c) the measures adopted by the National Theatre to eliminate the identified shortcomings and prevent them recurring as contained in Section IV of government material No 588/17;</li> <li>d) government resolution No 793/17;</li> <li>e) the MoC's information about the implementation of measures to eliminate the shortcomings referred to in the audit report, as contained in Section II of government material No 32/18.</li> </ul>

Overview of audits whose approved audit reports were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2019						
Committee resolution	Date discussed	Session No	Audit report	Government material	Government resolution	Summary of Committee resolution
148	12 Dec 2019	25	15/27	1268/16 58/18	1079/16	<p>The Committee I. notes:</p> <p>a) audit report 15/27;</p> <p>b) the opinion of the Technology Agency contained in Section III of government material No 1268/16;</p> <p>c) the opinion of the Office of the Government on the Technology Agency's opinion, as contained in Section III of government material No 1268/16;</p> <p>d) government resolution No 1079/16;</p> <p>e) information on the implementation of measures from the Technology Agency's opinion on the audit report, as contained in Section II of government material No 58/18;</p> <p>II. suggests pursuant to Section 17(3) of Act No 166/1993 Coll., on the Supreme Audit Office, that the SAO audit state finances earmarked for special-purpose support for research and development through the Technology Agency's budget chapter.</p>
146	12 Dec 2019	25	17/06	242/18	386/18	<p>The Committee notes:</p> <p>a) audit report 17/06;</p> <p>b) the opinion of the MoA and SAIF contained in Section III of government material No 242/18;</p> <p>c) government resolution No 386/18;</p> <p>d) the MoA's information on the state of implementation of measures to eliminate the shortcomings referred to in the audit report of 29 July 2019 ref. No 37242/2019-MZE-10011.</p>
140	14 Nov 2019	24	18/17	697/19	680/19	<p>The Committee notes:</p> <p>a) audit report 18/17;</p> <p>b) the MoD's opinion contained in Section IV of government material No 697/19;</p> <p>c) government resolution No 680/19.</p>



Overview of audits whose approved audit reports were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2019						
Committee resolution	Date discussed	Session No	Audit report	Government material	Government resolution	Summary of Committee resolution
138	14 Nov 2019	24	17/35	1155/18	233/19	The Committee notes: a) audit report 17/35; b) the summary opinion of the MoT and Czech Rail contained in Section IV of government material No 1155/18; c) government resolution No 233/19.
137	14 Nov 2019	24	17/33	1051/18	232/19	The Committee notes: a) audit report 17/33; b) the MoT's opinion contained in Section IV of government material No 1051/18; c) government resolution No 232/19.
136	14 Nov 2019	24	17/32	766/18	715/18	The Committee notes: a) audit report 17/32; b) the MoT's opinion contained in Section IV of government material No 766/18; c) government resolution No 715/18.
132	31 Oct 2019	23	18/02	173/19	234/19	The Committee I. notes: a) audit report 18/02; b) the MoD's opinion contained in Section IV of government material No 173/19; c) government No 234/19; II. requests the defence minister to submit to the Committee the results of the corrective measures within three months after discussion by the government or by 30 Sept 2020 if the government does not include this item on its agenda by that date.



Overview of audits whose approved audit reports were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2019						
Committee resolution	Date discussed	Session No	Audit report	Government material	Government resolution	Summary of Committee resolution
131	31 Oct 2019	23	16/05	238/17 343/18	235/17	The Committee I. notes: a) audit report 16/05; b) the MoD's opinion contained in Section IV of government material No 238/17; c) government resolution No 235/17; d) the assessment of the measures adopted by the MoD in response to the audit report, as contained in Section II of government material No 343/18; II. requests the defence minister to submit to the Committee by 30 June 2020 a methodology for monitoring public procurement (to replace the aborted project entitled "public procurement birth certificates").
129	31 Oct 2019	23	15/32	1301/16	1080/16	The Committee notes: a) audit report 15/32; b) the MoI's opinion contained in Section IV of government material No 1301/16; c) government resolution No 1080/16.
126	3 Oct 2019	22	17/15	915/18	722/18	The Committee I. notes: a) audit report 17/15; b) the opinion of the MoIT, MoEYS, MoA and Office of the Government contained in Section III of government material No 915/18; c) government resolution No 722/18; II. recommends that the SAO continue to pay close attention to audit of research, development and innovation.
123	3 Oct 2019	22	15/20	1068/16	990/16	The Committee notes: a) audit report 15/20; b) the MoLSA's and Labour Office's opinion contained in Section IV of government material No 1068/16; c) government resolution No 990/16.





