



Czech Republic
Supreme Audit Office



ANNUAL REPORT 2020

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OPENING MESSAGE

FROM THE SAO PRESIDENT

Dear readers,

you have in front of you the Supreme Audit Office's annual report for 2020. It was a year like no other, one that was fundamentally influenced in the Czech Republic and the rest of the world by the Covid-19 pandemic. The pandemic had a huge impact on our work as well. Despite that, this report presents 30 audits of 152 organisations, scrutinising property and funds worth a total of CZK 108 billion.

There is no doubt that the Covid-19 pandemic had a strong impact on the state's financial management. From our point of view, however, the pandemic functioned as a catalyst, magnifying problems which have long dogged the management of public funds and resources in the Czech Republic and which we have long drawn attention to.

The year 2020 ended with the worst financial figures in the CR's history. The country is one of the European Union's frontrunners in terms of the rate of growing indebtedness. The explanation that the pandemic is to blame for that lamentable statistic does not stand, however. The fact is that almost half of the increase in government spending was not caused by measures to combat the epidemic but represented an increase in overall spending on the operation of the state, social expenditure and other items. Even without the pandemic, we would have been heading in the wrong direction in 2020.

The pandemic and the related restrictions showed just how poor the results of the digitalisation of state administration have been to date. This is despite the fact that ministries have spent at least CZK 67 billion on this issue since 2016 alone. On the one hand the state demands that citizens minimise contact with others, but on the other hand it offers very limited options for electronic communication with the authorities. If this option is available, its design and "user-unfriendliness" are more likely to deter users. Here is one typical example: the electronic identification system and Citizen's Portal. The Ministry of the Interior spent almost CZK 250 million on it, but by the end of 2019 it had been used by less than 0.5% of adults.

We are facing a difficult period, when the state's role will be more important than before. Part of the population hit hard by the measures to combat the epidemic will need support and assistance. But numerous key areas, such as housing support, security, education and transport infrastructure development, are stifled by overgrown and slow-moving bureaucracy, a lack of coordination, poor communication, and poor-quality services. All that will only compound the problems we have to deal with in the coming period. How is it possible, for example, that the MoRD and MoLSA have been working on a social housing act intended to define the basic attributes of the social housing system since 2015, and still the draft legislation has not been submitted to the Chamber of Deputies? Why does the government keep shelving efforts to tackle issues of its efficient working, pension reform funding, employment of older people or social exclusion?

The hard data give cause for concern and lay bare the public sector's poor performance. We are going through a crisis brought about by the unexpected outbreak of a global pandemic, a crisis with health, social and psychological impacts. But this crisis is also revealing what a dysfunctional system of public governance the Czech Republic has built and funded. How hopelessly complicated Czech law is; how monolithic and bureaucratic the management of the state is; how under-dimensional its reserves and capacities are; in other words, how badly we are doing in the areas we depend on in difficult times. What we have overlooked for years, and even got used to – motorways can't be built quickly, after all, and it's not easy to utilise European subsidies for meaningful projects – has been mercilessly exposed in the country's fight against a powerful "enemy", the pandemic. It's no wonder that citizens' distrust of state institutions is growing and that their willingness to comply with government measures is running thin.

I don't want this introduction to a report packed with full of data and findings to end on a sour note, though. Every crisis is an opportunity for awakening what is good in people: creativity, responsibility, sympathy and problem-solving aptitude. We have the courage to see things as they really are and also the strength and skills to help us find a way out of this difficult situation. We want the SAO's 2020 annual report to help in this regard.

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's statutory bodies are the President and Vice-President, the Board, senates and the Disciplinary Chamber. In the interest of ensuring objectivity in the assessment of audit findings and in fundamental matters 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 its 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 it is approved 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 Board or 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 the 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 the accounting in accordance with the law. This type of audit is a tool for verifying the accuracy of information which 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 an 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; they participate in the activities of the SAO senates and the SAO Board. They manage audits from the authorisation 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 in green¹.

¹ 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 2020 can be found in the SAO Bulletin or in the electronic version of *the Annual Report* by clicking on the blue highlighted number of audit.

Table 1: Overview of audits conducted in 2020

Name of SAO Member	Member since	Number of audits managed up to the end of 2020	Audits the Member managed in 2020	
			Completed	Not completed
Mr Adolf Beznoska	14 March 2017	8	19/06 19/19	20/12 20/13
Mr Pavel Hrnčíř	11 December 2009	26	19/15 19/24 19/28	20/20
Ms Hana Hykšová*	13 February 2014	14	19/12 19/22	–
Mr Jiří Kalivoda	17 September 1993	73	19/09	19/30 20/01
Mr Jan Kinšt	25 January 2018	8	19/11 19/18	20/10 20/18
Mr Vladimír Koniček	4 December 2018	3	19/33	20/02 20/16
Mr Stanislav Koucký	8 October 2020	0	–	–
Mr Josef Kubiček	10 June 2014	15	18/32 19/05	20/32
Mr Jan Málek	21 June 2016	12	19/10 19/16	20/11 20/14
Mr Petr Neuvirt	21 December 2010	36	19/04 19/13 19/17	20/04 20/05 20/06 20/19
Mr Roman Procházka	25 January 2018	5	19/07 19/26 20/03	20/23
Ms Hana Pýchová**	24 October 2014	8	–	–
Mr Daniel Reisingel, MPA	30 April 2010	29	19/08 19/29 19/34	20/21
Mr Jan Stárek	4 June 2015	14	19/20 19/25	20/24 20/29
Ms Jaromíra Steidlová	16 November 2006	32	19/21	20/25 20/34
Mr Michal Šmucr	10 June 2020	0	–	–
Mr Jan Vedral	25 April 2001	62	19/14 19/23 19/31	20/07 20/22 20/27 20/33

* Ms Hana Hykšová – term of office ended on 4 September 2020.

** Ms Hana Pýchová – term of office ended on 4 May 2020.

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 President’s Office, the Board secretary, the Director of the Security Department and the Director of the Internal Audit Department.



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 funds². 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. In this way they contribute to the promotion of good practice. Independent and objective feedback is essential for the functioning of the Czech state. This information is important for parliament and government, which are the SAO’s key partners, as well as for the general public.

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 information provider. The SAO’s objective, targeted and comprehensible conclusions and recommendations lead to shortcomings being remedied and a positive shift in the management of public funds and property, with the promotion of good practice.



2 The SAO’s mission is part of the *Strategy of the Supreme Audit Office for 2018–2022*.

The most important impacts of the SAO's work include positive pressure exerted on the appropriate authorities to eliminate identified shortcomings and implement systemic corrective measures. Audits 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 this 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 part of the annual report, are clear and comprehensible evidence of the results and benefits of the SAO's work.

5. AUDIT PLAN FOR 2020

The SAO audit plan for 2020 was the fundamental document defining the focus and timing of audits last year. 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, the effectiveness of state administration, and the CR's competitiveness by international comparison.

The SAO's approach was mainly risk-based in order to ensure its audit work was effective. The guiding principle was to identify 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.

Key areas targeted by the SAO's audit plan included:

- money spent in connection with the epidemic situation;
- support for the use of urban public transport with electric traction;
- progress towards the national targets of *Europe 2020*;
- measures to make apartment buildings more energy efficient;
- administration of social security insurance premiums;
- food aid and measures to reduce food waste;
- investments in social services;
- state support for anti-drugs policy programmes;
- support for the construction, maintenance and repair of cycling infrastructure;
- progress towards selected goals of migration policy;
- ICT in the department of the Ministry of Agriculture;
- interventions to ensure sustainable water quality;

- state support provided to public universities;
- procurement of armaments by the Army of the Czech Republic;
- the financial management of selected state organisations;
- the reliability of financial management data underpinning institutions' accounts concerning the management of state budget funds.

The audits included in the 2020 audit plan were based on suggestions arising out of the SAO's own monitoring and analysis work and, in some cases, suggestions the SAO received from the public.

The audit plan for 2020 was adopted by the SAO Board at its 14 October 2020 session. 31 audits were approved in total. During 2020, eight audits were cancelled and three other audits were added, making a total of **26** audits.

An overview of the audits included in the 2020 audit plan, and their specific focus and timing, is presented in Annex 1. Depending on the start time and audit duration, the planned completion times, i.e. when audit reports are approved, are in 2020 and 2021.

6. THE SAO AND COVID-19

Needless to say, the Supreme Audit Office was not unaffected by the global pandemic. The SAO management adopted a number of operational and organisational measures in response to the new situation. The SAO also updated its audit plan. Last but not least, the SAO's representatives and employees took part in numerous volunteering activities.

The SAO emergency committee was activated immediately after the pandemic broke out. The SAO management adopted a number of operational and organisational measures designed to protect employees from infection and stop the spread of Covid-19. The SAO repeatedly updated its internal regulations in line with the measures adopted by the government. Work-from-home rules had already been introduced by the SAO before the pandemic broke out, but during the pandemic SAO employees worked from home to the maximum possible extent; work meetings were moved online. The SAO provided distance training for its employees and also created e-learning courses. If an employee had to be present in the workplace for any reason, he or she was provided with disinfectant items. The adopted measures were reflected in the low number of employees infected with Covid-19, so the SAO could continue its work.

The new situation made it necessary to update the audit plan. Some audits were discarded, while the timing of others was changed. The SAO also included funds spent on the fight against the pandemic in its audit plan and updated certain ongoing audits in this light. A considerable part of audit work also took place remotely, without auditors visiting the premises of audited entities. You can find the details in the section of the annual report devoted to audit work.

Even though the situation placed increased demands on all SAO employees, whether that means the aforesaid operational measures or, for example, the need to provide distance learning for their children or care for older relatives, a large number of employees took part in a whole series of volunteering activities. Through school principals, the SAO offered surplus computers to disadvantaged children for home schooling. The SAO also made part of the capacity of its servers available to Stanford University, which used it for coronavirus vaccine development computer simulations. Many colleagues, male and female, sewed face-masks. The SAO organised two internal fundraising campaigns in support of one centre for vulnerable children in Prague and for nursing staff. These campaigns raised a total of CZK 340,500. Some employees used their home 3D printers to make protective visors for healthcare workers.

The SAO opened its crèche to the children of medical staff, police officers and ambulance crews. We contacted our now-retired former colleagues to offer help with their shopping. Last but not least, dozens of SAO representatives and employees volunteered at the State Material Reserves Administration, helping unload lorries delivering personal protection equipment to its warehouses.

II. ASSESSMENT OF AUDIT AND ANALYSIS WORK IN 2020

The assessment of audit and analysis work presented in this section is based mainly on the results of audits that were completed in 2020 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 2019 and on the report on the implementation of the Czech state budget for the first half of 2020, information from other SAO reports and other findings from the SAO's analysis work.

The assessment is based on the results of 30 audits³; Annex 2 gives an overview of these audits. These audits included in the audit plans for 2018–2020 were completed in 2020. 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. The audits mainly targeted the 2016–2020 period.

1. OPENING SUMMARY

From the SAO's point of view, numerous problems afflicted governance in 2020, and in many regards these were aggravated by the Covid-19 pandemic. The crisis had a negative impact primarily on public finances and the state budget: in an attempt to tackle the crisis, the state abandoned attempts to look for savings and make its work more efficient, which goes against the fundamental principles of the management of public funds. This is a serious problem that will have a negative long-term impact unless the state changes its approach to managing public funds.

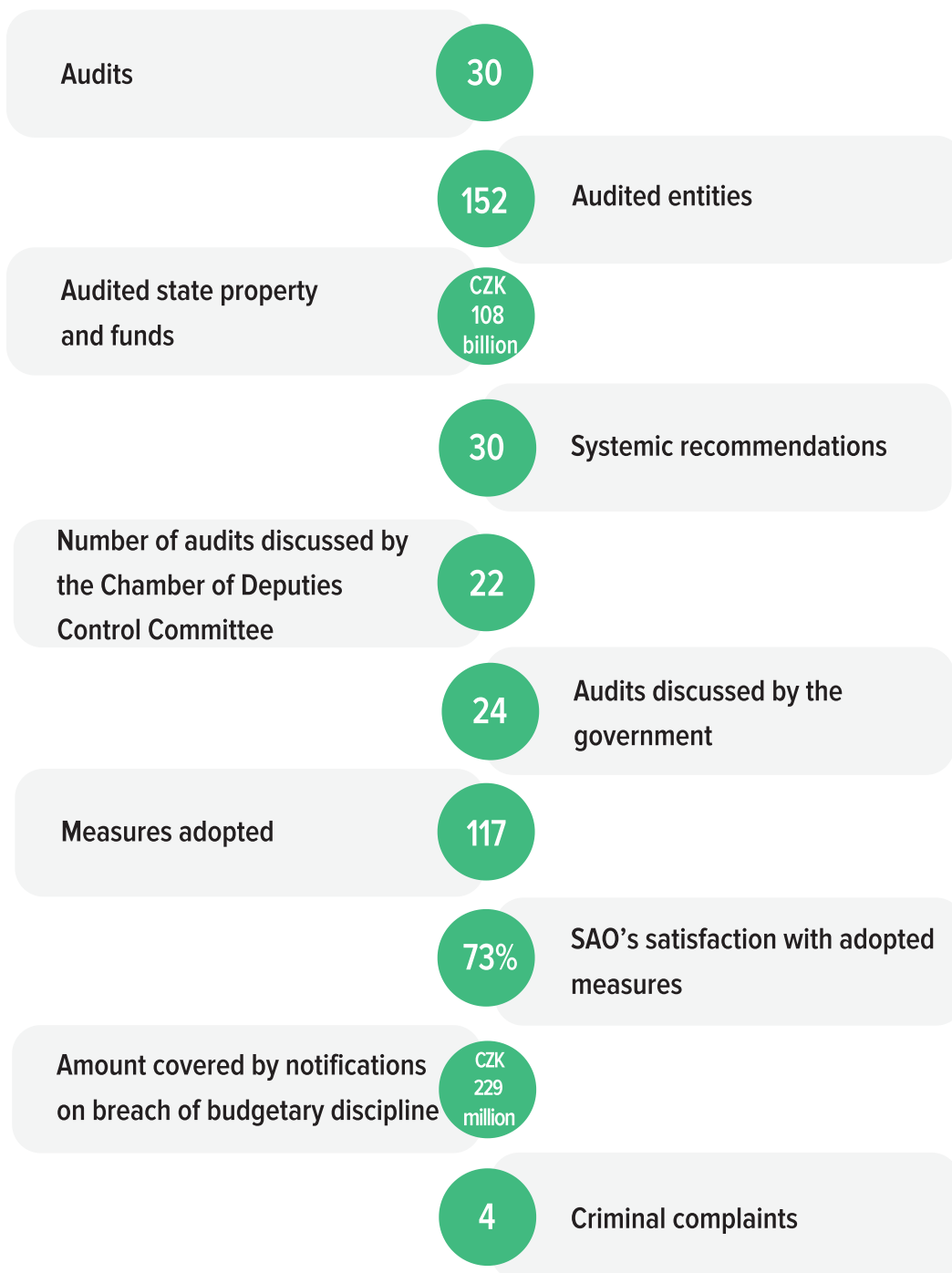
Besides the crisis and its impacts, the state's long-standing inability to make progress on key projects designed to have a positive impact on citizens' lives or the Czech Republic's performance was again apparent in 2020. One example is the eGovernment where, despite some small-scale changes, actual results that would do justice to the money spent do not materialise.

The common denominator of a substantial set of the problems described in this annual report is the state's inability to act in a targeted and systematic manner. The situation where the state is unable to determine what it wants to achieve and how, and unable to see projects through to a successful conclusion, persists. One frequent symptom of this is that government departments spend money without knowing what the money is being spent on exactly and what results the spending is delivering. The situation is compounded by the poor performance of state administration, excessive bureaucracy and insufficient or entirely absent coordination and communication between the responsible authorities.

Problems that have been put off or left unresolved and the ongoing epidemic are confronting the state with an urgent need to make fundamental decisions. In the SAO's opinion, the way the state is run needs drastic change if the CR is to cope successfully with the consequences of the crisis and with the challenges the various long-term problems pose.

³ One of these audits was commenced in 2018 in line with the audit plan; 28 were commenced in 2019; and one in 2020. The audit work covered all segments of the SAO's statutory competence, bar the Czech National Bank and the issuance and amortisation of state securities, where the SAO's audits are performed over longer intervals.

The SAO in 2020



GROWING RISK OF UNSUSTAINABLE PUBLIC FINANCE

NEITHER THE STATE NOR THE STATE BUDGET WAS PREPARED FOR A PRONOUNCED ECONOMIC SLOWDOWN, LET ALONE THE UNPARALLELED EMERGENCY CAUSED BY THE COVID-19 PANDEMIC. THE YEAR 2020 ENDED WITH THE WORST STATE BUDGET FIGURES IN THE CZECH REPUBLIC'S HISTORY. THIS RESULT CANNOT BE ASCRIBED ENTIRELY TO THE PANDEMIC: THE FAILURE TO TACKLE LONG-TERM PROBLEMS THAT ARE AFFECTING THE CR MORE AND MORE DRASTICALLY ALSO PLAYS A PART. INCREASED SPENDING ON THE WORKING OF THE STATE AND ON SOCIAL BENEFITS (AND IN PARTICULAR SALARIES AND PENSIONS) THAT IS NOT COVERED BY REVENUES, COMBINED WITH THE FAILURE TO LOOK FOR SAVINGS, PUTS THE STABILITY OF PUBLIC FINANCES AT RISK.

After a period of economic growth, in 2020 the Czech Republic, like all other countries, had to contend with the negative consequences of the Covid-19 pandemic. Seeking to prevent the disease's spread, many countries' governments adopted a raft of measures that significantly impacted on the working of their economies. The Czech economy, however, had already shown signs of a slowdown before the pandemic, which merely increased the speed and magnitude of the contraction. 2020 ended with the worst economic contraction in the history of the independent CR. The average annual rate of inflation was one of the highest in Europe. The state of the labour market can be rated as partly positive: the government measures did not lead to a marked increase in unemployment, which remained among the lowest in Europe.

The CR ended 2020 with a substantial budget deficit of CZK 367.4 billion, mainly driven by the year-on-year fall in state budget revenues, the absence of economy measures and the considerable increase in expenditure – in addition to spending linked to Covid-19, current expenditure unrelated to the pandemic increased, continuing the rising trend of the previous years. More than half of the increase in total expenditure was not caused by measures to prevent the spread of Covid-19, but by increased spending on the working of the state, social expenditure and other items.

In 2019 government debt accounted for 28.5% of GDP, but in 2020 it was up to 36.5% of GDP. Although the CR remains one of the least indebted EU countries, according to the European Commission's estimate⁴ the CR displays one of the fastest rates of debt growth. According to the Czech Fiscal Council, in the coming years this trend could pose a significant risk to the sustainability of public finances.

Total state budget revenues amounted to **CZK 1,475.5 billion** in 2020, **CZK 47.7 billion** lower than 2019 revenues. The biggest factor was the **CZK 57 billion** fall in tax revenues caused mainly by the economic contraction and measures adopted by the Czech government. State budget expenditures stood at **CZK 1,842.9 billion**, an increase of **CZK 291.2 billion** over 2019. This increase was driven by both current expenditure, which rose by **CZK 257.7 billion**, and capital expenditure, which was up by **CZK 33.5 billion**.

At least CZK 147 billion of the total CZK 291 billion year-on-year increase in state budget expenditure was not related to the Covid-19 pandemic.

The MoF included among expenditure supposedly linked to Covid-19 measures items that were not directly related to the adopted measures (e.g. a one-off contribution to pensioners, debt relief for hospitals et al.).

The SAO has repeatedly drawn attention to significant shortcomings in the state's governance and financing that jeopardise the long-term stability of public finances.

4 European Commission: General Government Data – General Government Revenue, Expenditure, Balances and Gross Debt (AUTUMN 2020).

THE STATE'S POOR PERFORMANCE IMPACTED ON LONG-TERM PROJECTS AND EMERGENCY SITUATIONS

NUMEROUS KEY AREAS, SUCH AS TRANSPORT INFRASTRUCTURE DEVELOPMENT, HOUSING SUPPORT, SECURITY AND ALSO THE ABILITY TO RESPOND TO THE COVID-19 PANDEMIC, WERE NEGATIVELY AFFECTED BY EXCESSIVE BUREAUCRACY AND SLOW PROCESSES, AN INABILITY TO MAKE PROGRESS, LACK OF COORDINATION AND THE POOR QUALITY OF THE PROVIDED SERVICES.

The responsible authorities have been putting off long-term problems grounded in legitimate needs. They lack the necessary grasp of a number of areas within their remit, but nevertheless spend significant amounts on them. Effective execution and effective coordination of activities, including the speed of response, are not guaranteed even where interdepartmental cooperation is essential.

The extremely long building authorisation processes are alarming. Consequences include the slow pace of preparation and execution of construction projects, which has a negative impact on transport infrastructure, for example. But the state's lack of activity also has a negative impact directly on citizens' lives, for example in investment and availability of housing.

Unsatisfactory processes in project preparation and execution and insufficient care in the field of transport infrastructure were confirmed by an audit⁵ targeting critical points of transport infrastructure, i.e. motorway and road bridges. The SAO drew attention to this neglectful stewardship when it found that **3,400** out of a total of **17,500** bridges were in a condition ranging from poor to critical. One of the audit's findings was that the state did not possess complete and credible information about the bridges' condition. Consequently, it does not know how much money will be needed to repair them.

Another example of the state's ineffectuality is that preparations for and selection of a site for an underground radioactive waste storage facility have been going on for over **23 years** without delivering a result. The deadline for selecting a final locality keeps being put back⁸. In that time, however, the Radioactive Waste Repository Authority spent over **CZK 1.8 billion**.

Long-term inactivity or slow reaction by the state can have fundamental negative consequences for its preparations for crisis situations. Even though floods represent the biggest direct threat from natural disasters in the Czech Republic according to the MoE, the responsible authorities have not taken adequate steps to make it possible to prevent floods effectively and minimise the damage they cause. That is despite the fact that floods cause serious emergencies resulting in both extensive material damage and loss of life. An audit⁹ detected systemic shortcomings such as delays in the implementation of anti-flood measures and insufficient promotion of nature-based measures. Newbuild construction in active flood zones was another serious shortcoming.

The MoRD and MoLSA have been preparing a social housing act intended to define the basic attributes of the social housing system since 2015, but so far nothing has been submitted to the Chamber of Deputies.

According to the World Bank⁵, in 2019 the Czech Republic was in 157th place out of 188 assessed countries in terms of the bureaucracy involved in building authorisation and in last place in the EU.

*The speed of motorway construction in the CR is far below that in neighbouring Poland. Just **21 km** of new sections of motorway was opened in the CR in 2020, compared to **138 km** in Poland⁷.*

*More than half of the total of **135** government-approved flood prevention measures for 2015–2021 will not even have been commenced by the end of 2021.*

5 *Doing Business 2020*, World Bank Group, 2019.

6 SAO audit No. 19/10.

7 Roads and Motorways Directorate; see: <https://www.gddkia.gov.pl/pl/a/40629/Podsumowanie-2020-roku>.

8 SAO audit No. 19/25.

9 SAO audit No. 19/04.

STAGNATING DIGITALISATION IS A MISSED OPPORTUNITY FOR USER-FRIENDLY STATE ADMINISTRATION

THE STANDARD OF GOVERNMENT SERVICES INTENDED FOR CITIZENS REMAINS A PROBLEM. THE ELECTRONISATION OF STATE ADMINISTRATION AND THE RELATED SERVICES THAT WOULD FACILITATE CONTACT BETWEEN THE PUBLIC AND STATE ADMINISTRATION HAS THE POTENTIAL TO CHANGE THIS. BUT SO FAR ELECTRONISATION IS NOT DELIVERING RESULTS THAT WOULD JUSTIFY THE MONEY SPENT.