Overview of audits whose approved audit reports were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2019							
Committee resolution	Date discussed	Session No	Audit report	Government material	Government resolution	Summary of Committee resolution	
121	17 Sept 2019	21	16/25	278/18 594/18	388/18	<p>The Committee notes:</p> <p>a) audit report 16/25;</p> <p>b) the MoIT's opinion contained in Section IV of material No 278/18;</p> <p>c) government resolution No 388/18;</p> <p>d) the MoIT's information on the implementation of measures to eliminate the shortcomings referred to in the audit report, as contained in Section II of government material No 594/18.</p>	
120	17 Sept 2019	21	17/31	814/18	717/18	<p>The Committee notes:</p> <p>a) audit report 17/31;</p> <p>b) the MoA's opinion contained in Section IV of government material No 814/18;</p> <p>c) government resolution No 717/18.</p>	
119	17 Sept 2019	21	15/38	1706/16 1016/17	234/17	<p>The Committee notes:</p> <p>a) audit report 15/38;</p> <p>b) the MoD's opinion contained in Section IV of government material No 1706/16;</p> <p>c) government resolution No 234/17;</p> <p>d) the assessment of the measures adopted by the MoD in response to the audit report, as contained in Section II of government material No 1016/17.</p>	
118	17 Sept 2019	21	16/29	272/18	382/18	<p>The Committee notes:</p> <p>a) audit report 16/29;</p> <p>b) the MoLSA's opinion contained in Section IV of government material No 272/18;</p> <p>c) government resolution No 382/18.</p>	
117	17 Sept 2019	21	17/30	724/18	720/18	<p>The Committee notes:</p> <p>a) audit report 17/30;</p> <p>b) the MoD's opinion contained in Section IV of government material No 724/18;</p> <p>c) government resolution No 720/18.</p>	



Overview of audits whose approved audit reports were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2019						
Committee resolution	Date discussed	Session No	Audit report	Government material	Government resolution	Summary of Committee resolution
116	17 Sept 2019	21	17/18	408/18	383/18	The Committee notes: a) audit report 17/18; b) the MoE's opinion contained in Section III of government material No 408/18; c) government resolution No 383/18.
115	17 Sept 2019	21	16/03	729/17 570/18	783/17	The Committee notes: a) audit report 16/03; b) the MoF's opinion contained in Section III of government material No 729/17; c) government resolution No 783/17; d) the MoF's information on the state of implementation of the corrective measures adopted to eliminate the shortcomings referred to in the audit report, as contained in Section II of government material No 570/18.
114	17 Sept 2019	21	15/19	645/16 1702/16	777/16	The Committee notes: a) audit report 15/19; b) the MoC's opinion contained in Section IV of government material No 645/16; c) government resolution No 777/16; d) the MoC's information on the state of implementation of the corrective measures adopted to eliminate the shortcomings referred to in the audit report, as contained in Section II of government material No 1702/16.
106	12 June 2019	20	17/09	611/18	714/18	The Committee I. notes: a) audit report 17/09; b) the MoT's opinion contained in Section IV of government material No 611/18; c) the MoRD's opinion contained in Section V of government material No 611/18; d) government resolution No 714/18; II. requests the prime minister to draw up and submit to the Committee by 31 Dec 2019 an Analysis of Alternatives for Systemic Financing of 2 <sup>nd</sup> and 3 <sup>rd</sup> Class Roads.



Overview of audits whose approved audit reports were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2019						
Committee resolution	Date discussed	Session No	Audit report	Government material	Government resolution	Summary of Committee resolution
105	12 June 2019	20	16/16	577/17	786/17	The Committee notes: a) audit report 16/16; b) the MoT's opinion contained in Section IV of government material No 577/17; c) government resolution No 786/17.
104	12 June 2019	20	17/10	171/18	199/18	The Committee I. notes: a) audit report 17/10; b) the MoT's opinion contained in Section IV of government material No 171/18; c) government resolution No 199/18; II. requests the transport minister to submit to the Committee by 30 Aug 2019 up-to-date information about the course of the tender for a toll system contractor.
103	12 June 2019	20	14/31	1045/16	988/16	The Committee I. notes: a) audit report 14/31; b) the MoRD report contained in Section III of government material No 1045/16; c) government resolution No 988/16; II. requests the director of CzechTourism to submit to the Committee by 30 Sept 2019 an overview of all the measures already executed or currently being introduced to eliminate the identified shortcomings and prevent similar problems in the future.
96	11 June 2019	20	15/39	1085/16	1077/16	The Committee notes: a) audit report 15/39; b) the opinion of the Institute for the Study of Totalitarian Regimes contained in Section II of government material No 1085/16; c) government resolution No 1077/16.