The SAO points out that the number of state employees has increased regularly since 2016 without any tangible improvement in the exercise of state administration. The worsening of the government effectiveness indicator in the same period is proof of that¹⁰. The transition to eGovernment is an opportunity to improve this effectiveness, but in the CR this process is disproportionately expensive, progressing very slowly and failing to deliver the expected results. That is confirmed by international comparison¹¹, in which the CR has consistently lagged behind the EU average. One of the upshots of the persistently poor performance of state administration is the consistently heavy administrative and bureaucratic burden borne by Czech citizens.

*Between 2016 and 2019 the number of state employees increased by almost **27,000** and total spending on their salaries and other payments grew by more than **CZK 58 billion**.*

One example of a missed opportunity to improve the state's services for citizens is the electronic identification system and *Citizens' Portal*, which the MoI has spent almost **CZK 250 million** on but has failed to provide a wide range of accessible services to citizens. At the same time, the services offered were not sufficiently attractive for citizens to be interested in them. Less than **0.5%** of adults in the CR had used *Citizens' Portal* by the end of 2019. The Supreme Audit Office rates the development of eGovernment to date in terms of providing electronic access to digital services as utterly inadequate¹².

*Expenditure on eGovernment is constantly rising. Ministries have spent at least **CZK 67 billion** since 2016, but even so the CR's position in the DESI ranking of "digital public services" fell by two places year-on-year in 2020, putting the CR in **22nd place** in the EU.*

Expanding electronisation has also brought an increase in cyber incidents. According to National Cyber and Information Security Agency data, the number of cyber incidents more than doubled from 2019 to 2020. The SAO pointed out that the state does not know how much money government departments are spending on cyber security¹³. The failure to guarantee secure digital services means that citizens' trust in online communication with state authorities is undermined and, moreover, the actual provision of these services to citizens is jeopardised. One alarming example was the series of cyber attacks targeting healthcare facilities at the start of 2020 that endangered the provision of medical care to citizens.

10 *The Worldwide Governance Indicators* (Government Effectiveness); see: <http://info.worldbank.org/governance/wgi/>.

11 Composite indicator *Digital Economy and Society Index 2020* rates the following aspects: connectivity, human capital, use of internet services, integration of digital technology, digital public services; see: <https://ec.europa.eu/digital-single-market/en/desi>.

12 SAO audit No. [19/14](#).

13 SAO audit No. [19/26](#).

EFFORTS TO TACKLE KEY SOCIAL ISSUES ARE INADEQUATE

THE STATE'S EFFORTS TO TACKLE LONG-TERM SOCIAL PROBLEMS LIKE PENSION REFORM, EMPLOYMENT OF OLDER PEOPLE AND SOCIAL EXCLUSION ARE INADEQUATE. THESE ARE FUNDAMENTAL AREAS THAT ARE IMPORTANT FOR THE FUTURE DEVELOPMENT OF SOCIETY, SOCIAL COHESION AND SUSTAINABILITY. FAILING TO TACKLE THESE ISSUES CAN WORSEN SOCIAL INEQUALITIES.

The state is putting off the necessary reforms that would impact on social issues. Negative demographic trends are linked to a greater burden on the state budget, as borne out by the growing *economic burden index* compiled by the Czech Statistical Office. In addition, the need to target funding correctly to help minimise social disadvantaging and contribute to equal conditions in society is gaining in importance.

The long-term deferment of pension reform has resulted in highly risky developments in the social sphere. The CR ranks among the countries with an unfavourable population ageing forecast. According to Czech Statistical Office (CSO) figures, more than **20%** of the total population was over 65 in 2020. According to demographic forecasts, the proportion could be as high as **31%** in 2060, according to the CSO. European comparison¹⁴ showed that between 2009 and 2019 the CR registered one of the biggest increases in this proportion, from **14.9%** to **19.6%**, the second worst result after Finland. The impact of the pension system deficit on the state budget could thus be very significant in connection with pension increases.

*According to a CSO estimate, there will be **81 economically inactive people for every 100 economically active people in 2060.***

The SAO also points out that the proportion of job-seekers accounted for by the over-50s is growing constantly. The MoLSA put the total amount spent on support for employment among this age group from operational programme *Employment* at almost **CZK 6.5 billion**. The SAO found that the funds spent contributed to the increase in employment, but only until the end of the financing of the projects¹⁵.

*Statistics of the Labour Office of the CR indicate that while people over 50 accounted for **31%** of all job-seekers in 2015, in 2019 the figure was **38%**.*

With a view to stopping the formation of areas with social segregation, **CZK 114 million** was drawn down in support of demolishing buildings in municipalities with a socially excluded locality or municipalities where there is a risk of one emerging. An SAO audit revealed, however, that some municipalities used the support to demolish superfluous buildings and revitalise their territory. The benefit for tackling social issues was therefore minimal¹⁶.

The MoEYS, the City of Prague and the MoRD spent **CZK 32.3 billion** from the state budget on inclusive schooling up to the middle of 2019. However, the MoEYS did not sufficiently prepare either schools or teachers for the inclusive teaching practices¹⁷. What's more, inclusive schooling is financially dependent on EU funding, which presents a risk that after the existing programming period ends there will not be sufficient funds for employing the necessary specialist staff. That could mean that equal access to education is not guaranteed and some schoolchildren may be disadvantaged.

14 Eurostat.

15 SAO audit no. [19/23](#).

16 SAO audit No. [19/22](#).

17 SAO audit No. [19/19](#).

THE STATE OFTEN PAYS INSUFFICIENT ATTENTION TO THE ACTUAL BENEFITS DELIVERED BY SPENDING

IF MONEY IS TO BE SPENT EFFECTIVELY, IT IS ESSENTIAL THAT THE BENEFITS FOR THE STATE AND CITIZENS ARE MONITORED. IN FIELDS LIKE SUPPORT FOR RESEARCH AND DEVELOPMENT, DEFENCE OR INTERNATIONAL COOPERATION, THE RESPONSIBLE AUTHORITIES DID NOT MONITOR THE BENEFITS OF SPENDING. YET THESE ARE AREAS THAT HAVE A FUNDAMENTAL IMPACT ON THE CZECH REPUBLIC'S INTERNATIONAL STANDING.

The results of the SAO's audit work show that many government departments do not take responsibility for economical, efficient and effective spending of public money. They pay no attention to the sustainability of projects' results; they do not monitor projects' actual benefits; and the return on or utility of the provided funding is not sufficiently ensured.

*The MoI spent over **CZK 1.5 billion** on security research from 2015 to 2018 and the MoH spent **CZK 4.2 billion** on medical research from 2015 to 2019.*

The SAO has found that the absence of monitoring and assessment of the provided support's impacts is a major shortcoming in support for research, development and innovation¹⁸. One upshot in the case of the MoH, for example, was that one programme envisaged **415** applied results but only **two** materialised. Conversely, publishing activities gave rise to **2,945** articles or publications instead of the planned **180**. The low usability of research results in practice is illustrated by the CR's position in the bottom half of the "number of patent applications" indicator of the innovation scoreboard¹⁹.

*The CR finished eighth from the bottom among EU countries. With **0.7** patent applications per CZK 1 billion of GDP, the CR was far below the EU average, which was **3.4**.*

Similarly, the state does not have information about the benefits of cooperation with a number of international organisations. The MoFA ought to have a good overview of which international organisations the CR cooperates with and what this cooperation brings in terms of benefits to the CR. But the MoFA was unable to provide the necessary information on either point. The SAO therefore conducted its own survey-based questionnaire, ascertaining that in 2018 the CR cooperated with **477** organisations, paying them **CZK 4.4 billion**. The benefits of cooperation for the CR were only assessed in the case of **49%** of these organisations, however²⁰.

In the context of international cooperation, state spending on defence and the effectiveness of this spending also play an important role. Despite the high cost of procuring and servicing armoured vehicles, which exceeded **CZK 4 billion** between 2016 and 2018, much of this equipment is not in working condition. The MoD did not pay attention to the total costs of the lifecycle of armoured vehicles, as a result of which it became dependent on the supplier of maintenance services and spare parts with the necessary licence. Finances earmarked for the acquisition, repair and maintenance of this equipment were spent ineffectively and inefficiently²¹. The SAO also identified inefficient purchasing when it audited arms procurement for the Army of the Czech Republic²². That jeopardises efforts to build up the army's capabilities.

*The average age of armoured vehicles was **20 years** old; less than **70%** of the vehicles and transporters and less than **43%** of tanks were in proper working condition.*

18 SAO audit Nos. [19/11](#) and [19/17](#).

19 European Innovation Scoreboard 2020, European Commission.

20 SAO audit No. [19/05](#).

21 SAO audit No. [19/13](#).

22 SAO audit No. [20/03](#).

THE STATE'S POOR PERFORMANCE INFLUENCES BOTH THE CR'S COMPETITIVENESS AND PUBLIC TRUST

THE POOR PERFORMANCE OF THE PUBLIC SECTOR AND CITIZENS' MISTRUST OF STATE INSTITUTIONS ARE A SERIOUS OBSTACLE TO OVERCOMING BOTH LONG-TERM PROBLEMS AND THE CURRENT SITUATION.

The SAO has long drawn attention to the fact that poor *public sector performance* has a negative impact on the CR's competitiveness, as confirmed by international benchmarking. The CR ranked **99th** in the public sector performance indicator in 2019 and was one of the worst countries in the EU in this regard²³. In 2020 the World Economic Forum (WEF) issued a special thematic report²⁴ on how well positioned countries were for economic recovery after the crisis. The CR came in **24th** out of 37 countries in the indicator of readiness for economic transformation. The overall ranking is based on 11 priorities. In the priority focusing on the public sector's potential from the perspective of abiding by firm principles, building citizens' confidence and long-term visions in the work of public institutions, the CR achieved a below-average score, occupying **25th** place. It was the sixth worst out of the European countries (see Chart 1).

23 *The Global Competitiveness Report 2019*; World Economic Forum 2019; see: <http://reports.weforum.org/global-competitiveness-report-2019>. (141 countries were assessed.)

24 *Global Competitiveness Report Special Edition 2020: How Countries are Performing on the Road to Recovery*, see: <https://www.weforum.org/reports/the-global-competitiveness-report-2020>.

Chart 1: EU countries' standing in international benchmarking in terms of "public institutions' strong principles, long-term vision and public trust"



Source: *Global Competitiveness Report Special Edition 2020*.

According to the WEF, in the context of the current crisis's impacts a negative trend can be observed in the form of the disruption of state institutions' performance owing to a threat to the equilibrium in the division of powers in the state and reduced overall transparency. From the perspective of recovery, the WEF recommends giving precedence to long-term visions and strategies over ad hoc solutions and focusing on more effective processes through the digitalisation of public administration. Those are the essential and fundamental conditions for creating a favourable environment for effective economic transformation, according to the WEF.

The examples presented above show that the state's financial management and performance are poor. It is incapable of responding to either long-term tasks or rapidly changing needs, so in a number of areas it does not fulfil its function properly. The SAO has repeatedly flagged up the main causes of this state of affairs in order to help improve the state's financial management and the provision of its services to citizens.

2. PUBLIC FINANCES

The SAO also expresses its opinion on the development of the economic situation and the results of the management of public funds and the state budget. This is based partly on its opinions on the draft state final account and the report on the implementation of the state budget, and partly on the results of audit and analytical activities and current data for 2020,

In 2020, the global economy was hit hard by the Covid-19 pandemic, and national governments subsequently began to take measures to prevent the disease spreading. The pandemic caught the Czech economy in the downward phase of the business cycle. The Czech government's drastic measures contributed to the economic downturn, especially in the areas of tourism, trade and services, culture and transport. The result was the deepest economic contraction in the history of the independent Czech Republic, amounting to 5.6% of GDP. Other economic indicators, such as household consumption expenditure and investment activity, also declined. The citizens of the Czech Republic also experienced rising prices, with prices up by 3.2% year-on-year, giving the Czech Republic one of the highest inflation rates in the EU. Unemployment increased only slightly as a result of the government measures, reaching an average of 2.6%, which was still among the lowest in the EU. These developments had a significant impact on both the revenue and expenditure sides of the state budget. The state has not been able to offset the increase in current expenditure with increased revenues or finding savings. The state budget ended up with the worst result in the history of the Czech Republic: by the end of 2020 government debt exceeded CZK 2 trillion.

In connection with measures to limit the spread of Covid-19, three amendments to the State Budget Act²⁵ were made during the year, which increased the originally approved budget deficit of **CZK 40 billion** to **CZK 500 billion**. Compared to the budget approved in January, revenues decreased by CZK 213.3 billion and expenditures increased by **CZK 246.7 billion**. The state budget for 2020 therefore set total revenues at **CZK 1,364.8 billion**, total expenditure at **CZK 1,864.8 billion** and a deficit of **CZK 500.0 billion**. Actual total revenue in 2020 was **CZK 1,475.5 billion**, total expenditure was **CZK 1,842.9 billion** and the resulting deficit was **CZK 367.4 billion**.

In addition to the changes to the State Budget Act, the Government of the Czech Republic also amended the Act on the Rules of Budgetary Responsibility in the context of the Covid-19 pandemic. The first adopted amendment²⁶ raised the structural deficit threshold for 2021 from **1%** of GDP to **4%** of GDP. Between 2022 and 2027, the structural balance should be reduced by at least **0.5** pp year-on-year. The Czech Fiscal Council issued a statement²⁷ opposing this amendment, describing the **4%** of GDP structural deficit cap as unnecessary, as the previous wording of the Act already allowed the government to take the necessary fiscal measures. A second amendment²⁸ was adopted at the end of 2020 in the context of the approval of a tax package that increased the original expected structural deficit. The determination of the structural balance for 2022 will be based on the forecasted structural balance for 2021 (up to **5.9%** of GDP according to the MoF fiscal outlook). In this case as well, the Czech Fiscal Council issued a statement²⁹ saying that the chosen way of modifying the given Act was evidence of the government's unsatisfactory and irresponsible approach to the fiscal rules.

*The amendments of the State Budget Act entailed no financial savings other than a **CZK 2.9 billion** reduction in expenditure in chapter 307 – Ministry of Defence and a **CZK 1.5 billion** reduction in expenditure in chapter 327 – Ministry of Transport.*

25 Act No. 129/2020 Coll., amending Act No. 355/2019, on the state budget of the Czech Republic for 2020; effective from 26 March 2020. Act No. 208/2020 Coll., amending Act No. 355/2019, on the state budget of the Czech Republic for 2020, as amended by Act No. 129/2020; effective from 27 April 2020. Act No. 323/2020 Coll., amending Act No. 355/2019, on the state budget of the Czech Republic for 2020, as amended; effective from 16 July 2020.

26 Act No. 207/2020 Coll., amending Act No. 23/2017 Coll., on the rules of budgetary responsibility, as amended by Act No. 277/2019 Coll.

27 Statement of the Czech Fiscal Council of 3 April 2020 regarding the government draft amendment of Act No. 23/2017 Coll., on the rules of budgetary responsibility.

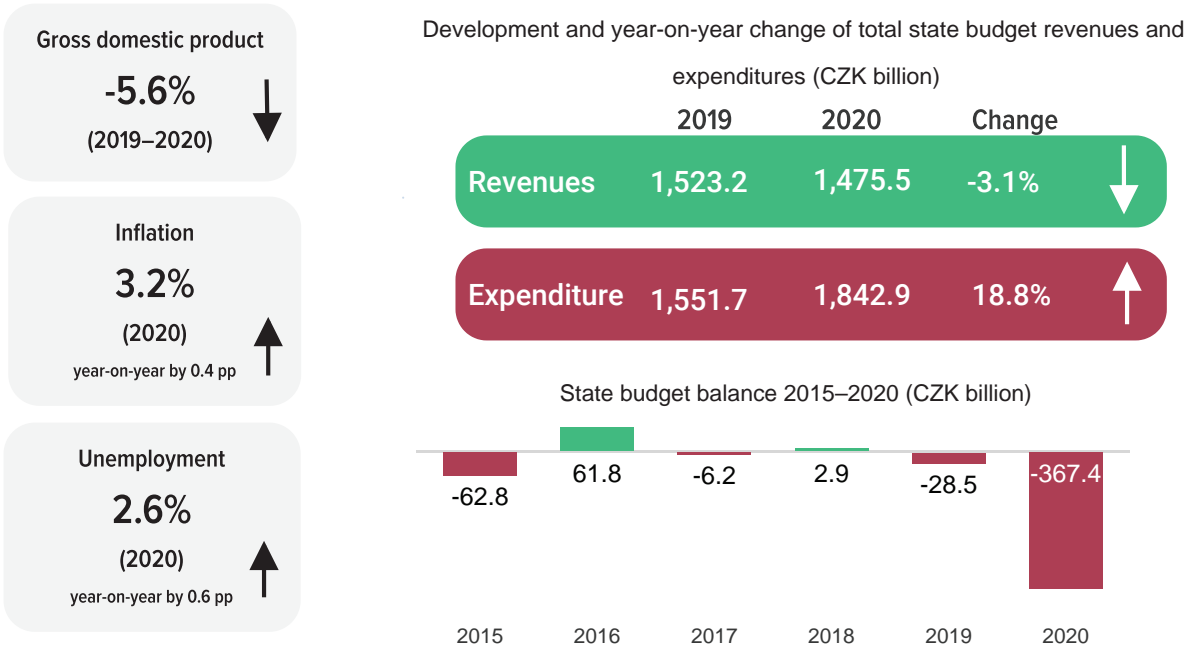
28 Act No. 609/2020 Coll., amending certain acts in the field of taxes and certain other acts – Part Thirty-two – amendment of the Act on the Rules of Budgetary Responsibility.

29 Statement of the Czech Fiscal Council of 27 October 2020 regarding the draft amendment abolishing the taxation of super-gross pay and loosening the fiscal rules.



The state budget was not prepared for the marked economic slowdown and the unparalleled crisis caused by the Covid-19 pandemic

THE STATE WAS UNABLE TO RESPOND TO THE ECONOMIC CONTRACTION WITH APPROPRIATE ECONOMY MEASURES ON THE EXPENDITURE SIDE OF THE STATE BUDGET



THE OPEN BUDGET INDEX RANKED THE CZ AMONG THE COUNTRIES WITH A LESS TRANSPARENT APPROACH TO BUDGETING IN 2019

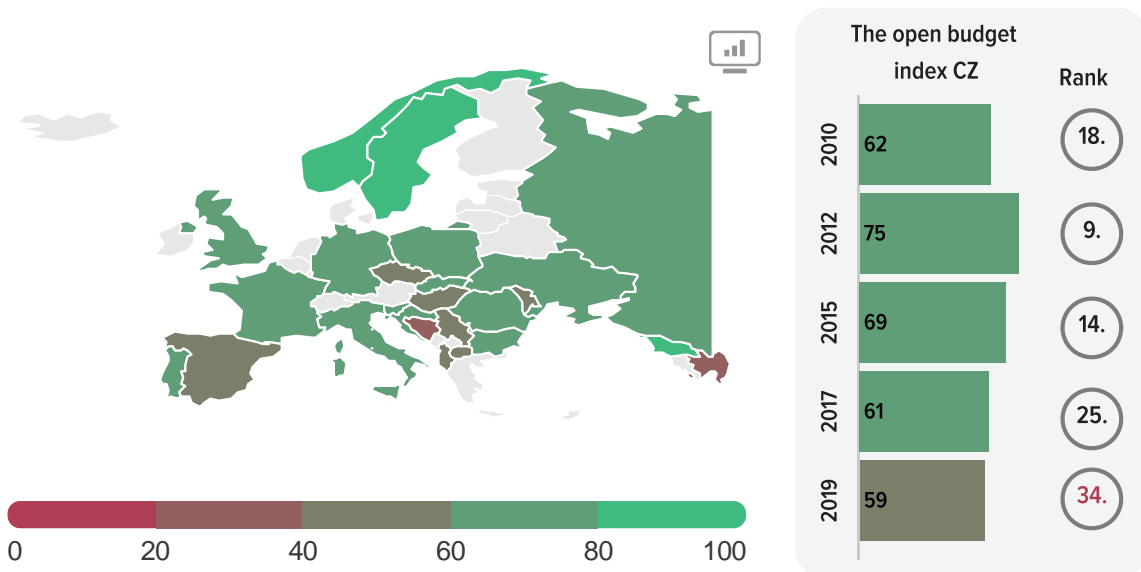


Table 2: State budget balance 2014–2020 (CZK billion)

Indicator	2014	2015	2016	2017	2018	2019	2020
Planned balance	-112.0	-100.0	-70.0	-60.0	-50.0	-40.0	-500.0
Actual balance	-77.8	-62.8	61.8	-6.2	2.9	-28.5	-367.4
Balance without EU/FM	-64.1	-41.7	-13.5	-1.5	-3.7	-29.5	-365.1

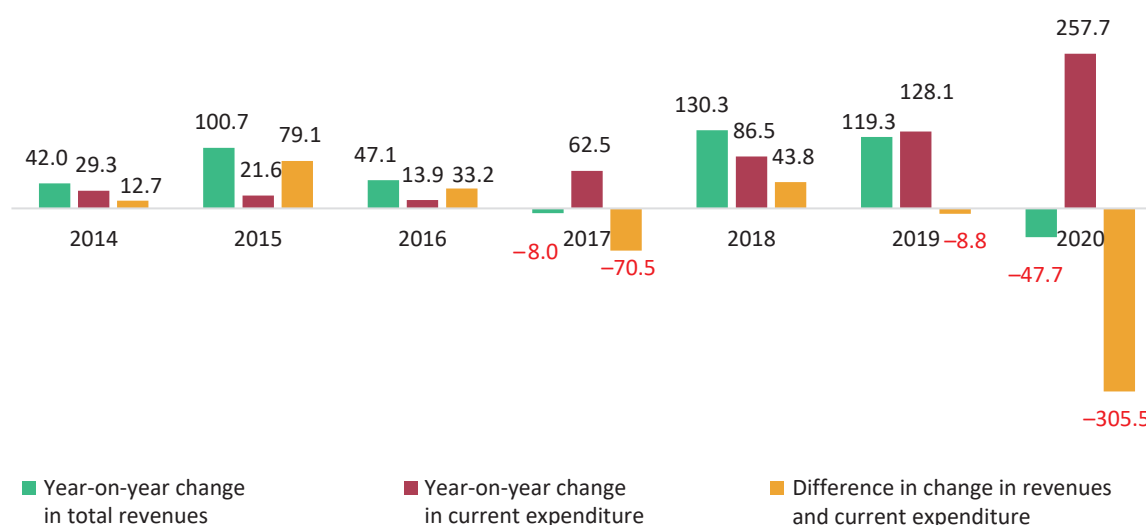
Source: State Treasury Integrated Information System.

THE SAO POINTS OUT THAT THE INCREASED FISCAL SPACE CREATED BY THE AMENDMENT TO THE ACT ON THE RULES OF BUDGETARY RESPONSIBILITY MIGHT NOT NECESSARILY BE USED SOLELY FOR EXPENDITURE AND REVENUE MEASURES RELATED TO MITIGATING THE ECONOMIC IMPACT OF THE CURRENT CRISIS AND COULD THUS NEGATE THE PURPOSE OF THE ESTABLISHED BUDGETARY RESPONSIBILITY RULES.

In 2020, state budget revenues totalled **CZK 1,475.5 billion**, which was **CZK 47.7 billion** less than the previous year, despite the fact that actual revenues exceeded the approved budget by **CZK 110.7 billion**. One major factor in the fall in revenue was the extraordinary government measures taken in connection with efforts to curb the spread of Covid-19. The overall fall in revenues was mainly due to **CZK 57 billion** year-on-year fall in tax revenues, which ended the year at **CZK 1,258.7 billion**. Non-tax revenues also declined, while capital revenues maintained their year-on-year growth. The **CZK 7.9 billion** increase in transfers received compared to 2019 was driven by transfers received from the EU budget and financial mechanisms, including the Common Agricultural Policy. The significant decrease in actual tax revenues caused total revenues to register a year-on-year decline for the first time in three years. At the same time, for the second consecutive year the year-on-year change in revenues was smaller than the year-on-year growth in current expenditure, which has been growing significantly in recent years.