Overview of audits whose approved audit reports were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2019						
Committee resolution	Date discussed	Session No	Audit report	Government material	Government resolution	Summary of Committee resolution
89	21 March 2019	18	15/18	687/16	776/16	<p>The Committee I. notes:</p> <p>a) audit report 15/18;</p> <p>b) the MoRD's opinion contained in Section IV of government material No 687/16;</p> <p>c) government resolution No 776/16;</p> <p>d) the MoRD's information on the implementation of measures in response to the audit report of 25 Jan 2019 ref. No 1125/2019-84;</p> <p>II. requests the minister for regional development to submit to the Committee:</p> <p>a) by 30 Sept 2019 the results of an analysis of the new Civil Code's impact on rented housing;</p> <p>b) by 31 Jan 2020 an analysis of the discrepancies between private and public law in the field of housing, including possible solutions.</p>
88	21 March 2019	18	17/04	359/18 177/19	384/18	<p>The Committee notes:</p> <p>a) audit report 17/04;</p> <p>b) the MoF's and MoE's opinion contained in Section III of government material No 359/18;</p> <p>c) government resolution No 384/18;</p> <p>d) the MoF's and MoE's information about the implementation of measures adopted to eliminate the shortcomings referred to in the audit report, as contained in Section II of government material No 177/19.</p>
81	21 Feb 2019	17	15/28	1405/16	1084/16	<p>The Committee notes:</p> <p>a) audit report 15/28;</p> <p>b) the MoC's opinion contained in Section III of government material No 1405/16;</p> <p>c) government resolution No 1084/16.</p>
80	21 Feb 2019	17	15/06	449/16	774/16	<p>The Committee notes:</p> <p>a) audit report 15/06;</p> <p>b) the MoRD's and MoEYS's opinion contained in Section III of government material No 499/16;</p> <p>c) government resolution No 774/16.</p>

Overview of audits whose approved audit reports were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2019							
Committee resolution	Date discussed	Session No	Audit report	Government material	Government resolution	Summary of Committee resolution	
79	21 Feb 2019	17	15/25	1552/16	1094/16	<p>The Committee notes:</p> <ul style="list-style-type: none"> <li>a) audit report 15/25;</li> <li>b) the MoFA's opinion contained in Section III of government material No 1552/16;</li> <li>c) government resolution No 1094/16.</li> </ul>	
77	07 Feb 2019	16	15/16	383/16 96/17	439/17	<p>The Committee notes:</p> <ul style="list-style-type: none"> <li>a) audit report 15/16;</li> <li>b) the MoJ's opinion contained in Section IV of government material No 383/16;</li> <li>c) government resolution No 439/17;</li> <li>d) the MoJ's information on the implementation of measures adopted to eliminate the shortcomings referred to in the audit report, as contained in Section II of government material No 96/17.</li> </ul>	
76	07 Feb 2019	16	15/13	715/16 1701/16	771/16	<p>The Committee notes:</p> <ul style="list-style-type: none"> <li>a) audit report 15/13;</li> <li>b) the MoF's opinion contained in Section III of government material No 715/16;</li> <li>c) government resolution No 771/16;</li> <li>d) the MoF's information on the implementation of measures adopted to eliminate the shortcomings, as contained in Section II of government material No 1701/16.</li> </ul>	



Overview of audits whose approved audit reports were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2019						
Committee resolution	Date discussed	Session No	Audit report	Government material	Government resolution	Summary of Committee resolution
75	07 Feb 2019	16	15/15	712/16 1309/17	770/16	<p>The Committee I. notes:</p> <p>a) audit report 15/15;</p> <p>b) the MoF's and GDC's opinion contained in Section III of government material No 712/16;</p> <p>c) government resolution No 770/16;</p> <p>d) the MoF's information on the implementation of measures adopted to eliminate the shortcomings referred to in the audit report, as contained in Section II of government material No 1309/17;</p> <p>II. requests the finance minister to ensure that the costs of collecting various types of taxes are measured and to regularly evaluate their cost-effectiveness;</p> <p>III. requests the director general of the GDC to submit to the Committee by 30. 4. 2019 the existing evaluation of the costs of collecting various types of taxes and agendas for 2018.</p>
-	07 Feb 2019	16	15/18	687/16	776/16	Adjourned.
70	10 Jan 2019	15	15/26	1249/16	1082/16	<p>The Committee I. notes:</p> <p>a) audit report 15/26;</p> <p>b) the MoEYS's and MoLSA's opinion contained in Section III of government material No 1249/16;</p> <p>c) government resolution No 1082/16;</p> <p>II. requests the labour and social affairs minister and education, youth and sports minister to submit to the Committee by 31. 7. 2019 information on how the measures imposed by government resolution 1082/16 were carried out.</p>
69	10 Jan 2019	15	15/15	712/16 1309/17	770/16	<p>The Committee I. adjourns the discussion of the audit report;</p> <p>II. requests the director general of the GFD to attend the Committee's session discussing this audit report pursuant to Section 39(2) of Act No 90/1995 Coll., on the procedural rules of the Chamber of Deputies.</p>



Overview of audits whose approved audit reports were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2019						
Committee resolution	Date discussed	Session No	Audit report	Government material	Government resolution	Summary of Committee resolution
68	10 Jan 2019	15	15/17	1279/16	1078/16	<p>The Committee I. notes:</p> <p>a) audit report 15/17;</p> <p>b) the opinion of the MoF, GFD and GDC opinion contained in Section III of government material No 1279/16;</p> <p>c) government resolution No 1078/16;</p> <p>II. requests the finance minister to submit to the Committee by 31. 7. 2019 the design concept of the single collection point or equivalent project containing a list of planned measures, including a timetable, that will lead to the implementation of the single collection point or equivalent project that will serve an equivalent function from citizens' point of view;</p> <p>III. states on the basis of audit report 15/17 that part of the money was not used effectively and in line with the goals of the single collection point programme;</p> <p>IV. requests the director general of the GFD to submit to the Committee by 28. 2. 2019 answers to the questions that were not answered during the discussion of this audit report.</p>





## Annex 4 to the SAO annual report for 2019

Overview of audits whose approved audit reports were discussed by the Czech government in 2019						
Government resolution No	Date discussed	Ref. No of government material	Audit No	Measures imposed by the government	Deadline	
837	25 Nov 2019	1034/19	18/30	The government instructs the 1 <sup>st</sup> deputy prime minister and interior minister to execute the measures contained in the opinion presented in Section III of material No 1034/19 and to inform the government of progress by 30 June 2020.	30 June 2020	
836	25 Nov 2019	969/19	18/16	The government instructs the transport minister to execute the measures contained in the opinion presented in Section IV of material No 969/19 and to inform the government of progress by 31 May 2020.	31 May 2020	
835	25 Nov 2019	935/19	18/35	The government instructs the president of the Czech Mining Office to submit to the government by 31 May 2020 information on the execution of adopted measures following from the audit report.	31 May 2020	
684	30 Sept 2019	569/19	18/34	The government instructs the transport minister to implement the measures contained in the opinion presented in Section IV of material No 569/19.	none	
683	30 Sept 2019	546/19	18/33	No instructions.	-	
682	30 Sept 2019	451/19	18/09	The government instructs the labour and social affairs minister to execute the measures contained in the opinion presented in Section IV of material No 451/19 and to inform the government of progress by 30 June 2020.	30 June 2020	
681	30 Sept 2019	787/19	18/08	The government instructs the agriculture minister to implement the measures contained in the opinion presented in Section III of material 787/19 by 31 March 2020.	31 March 2020	
680	30 Sept 2019	697/19	18/17	The government instructs the defence minister to implement and assess the measures contained in the opinion presented in Section IV of material No 697/19 and to inform the government of the result by 31 August 2020.	31 Aug 2020	