*In 2020, the massive increase in current expenditure and fall in total revenues resulted in a **CZK 305.5 billion** difference in year-on-year changes to revenues and current expenditure. In 2019 this difference was just **CZK 8.8 billion**.*

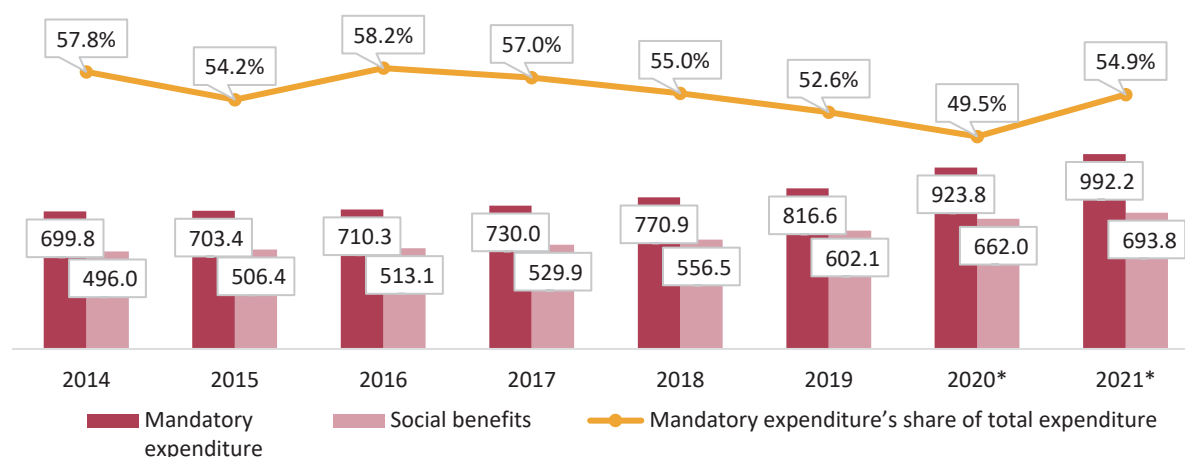
Chart 2: Year-on-year changes in total revenues and current expenditure 2014–2020 (CZK billion)



Source: State Treasury Integrated Information System.

State budget expenditure at the end of 2020 reached **CZK 1,842.9 billion**. The year-on-year increase of **CZK 291.2 billion** was driven not only by current expenditure, which increased by **CZK 257.7 billion**, but also by capital expenditure, which grew by **CZK 33.5 billion**. The beginning of the year brought changes in the area of mandatory expenditure, with increases in some social benefits (pensions, parental allowance and care allowance). Mandatory expenditure's planned share of total expenditure was lower in 2020 than in previous years due to a significant increase in total expenditure. As a further substantial increase in mandatory expenditure and year-on-year decrease in state budget expenditure has been approved for 2021, mandatory expenditure's share of expenditure is set to increase by **5.4 pp**.

Chart 3: Mandatory expenditure, including its share of total expenditure, and social benefits 2014–2021 (CZK billion, %)

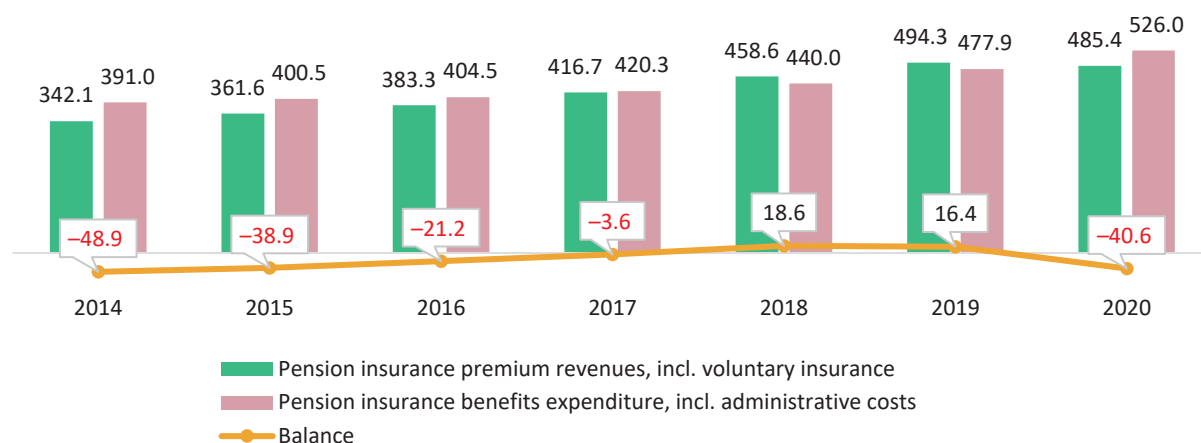


Source: documentation accompanying the draft act on the state budget of the Czech Republic for 2021, State Treasury Integrated Information System.

* Budgeted figures.

The main item of mandatory expenditure is pension insurance benefits, which are part of the pension system. The long-term sustainability of the financing of the pension system should be one of the main priorities of the next political debate, as the improving pension system balance in previous years was mainly due to positive economic developments accompanied by wage and salary increases and record low unemployment. Economic performance deteriorated again in 2019 and 2020, however. In 2020, the balance fell into a significant deficit, partly due to the payment of an extraordinary one-off contribution to pensioners totalling **CZK 14.9 billion**.

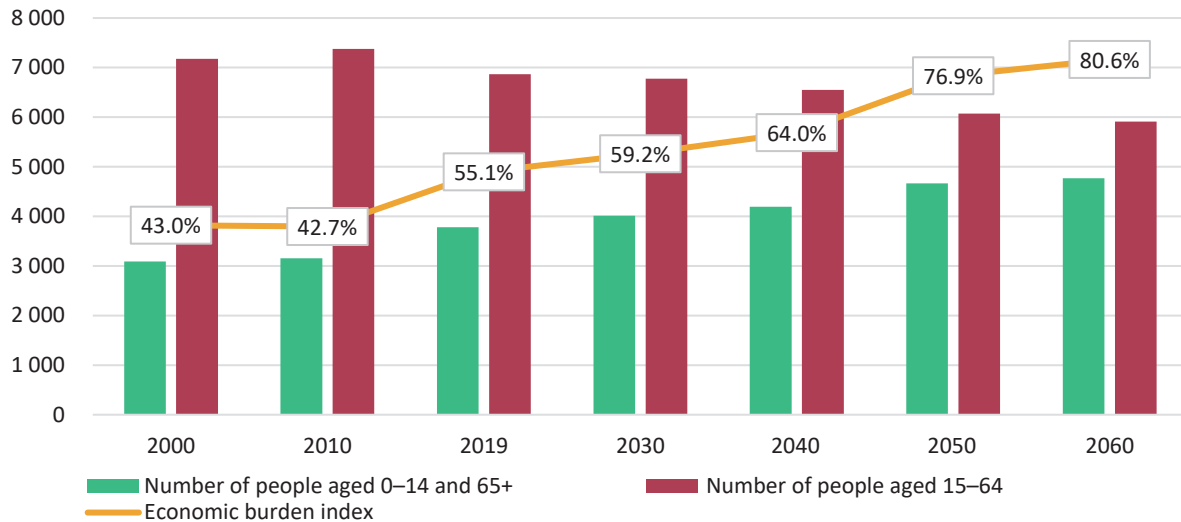
Chart 4: Pension system revenues, expenditure and balance 2014–2020 (CZK billion)



Source: MoF.

Pension reform is also necessitated by the demographic trends, as the economic dependency ratio, which measures the relative sizes of the economically inactive population (aged 0-14 and 65 and over) and potentially economically active population (aged 15-64), will increase in the coming years.

Chart 5: Numbers of inhabitants of the CR in various categories and economic burden index 2000–2060
(thousands of people, %)



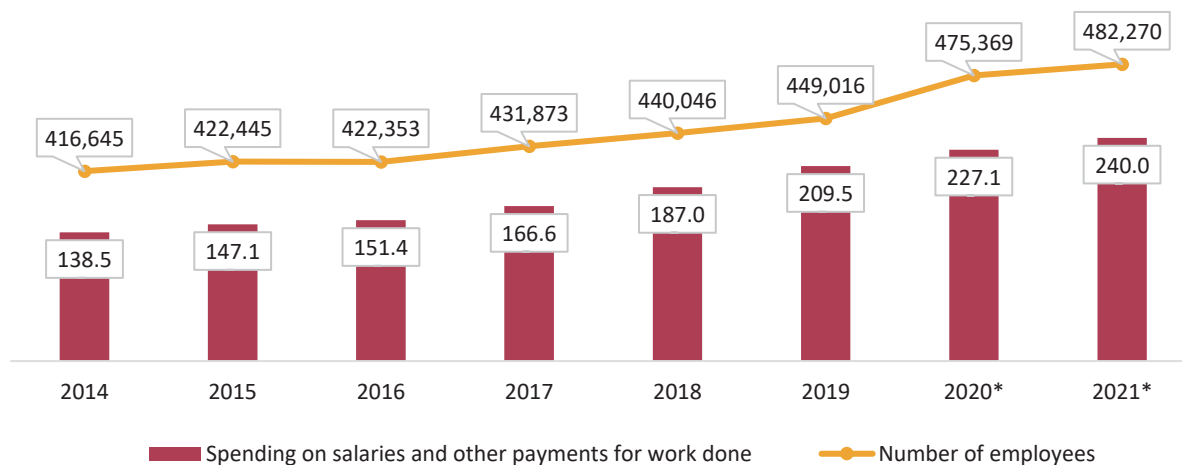
Source: CSO.

The previous years of economic growth and high revenues could have been used to implement basic steps that would contribute to the stabilisation and sustainability of the pension system. The constant postponing of fundamental changes to the system poses a risk to future state budgets in the form of unsustainable growth in pension spending and the search for alternative revenue sources or ways to cover the system's deficits, especially in times of economic stagnation or recession.

The quasi-mandatory expenditure side is also problematic. Here was again an increase in spending on salaries, mainly driven by the high number of state employees. A further increase in the number of employees and in expenditure on their salaries is planned for the coming years.

*Compared to the budget for 2020, the outlook for 2021 envisages a further increase of **7,000** state employees and an almost **CZK 13 billion** increase in spending on their salaries.*

Chart 6: Expenditure on salaries and other payments for work done and number of employees in the government-regulated sphere 2014–2021 (CZK billion, persons)



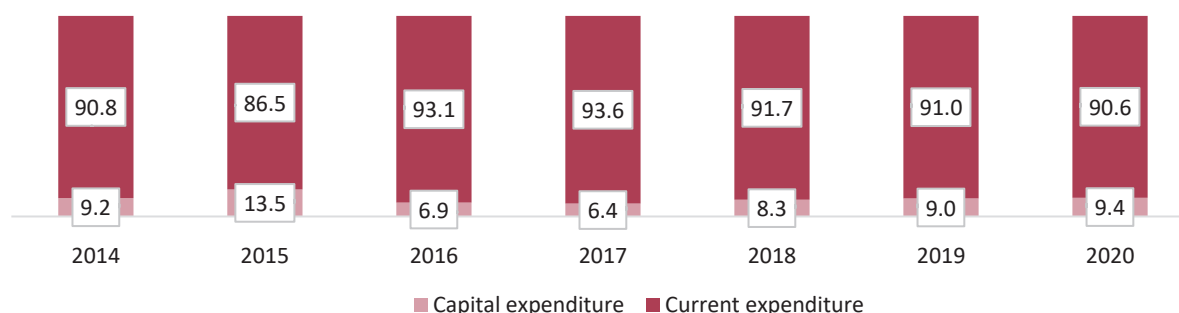
Source: State Closing Accounts for 2014–2018, draft State Closing Account for 2019, documentation accompanying the draft state budget act of the Czech Republic for 2021.

* Budgeted figures.

THE NUMBER OF CIVIL SERVANTS HAS BEEN INCREASING REGULARLY SINCE 2016, BUT WITHOUT ANY SIGNIFICANT TRANSLATION INTO IMPROVED CIVIL SERVICE PERFORMANCE. THIS IS EVIDENCED BY THE CONTINUOUS DECLINE IN THE GOVERNMENT EFFECTIVENESS INDICATOR OVER THE SAME PERIOD³⁰.

Capital expenditure at the end of 2020 reached **CZK 172.6 billion**, driven mainly by capital expenditures from domestic sources. This expenditure increased by **32.3%** year-on-year. Capital expenditure's share of total expenditure also grew, reaching **9.4%**. The increased investment activity was related, inter alia, to the approaching end of the 2014–2020 programming period.

Chart 7: Total expenditure accounted for by current and capital expenditure 2014–2020 (%)



Source: State Treasury Integrated Information System.

THE SAO HAS LONG FLAGGED UP THE SIGNIFICANT GROWTH RATE OF MANDATORY AND QUASI-MANDATORY EXPENDITURE. THE FAILURE TO LOOK FOR ECONOMY MEASURES, ESPECIALLY IN A PERIOD OF ECONOMIC DOWNTURN, POSES A SIGNIFICANT RISK TO THE FUTURE SUSTAINABILITY OF PUBLIC FINANCES.

30 *The Worldwide Governance Indicators (Government Effectiveness)*; see: <http://info.worldbank.org/governance/wgi/>.

The capacity of state budget chapters to spend all budgeted funds in a given year is reflected in the state of claims on unused expenditure. In recent years there has been a decrease in these claims, but the exceptional situation in 2020 caused the extent of claims to increase significantly as at 1 January 2021.

Table 3: Claims on unused expenditure as at 1 January 2014–2021 (CZK billion)

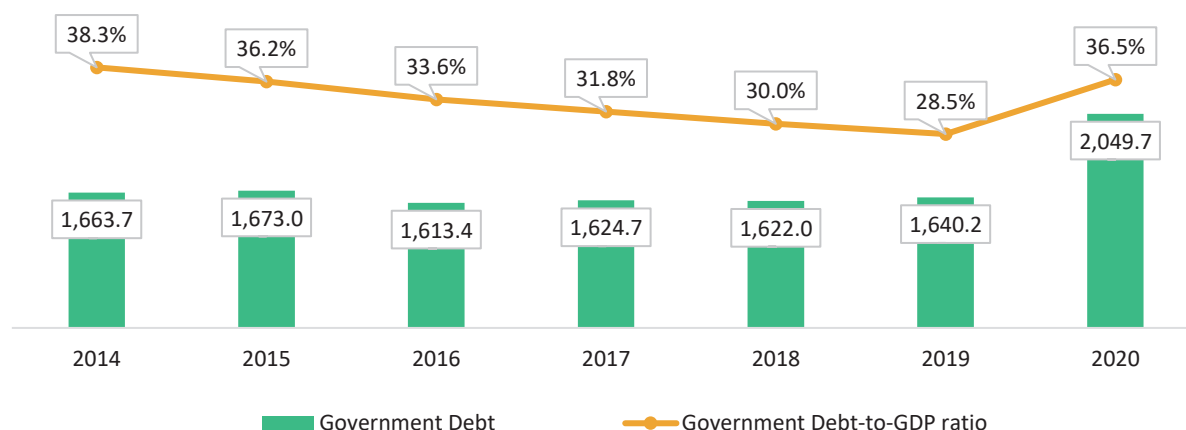
	2014	2015	2016	2017	2018	2019	2020	2021
Claims on unused expenditure	146.6	154.9	151.2	157.7	167.6	131.1	130.1	174.7

Source: State Treasury Integrated Information System.

The claims will thus weigh down the expenditure side of the state budget (or balance) in the coming years, when the state budget may again deteriorate. The biggest impact on the decline in the overall balance comes from claims from foreign sources, which are used as a priority mainly to avoid financial losses from the overall EU budget allocation.

Government debt increased by **CZK 409.5 billion** year-on-year and already surpassed the **CZK 2 trillion** mark in the first half of 2020. At year-end it stood at CZK **2,049.7 billion**. After the previous years of economic strength, as a result of which government debt accounted for a small proportion of GDP, the economic downturn in 2020 combined with a significant state budget deficit meant that the government debt's share of GDP increased to **36.5%**.

Chart 8: Government Debt and Government Debt-to-GDP ratio 2014–2020 (CZK billion, %)



Source: Report on the Management of the Government Debt of the Czech Republic in 2020.

The approved state budget deficit for 2021 is **CZK 320 billion**. Such a high deficit not only assumes optimistic economic growth of **3.9%**, but more importantly it does not take into account the amendment to the Income Tax Act³¹ that was approved at the end of 2020 and could increase the state budget deficit by up to **CZK 100 billion**³². For these reasons too, increasing revenues or finding savings on the expenditure side of the state budget – or ideally both – will be necessary to maintain the long-term sustainability of public finances.

31 Act No. 609/2020 Coll., amending certain acts in the field of taxes and certain other acts.

32 The Czech government issued resolution No. 171 of 15 February 2021 approving a draft amendment of the state budget act for 2021, proposing to increase the state budget deficit from CZK 320 billion to CZK 500 billion.

Government debt is the main component of general government debt³³, which is set to increase to **37.9% of GDP** during 2020³⁴. Table 4 shows that the CR is still one of the least indebted EU countries. According to data from European Commission publications³⁵, however, the Czech Republic is projected to have a high speed of debt increase in 2021 and 2022. In 2022 the Czech government debt to GDP is projected to be **42.2%**.

*According to the European Commission's estimate, the Czech Republic's debt level should increase by **4.3 pp** in 2022. In Austria, for example, the increase is set to be just **0.9 pp**, while in Hungary it is even set to fall by **0.8 pp**.*

Table 4: General Government Debt-to-GDP ratio in selected EU countries (%)

	CR	Slovakia	Poland	Hungary	Austria	Germany	Belgium	Greece	Italy	Portugal	Sweden	EU-27
2017	34.2	51.7	50.6	72.2	78.5	65.1	102.0	179.2	134.1	126.1	40.7	83.2
2018	32.1	49.9	48.8	69.1	74.0	61.8	99.8	186.2	134.4	121.5	38.9	81.2
2019	30.2	48.5	45.7	65.4	70.5	59.6	98.1	180.5	134.7	117.2	35.1	79.2
2020*	37.9	63.4	56.6	78.0	84.2	71.2	117.7	207.1	159.6	135.1	39.9	93.9
2021*	40.6	65.7	57.3	77.9	85.2	70.1	117.8	200.7	159.5	130.3	40.5	94.6
2022*	42.2	67.6	56.4	77.2	85.1	69.0	118.6	194.8	159.1	127.2	40.3	94.9

Source: European Commission: *Statistical Annex of European Economy* (AUTUMN 2020); European Commission: *General Government Data – General Government Revenue, Expenditure, Balances and Gross Debt* (AUTUMN 2020).

* Estimates.

THE INITIAL ECONOMIC IMPACTS OF THE COVID-19 PANDEMIC IN 2020 HAVE SHOWN THAT THE STATE BUDGET IS NOT ON A SOLID FOOTING AND WILL EXPERIENCE A SIGNIFICANT WORSENING OF ITS DEFICIT AS THE ECONOMY COOLS. IN 2019, THE DEBT-TO-GDP RATIO WAS 28.5%, RISING TO 36.5% IN 2020. ACCORDING TO THE EUROPEAN COMMISSION'S ESTIMATES, THE CZECH REPUBLIC WILL HAVE ONE OF THE FASTEST-GROWING DEBT RATIOS IN THE COMING YEARS. THIS DEVELOPMENT IS A SIGNIFICANT RISK TO THE STABILITY OF PUBLIC FINANCES.

33 The general government debt is the sum of all the debt of the state budget, budgets of regions and municipalities, off-budget funds, public institutions established by the state and by territorial self-government, and public corporations including health insurance companies.

34 Qualified estimate of the European Commission, based on the state of affairs as at 22 October 2020.

35 European Commission: *Statistical Annex of European Economy* (AUTUMN 2020); European Commission: *General Government Data – General Government Revenue, Expenditure, Balances and Gross Debt* (AUTUMN 2020).

3. GOVERNMENT REVENUES

One necessary condition for fulfilling the needs and objectives of the state's expenditure policies is the generation of sufficient public finances. The efficiency of the collection and management of state revenues has therefore consistently been the SAO's priority. Total state budget revenue for the first half of 2020 was significantly affected by the economic downturn caused by the spread of Covid-19 and the government measures adopted to stop the spread of the disease. Among the most important measures with an impact on the revenue side of public budgets are the so-called liberation packages³⁶, the possibility of setting different advance payments on tax on an individual basis, the retroactive claiming of tax losses and the introduction of compensation bonuses. In addition, a six-month holiday for the payment of health and social security contributions for all sole traders³⁷ was introduced between March and August 2020. Another measure was *Antivirus C*³⁸, a programme comprising the waiving of social security contributions paid by the employer.

One key factor of the year-on-year decrease in state budget revenues was tax revenues, which fell by almost **CZK 57 billion**, with the biggest falls in personal and corporate income tax, including social security contributions. The decline in the various tax revenue components is clearly shown in the table below. The MoF decided to take a number of measures to support taxpayers, including waiving income tax advances to taxpayers, inter alia extending the deadline for filing tax returns and postponing tax payment until the subsequent period. On the other hand, non-tax and capital revenues increased, mainly due to increased revenues from the EU budget/FM, which increased by more than **CZK 10 billion** year-on-year, as shown in Table 5.

Table 5: Year-on-year comparison of non-tax and capital revenues and received state budget transfers for 2019 and 2020 (CZK billion)

	Revenues EU/FM	<i>General Treasury Management</i> state budget chapter	Miscellaneous non-tax and capital revenues, miscellaneous received transfers	Total non-tax and capital revenues and received transfers
2020	136.17	22.54	58.84	217.55
2019	125.77	23.25	58.49	207.52
Year-on-year change	+10.40	-0.71	+0.35	+10.04

Source: <https://www.mfcr.cz/cs/aktualne/tiskove-zpravy/2021/pokladni-plneni-sr-40434>.

36 The key component of the liberation packages was the deferring of tax obligations for entrepreneurs whose business was directly limited or prohibited by the government measures. In addition, fines, interest, selected administrative fees, advance payments on income tax and value added tax on goods and services linked to the production and supply of selected medical goods were waived.

37 Act No. 136/2020 Coll., on certain modifications in the field of social security insurance and contributions to state employment policy and pension insurance in connection with the 2020 epidemic emergency measures; and Act No. 134/2020 Coll., amending Act No. 592/1992 Coll., on public health insurance premiums, as amended.

38 Act No. 300/2020 Coll., on the waiving of social security premiums and contributions to state employment policy paid by certain employers as taxpayers in connection with the 2020 epidemic emergency measures and amending Act No. 187/2006 Coll., on sickness insurance, as amended.