Overview of audits whose approved audit reports were discussed by the Czech government in 2019						
Government resolution No	Date discussed	Ref. No of government material	Audit No	Measures imposed by the government	Deadline	
679	30 Sept 2019	670/19	18/03	The government instructs the 1 <sup>st</sup> deputy prime minister and interior minister, the regional development minister, agriculture minister, environment minister and head of the Office of the Government to execute the measures contained in the opinion presented in Section III of material No 1067034/19 and to inform the government of progress by 31 March 2020.	31 March 2020	
678	30 Sept 2019	714/19	18/14	The government instructs the health minister to inform the government by 31 December 2020 of the final state of implementation of the corrective measures contained in the opinion presented in Section III/a of material No 714/19.	31 Dec 2020	
677	30 Sept 2019	436/19	18/11	The government instructs the health minister to ensure implementation of the measures contained in the opinion presented in Section IV of material No 436/19.	none	
676	30 Sept 2019	352/19	18/13	The government instructs the health minister to ensure implementation of the measures contained in the opinion presented in Section IV of material No 352/19.	none	
675	30 Sept 2019	1050/18	17/19	The government instructs: 1. the health minister to ensure implementation of the measures contained in the opinion presented in Section IV of material No 1050/18; 2. the defence minister to ensure implementation of the measures contained in the opinion presented in Section IV of material No 1050/18.	none	
674	30 Sept 2019	349/19	18/06	The government instructs the deputy prime minister and trade and industry minister to perform regular evaluations of the benefits and results of programmes in Priority Axis 1 <i>Research and Development for Innovation of Operational Programme Enterprise and Innovation for Competitiveness</i> and to adopt the measures necessary to increase absorption capacity and accelerate drawdown.	none	
673	30 Sept 2019	1057/18	18/01	The government instructs the trade and industry minister to execute the measures contained in the opinion presented in Section IV of material No 1057/18.	none	

Overview of audits whose approved audit reports were discussed by the Czech government in 2019						
Government resolution No	Date discussed	Ref. No of government material	Audit No	Measures imposed by the government	Deadline	
672	30 Sept 2019	702/19	18/07	The government instructs the deputy prime minister and finance minister to execute the measures contained in the opinion presented in Section III of material No 702/19 and to inform the government of progress by 28 February 2023.	28 Feb 2023	
671	30 Sept 2019	408/19	18/05	The government instructs the deputy prime minister and finance minister to execute the measures contained in the opinion presented in Section III of material No 408/19 and to inform the government of progress by 31 March 2020.	31 March 2020	
670	30 Sept 2019	803/19	18/20	The government instructs: <ol style="list-style-type: none"> <li>1. the 1<sup>st</sup> deputy prime minister and interior minister to take into account the outputs from the audit report when creating the Crime Prevention Strategy for the period up to 2021;</li> <li>2. the justice minister to take into account the outputs from the audit report when creating a new departmental crime prevention strategy;</li> <li>3. the defence minister to take into account the outputs from the audit report when creating the Concept of Primary Prevention of Risk Behaviour by Defence Department Personnel for 2020–2027;</li> <li>4. the 1<sup>st</sup> deputy prime minister and interior minister, the justice minister and the minister of defence to implement the measures contained in the opinion presented in Section III of material No 803/19.</li> </ol>	none	
669	30 Sept 2019	295/19	18/12	The government instructs the 1 <sup>st</sup> deputy prime minister and interior minister: <ol style="list-style-type: none"> <li>1. to take into account the outputs from the audit report when updating the Concept of the Development of Archiving of the Czech Republic for the Years 2018 to 2025 with an Outlook up to 2035;</li> <li>2. to implement the measures contained in the opinion presented in Section III of material No 295/19.</li> </ol>	none	
–	9 Sept 2019	569/19	18/34	Withdrawn from the agenda.	-	

Overview of audits whose approved audit reports were discussed by the Czech government in 2019						
Government resolution No	Date discussed	Ref. No of government material	Audit No	Measures imposed by the government	Deadline	
-	9 Sept 2019	546/19	18/33	Withdrawn from the agenda.	-	
-	9 Sept 2019	451/19	18/09	Withdrawn from the agenda.	-	
-	9 Sept 2019	787/19	18/08	Withdrawn from the agenda.	-	
-	9 Sept 2019	697/19	18/17	Withdrawn from the agenda.	-	
-	9 Sept 2019	670/19	18/03	Withdrawn from the agenda.	-	
-	9 Sept 2019	714/19	18/14	Withdrawn from the agenda.	-	
-	9 Sept 2019	436/19	18/11	Withdrawn from the agenda.	-	
-	9 Sept 2019	352/19	18/13	Withdrawn from the agenda.	-	
-	9 Sept 2019	1050/18	17/19	Withdrawn from the agenda.	-	
-	9 Sept 2019	349/19	18/06	Withdrawn from the agenda.	-	
-	9 Sept 2019	1057/18	18/01	Withdrawn from the agenda.	-	
-	9 Sept 2019	702/19	18/07	Withdrawn from the agenda.	-	