The palpable fall in tax revenues primarily caused by the economic slowdown and Covid-19 pandemic was worsened by the **reduced efficiency of revenue collection**

THE YEAR-ON-YEAR FALL IN STATE BUDGET REVENUES WAS LARGELY DRIVEN BY TAX REVENUES, WHICH FELL BY ALMOST CZK 57 BILLION YEAR-ON-YEAR

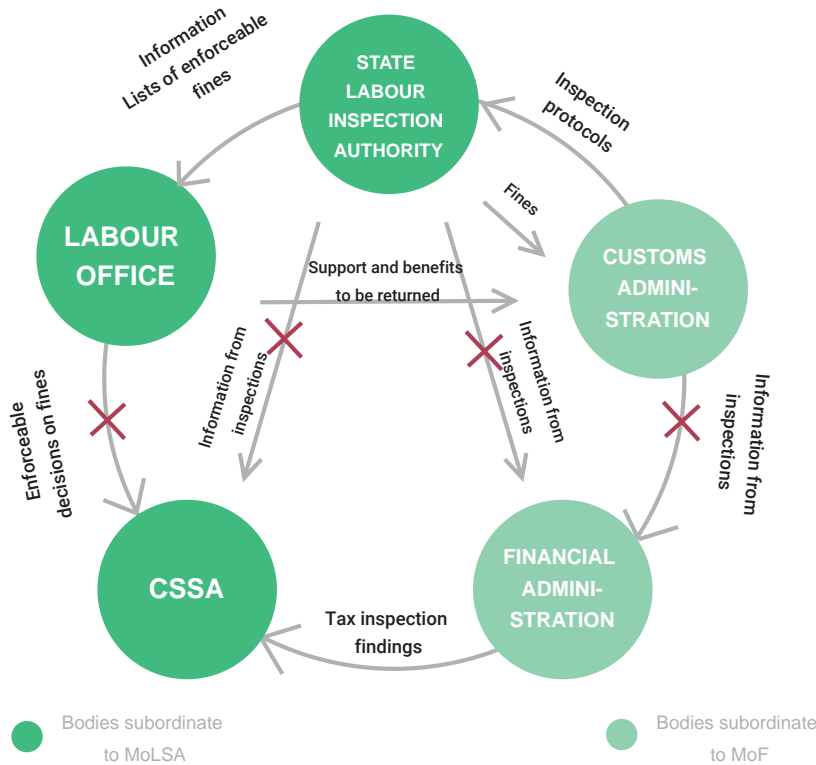
Year-on-year comparison of the collection of state budget tax revenues for 2020 and 2019 (CZK billion)

	VAT	Excises, incl. energy taxes	Legal persons' income tax	Natural persons' income tax	SSP and contribution to SEP	Tax on acquisition of real estate	Tax on gambling games	Other taxes and fees
Year 2019	291.3	158.7	123.5	164.5	551.7	13.9	4.9	7.2
Year 2020	287.9	154.8	108.4	154.1	540.5	2.8	5.1	5.2
Year-on-year change	-3.5	-4.0	-15.1	-10.4	-11.2	-11.1	0.2	-2.0

THE SHARING OF INFORMATION ON ILLEGAL EMPLOYMENT BETWEEN BODIES RUN BY THE MOF AND MOLSA WAS DYSFUNCTIONAL, SO TAXES AND INSURANCE PREMIUMS ON REMUNERATION FOR ILLEGAL WORK WERE NOT PROPERLY SPECIFIED AND CHARGED



Dysfunctional system for information sharing among audited entities*



CZK 50 billion

the Research Institute of Labour and Social Affairs estimated the annual failure of the collection of income tax, social insurance and health insurance due to illegal work

CZK 400 million

the Ministry of Finance estimated the income tax evasion in the area of illegal employment in 2015

*) A description of the links is given in audit no. 18/32

The SAO completed three audits of revenues last year:

- Audit No. [18/32](#) – State budget revenues collected in the field of labour taxation;
- Audit No. [19/12](#) – Funds collected under the Act on employers' liability insurance for injury or for occupational disease;
- Audit No. [19/34](#) – Foreign claims of the Czech Republic administered by the Ministry of Finance.

A long-standing problem with regard to the effective collection of tax revenue is the taxation of illegal work by natural persons. One impact of the strong demand for labour in recent years has been the growing number of persons found to be working illegally. This issue was the focus of Audit No. [18/32](#).

The SAO found that the transfer of information on illegal employment between the various state authorities was not functional, so taxes and insurance premiums for illegal work were not properly assessed and levied.

- The financial authorities³⁹ and the social insurance authorities⁴⁰ hardly stipulated taxes and premiums on illegally paid remuneration due to lack of information from the control authorities⁴¹. In the audit sample⁴² the SAO found that the tax authorities assessed personal income tax for **15 out of 301 payers** and the social insurance authorities assessed and collected unpaid social insurance in only one case. The SAO also found that the labour inspection authorities imposed a total of **1,144** fines with legal effect in the audited period in connection with illegal employment, with a total value of **CZK 246 million**. The SAO also found that the inspections carried out by the labour inspectorate had exposed 246 cases involving **CZK 246 million**. However, they only imposed fines for the actual performance of illegal work on **21 natural persons**, all of them citizens of the Czech Republic. No foreign nationals were fined, even though the number of foreigners found performing illegal work almost tripled between 2016 and 2018. In this context, the SAO also pointed out that the Ministry of Finance did not demand the reimbursement of excess of health insurance payments for **221** job seekers who were excluded from the register of job seekers by the Office of the Czech Republic for illegal work.
- In the audit sample, the SAO found that the financial authorities obtained information on illegal employment in the case of just **18 employers out of 400** randomly selected employers who were fined by the labour inspection authorities for illegal employment.*
- Neither the MoLSA nor the MoF estimated the extent of social insurance and income tax evasion due to illegal employment in the audited period 2016-2018. This issue was addressed in a study by the Research Institute of Labour and Social Affairs, an organisation founded by the MoLSA. In 2014, the Institute estimated the annual loss of income tax, social and health insurance collections due to illegal work⁴³ at **CZK 50 billion**. The MoLSA rejected the results of the study but did not perform its own calculations of the estimated impact of illegal employment on public budgets. Nevertheless, the SAO put the possible tax and insurance loss generated in just one year by the **12,856 persons** found by the labour inspection authorities to be working illegally in 2015-2018 at **CZK 1.1 billion** if they were all on the minimum wage and **CZK 3 billion** if on the average wage.

The SAO sees the benefit of its audit activity in the fact that during the SAO's audit, the State Labour Inspection Authority (SLIA) issued binding guidance⁴⁴ regulating the rules for sharing information from its inspection work with the Czech financial authorities and customs authorities, the Czech Social Security Administration (CSSA) and the Labour Office of the Czech Republic and describing what data should be provided, within what timeframe and to which competent authority.

39 Financial authorities here means bodies of the Financial Administration of the CR.

40 Social insurance authorities here means bodies of the Czech Social Security Administration, i.e. both social security bodies and sickness insurance bodies.

41 Control authorities here means the labour inspection bodies and customs bodies.

42 The audit sample comprised 197 decisions of the labour inspection authorities which the General Financial Directorate received in 2017 and 104 notices sent by district labour inspectorates to the appropriate local financial authority.

43 The Research Institute of Labour and Social Affairs performed an estimate of the annual amount lost in uncollected natural persons' income tax, social insurance and health insurance because of illegal work, inter alia as defined by Act No. 435/2004 Coll., on employment, in the conditions of 2012 and 2013.

44 Methodological Instruction of the Inspector General No. 2/2019, "Transfer of Information from District Labour Inspectorates and the State Labour Inspection Authority to State Authorities", issued on 31 October 2019.

In audit No. [19/12](#), targeting funds collected by law for mandatory liability insurance for occupational injuries and illness, the SAO scrutinised the functioning of the statutory insurance system and its compliance with the law.

The results of the audit showed that the legislation on statutory insurance is significantly undermined by systemic deficiencies that make the statutory insurance system dysfunctional. Since 2006, the system has not been subject to supervision or oversight by state authorities or the Czech National Bank. As a result, the authorised insurance companies, Česká pojišťovna and Kooperativa, do not collect premiums from all obliged entities and do not systematically check whether employers pay the correct amount in premiums. In cases where premiums are not paid on time, the insurance companies do not consistently recover the increased premiums and regularly waive them.

- One of the systemic shortcomings of the legislation on statutory insurance is the unusually high penalty for late payment of statutory insurance premiums, set at **10%** of the outstanding premium for each month of delay. Partly because such a high penalty can send organisations into insolvency, insurance companies and the Ministry of Finance have largely refrained from recovering debts. In 2015-2018, payment of more than **CZK 64 million** was waived, i.e. almost **53%** of the total increased premiums prescribed. According to the SAO, another shortcoming of this legislation was the disproportionately high limit for waiving recovery set at **CZK 250,000**, but there is no uniform procedure for insurers to decide on waiving recovery. In 2015-2018, insurance companies thus waived increased premiums totalling **CZK 47 million**. The SAO also drew attention to the risk that the European Commission may in future find the statutory insurance scheme incompatible with the internal market. The statutory insurance implementation system fulfils all the defining criteria of state aid.

THE SYSTEM OF STATUTORY LIABILITY INSURANCE FOR OCCUPATIONAL INJURY OR ILLNESS IS NOT FULLY FUNCTIONAL AND THE STATE HAS NO CONTROL OVER IT. THE FAULT LIES WITH POOR LEGISLATION, WHICH THE MINISTRY OF FINANCE AND THE MINISTRY OF LABOUR AND SOCIAL AFFAIRS HAVE FAILED TO CHANGE SINCE 2006.

In the past year, the SAO also focused its attention on the area of foreign claims of the Czech Republic. In audit No. [19/34](#), the SAO examined how the MoF managed foreign claims and ensured their recovery in the years 2016 to 2018. These claims stood at almost CZK 19 billion at the end of 2018. The results of the audit showed that the principles for managing and ensuring the recovery of foreign claims approved by the government of the Czech Republic in 2006 are already out-of-date and do not meet the current needs. Despite this, the MoF did not update the principles or initiate any change to them.

- During the audit, the SAO also pointed out the low recovery rate of debts recovered by unblocking agents⁴⁵ and the insufficient speed of debt settlement. For example, the SAO scrutinised a claim against Cuba amounting to approximately **CZK 1.3 billion** at the end of 2018. After the break-up of Czechoslovakia, the Czech Republic and Slovakia split the debt by a ratio of 2:1. While Slovakia completed the negotiations on its part of the claim in 2015, the MoF had not even concluded an agreement with Cuba by the time the SAO audit was completed. As a result, the MoF paid annual fees of **EUR 3.6 million** to a bank for the management and administration of this claim, with the bank receiving more than **CZK 10 million** in the years 2016 to 2018 alone. Furthermore, the SAO found that some agreements with debtor countries did not specify an exact due date or did not specify any due date at all. The MoF therefore fictitiously entered a due date of 31 December 2030 in the accounting. The MoF did not create an adjustment to reflect the temporary reduction in value of the receivable, as the legislation requires that the creation of adjustments be tied to the due date of the receivables. The creation of adjustments for the valuation of receivables fulfils the prudential principle, as required by the International Public Sector Accounting Standards.

*During the audit of unblocking agents for foreign claims, the SAO found that in one of the three deblocking agents the MoF recovered just **1.2%** of the debt assignment price, i.e. **0.37%** of the original value of the receivable; in the second it did not recover any amount; and in the third it recovered **7.2%**, and only through execution procedure.*

⁴⁵ The Research Institute of Labour and Social Affairs estimated the annual failure of the collection of personal income tax, social insurance and health insurance due to illegal work, among others, as defined in Act No. 435/2004 Coll., on Employment, in 2012 and 2013.

FOLLOWING THE RESULTS OF THE AUDIT, THE SAO WELCOMES THE FACT THAT, AS A CORRECTIVE MEASURE, THE MINISTRY OF FINANCE IS GOING TO UPDATE THE *PRINCIPLES FOR THE MANAGEMENT AND RECOVERY OF FOREIGN CLAIMS OF THE CZECH REPUBLIC* BY 30 JUNE 2021 SO THAT THEY ARE TRANSPARENT AND MEET CURRENT NEEDS.

In the field of government revenues, the SAO systematically monitors responses to the results of its audit work.

In 2012, the SAO completed audit No. 12/01⁴⁶, which focused on the procedure followed by the financial authorities and courts in imposing penalties in connection with the obligation of tax entities to deposit documents in the Collection of Documents of the Commercial Register at the Court of Registration. The audit revealed that a high percentage of entities did not comply with the obligation to file their financial statements in the collection of documents and that the legislation governing the administrative offence of non-publication of financial statements under the Act on Accounting was ineffective. In this context, the SAO recommended considering more effective legislation in this area that would require taxpaying entities to submit the financial statements to only one authority (e.g. the financial office when filing the tax return), thereby authorising this authority to file the said documents in the Collection of Documents of the Commercial Register. This recommendation of the SAO was factored into in Act No. 609/2020 Coll.⁴⁷, which added a provision to the Act on Accounting⁴⁸ defining specific methods for publishing financial statements. Accounting units that are commercial corporations may submit financial statements to the Collection of Documents by filing them with the relevant income tax administrator, who will forward them to the register court. This new legislation, which eliminates the recurrent administrative obligations of the above tax entities, will apply for the first time for the accounting period starting from the beginning of 2021.

4. STATE EXPENDITURE ON THE FIGHT AGAINST THE COVID-19 PANDEMIC

As part of its analytical work, the SAO continuously monitored the measures taken to prevent the spread of the Covid-19 pandemic. At the end of 2020 the MoF registered pandemic-related expenditure amounting to **CZK 144.6 billion**. This final amount was identified as lower in the *State Treasury Integrated Information System (STIIS)*, as expenditure earmarked for pandemic-related measures can be categorically identified primarily through transfers of funds between budget chapters. In total, **CZK 102.1 billion** was identified in STIIS. This represented **5.5%** of the total state budget expenditure of **CZK 1,842.9 billion**⁴⁹.

In the context of Covid-19 response measures, **CZK 117.6 billion** was transferred from the budget of chapters 398 – *General Treasury Administration* and 396 - *Government Debt* to the expenditure budget of other chapters in 2020; **CZK 84.6 billion** of these funds was utilised at the end of the year. This amount accounted for the vast majority of the expenditure on pandemic measures (identified in the STIIS on a purpose basis).

As the following chart shows, each month brought an increase in both the budget and the drawdown of this expenditure. At the end of the year the budget increased significantly, rising from **CZK 60.5 billion** in October to **CZK 117.6 billion** in November and December. There was also a significant spending increase towards the end of the year, particularly in December, when it reached **CZK 32.1 billion**, increasing the annual drawdown to almost **72%** of the budget.

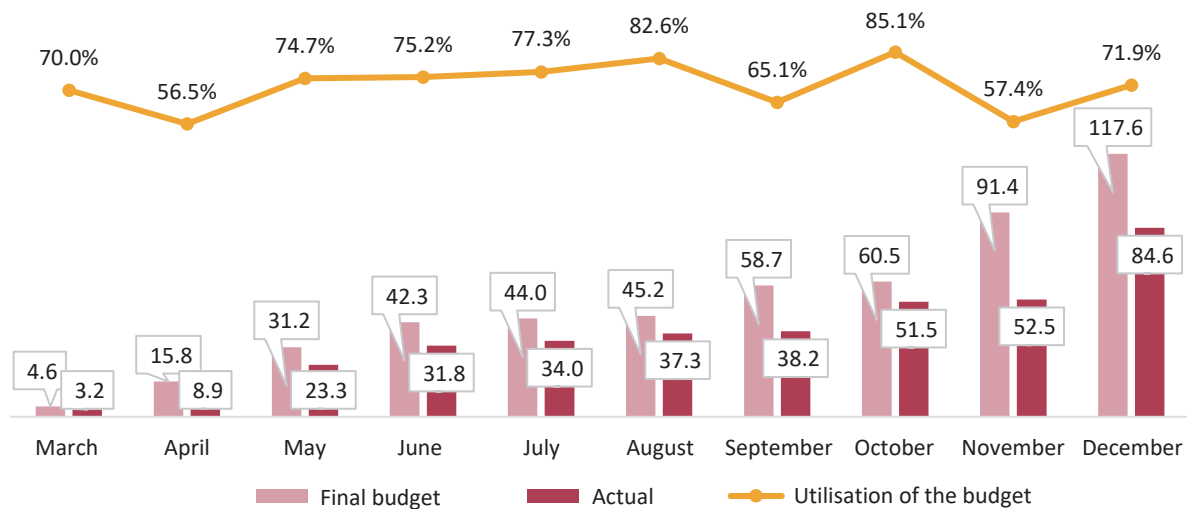
46 Audit No. 12/01 – *State income from the fines imposed by territorial financial authorities according to the Act on Accounting and by courts in relation to the management of the Collection of Documents* (audit report published in volume 1/2013 of the *SAO Bulletin*).

47 Act No. 609/2020 Coll., amending certain acts in the field of taxes and certain other acts, effective since 31 December 2020.

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

49 This expenditure is reported in the STIIS with a specially defined symbol linked to Covid-19 (purpose, revenue and expenditure structure, programme financing operation).

Chart 9: Cumulative development of the budget and drawdown of expenditure earmarked for preventing the spread of Covid-19 in 2020, identified in STIIS by purpose (CZK billion, %)



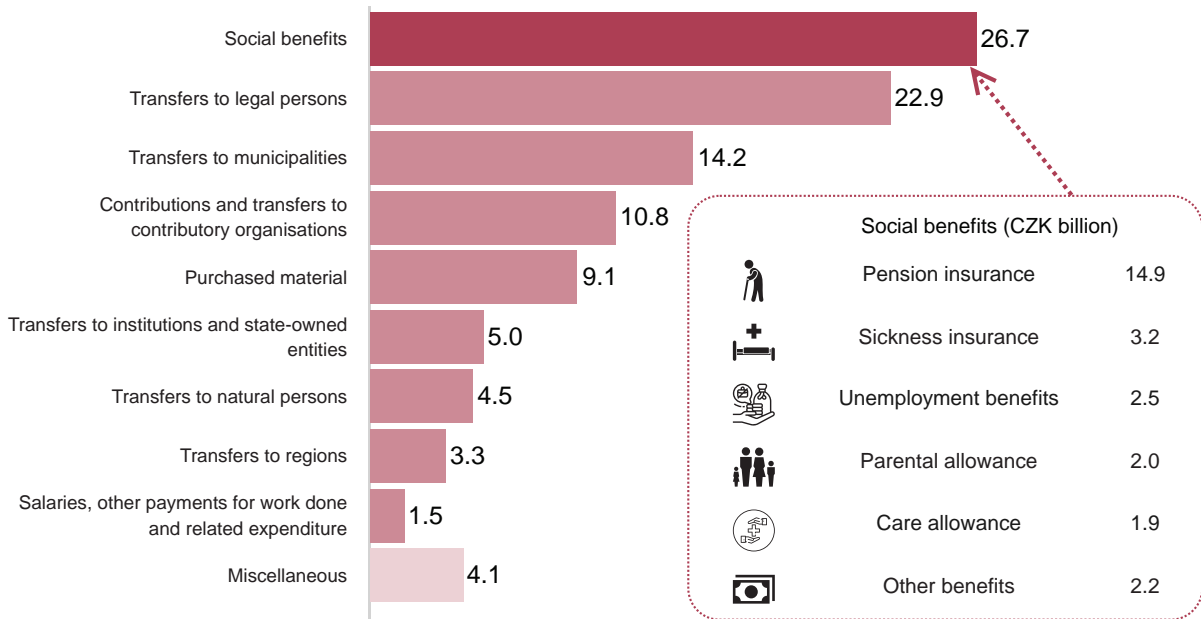
Source: STIIS.



The pronounced year-on-year increase in total state budget expenditure **was not caused solely by measures** to prevent the spread of Covid-19

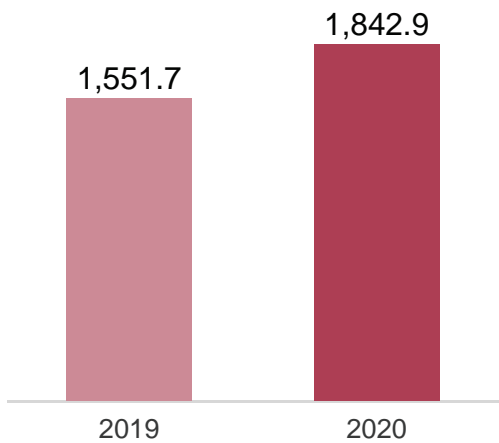
MORE THAN A QUARTER OF THE SPENDING IDENTIFIED IN *THE STATE TREASURY INTEGRATED INFORMATION SYSTEM* FOR PANDEMIC MEASURES, TOTTALLING CZK 102.1 BILLION, COMPRISED SOCIAL BENEFITS

Expenditure to prevent the spread of Covid-19 by item (CZK billion)

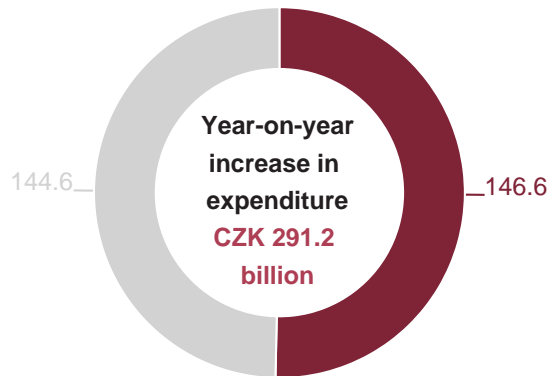


ACCORDING TO CURRENT FULFILLMENT, FROM THE YEAR-ON-YEAR INCREASE IN EXPENDITURE OF CZK 291.2 BILLION MINIMUM CZK 146.6 BILLION WAS NOT RELATED TO THE COVID-19 PANDEMIC

Total utilised state budget expenditure in 2019 and 2020 (CZK billion)



● Expenditure not linked to Covid-19
 ● Expenditure reported as for preventing the spread of Covid-19

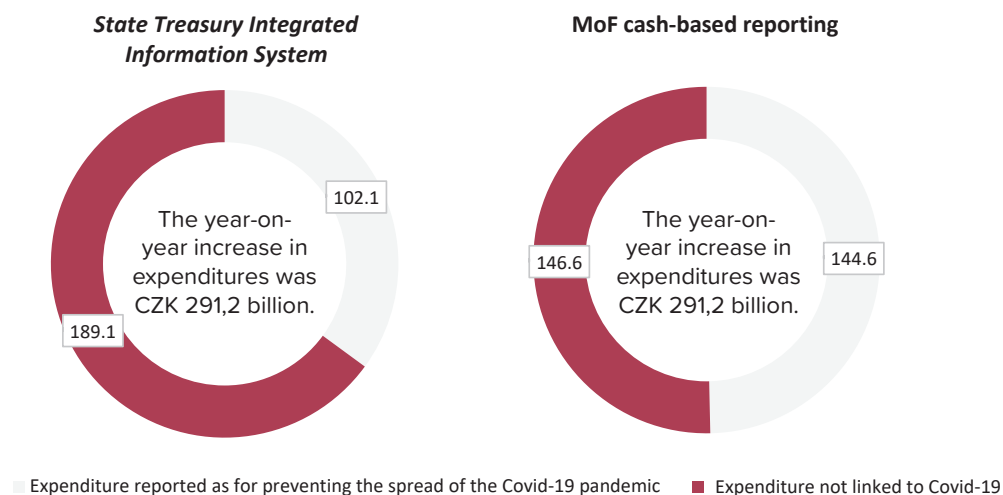


According to the reported purposes in the IISSP, most of the expenditure related to measures to fight the spread of Covid-19 went on social support, including employment, purchases of protective equipment and debt relief for some hospitals. In contrast, low or no drawdown was reported for programmes dealing with accommodation, culture, sports and tourism, for example.

The highest drawdown of expenditure under a single purpose was reported for the one-off contribution to pensioners which, at nearly CZK 15 billion, accounted for almost 15% of all expenditure on the Covid-19 pandemic response identified in the IISSP.

The drawdown of total state budget expenditure was **CZK 291.2 billion** higher in 2020 than in the previous year, which was not affected by Covid-19. Of the year-on-year increase in expenditure registered by specially defined purpose in the STIIS, **CZK 84.6 billion** was related to the pandemic. This amount needs to be increased by further drawdown of **CZK 17.5 billion** to total **CZK 102.1 billion**⁵⁰, which would represent 35% of the year-on-year increase in expenditure. However, the amount according to the MoF's cash data was **CZK 144.6 billion**, which would convert to almost **50%** of the year-on-year increase. A comparison of the MoF's cash data with the expenditure reported in the STIIS is shown in Graph 10.

Chart 10: Year-on-year expenditure increase in 2020 broken down in connection with Covid-19 (CZK billion)



Source: STIIS, Ministry of Finance cash data.

The difference may be due to ambiguity in the identification of pandemic-related expenditures in the STIIS or the impossibility of separating pandemic-related expenditures in the STIIS. Nevertheless, it is evident that at least CZK 146.6 billion of the year-on-year increase in expenditure was not related to the pandemic.

STATE BUDGET EXPENDITURE IN 2020 INCREASED SIGNIFICANTLY YEAR-ON-YEAR, EVEN WITHOUT INCLUDING THE FUNDS SPENT ON COVID-19 MEASURES. THE MINISTRY OF FINANCE ALSO INCLUDED QUESTIONABLE ITEMS NOT DIRECTLY RELATED TO MEASURES TO PREVENT THE SPREAD OF THE PANDEMIC (E.G. A ONE-OFF CONTRIBUTION TO PENSIONERS, DEBT RELIEF FOR HOSPITALS, ETC.). ADJUSTED FOR THESE ITEMS, THE PROPORTION OF TOTAL STATE BUDGET EXPENDITURE ACCOUNTED FOR BY MEASURES TO PREVENT THE SPREAD OF COVID-19 IN TOTAL SPENDING ON HEALTH WOULD BE EVEN LOWER.

⁵⁰ In addition, using the special identification symbols it was possible to ascertain in the STIIS that in chapter 398 – General Treasury Administration a transfer of CZK 4 billion to the Export Guarantee and Insurance Fund to cover liabilities from provided guarantees and a CZK 13.4 billion contribution to municipalities for mitigating the impact of the fall in tax revenues, which were not part of the previous breakdown, were reported. Furthermore, according to the programme financing, in connection with the pandemic, drawing was clearly reported in other chapters in the amount of CZK 0.1 billion, which was not part of the previous divisions.

Funds transferred from General Treasury Management were also used to purchase personal protective equipment and other medical equipment and services for the purpose of anti-epidemic measures in connection with Covid-19 in the Czech Republic. In 2020, the SAO focused on this area in audit No. 20/32 with the aim of examining whether the Ministry of Health, the Ministry of the Interior and the State Material Reserves Administration spent these funds in compliance with legal regulations. The audit was not completed by the end of 2020.

More than half of the total increase in state budget spending in 2020 was not due to measures to fight the spread of Covid-19, but came from an increase in spending on the working of the state, social expenditure and other items.

5. GOVERNMENT EXPENDITURE AREAS

The following sections of the annual report are devoted to the results of the SAO's audit and analysis activities in the areas of government expenditure policy that the SAO covered in the past year. These were the subject of more than two thirds of all audits carried out in 2020. The main objective of the audits was to verify whether state funds were spent in accordance with the principles of effectiveness, economy and efficiency. That is to say, whether the state was able to deliver the necessary value to citizens in accordance with legitimate needs and thus fulfilled its indispensable role. The SAO thus provides important feedback to policy makers on good practice and better management of public expenditure. At the same time, it should serve legislators, experts and the general public as objective information on the reality of the state's financial management.

5.1 DIGITALISATION OF PUBLIC ADMINISTRATION

The impact of the Covid-19 pandemic has shown how important digital assets are to the Czech economy and how digital connectivity and digital skills support the functioning of the economy and society. The current pandemic has had an impact on key indicators such as citizens' use of internet services. During 2020, the country saw improvements in three of the five areas tracked in the DESI Digital Economy and Society Index⁵¹: human capital, digital technology integration and use of internet services.

However, the digitalisation of public administration remains a weakness, as the Czech Republic has lagged behind the EU average in this area for a long time. According to the DESI report from 2020, the Czech Republic was below the EU average in all monitored indicators of the DESI⁵¹ dimension for digital public services: compared to 2019 it fell from 20th to 22nd place among the 28 countries assessed. The decline occurred despite the Czech Republic improving its overall score by **2.5 pp** year-on-year. Over the same period, the EU average score improved by **5 pp**.

Within the framework of anti-epidemic measures consisting in restrictions on personal contacts and the necessity to work remotely, the insufficient standard of equipment of public administration employees, especially mobile workstations (laptops) suitable for working from home, videoconferencing and other methods of modern communication, has become apparent. In the course of 2020, ministries were forced to react and defined significantly higher requirements for mobile workstations compared to previous years, with a value exceeding **CZK 650 million**.

The Czech Republic ranked 14th in the DESI *Human Capital dimension* in 2019, with a score just below the EU average. The share of the population with at least basic (62%) and above-basic (26%) digital skills has increased. These skills are most often acquired in school. Support for education at the regional education level is thus having a significant impact in this area. The development of digital education has for this reason long been emphasised in the strategic materials of the Ministry of Education and is also part of the newly approved *Education Policy Strategy 2030+*. However, the regional education system has been underfunded in terms of information and communication infrastructure for a long time, as the SAO pointed out last year in the results of the audit No. 18/18⁵².

The situation associated with the Covid-19 pandemic also highlighted the insufficient availability of ICT products, including software, in regional education, which the SAO also pointed out. The necessary equipment (especially laptops) was lacking not only for pupils but also for teachers. Consequently, extraordinary funds amounting to almost CZK 1.3 billion had to be allocated to schools through the regions to provide for purchases of the necessary ICT equipment for online teaching.

STATE BUDGET FUNDING PROVIDED TO SCHOOLS AS PART OF THE REGIONAL EDUCATION FUNDING SYSTEM HAS ONLY A LIMITED BENEFIT FOR MAINTAINING THE PROFESSIONAL MANAGEMENT AND REGULAR UPGRADING OF ICT.

The SAO welcomes the fact that the Ministry of Education, Youth and Sports prepared draft measures in 2020, in line with the government resolution and in response to most of the identified shortcomings. Among other things, the MoEYS analysed the situation and quantified the financial resources needed to secure and upgrade ICT equipment for schools, which were included in the *Long-term Plan for the Development of Education and the Education System for 2019-2023* and in the government's *Digital Economy and Society* strategy. In addition, the MoEYS is negotiating on setting up a new operational programme (*Operational Programme John Amos Comenius*) and initiating meetings to involve new OPs under the responsibility of the MoEYS and MoIT.

51 Every year the European Commission publishes the results of DESI, which tracks Europe's overall digital performance and measures the progress made by EU countries in terms of their digital competitiveness. DESI is composed of the following dimensions: connectivity, human capital, use of internet services, integration of digital technology and digital public services.

52 Audit No. 18/18 – *Support for the development of digitalisation of education in the Czech Republic*; the audit report was published in volume 4/2019 of the *SAO Bulletin*.

From the long-term perspective, although the growing number of ICT projects submitted to the Department of the Chief Architect (“the Department”) at the Ministry of the Interior is positive, it has not yet resulted in substantial progress in the digitalisation of public administration, according to the DESI dimension of *digital public services*. In the overall context, the claim that tens of billions of koruna is necessary for implementing these projects (see the following table) indicates that spending is not very efficient.

Table 6: Projects approved by the Department of the Chief Architect in the years 2016–2020

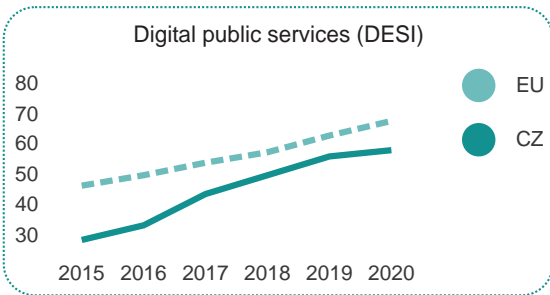
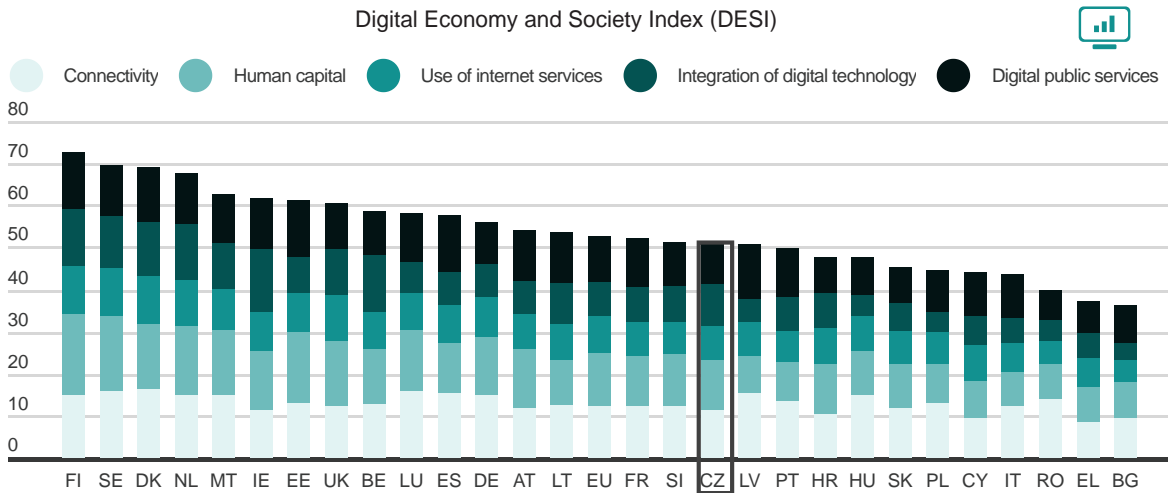
Assessment year	Number of submitted applications	Financial volume of submitted applications (CZK billion)	Affirmative opinion of the Department	Financial volume of approved applications (CZK billion)
2016	119	–	115	19.1
2017	357	24.8	296	22.6
2018	106	14.8	88	10.7
2019	132	30.2	97	28.0
2020	210	18.1	180	15.8

Source: Mol.



Despite increased funding, **the digitalisation of public administration is very slow** and citizens are insufficiently informed about these services

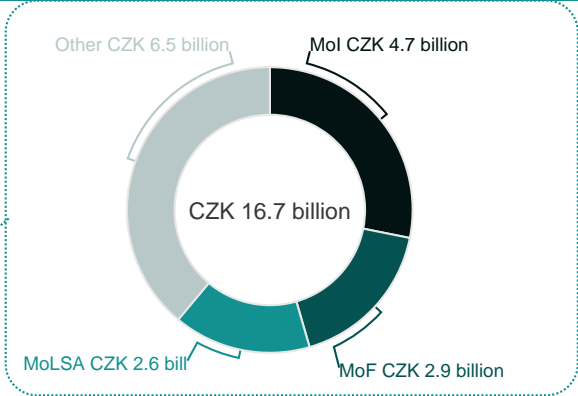
COMPARED TO THE DIGITAL ECONOMY FRONTRUNNERS, THE CZECH STATE HAS LONG BEEN UNABLE TO MAKE FULL USE OF THE POTENTIAL OF ICT FOR MAKING STATE ADMINISTRATION MORE EFFICIENT



In audit *No. 19/14* the SAO found that 29 eGovernment nationwide services were accessible on the Citizens' Portal by the end of this audit. Just 4 services were added by the end of 2020

SPENDING ON ICT AND DIGITALISATION OF STATE ADMINISTRATION IS INCREASING, BUT WITHOUT DELIVERING THE EXPECTED BENEFITS FOR CITIZENS

ICT expenditure by organisational units of the state



In 2020 the SAO completed three audits dealing with digitalisation, specifically:

- Introduction of electronic identification and enabling of electronic access to public administration services (audit No. [19/14](#));
- Support for the development of high-speed internet access provided from Operational Programme *Enterprise and Innovation for Competitiveness* (audit No. [19/15](#));
- Cyber security of eGovernment of the Czech Republic (audit No. [19/26](#)).

The slow development of digitalisation of the Czech public administration cannot be blamed on clients' unpreparedness for access to digital public services. In 2019, according to the CSO, 81% of Czechs aged 16 and older used the internet, and Czech households are not lagging behind the European average in terms of personal computers and smartphones. The DESI 2020 Index also reports that 92% of households had access to fast broadband internet, which puts Czechia above the EU average.

The results of audit No. [19/15](#) showed that for almost five years of the 2014-2020 programming period the MoIT did not provide any subsidies for the development of high-speed internet out of the originally earmarked CZK 13.8 billion, due to poor initial design of support and insufficient preparation of the programme. As a result, half of the planned funds were moved to other operational programmes. Despite this, in 2018 the coverage rate of households in the Czech Republic with high-speed internet with speeds above 30 Mbps reached almost 90% (in 2013 coverage stood at 64%).

- The increase in coverage was achieved mainly through investments by electronic communications businesses. By contrast, the average household coverage rate for high-speed internet with speeds above 30 Mbps in EU Member States was only 83% in 2018. In 2018, out of the total number of residential buildings in the Czech Republic that were not covered by high-speed internet where subsidies could be directed, only 76,609 remained, or 3.4%.

The reasons for the slow development of the digitalisation of public administration formed part of the findings of audit No. [19/14](#), which focused on the introduction of electronic identification and electronic access to public administration services. The MoI spent almost CZK 250 million on building two key eGovernment tools, the electronic identification system and the *Citizens' Portal*⁵³. However, their launch did not bring about a fundamental change in the promotion of eGovernment or help citizens other clients of digital public administration services resolve their various requirements.

- These systems were intended to allow easier access to digital government services. However, the MoI failed to provide a sufficient range of available electronic services or to significantly expand the set of clients who would actively use the Citizens' Portal and electronic identification. During the SAO audit (June 2019 to February 2020), the MoI presented a range of 100 available electronic services on the Citizen Portal. The SAO found, however, that only 29 state administration services were actually available. The MoI did not select these services in response to an analysis of actual needs: the selection was based solely on the modules' technological readiness and the possibility of integrating these services into the Citizens' Portal. The public's interest in using the available electronic services was consequently very low - only 13% of holders of electronic ID cards activated their electronic identification certificate, and the Citizens' Portal has been used by fewer than 46,000 people by the end of 2019, which represents just 0.5% of adults in the Czech Republic. In response to these findings, the MoI has undertaken to analyse citizens' needs demand for digital services in 2021.

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Citizens' Portal is a gateway to state digital services, a self-service point for secure and confidential communication between citizens and the state.

- While the launch of the banking identity⁵⁴ in 2021 in connection with the newly adopted legislation⁵⁵ will lead to a sharp rise in the number of potential eGovernment users, a corresponding supply of state digital services will be absent. In many cases, the ongoing digitisation of state administration agendas does not make full use of citizens' authorised access and the link to state administration information systems and „forces“ users to communicate via data boxes.

*There were **1,175,033** data boxes in operation in December 2020, the vast majority of them belonging to businesses.*

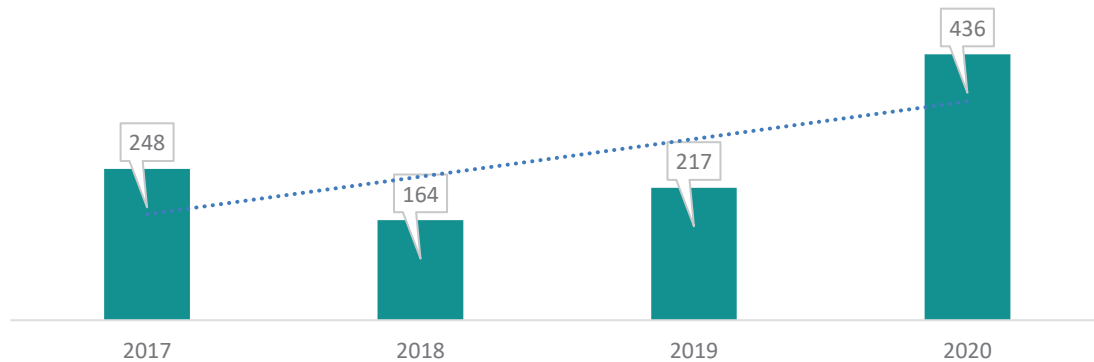
THE INTRODUCTION OF NEW TOOLS NOTWITHSTANDING, THE SAO RATED THE DEVELOPMENT OF EGOVERNMENT TO DATE AS INSUFFICIENT, AS THE MOI MINISTRY OF THE INTERIOR FAILED TO PROVIDE A SUFFICIENTLY WIDE RANGE OF SERVICES AND TO SIGNIFICANTLY ENLARGE THE SET OF THE CITIZENS MAKING ACTIVE USE OF THEM.

The expansion of the digitalisation of public administration in the Czech Republic must ensure not only the smooth functioning of services but also adequate security. Without that, not only would citizens' trust in online communication with state authorities be undermined: the very provision of services to citizens would be endangered. The development of eGovernment is thus closely linked to cyber-security systems to defend against the growing threat of cyber attacks. According to an estimate by the National Cyber and Information Security Agency (“the Agency”), ministries and the Office of the Government of the Czech Republic spent almost **CZK 2.8 billion** between 2015 and 2019 on ensuring the cyber security of the state's information systems in accordance with Act No. 181/2014 Coll., on cyber security (Cyber Security Act).

⁵⁴ Banking identity is used to verify citizens' identity in the online environment; it is used for communicating with banks but also enables communication with government offices and private companies without the need to enter login details.

⁵⁵ Act No. 12/2020 Coll., on the right to digital services and amending certain acts; Act No. 4/2020 Coll., amending Act No. 21/1992 Coll., on banks, as amended, and Act No. 253/2008 Coll., on certain measures against the legalisation of the proceeds of crime and terrorism financing, as amended, and certain other acts.

Chart 11: Development of the number of cyber incidents reported to GovCERT



Source: National Cyber and Information Security Agency.

In audit No. 19/26 the SAO found that, according to the Agency's estimate, the Ministry of the Interior lacked almost CZK 310 million to meet the requirements of the Cyber Security Act by 2020. In this context, the Mol has not implemented some of the risk management measures, which represents an increased security risk and may also pose a threat to the development of eGovernment and its security as a whole in the future.

- Cooperation between the NCIB and the Ministry of the Interior had not been formally established by the time the audit was completed, which should have been achieved through the implementation of selected tasks of the *Action Plan for the National Cyber Security Strategy of the Czech Republic for 2015-2020*. Among other things, a detailed model and flow chart for the functioning of cooperation in the field of cyber security was supposed to have been created. At the time of the audit, cooperation functioned mainly on an informal and ad hoc basis depending on actual needs, which the SAO verified in cases of responses to actual cyber attacks. In the SAO's view, this situation poses a long-term risk to the continuity of cooperation and to maintaining the necessary operational capacity in the event of staffing changes at both or even just one of the audited institutions.
- Cyber attacks on healthcare facilities in late 2019 and early 2020 showed that although they were not obliged entities under the Cyber Security Act, a series of cyber attacks on these facilities would have a significant impact on the functioning of the entire healthcare system in the Czech Republic. In response to these incidents and the findings of the SAO audit, the Agency, in cooperation with the Ministry of Health, drafted an amendment to Decree No. 437/2017 Coll., i.e. Decree No. 573/2020 Coll. With this amendment, effective from 1 January 2021, the number of hospitals designated as basic service operators is expanded from the current 16 to an expected 46 fundamental service providers.

Despite the declared shortage of state budget funds, the Mol did not make use of IROP call No. 10 – Cyber Security, with an allocation of CZK 1.3 billion and thus failed to utilise EU funding for improving cyber security.

5.2 TRANSPORT

Targeted development of transport infrastructure is one of the basic prerequisites for the Czech Republic's long-term and sustainable economic development. The fulfilment of this strategic objective and the creation of a favourable legislative environment are among the fundamental tasks of the state. The SAO focuses consistently on transport, as developments in this area have long been unsatisfactory. The SAO's main aims are to draw attention to shortcomings and also to identify the causes of the problems, push for the introduction of effective measures and thus make a significant contribution to improving the efficiency of the entire system.

In 2020 the SAO completed two audits in the transport sector, scrutinising:

- repairs and maintenance of road bridges (audit No. [19/10](#));
- renovation and revitalisation of passenger railway stations (audit No. [19/16](#)).

Road and motorway bridges are critical points of transport infrastructure. Their poor condition can significantly affect the safety and fluidity of road traffic. Audit No. [19/10](#) showed that there is no uniform system of bridge records containing up-to-date, complete and reliable information on their condition and defects. The records on the condition of bridges on motorways and 1st class roads kept by the Roads and Motorways Directorate (RMD) are unreliable and the data on bridges on 2nd and 3rd class roads are published by the RMD with no guarantee that they are complete and up-to-date. Moreover, no specific targets or indicators are set by the MoT or the RMD for mapping changes in the overall condition of bridges and the effects of the support provided for their repair and reconstruction. Based on these findings, the SAO assessed that the system of bridge care is not fully functional.

- Furthermore, the SAO found that since 2007 the MoT had not fulfilled its legal obligation to create and maintain a public administration information system, the Central Register of Roads⁵⁶. The Ministry of the Interior spent⁵⁷ CZK 2.7 million on the draft decree and the creation of a model internet application ineffectively, as the relevant implementing regulation had not been issued and the information system had not been created by the time the audit was completed. The MoT also provided a subsidy of CZK 5.7 million between 2001 and 2007 for the development of an information system called the Bridge Management System, which was supposed to provide objective information on the condition of bridges, including financial planning for maintenance and repairs, without paying attention to the scope of its use. The Ministry itself did not use the information system at all. It was only partially used by the RMD and other public authorities. For all 27 motorway and road bridges audited, the SAO found that the records of their condition were unreliable.

Professional inspections displayed shortcomings for any of the 27 inspected motorway and road bridges. The RMD did not ensure that they were carried out at the prescribed times; some were completed several years late; the inspection reports contained inconsistencies in their data; and in some cases they did not even correspond to the actual conditions of the bridges.

THE SAO CONCLUDED THAT THE EXISTING METHOD OF CARING FOR BRIDGES DOES NOT GUARANTEE EFFECTIVE, EFFICIENT AND ECONOMIC USE OF PUBLIC FUNDS. AT THE PRESENT SLOW PACE OF REPAIRS THAT RESULTS IN BRIDGES FALLING INTO DISREPAIR, NO IMPROVEMENT IN THEIR CONDITION CAN BE EXPECTED IN THE FORESEEABLE FUTURE.

⁵⁶ Section 29a of Act No. 13/1997 Coll., on roads.

⁵⁷ Section 14(1) of Act No. 219/2000 Coll., on the property of the Czech Republic and representation of the Czech Republic in legal affairs.

In response to the results of this audit, the MoT promised to audit the management of bridges on motorways, 1st class roads, regional roads and railway lines in collaboration with the Czech Technical University. It also declared that it would establish a working commission responsible for dealing with the financing of bridge repairs⁵⁸.

The slow drawdown of funds for renovation and revitalisation of passenger railway stations and its causes were revealed by audit No. 19/16. The SAO pointed out that in the audited period the Railways Administration spent almost CZK 2.7 billion on building alterations, which was on average 36% less than the amount envisaged by the *Programme for Reconstruction and Revitalisation of Passenger Stations for 2018-2022*. The main reasons for the lower spending were the previous owner's failure to ensure construction readiness and delays in construction and procurement procedures. This resulted in the construction projects' deadlines being put back.

- The basic objective, i.e. to modernise passenger stations in line with present-day requirements, and other objectives stated in the conceptual documents were fulfilled in all 24 audited projects.⁵⁹ By the time of the audit's completion, however, the Railways Administration had not evaluated any of the projects in terms of the benefits achieved, as it had not clearly defined the parameters (indicators) for assessing the completed reconstruction and revitalisation of passenger stations. Furthermore, the SAO found deficiencies in the payment of invoices or the conclusion of contract amendments in several of the audited reconstruction projects.
- In the context of the audit the SAO also pointed out that the state had not yet taken into account the fact that there were vacant renovated premises in the passenger station buildings that could be used to house state institutions as efficiently as possible, including minimising the costs of their operation. As a result, it has not put in place the right conditions for relocating selected state institutions to these buildings.

The Railways Administration concluded addenda to some contracts that raised the price of construction work or put back the completion date, even several dozen days after the construction should have been completed according to the contract.

THE INSUFFICIENT CONSTRUCTION READINESS OF PROJECTS AND DELAYS IN CONSTRUCTION AND PROCUREMENT PROCEEDINGS RESULTED IN DELAYS IN PROJECT EXECUTION AND SLOW DRAWDOWN OF PROGRAMME FINANCES.