Overview of audits whose approved audit reports were discussed by the Czech government in 2019						
Government resolution No	Date discussed	Ref. No of government material	Audit No	Measures imposed by the government	Deadline	
-	9 Sept 2019	408/19	18/05	Withdrawn from the agenda.	-	
-	9 Sept 2019	803/19	18/20	Withdrawn from the agenda.	-	
-	9 Sept 2019	295/19	18/12	Withdrawn from the agenda.	-	
-	8 April 2019	1050/18	17/19	Withdrawn from the agenda.	-	
236	8 April 2019	256/19	18/04	The government instructs the 1 <sup>st</sup> deputy prime minister and environment minister to execute the measures contained in the opinion presented in Section III of material No 256/19.	none	
235	8 April 2019	174/19	18/10	The government instructs the defence minister to implement and assess the measures in the opinion presented in Section IV of material No 174/19 and to inform the government of the result by 28 February 2020.	28 Feb 2020	
234	8 April 2019	173/19	18/02	The government instructs the defence minister to implement and assess the measures contained in the opinion presented in Section IV of material No 173/19 and to inform the government of the result by 30 April 2020.	30 April 2020	
233	8 April 2019	1155/18	17/35	The government instructs the transport minister to implement the measures proposed in the opinion presented in Section IV of material No 1155/18.	none	
232	8 April 2019	1051/18	17/33	No instructions.	-	
231	8 April 2019	94/19	17/36	The government instructs the finance minister to execute the measures contained in the opinion presented in Section III of material No 94/19 and to inform the government of progress by 31 March 2021.	31 March 2021	



Overview of audits whose approved audit reports were discussed by the Czech government in 2019						
Government resolution No	Date discussed	Ref. No of government material	Audit No	Measures imposed by the government	Deadline	
230	8 April 2019	260/19	17/21	The government instructs the finance minister to execute the measures contained in the opinion presented in Section III of material No 260/19 and to inform the government of progress by 30 April 2020.	30 April 2020	
229	8 April 2019	1172/18	17/34	The government instructs the finance minister to execute the measures contained in the opinion presented in Section III of material No 1172/18 and to inform the government of progress by 30 June 2019.	30 June 2019	
48	21 Jan 2019	764/18	17/02	The government instructs: 1. the labour and social affairs minister to implement the measures contained in the opinions presented in Sections IV and V of material No 764/18; 2. the head of the Office of the Government to implement the measures contained in the opinion presented in Section IV of material No 764/18; 3. the labour and social affairs minister, in cooperation with the head of the Office of the Government, to inform the government of progress by 31 December 2019.	31 Dec 2019	
47	21 Jan 2019	960/18	17/12	The government instructs the finance minister to execute the measures contained in the opinion presented in Section III of material No 960/18 and to inform the government of progress by 31 July 2021.	31 July 2021	
46	21 Jan 2019	927/18	17/25	The government instructs the finance minister, the justice minister and the education, youth and sports minister to execute the measures contained in the opinion presented in Section III of material No 927/18 and to inform the government of progress by 31 March 2020.	31 March 2020	
45	21 Jan 2019	967/18	17/24	The government instructs the finance minister, the 1 <sup>st</sup> deputy prime minister and interior minister and the regional development minister to execute the measures contained in the opinion presented in Section III of material No 967/19 and to inform the government of progress by 31 March 2020.	31 March 2020	



Overview of audits whose approved audit reports were discussed by the Czech government in 2019						
Government resolution No	Date discussed	Ref. No of government material	Audit No	Measures imposed by the government	Deadline	
44	21 Jan 2019	921/18	17/27	The government instructs the 1 <sup>st</sup> deputy prime minister and interior minister, in cooperation with Czech Mail, to execute the measures contained in the opinion presented in Section III of material No 921/18 and to inform the government of progress by 31 December 2019.	31 Dec 2019	
43	21 Jan 2019	563/18	16/26	The government instructs: 1. the 1 <sup>st</sup> deputy prime minister and interior minister to implement the measures contained in the opinion presented in Section IV of material No 563/19; 2. the finance minister to implement the measures contained in the opinion presented in Section V of material No 563/18.	none	