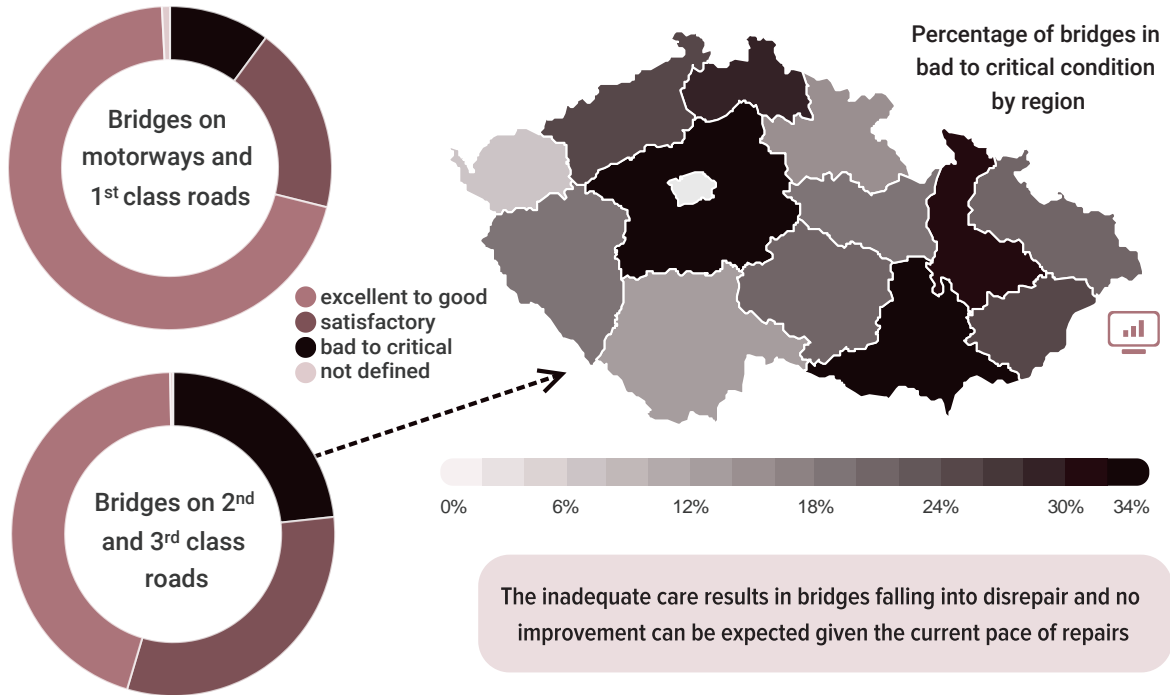
⁵⁸ MoT press release of 14 August 2021.

⁵⁹ The main aims were to optimise and improve spaces for passengers, ensure there was barrier-free movement around buildings, ensure that the buildings were economically operated and tied in with line construction projects, and revitalise passenger railway station complexes, including alternative uses of these premises.

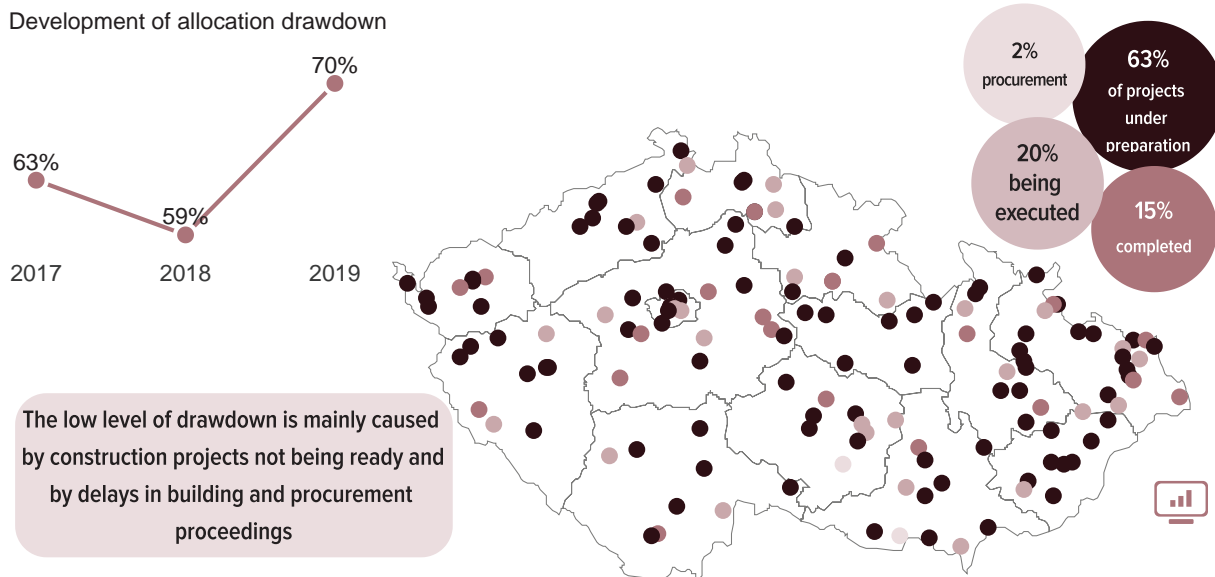


The slow pace of construction project preparation and execution has long had a negative impact on the targeted development and renovation of transport infrastructure

THERE ARE 17,500 MOTORWAYS AND ROAD BRIDGES IN THE CZ 3,400 OF THEM ARE IN BAD TO CRITICAL CONDITION



THE PACE OF UTILISATION OF FUNDS FOR RECONSTRUCTION AND REVITALISATION OF PASSENGER RAILWAY STATIONS IS SLOW



In recent years, the SAO has consistently focused on the construction of new transport infrastructure. In this context, it pointed out that the conceptual objectives of transport policy set out in strategic documents were not being fulfilled because of the slow execution of investment projects involving construction work. The most significant problem in the field of road or rail transport infrastructure, as shown by the audits in the field of motorway construction⁶⁰, construction and modernisation of 1st class roads⁶¹ and safety of railway operation⁶², was the delay in the execution of projects and the disproportionately long preparation time for construction projects. This was caused by problems in obtaining planning permission and building permits and land ownership. According to the World Bank, the Czech Republic was ranked **157th** out of 188 countries assessed in 2019 in terms of the administrative complexity of construction permits, and last among EU countries⁶³.

*The pace of motorway construction in the Czech Republic is significantly slower than in neighbouring Poland. In 2020, just **21.3 km** of new motorway sections was opened in the Czech Republic, while Poland managed to open **137.8 km**⁶⁴.*

The SAO has repeatedly pointed out the significant shortcomings of the legislation in this area and recommended that effective legislative measures be taken without delay to speed up the preparation of construction projects, and in particular to simplify and speed up the procedure for issuing planning permission and building permits.

- In response to the SAO's legislative recommendations, delays in construction proceedings and preparation were repeatedly addressed at government level. These efforts resulted in the approval of an amendment⁶⁵ to the Line Act (effective from 1 January 2021) to prevent malicious blocking of construction projects and to speed up the processing of building permits, environmental impact assessments (EIAs) and the purchase of the necessary land. The legislation includes the „Polish model“ applicable only to transport construction projects, which will allow the state to build motorways and railways immediately after it has gained access to the necessary land in the context of a building permit. It is envisaged that this legislation will cut the preparation time for strategic transport projects by roughly a third to a half. Whether these legislative changes actually enable faster and more efficient preparation of construction projects will be systematically examined by the SAO in the coming years.

60 Audit No. 17/05 – *Construction, modernisation and reconstruction of motorways* (audit report published in volume 1/2018 of the SAO Bulletin).

61 Audit No. 18/21 – *Construction and modernisation of A-class roads* (audit report published in volume 6/2019 of the SAO Bulletin).

62 Audit No. 17/33 – *Assurance of security for railroad operations and passengers* (audit report published in volume 6/2018 of the SAO Bulletin).

63 *Doing Business 2020*, World Bank Group, 2019.

64 Roads and Motorways Directorate; General Directorate for National Roads and Motorways; see: <https://www.gddkia.gov.pl/a/40629/Podsumowanie-2020-roku>.

65 Act No. 403/2020 Coll., amending Act No. 416/2009 Coll., on the acceleration of road, water and energy infrastructure and electronic communications infrastructure construction projects, as amended, and certain related acts, with effect from 1 January 2021.

5.3 SOCIAL SERVICES AND EMPLOYMENT

The common objectives of the EU and its Member States in the social and employment fields include reducing unemployment, improving living and working conditions and social protection. Expenditure in this area represents a significant amount of money each year, both from the state budget and from EU funds. One prerequisite for evaluating a given policy in terms of efficient spending is the identification of real needs and the related setting of measurable and relevant objectives that the state wants to achieve with these funds.

In 2020, the SAO completed two audits in the area of social policy and employment, which focused on support for:

- demolition of buildings in socially excluded localities (audit No. [19/22](#));
- employment of the over-50s and the policy of policy ageing under OP E (audit No. [19/23](#)).

The weakened effectiveness of the sub-programme⁶⁶ in relation to the problem of socially excluded localities was revealed by the results of audit No. [19/22](#). The sub-programme's aim was to support the demolition of buildings in municipalities with a socially excluded locality or in municipalities where there was a risk of one emerging, and thus to prepare the territory for further development and prevent the formation of areas of social segregation. The SAO pointed out that the support mainly helps municipalities to dispose of superfluous buildings and revitalise the area, but that the contribution to tackling the problem of socially excluded localities is minimal.

- The MoRD did not monitor the sub-programme's impact on addressing the issue of socially excluded localities, nor did it put in place any tools for monitoring the impact of project implementation. Only quantitative parameters were defined, but these do not make it possible to evaluate the impact of the support. Annually, **CZK 100 million** was allocated for demolitions in socially excluded localities. However, in 2016-2018 only **38%** of the allocation was utilised on average, leaving the majority unused. One of the reasons for the low drawdown of the allocation was the overestimation of demolition prices in support applications, with the actual financial need being **about 60%** lower than the subsidy requested. Another reason was applicants' low demand for the support. According to the SAO, the control system on the part of the Ministry of Regional Development also failed, as it did not check the beneficiaries' procurement procedures. Several projects were found to be in breach of legal regulations or the conditions set out in the decisions on granting subsidies.

*Out of the audited total of **CZK 46 million**, it was found that two beneficiaries did not procure public contracts worth a total of **CZK 9 million** in open procedure, as the sub-programme's conditions required.*

THE SUB-PROGRAMME'S DOCUMENTATION DID NOT RESPECT THE INTENTION TO ADDRESS THE ISSUE OF SOCIALLY EXCLUDED LOCALITIES. FOR EXAMPLE, IT WAS NOT STIPULATED THAT THE SUBJECT OF THE SUBSIDY MUST BE LOCATED DIRECTLY IN OR AT LEAST RELATED TO A SOCIALLY EXCLUDED LOCALITY. FURTHERMORE, THE MINISTRY DID NOT INCLUDE AMONG THE CONDITIONS FOR GRANTING SUBSIDIES AN OBLIGATION TO PREPARE A SITUATIONAL ANALYSIS OR AN OBLIGATION TO SUBMIT AN EVALUATION OF HOW THE PROJECT CONTRIBUTED TO SOLVING THE PROBLEM OF THE SOCIALLY EXCLUDED LOCALITY.

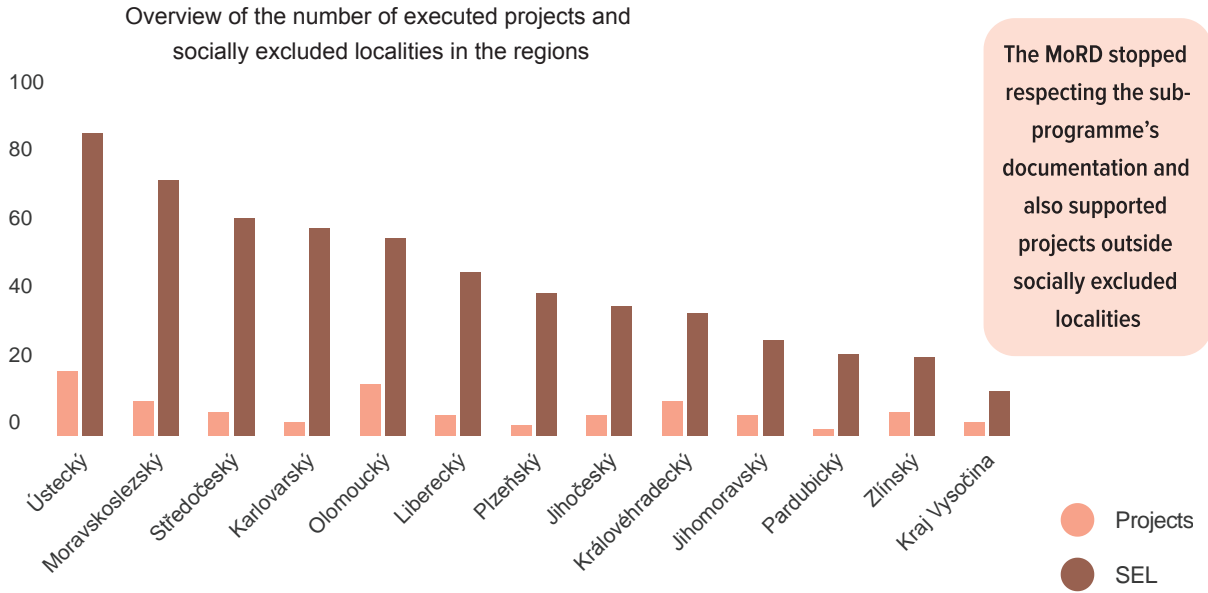
In response to the audit results, the government tasked the MoRD with adopting remedial measures. The MoRD declared that:

- as part of final evaluation, it would carry out an evaluation of the Support for the Revitalisation of Territories programme. The evaluation should also make clear what impact the Demolition of Buildings in Socially Excluded Localities sub-programme has had on the issue. It should also contribute to more specific parameters being defined in future programmes;
- it would remedy the shortcomings identified in relation to the management and control system, in particular by introducing controls on procurement procedures, detection of ineligible expenditure and economy assessments before legal documents are issued;
- it would reintroduce „four eyes“ checking in the evaluation of applications and the checking of the accuracy of data in subsidy decisions.

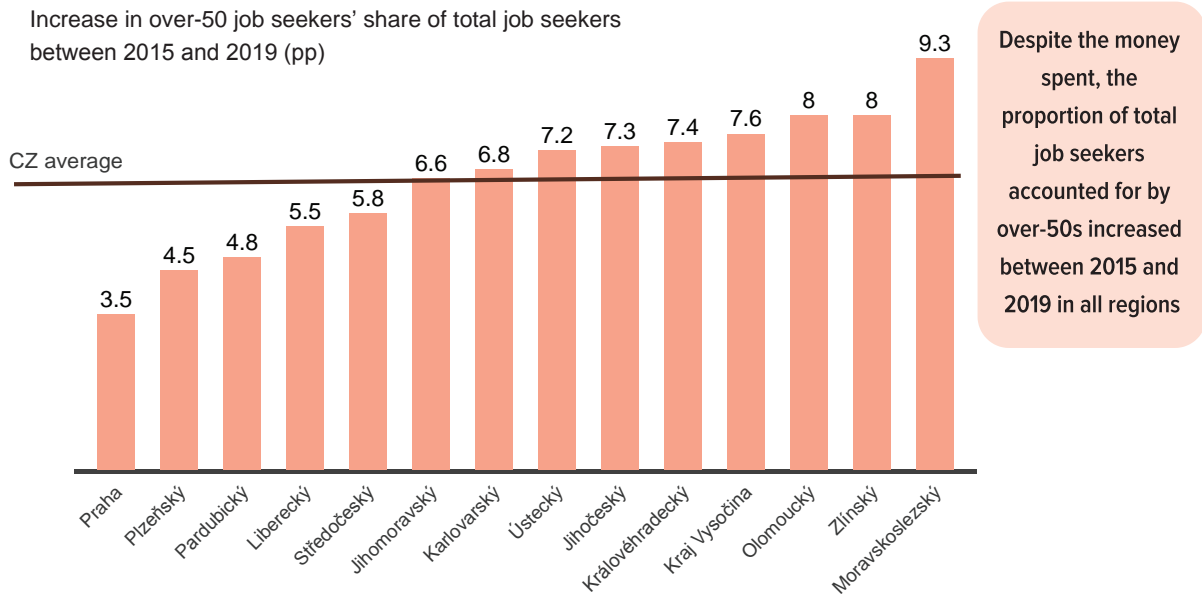


Ministries did not set indicators for monitoring the impacts of projects, and their benefits are unclear

THE MoRD SET THE ANNUAL ALLOCATION FOR DEMOLITIONS IN SOCIALLY EXCLUDED LOCALITIES BEFORE THE DOCUMENTATION HAD BEEN DRAWN UP AND, MOST IMPORTANTLY, BEFORE MUNICIPALITIES' ACTUAL NEEDS HAD BEEN ANALYSED



EVEN THOUGH OPE FUNDING HELPED INCREASE EMPLOYMENT IN THE TARGET GROUP DURING THE PROJECTS' IMPLEMENTATION, IT WAS NOT POSSIBLE TO KNOW WHETHER THEIR POSITIVE EFFECT CONTINUED AFTER THE PROJECTS ENDED



Population ageing and its related impacts are not only a problem for the Czech Republic: it is a pressing issue for the entire European Union. Changes in the age structure of society brings, among other things, changes in the structure of the supply side of the labour market. According to the OP E programme document, the group of people aged 50 and over are among those most at risk on the labour market. As audit No. [19/23](#) showed, OP E funds contributed to the increase in employment of the supported persons only for the duration of the project's implementation. OP E did not specifically define a separate goal of supporting the employment of older people, however. In addition, the Czech Republic lacks a strategy that would declare priorities, objectives and measures for preparing society for ageing.

- In 2019, the MoLSA submitted a draft strategic framework⁶⁷ to the government, which had not been approved by the government by the time the SAO audit was completed. Despite the fact that the MoLSA quantified the total support for projects aimed at people over 50 years of age from OP E at almost **CZK 6.5 billion**, these people's share of the total number of job seekers registered with the Labour Office of the Czech Republic has been steadily increasing. After auditing a sample of **12 projects** with a total cost of **CZK 326 million**, the SAO pointed out that the projects contributed to an increase in employment levels in the target group during the projects' implementation. However, in the legal documents on the provision of support the MoLSA did not establish a method for monitoring and evaluating the impact of the projects or any criteria for verifying the achievement of the planned objectives. As a result, the long-term benefits of the projects are not known. In the audited sample of projects, shortcomings in the MoLSA's administration of projects were found, such as a failure to ensure preliminary checks of planned and prepared operations or the absence of a key activity in subsidy provision decisions, as well as shortcomings in the beneficiaries of the support.

In all regions of the Czech Republic, the proportion of total job seekers accounted for by those aged over 50 increased between 2015 and 2019. While in 2015 these applicants accounted for less than 31% of all applicants, in 2019 the figure was almost 38%, according to the records of the Labour Office of the Czech Republic.

67

Strategic Framework of Preparations for an Ageing Society 2019–2025, or 2020–2025.

5.4 EDUCATION

One of the SAO's enduring audit priorities is the development of education as a basic prerequisite for the Czech Republic's development and improved competitiveness. The success of a society is to a large extent predicated on its education system. One of its fundamental prerequisites is the building of sufficient teaching capacities and adequate material support. Last but not least, equal access to quality education for all pupils is essential. This should be guaranteed by the concept of inclusive education that should, among other things, help pupils with special educational needs (SEN) to overcome their disadvantages, be they health disadvantages or different cultural backgrounds or living conditions. At the regional level, the issue of social inclusion is covered by a general overarching strategy, namely the Strategic Plan for Social Inclusion, which is implemented by municipalities and associations of municipalities. The education sector is the focus of the section entitled *Local Plan for Inclusion in Education*.

In 2020 the SAO completed two audits dealing with education. These examined:

- support for inclusive education in schools (audit No. [19/19](#));
- investment programmes of the MoEYS (audit No. [19/28](#)).

In audit No. [19/19](#) the SAO focused on the support for common education of pupils in the Czech Republic from the operational programmes *Research, Development and Education (OP RDE)*, *Prague – Growth Pole (OP PGP)* and the *Integrated Regional Operational Programme (IROP)*. As at 30 June 2019, the MoEYS, the City of Prague and the MoRD had distributed CZK 32.3 billion from EU funds and the state budget for inclusive education projects. The MoEYS effected the most important legislative changes concerning inclusive education in schools in September 2016 without preparing teachers in standard schools for them in advance. In the audited sample of projects, the funds were only provided and used effectively to a limited degree. The effectiveness of funding was particularly limited in the case of a systemic project financed out of OP RDE and implemented by the Office of the Government of the Czech Republic.

- The results of the audit showed that significant support is also provided to OP RDE projects that do not guarantee the real inclusion of pupils with special needs and socially disadvantaged pupils into mainstream schools. Reasons for this included shortcomings in the definition of objectives and monitoring indicators and in the design of strategic documents by the MoEYS, which did not define a sustainability condition for activities in the OP RDE calls for financially costly projects; this is something the SAO had already flagged up in previous audits⁶⁸. As a result, there is no guarantee that the outputs, e.g. in the form of methodologies or plans, will actually be used by the beneficiaries or end users. Investment projects ensuring barrier-free schools can be considered beneficial in terms of equal access to education. The results of a questionnaire survey⁶⁹ carried out by the SAO in 1,789 schools show that schools are dissatisfied with the fact that the involvement of professional staff in school activities is exclusively paid from the European Structural and Investment Funds. On the other hand, almost **93%** of schools rated cooperation with guidance institutions positively. On the side of the support providers, the SAO identified shortcomings in the control activities of the OP RDE and OP PGP managing authorities, i.e. the MoEYS and the City of Prague.

In the questionnaire survey over 63% respondents stated that they had not been invited to take part in preparatory discussions before the launch of legislative changes concerning inclusion with effect from September 2016.

⁶⁸ Audit No. 14/24 – *EU and state budget funds provided for the settlement of expenditures of national projects within the Operational Programme Education for Competitiveness* (audit report published in volume 3/2015 of the *SAO Bulletin*); audit No. 15/06 – *State budget funds and EU structural funds earmarked for financing of operational programmes with respect to projects' sustainability* (audit report published in volume 1/2016 of the *SAO Bulletin*).

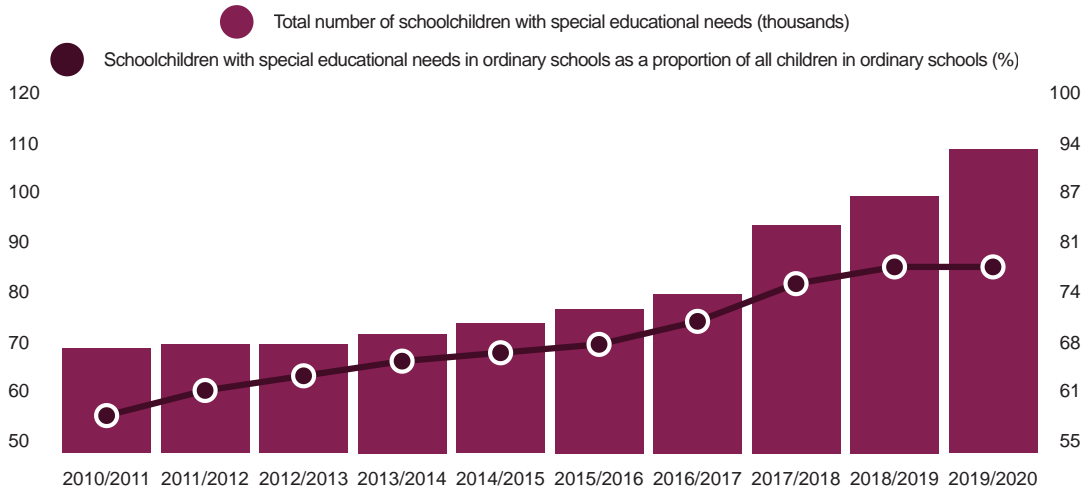
⁶⁹ The results of the questionnaire survey are visualised here: <https://www.nku.cz/scripts/detail.php?id=11151>.

THE FUNDING OF MEASURES TO ENSURE EQUAL CONDITIONS FOR QUALITY EDUCATION FOR ALL SCHOOLCHILDREN IS DEPENDENT ON ESIF FINANCING. FOR STANDARD SCHOOLS THIS PRESENTS A RISK THAT WHEN THE EXISTING PROGRAMMING PERIOD ENDS THEY WILL NOT HAVE ENOUGH MONEY TO EMPLOY SPECIALIST STAFF (SPECIAL TEACHERS, SCHOOL PSYCHOLOGISTS) FOR WORK WITH CHILDREN WITH SPECIAL EDUCATIONAL NEEDS.



Inclusion financing's dependency on EU funds is a risk for future sustainability

THE GROWING NUMBER OF SCHOOLCHILDREN WITH SPECIAL EDUCATIONAL NEEDS, WHICH HAS INCREASED BY MORE THAN HALF SINCE 2010, INDICATES THAT FUNDING REQUIREMENTS WILL CONTINUE TO INCREASE



Money spent by the MoEYS, MoRD and City of Prague on projects and programmes linked to support for inclusive schooling

OP RDE in the 2014–2020 programming period



CZK 18.1 billion

IROP in the 2014–2020 programming period



CZK 6.4 billion

OP EC in the 2007–2013 programming period



CZK 5.4 billion

State budget funds from the MoEYS chapter up to 2015

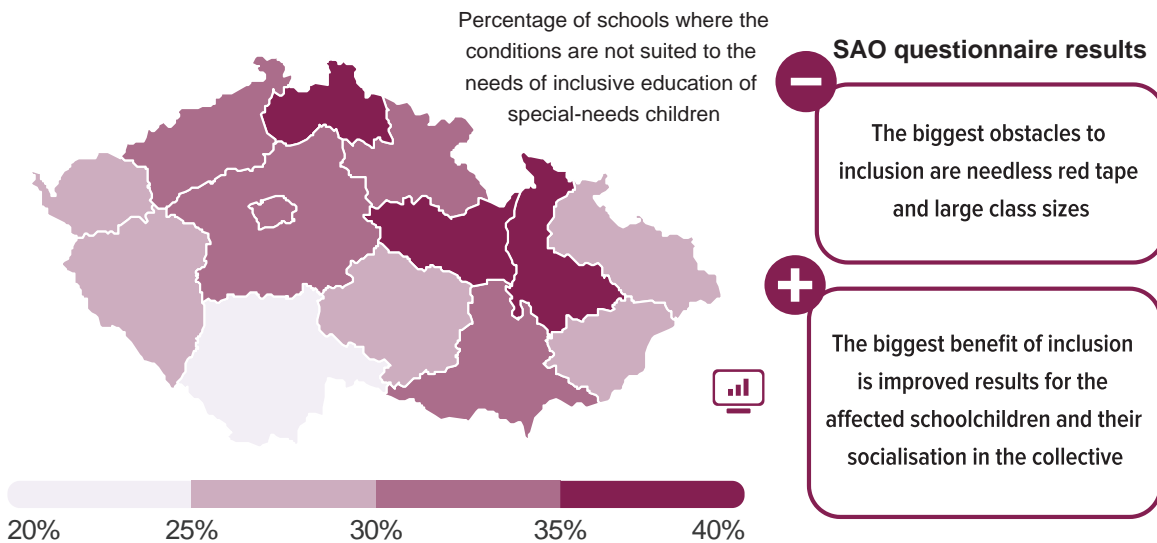


CZK 2.2 billion

OP PGP in the 2014–2020 programming period



CZK 0.2 billion



In order to ensure quality educational conditions for all pupils, it is necessary to put in place adequate material provision and new teaching capacities. In audit **No. 19/28**, the SAO therefore examined the provision and use of state funds spent by the MoEYS in 2016-2018 on two selected asset replacement programmes focusing on special and regional education⁷⁰. These programmes were intended to improve the conditions in children's homes, educational institutions and special schools established by the MoEYS, and to create new teaching capacities in regional schools established by municipalities, towns or regions.

On the part of the MoEYS, the SAO drew attention to shortcomings in both programmes, in particular the ineffectiveness, unsustainability and non-transparency in the provision of state funding. The MoEYS created discriminatory conditions for the subsidy beneficiaries, which resulted in some being disadvantaged. Although the MoEYS laid down detailed conditions and guidelines, it did not consistently monitor and enforce compliance with them. On the beneficiaries' side, the SAO found that 10 out of 11 audited beneficiaries did not comply with the legal regulations and did not respect with the defined conditions. The SAO assessed these findings as indication of a breach of budgetary discipline.

- The Ministry of Education did not take into account the real needs for new teaching capacities when providing funds from the *Regional Education Programme*, as it provided **CZK 17 million** to two projects that had a completion deadline before the approval of the programme documentation. Furthermore, the MoEYS provided funds of almost **CZK 47 million** from this programme ineffectively, as it supported applications for two projects that did not satisfy the defined criteria. In the two calls for proposals for the *Special Education Programme*, the MoEYS acted in a non-transparent manner by not assessing the submitted applications according to the defined criteria. In the preparation and implementation of two projects the MoEYS acted in an uneconomical manner, as it spent funds totalling **CZK 6.3 million** without reflecting the cost savings in the management documentation in the state budget involvement.
- The SAO audit also scrutinised 11 subsidy recipients that received subsidies totalling almost **CZK 260 million** from the MoEYS for the implementation of a sample of 18 projects. In 16 of these projects the beneficiaries did not act in accordance with the legal regulations⁷¹ or did not comply with the conditions set out in the projects' management documentation. The SAO assessed the shortcomings found in 8 subsidy beneficiaries as a breach of budgetary discipline with a financial value of **CZK 86 million** and notified the relevant tax administrator. The SAO also filed a criminal complaint against one subsidy recipient.

The SAO identified the two most serious shortcomings in two construction projects. The MoEYS provided subsidies totalling CZK 14.8 million for these projects, but the actual value of the building work done was just CZK 6.5 million.

THE SAO POINTS OUT THAT CONTROL WORK DONE BY THE MOEYS AS THE PROGRAMME ADMINISTRATOR WAS INEFFECTIVE AND PURELY FORMAL. THE MINISTRY FAILED TO PROPERLY CHECK AND ENFORCE COMPLIANCE WITH BOTH PROGRAMMES' CONDITIONS AND DID NOT DEMAND CORRECT AND COMPLETE DOCUMENTARY EVIDENCE OF COMPLIANCE.

Given the repeated results of the SAO's audits as regards of subsidy provision by the MoEYS⁷², the SAO recommends that corrective measures be adopted to improve management and control activities so that funds are provided to beneficiaries in a transparent and non-discriminatory manner and without the risk of subsequent penalties resulting from deficiencies in the provider's work.

70 Programme 133 100 Development and Replacement of Material Assets of Special Schools and of the Alternative Educational Care System (Special Education Programme) and Programme 133 310 Development of the Teaching Capacities of Kindergartens and Primary Schools Established by Territorial Self-governing Units (Regional Education Programme).

71 E.g. Act No. 218/2000 Coll.; Act No. 320/2001 Coll.; Act No. 137/2006 Coll.; Act No. 134/2016 Coll.; Act No. 563/1991 Coll.; Act No. 340/2015 Coll.

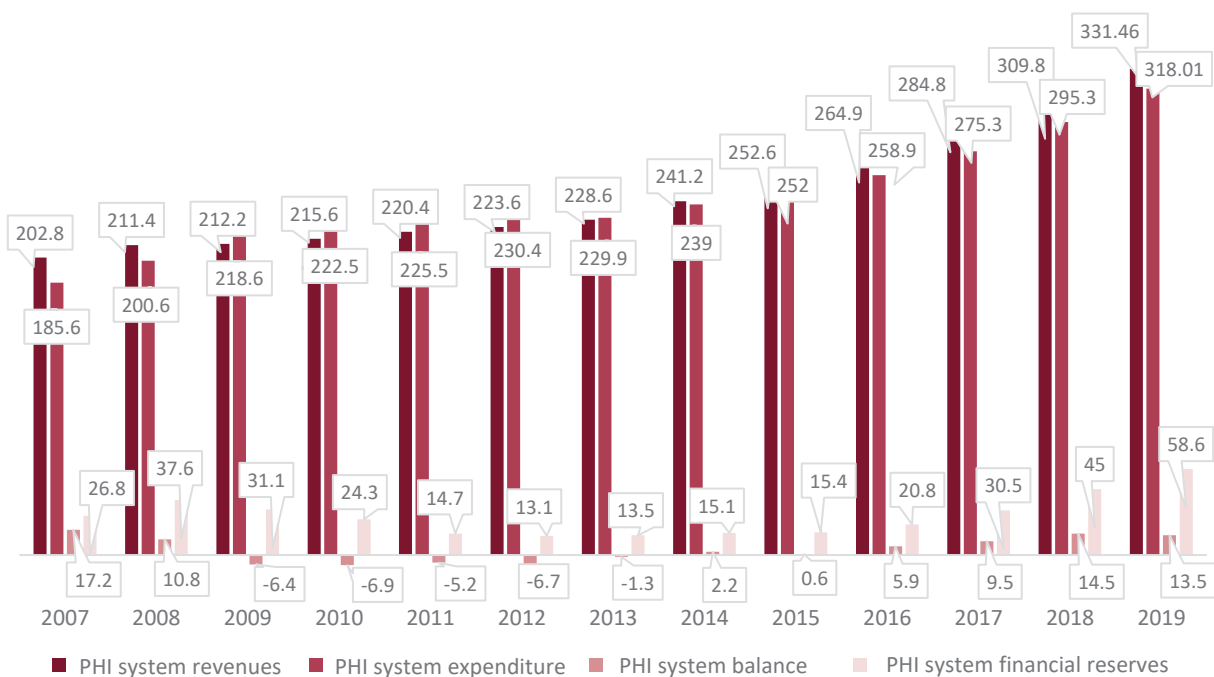
72 Audit No. 17/17 – *State funds provided in support of youth and children activities*; audit No. 16/20 – *State funds spent by the Ministry of Education, Youth and Sports on the development and renewal of the material-technical base of sports*; audit No. 14/04 – *State funds provided for selected programmes of state budget indicator – General Sport Activity*.

5.5 HEALTHCARE

The long-term sustainability of healthcare financing should be a priority for the Czech Republic. However, the SAO's opinions on the state closing account have repeatedly flagged up the issue of financial sustainability and the resilience of the public health insurance (PHI) system to possible factors related to demographic development or the economic cycle. In 2019, the PHI system achieved a positive balance of **CZK 13.5 billion**. At the same time, the balances in the current accounts of the health insurance companies increased to **CZK 58.6 billion**, which was more than **18%** of the system's total expenditure. These reserves thus increased by almost **3%** compared to the previous year.

The originally planned revenues and expenditures of the PHI system for 2020 envisaged revenues of **CZK 350 billion** and expenditures of **CZK 357 billion**. However, the financial indicators of the PHI system were changed substantially in 2020 by the spread of Covid-19. A look at the financial management of the public health insurer VZP gives some idea of the scale of the changes. In the plan for 2020, VZP reckoned with an increase in expenditure on health services. The increase in spending on health services in 2020 was partly offset by a significant increase in payments for state-insured persons during the year. The projected deficit of VZP in 2020 is also expected to be covered by accumulated financial reserves⁷³.

Chart 12: Change in PHI system indicators 2009–2019 (CZK billion)



Source: Institute of Health Information and Statistics of the CR; healthcare yearbooks 2004–2018, healthcare statistics of the CR; summary assessments of the development of the public health insurance system from 2007 to 2018; Czech government resolution No. 892 of 7 September 2020, on the assessment of the development of the public health insurance system in 2019 based on data from health insurance companies' draft annual reports and financial statements for 2019.

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This information was given by Mr Zdeněk Kabátek, director of VZP, in a presentation entitled *Current Developments and Public Health Insurance* at a healthcare conference in September 2020.

THE CURRENT SITUATION HIGHLIGHTED THE IMPORTANCE OF HEALTH INSURANCE COMPANIES CREATING SUFFICIENT RESERVES AS A STABILISING MECHANISM FOR PUBLIC HEALTH INSURANCE FINANCIAL SUSTAINABILITY. THE SAO HAS REPEATEDLY FLAGGED UP THE INSUFFICIENT CREATION OF RESERVES.

One of the problems of the healthcare system is the ageing of both doctors and non-medical health care workers. This could lead to a shortage of health professionals, particularly in some fields, which could jeopardise the availability and level of health services. In cooperation with the MoH and the MoEYS, a long-term financial measure has been prepared to increase the capacity of medical faculties to ensure a sustainable increase in the number of their students. In the light of these facts and the resulting risks, the SAO completed audit No. [19/06](#) in 2020, in which it examined the provision and use of state funds provided by the MoH in 2015-2018 to ensure postgraduate training of healthcare professionals.

The SAO regards as a fundamental shortcoming the fact that the MoH, which is responsible for the entire system of specialised training of healthcare workers, did not evaluate its design and functioning and did not examine its economy, efficiency and results. In 2015-2018, it spent CZK 1.7 billion on supporting this system, with these expenditures increasing year-on-year. Despite the resources provided to support continuing education for health workers, the system of specialised education is fragmented and complex. The transformation of the system of specialised medical education, which the MoH started by involving universities in 2011, has not been completed.

- When determining how much to provide in subsidies for co-financing training places for doctors and non-medical health workers, the MoH did not assess the economy of the funds allocated in this way and changed them every year in an unsystematic way. Similarly, in the case of subsidies to universities for doctors' specialisation training, the MoH paid subsidies in the order of tens of millions of koruna without any analysis of the real economic demands of the services provided. The comparison done by the SAO showed that as a result of the way the payments were defined, one of the universities received at least eight times more in subsidies per registered trainee per participating medical faculty⁷⁴ than the others. In addition, the SAO pointed out deficiencies in the subsidy beneficiaries, which did not comply with the legal provisions on selection procedures for trainee positions and in several cases used the subsidy to cover costs in a way contravening the decision on the award of the subsidy.

In the years 2015–2018 the amount provided in subsidies for general medical education changed unsystematically every year, with the change ranging from CZK 10,000–25,000 per trainee.

THE SUBSIDIES ADMINISTRATION SYSTEM PUT IN PLACE BY THE MOH INSUFFICIENTLY DEFINED POWERS AND RESPONSIBILITIES, WHICH ENABLED ERRORS AND CAUSED DECISION-MAKING TO BE NON-TRANSPARENT.

In response to the findings of the audit report, the MoH has committed to the adopting corrective actions, including drawing up an expert analysis of postgraduate education and to use its results to make systemic changes in the support for specialisation training for healthcare workers. Furthermore, it will draw up a regulation governing the process for the administration of subsidies for residencies in order to eliminate errors. The MoH has also committed to making the application assessment process more transparent and improving financial control.

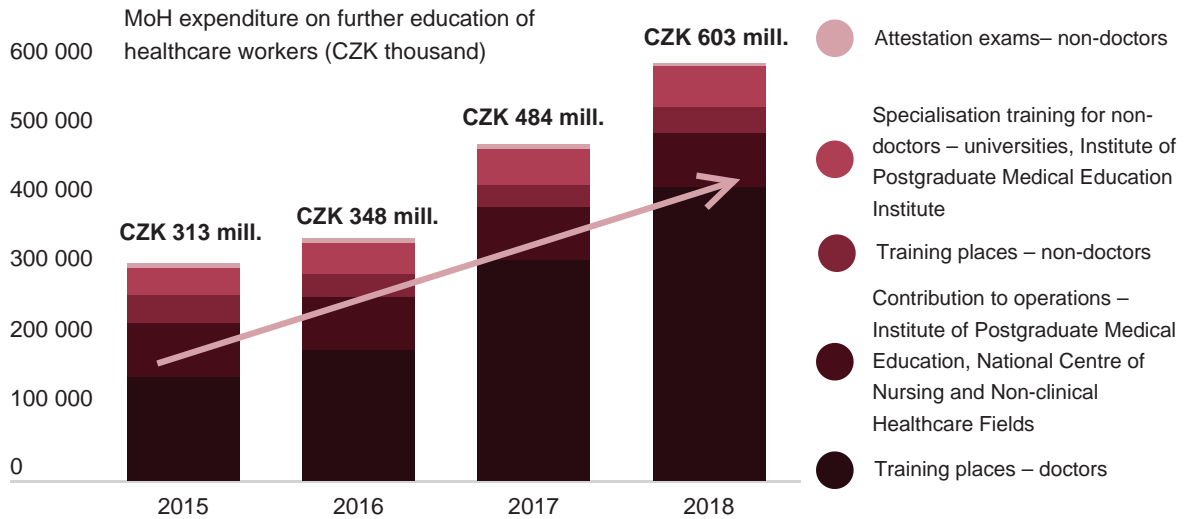
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In addition to subsidies to the involved medical faculty, the resulting sum also includes a payment per registered trainee, per attestation examination and per examination following general medical education.

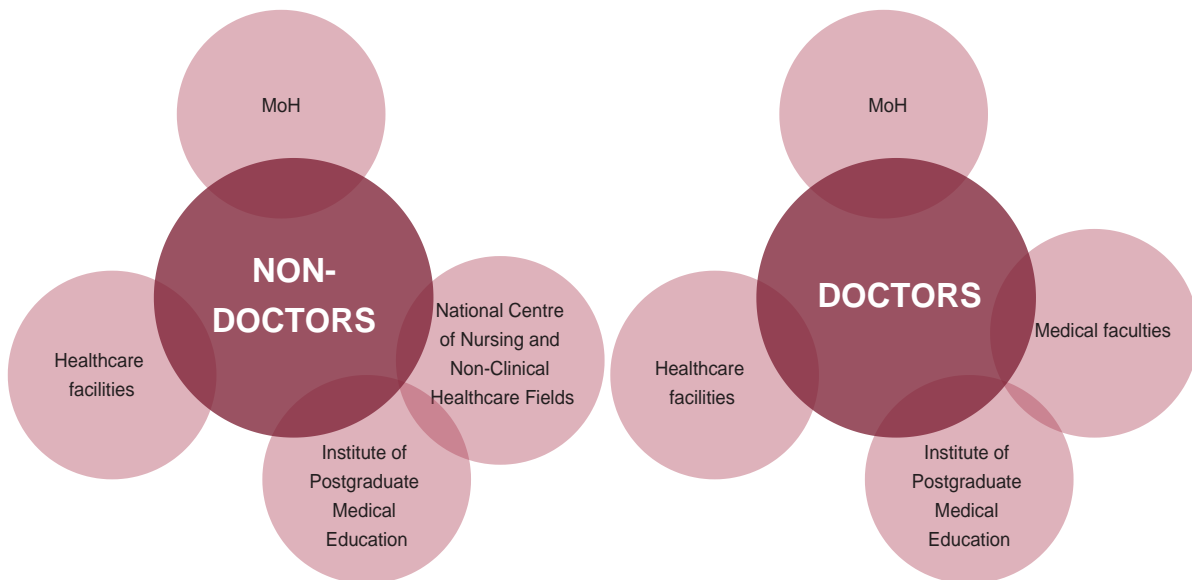


The system of specialised education for healthcare workers needs **simplifying and assessing in terms of economy, efficiency and the results delivered**

MoH EXPENDITURE ON FURTHER EDUCATION OF HEALTHCARE WORKERS ALMOST DOUBLED FROM 2015 TO 2018



THE SPECIALISATION TRAINING SYSTEM AS A WHOLE REMAINS COMPLICATED AND THE TRANSFORMATION OF DOCTORS' EDUCATION IS UNFINISHED



5.6 DEFENCE, SECURITY AND INTERNATIONAL RELATIONS

One of the basic functions of the state is to guarantee the security of its citizens and to put in place the right conditions for limiting internal and external security threats. Sufficient human and monetary resources are a prerequisite for ensuring security. The provision of monetary resources was declared, for example, in the 2014 *Agreement of the Coalition Parties on Securing the Defence of the Czech Republic*⁷⁵, according to which defence spending was to reach 1.4% of GDP by 2020⁷⁶. The ability of the state to respond to security threats was tested in 2020 by, among other things, the Covid-19 pandemic, when the Army of the Czech Republic („the Army“) played a key role in the fight against the pandemic, alongside *the Czech Fire and Rescue Service and the Police of the Czech Republic*.

In 2020, the SAO completed five audits in the area of defence, security and international relations, which focused primarily on the effectiveness, efficiency and economy of the expenditure and its benefit to the citizens of the Czech Republic:

- acquisition of military equipment by the Army of the Czech Republic in audit No. [20/03](#);
- armoured vehicles of the Army of the Czech Republic in audit No. [19/13](#);
- university education of members of the security forces and soldiers of the armed forces in audit No. [19/20](#);
- state property and funds managed by the Prison Service of the Czech Republic in audit No. [19/07](#);
- state funds provided to international organisations and expenditures relating thereto in audit No. [19/05](#).

Kitting out the Army with modern equipment and armaments is an essential prerequisite for the fulfilment of the Army's tasks. Replacing obsolete equipment and armaments and ensuring that existing material is combat-ready is one of the main tasks of the MoD. The SAO therefore focuses every year on the acquisition activities of the MoD and assessing the fulfilment of the objectives of the MoD's conceptual documents on the basis of the implemented projects, which applies to both movable assets and real estate.

In audit No. [20/03](#) the SAO concluded that the armaments acquisition system is inefficient. The MoD did not secure spare parts for the life cycle of the equipment, procured equipment in stages instead of concluding a framework agreement and had to repeat the procurement process due to incorrectly specified parameters. This resulted in increased demands on financial and personnel resources and delayed the acquisition process as a whole. The MoD is thus not building the combat capabilities of the Army of the Czech Republic in the required time.

- The SAO audit also found that the MoD used funds of **CZK 3.4 million** ineffectively, as it purchased daytime sights for machine guns that are unsuitable for this type of equipment and do not suit the soldiers' requirements. Despite these shortcomings, the MoD continues to use the acquired accessories on the machine guns. The MoD repeated the procurement procedure due to incorrectly specified parameters in three out of eight audited cases of acquisition of armaments and spare parts; in two out of four audited investment projects for acquisition of armaments it failed to secure spare parts for the life cycle of the armaments at the time of acquisition. In these cases, the MoD procured the armaments and only a limited number of spare parts, making its position in negotiations with the supplier significantly more difficult.

The MoD repeated the procurement process for MINIMI machine guns four times, with 437 days passing between the first publishing of the tender documentation and the decision on selection of a contractor.

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See: <https://www.mocr.army.cz/assets/informacni-servis/zpravodajstvi/smlouva-koalicnich-stran.pdf>.

The Programme Declaration of the Government of the Czech Republic from 2018 contains this modified commitment: "...we will gradually increase the defence budget in order to reach 1.4% of GDP by the end of the electoral term, i.e. by 2021."

In audit No. [19/13](#) the SAO concluded that the MoD spent funds on the acquisition, repair and maintenance of armoured vehicles for the Army in an inefficient and ineffective manner, as it did not consider the total life cycle costs when acquiring the equipment and became dependent on a service and spare parts supplier with the appropriate licence, which led to an increase in the funds spent on the operation of the equipment.