## List of abbreviations

<b>ACT-J</b>	Anti-infective for systemic use
<b>ASCO</b>	Army Service Contributory Organisation
<b>BIEP</b>	Benchmarking Information Exchange Project Customs Administration of the Czech Republic
<b>BUH</b>	Brno University Hospital
<b>CMH</b>	Central Military Hospital
<b>CMO</b>	Czech Mining Office
<b>Concept 2020</b>	Concept of Support for Young People 2014–2020
<b>CR</b>	Czech Republic
<b>DESI</b>	Digital Economy and Society Index
<b>ECA</b>	European Court of Auditors
<b>EEA</b>	European Economic Area
<b>EIA</b>	Environmental Impact Assessment
<b>EIS</b>	European Innovation Scoreboard
<b>EP</b>	European Parliament
<b>ESA</b>	European Space Agency
<b>EU</b>	European Union
<b>EU28</b>	28 European Union Member States
<b>EU/FM</b>	EU funds and financial mechanisms of the European Economic Area
<b>EUROSAI</b>	European Organisation of Supreme Audit Institutions
<b>FEF</b>	Further Education Fund
<b>GDP</b>	Gross domestic product
<b>GFD</b>	General Financial Directorate
<b>GJ</b>	Gigajoule
<b>ICT</b>	Information and communication technologies
<b>INTOSAI</b>	International Organisation of Supreme Audit Institutions
<b>IS</b>	Information system
<b>KGOE</b>	Kilogram of oil equivalent
<b>MFE</b>	Military Forests and Estates
<b>MoA</b>	Ministry of Agriculture
<b>MoC</b>	Ministry of Culture
<b>MoD</b>	Ministry of Defence
<b>MoE</b>	Ministry of the Environment
<b>MoEYS</b>	Ministry of Education, Youth and Sports



<b>MoF</b>	Ministry of Finance
<b>MoFA</b>	Ministry of Foreign Affairs
<b>MoH</b>	Ministry of Health
<b>MoI</b>	Ministry of the Interior
<b>MoIT</b>	Ministry of Industry and Trade
<b>MoJ</b>	Ministry of Justice
<b>MoLSA</b>	Ministry of Labour and Social Affairs
<b>MoRD</b>	Ministry for Regional Development
<b>MoT</b>	Ministry of Transport
<b>MUH</b>	Motol University Hospital
<b>NIMH</b>	National Institute for Mental Health
<b>NPWP</b>	Negotiated procedure without publication
<b>OP</b>	Operational programme
<b>OP EIC</b>	Operational Programme Enterprise and Innovation for Competitiveness
<b>OP Em</b>	Operational Programme Employment
<b>OP En</b>	Operational Programme Environment
<b>OP F</b>	Operational Programme Fisheries
<b>OP PGP</b>	Operational Programme Prague – Growth Pole
<b>OP T</b>	Operational Programme Transport
<b>OP TA</b>	Operational Programme Technical Assistance
<b>PC Bulletin</b>	Public Contracts Bulletin
<b>PC IS</b>	Public contracts information system
<b>PJ</b>	Petajoule
<b>PM</b>	Particulate matter
<b>PMF</b>	Performance measurement framework
<b>PwC</b>	PricewaterhouseCoopers
<b>R&amp;D</b>	Research and development
<b>RDI</b>	Research, development and innovation
<b>RDP</b>	Rural Development Programme
<b>RMD</b>	Roads and Motorways Directorate
<b>RTA</b>	Rail Track Administration
<b>SAI</b>	Supreme audit institution
<b>SAIF</b>	State Agricultural Intervention Fund
<b>SAO</b>	Supreme Audit Office of the Czech Republic
<b>SEF</b>	State Environmental Fund

<b>SHDF</b>	State Housing Development Fund
<b>SG1</b>	EUROSAI strategic goal 1 for 2017–2023
<b>STIF</b>	State Transport Infrastructure Fund
<b>STIIS</b>	State Treasury Integrated Information System
<b>UN</b>	United Nations
<b>VAT</b>	Value added tax
<b>WD</b>	Waterways Directorate
<b>WGEA</b>	INTOSAI working group on environmental audit
<b>WGFACML</b>	INTOSAI working group on the fight against corruption and money laundering



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