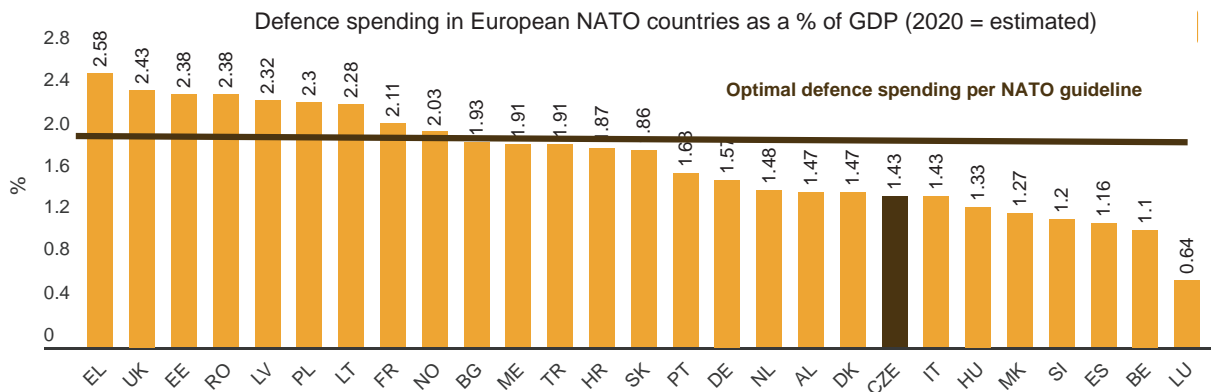
- The audit found, for example, that the framework agreement for the servicing of wheeled infantry fighting vehicles (WIFVs) and wheeled armoured personnel carriers (APCs) for 2017-2019 was concluded by the MoD with an agreed amount of almost **CZK 1.1 billion**. That was **CZK 795 million** (i.e. **270%**) more than the previous contract for the years 2014-2016, when the service was provided by the vehicle supplier. The increase in the cost of vehicle servicing was also due to the Army's insufficient workshop, technical and personnel capacities for basic maintenance and repair tasks. As a result of the lack of spare parts, a large proportion of the vehicles were unusable in 2016-2019, which could have jeopardised the combat capability of the ACR. Furthermore, the MoD spent **CZK 85.9 million** on technical upgrading of the armoured vehicle in an inefficient and ineffective manner, because overloading made it necessary to reduce the calibre of the weapon system and reduce the number of soldiers operating the rear part vehicle. The Army's investment needs were defined differently in MoD documents and the execution of investment actions was often delayed. At the same time, much of the armoured equipment has already significantly exceeded its technical lifespan.

THE EFFECTIVENESS AND EFFICIENCY OF STATE SPENDING ON MODERNISING THE CZECH ARMY IS UNDERMINED BY SHORTCOMINGS IN THE ACQUISITIONS PROCESS. THAT JEOPARDISES THE DEVELOPMENT OF THE ARMY'S CAPABILITY WITHIN THE REQUIRED TIME LIMIT TO THE NECESSARY STANDARD.



Increased expenditure on defence and security must be combined with effective and efficient spending and demonstrable benefits

THE CZECH DEFENCE SPENDING IS BELOW AVERAGE COMPARED TO NATO MEMBERS AND HITTING THE 2% OF GDP TARGET HAS LONG BEEN PUT BACK



WHEN ACQUIRING ARMOURED VEHICLES THE MoD PAID NO ATTENTION TO ITS LIFE CYCLE COSTS AND SUBSEQUENT PROBLEMS WITH SERVICING AND SPARE PARTS RESULTED IN LONG-TERM INOPERABILITY

Number, life span and age of armoured vehicles of the Czech army

Armoured vehicle category	Number of units	Average life span* (years)	Average age (years)
Armoured automobiles	189	15	11
Light armoured vehicles	126	20.8	9
WIFV and APC	107	30	8
Tanks	131	20.5	28.4
Special vehicles	61	21.1	3.2
Self-propelling artillery	89	20	34.7
Older infantry fighting vehicles, transporters et al.	333	19.6	27.1
Other older armoured vehicles	52	23.9	31.2

20 years
Average age of armoured vehicles

less than 70%
infantry fighting vehicles and wheeled armoured transporters in operational condition

less than 43%
of modernised tanks in operational condition in 2016–2018

* Life span defined by MoD in the Logistics Information System

In connection with the audits it conducted, the SAO welcomed the following changes:

- Following the MoD measures implemented in response to audit No. [19/13](#), the operational status of armoured vehicles has improved; according to a comparison of 2018 and 2019, operational readiness has improved from **76%** to **84%** for APCs, from **70%** to **81%** for WIFVs, and from **55%** to **69%** for tanks. Furthermore, the capacity and capabilities of Army repair facilities have been increased, and tracking of life cycle costs of armoured equipment has been put in place. Another measure was the setting of enforceable contractual conditions to ensure the timely execution of armoured equipment repairs in line with the Army's needs.
- In the area of real estate, in July 2020 the MoD submitted an evaluation of the actions taken in response to audit No. [18/02](#)⁷⁷. Following the measures implemented by the MoD, the number of completed tenders for the sell-off of surplus real estate increased by **35%** and the success rate in finding a buyer for the real estate at the price announced in the first round of the tender increased from **65%** in 2018 to **87%** in 2019. The actual revenue obtained from the sale of surplus real estate in 2019 was **CZK 86.3 million**. This was **23%** more than the MoD had planned.
- In the area of soldiers' kit, the MoD submitted in September 2020 an evaluation of the measures taken in response to audit No. [18/17](#)⁷⁸. As part of the measures, the MoD has included soldiers' kit among the priorities for troop security. As regards the distribution of kit, in January 2020 the MoD introduced an electronic orders catalogue for soldiers to order kit components.

A sufficient level of qualified personnel is another important prerequisite for ensuring security. For that reason, the SAO in 2020 continued its cycle of audits focusing on departmental training for the security forces and the armed forces. Following on from audit No. [18/30](#)⁷⁹ on secondary police education and in view of the planned strengthening of the number of soldiers and police officers, the SAO carried out audit No. [19/20](#). The audit focused on how the training needs of the police and armed forces are met by the Police Academy of the Czech Republic in Prague (the Academy) and the University of Defence in Brno (the University)⁸⁰, which are the only two state educational facilities primarily for specialists in the security forces and armed forces.

The audit concluded that the Ministry of the Interior did not provide for the educational needs of the Police through the Academy in a conceptually and factually proper manner because it set requirements for student admission numbers without taking into account the actual needs of the police. Through the University the MoD did not effectively provide for the educational needs of the Army, as the amount of state finances spent by the MoD on higher education increased by 15%, i.e. by CZK 188 million, at a time when the number of University graduates (professional soldiers) decreased by 47%, while the MoD's requirements for recruiting new applicants in the period from 2016 to 2019 were only 64% fulfilled.

77 Audit No. 18/02 – State property and funds related to this property earmarked for tasks of the Armed Forces of the Czech Republic (audit report published in volume 6/2018 of the SAO Bulletin).

78 Audit No. 18/17 – State property and funds spent on the acquisition and distribution of the equipment for officers of the Army of the Czech Republic (audit report published in volume 3/2019 of the SAO Bulletin).

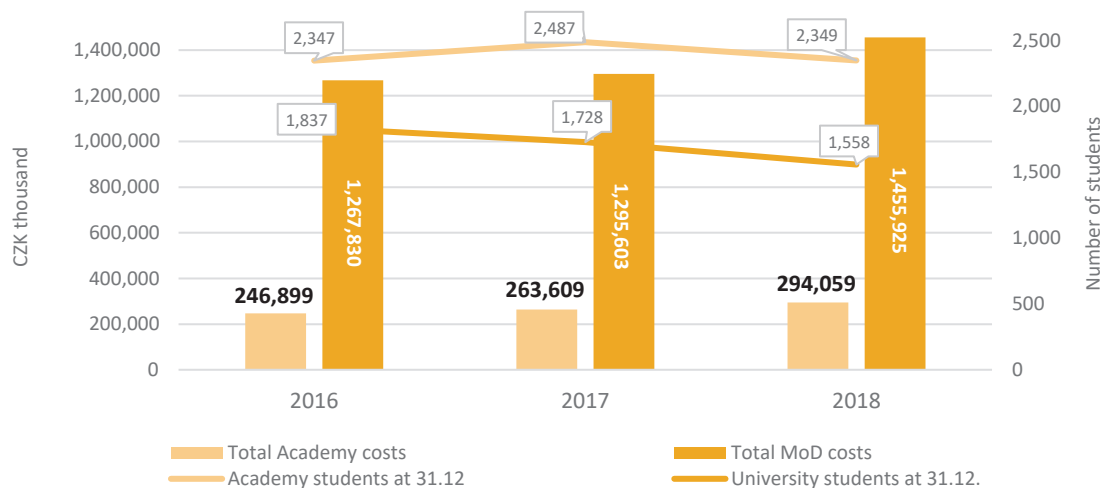
79 Audit No. 18/30 – State funds and state property under the management of selected police schools of the Ministry of the Interior (audit report published in volume 4/2019 of the SAO Bulletin).

80 Section 94(1) and (2) of Act No. 111/1998 Coll., on universities and amending certain other acts (Act on Universities).

- The SAO also found that the MoI and MoD failed to evaluate the efficiency of the functioning of the state universities because, among other things, they did not monitor costs per student or the use of real estate managed by the schools. The state universities' budgets were based only on the utilisation of the budget in previous years without a direct link to the number of students, for example. The MoI also failed to fulfil the objectives set out in the higher education concept documents, e.g. defining the field of education for a specific systematised post or maximising the use of graduates of selected Academy study programmes. The delay in achieving the objectives was about one and a half years at the time of the SAO audit. As of the end of August 2019, the police had **223%** more police officers with university degrees than required by its systematisation. At the same time, however, only **31%** of the total number of university-educated police officers in 2019 were Academy graduates. The SAO also found that neither the MoI nor the police considered the Academy to be a „professional police academy“ in the period 2016 to 2019, whereas the MoD designated the University as the main recruitment source for replenishing the officer corps of the Army.

21% (Academy) and 54% (University) are the percentages of graduates who had gone on to work in senior positions in the police and army as at the end of 2019.

Chart 13: Year-on-year comparison of costs for the operation of the Academy and the University and their student numbers



Source: State Treasury Monitor (Academy profit and loss account), Academy information and MoD information (the department's costs include the costs of the MoD and of contributory organisations Army Service and Military Spa and Recreation Facilities, that are linked to university education).

THE MOI AND MOD SYSTEMATICALLY INCREASED SPENDING ON THE EDUCATIONAL REQUIREMENTS OF THE POLICE AND ARMY WITHOUT EVALUATING ITS EFFICIENCY AND ACTUAL BENEFIT.

The SAO welcomes the fact that in July 2020 the Ministry of the Interior submitted an evaluation of the measures taken in response to audit No. **18/30**, whose conclusions included that the reorganisation of police schools implemented by the Ministry of the Interior was not efficient and effective, as the expected financial savings were not delivered and the police education system was not made more efficient. The measures adopted by the MoI were aimed primarily at increasing the number of graduates joining the police to at least **50%** of all graduates and establishing a system for monitoring and evaluating the costs of students. The MoI also implemented some of the savings proposed by the Supreme Audit Office.

In the light of the risks in the prison sector in the Czech Republic, such as prison overcrowding, prisoners' employment and the annual increase in prison-related expenditure, the SAO carried out audit No. [19/07](#), which sought to examine whether the Prison Service of the Czech Republic managed its property and funds efficiently, economically and in accordance with legal regulations.

The audit of the Prison Service found individual cases of breaches of legal regulations in property lettings, public procurement and publication of contracts in the Register of Contracts. The Ministry of Justice, in violation of its obligation⁸¹ to develop a concept for its sector and to analyse the results achieved, did not perform an overall evaluation of the implementation of the Concept for the Development of the Czech Prison System Up To 2015. In the follow-up Concept of the Prison System Up To 2025, it only stated that the objectives and goals of the previous concept had not been achieved. The SAO also found shortcomings in this follow-up concept, where the MoJ, inter alia, did not quantify the financial resources needed to fulfil its objectives, did not set priorities or a timeline for their implementation, and did not set measurable targets for evaluating their implementation. The MoJ has also not performed continuous evaluation of progress in the implementation of the Concept of the Prison System Up To 2025.

- Council of Europe statistics showed that there were a total of **21,577** prisoners in the Czech Republic as at 31 December 2018, which was one of the highest levels in Europe when calculated per 100,000 inhabitants (**203** prisoners).⁸² The MoJ and MoI did not ensure sufficient prison capacity and the implemented measures did not solve the problem of the inadequate structural arrangement of most prisons. The Prison Service was tasked with building **2,300** new prison accommodation places by the end of 2018, but by the beginning of 2019 it had only built **462**. Given the current decline in the number of prisoners, there is a real possibility that the required accommodation space of 4 m²/person will soon be achieved, but the accommodation space will not come close to the modern European standard of 6 m²/prisoner. The MoJ has not yet drafted a legislative change that would increase the accommodation space requirements. The fact that thousands of convicts (2,949 persons as of 31 December 2018) have not started serving their prison sentences may also negatively affect prison capacity in the future. The Prison Service has also failed to put in place the right conditions for the employment of about **40%** of employable convicts.

International comparison done by the SAO revealed that the daily cost per prisoner in the CR was €46.5 in the CR, which is comparable with neighbouring Slovakia (€43.70).

In international relations, the SAO performed audit No. [19/05](#) scrutinising the effectiveness of **CZK 12.6 billion** provided to international organisations (IOs) in the years 2014-2018 at the systemic level in the MoFA and MoEYS. The CR cooperates with almost **500** international organisations, providing mandatory and other contributions to them. The authorities overseeing cooperation with these IOs are the administrators of state budget chapters in line with the organisations' focus. In 2018, the most significant authority in terms of the amount of funds provided as mandatory contributions to the MEOs was the Ministry of Foreign Affairs with the amount of **CZK 990.2 million**. It was followed by the MoD (**CZK 686.4 million**) and the MoEYS (**CZK 618.9 million**). In a number of cases, these funds were provided to non-governmental IOs, which do not count as IOs of fundamental foreign policy importance.

81 Act No. 2/1969 Coll., on the establishment of ministries and other central bodies of state administration of the Czech Republic.

82 Council of Europe: *Statistiques Pénales Annuelles du Conseil de l'Europe* (SPACE I – 2019).

The SAO concluded that the prerequisites for the effective provision of funds to IOs were not satisfied. The measures set by the Government of the Czech Republic⁸³, which were designed to achieve savings among other things, were not properly implemented. The poor implementation of the set tasks concerned procedures prior to the establishment of cooperation with IOs, the monitoring and evaluation of the benefits of cooperation and coordination.

- The SAO audit found that new cooperation and new financial commitments towards IOs were established without informing the government or the MoFA, even though the responsible authorities were required to discuss these proposals with the MoFA and submit them to the government. The MoFA could have identified and verified these cases retrospectively on the basis of regular monitoring information, but it failed to make use of this information. The SAO found the monitoring to be ineffective because the MoFA did not specify its criteria, and the information from the various responsible authorities was not comparable and complete, and therefore not compliant with the requirements of the government resolution. Consequently, the MoFA did not have the information needed to monitor cooperation with IOs and evaluate its benefits, which was one of the prerequisites for increasing the effectiveness of the Czech Republic's cooperation with IOs. Furthermore, the SAO found that the ministries did not evaluate the benefits of cooperation with some IOs because they did not define the objectives they wanted to achieve through cooperation. The SAO also flagged up incorrect reporting of funds for IO contributions, which consequently undermines the reliability of data entered in the State Treasury Integrated Information System. It is therefore not possible to obtain reliable information from available sources on how many IOs the Czech Republic cooperates with and the total amount of funds provided to them. In the absence of comprehensive information on cooperation with IOs and its benefits, the SAO contacted all budget chapter administrators and the CNB and obtained relevant information on cooperation and benefits for 2018 by means of a questionnaire survey⁸⁴. This survey showed, for example, that the benefits of cooperation were assessed in the case of just **49%** of IOs in 2018.

THE SAO CONCLUDED THAT COOPERATION WITH IOS HAD NOT BECOME MORE EFFECTIVE AS DEMANDED BY THE CZECH GOVERNMENT, BECAUSE THE MINISTERIAL' APPROACH TO THE ANNOUNCED STEPS WAS MERELY FORMAL. SAVINGS WERE THE EXCEPTION AND INTERMINISTERIAL COORDINATION DID NOT IMPROVE.

The SAO welcomes the fact that, in response to the above findings, the Government of the Czech Republic adopted a resolution⁸⁵, in the context of which the MoFA undertook to adopt corrective measures that included developing indicators for monitoring cooperation with IOs and clearly defining a significant financial commitment to an IO, which must receive prior government approval. The results of the audit were positively received at a session of the Foreign Affairs Committee of the Chamber of Deputies, with the Committee proposing to discuss and resolve the issue in the presence of those responsible for cooperation with IOs.

83 Since 2012 the Czech government has adopted systemic measures concerning cooperation with IOs with a view to making cooperation more effective, boosting interministerial coordination and achieving financial savings. The main measure was Czech government resolution No. 317 of 2 May 2013, on the Czech Republic's membership of international organisations

84 SAO questionnaire survey: <https://www.nku.cz/scripts/detail.php?id=11033>.

85 Czech government resolution No. 916 of 14 September 2020, on the Audit Report of the Supreme Audit Office from audit No. 19/05 "State funds provided to international organisations and expenditures related thereto".

5.7 AGRICULTURE

Improving the efficiency and competitiveness of Czech agriculture is one of the main priorities of the agricultural policy of the Czech Republic up to 2030.⁸⁶ One of the important sources of financing in support of the declared objective are subsidies provided by the Farming and Forestry Relief and Guarantee Fund (FFRGF), which focuses primarily on providing financial support to business entities in the sector of agricultural primary production, processing of agricultural products or forestry and timber processing.

The SAO focused on this fund's support for the agricultural sector in audit No. 19/18 with the aim of examining how the Ministry of Agriculture (MoA) manages the activities of the FFRGF and to evaluate the system for designing and awarding support, including the conditions for its use. The audit also focused on how the MoA fulfils its role as the founder and sole shareholder, or owner, of the Fund. In the audited period of 2014 to 2018, the FFRGF disbursed approximately **CZK 6.2 billion** to beneficiaries through 16 programmes, **82%** of which was non-repayable aid and **18%** in loans.

The SAO found major shortcomings in the MoA in the strategic management of the FFRGF's activities. It did not set specific, measurable and time-bound objectives for support programmes. It also failed to set appropriate indicators to monitor whether and how the funds provided contribute to the development of agriculture and forestry, which presented a risk to the effectiveness of expenditure. The indicators were very general and did not include expected target values. At the same time, the MoA, as the sole shareholder, only approved some important strategic and planning documents relevant for the management of the FFRGF after a long delay. It is therefore questionable whether and how it could have utilised these documents to effectively exercise shareholder rights over the Fund.

- In a previous audit No. 05/10⁸⁷ the SAO had already pointed out the inappropriateness of the legal form of the FFRGF, and again in this audit the SAO concluded that the legal form of the FFRGF as a joint-stock company did not comply with the general principles set out in the government's Strategy for State Ownership Policy. That declares that state-owned companies are established for the purpose of doing business, have profit as their main objective and should be as financially independent of the owner as possible. Although the FFRGF is a commercial company, its activities are entirely dominated by supporting the state's economic policy in the agricultural sector, in particular through the provision of subsidies to farmers. The predominant source of funding for the FFRGF's activities are subsidies from the State budget. The FFRGF is thus fundamentally dependent on the state as the sole shareholder for the performance of its tasks. The SAO also drew attention to the limitations of its own audit powers over the FFRGF arising from its private-law form as a commercial company. Although the dominant activity of FFRGF is the provision of repayable and non-repayable support to farmers, the SAO's audit could not be carried out to the full extent for public institutions that similarly provide financial support to final beneficiaries in the implementation of state policies. Under the current legislation, the SAO has no mandate to audit the funds and activities of the FFRGF in its entirety. The FFRGF is not obliged to ring-fence processes related to the management of state budget subsidies from its other activities. The SAO also could not directly audit the farmers as the final beneficiaries, because the FFRGF, as a private company, concludes support agreements with them on its own behalf, not on behalf of the state.

The MoA defined assessment indicators for board members after a long delay. As a result, in 2014–2017 board members had been in office for 5 to 10 months in the year without approved indicators that were supposed to determine their remuneration.

86 Czech government resolution No. 392 of 2 May 2016, on the Departmental Strategy of the Ministry of Agriculture of the CR with an Outlook up to 2030.

87 Audit No. 05/10 – Support of agriculture and forestry provided through the Farming and Forestry Relief and Guarantee Fund (audit report published in volume 4/2005 of the SAO Bulletin).

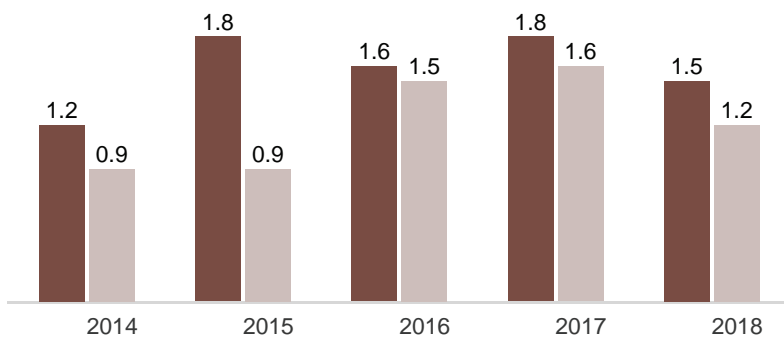


Incorrect management procedures mean that the MoA cannot evaluate either the effectiveness or the benefits of disbursed support

DESPITE THE SIGNIFICANT FUNDING, THE INAPPROPRIATE LEGAL FORM MEANT THAT THE FFRGF COULD NOT BE FULLY AUDITED LIKE OTHER PUBLIC INSTITUTIONS, SUBSIDY PROVIDERS AND SUBSIDY BENEFICIARIES



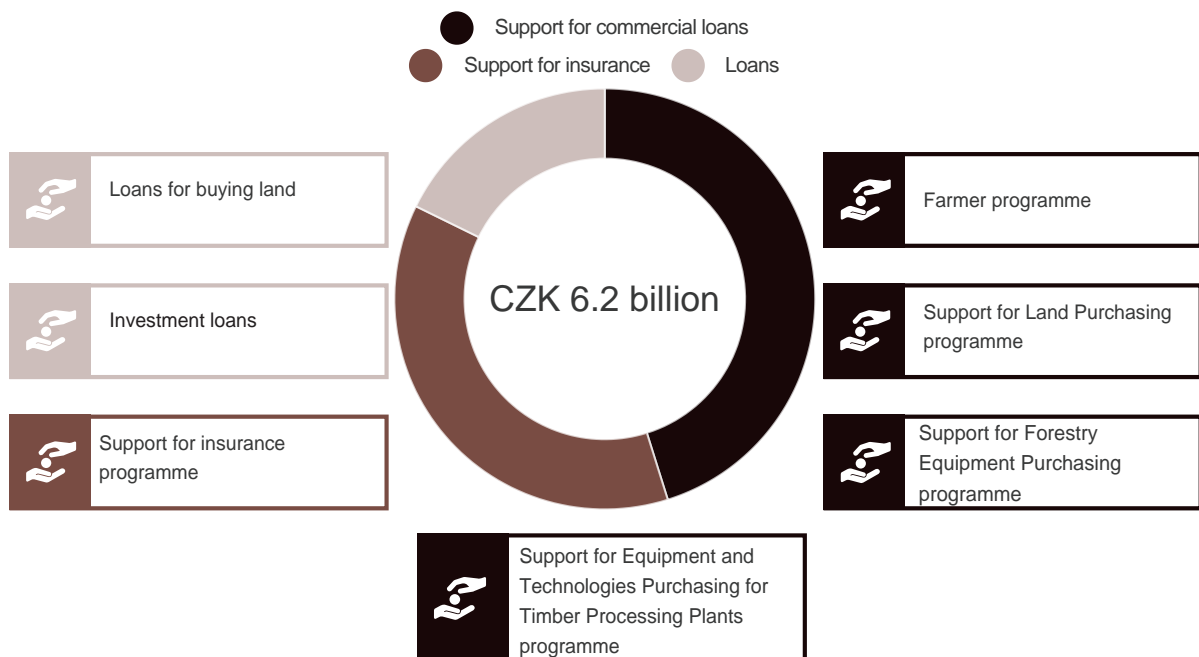
Subsidies provided to the Farming and Forestry Relief and Guarantee Fund out of the state budget and support disbursed by this Fund (CZK billion)



In view of the nature of its tasks, the legal form of the FFRGF as a joint-stock company does not comply with the general principles approved by the government in the *Strategy of State Ownership Policy*, in the SAO's opinion

● Subsidies provided ● Support disbursed, including FFRGF loans

Overview of the total support disbursed under various programmes in 2014–2018 and selected programmes under the authority of the FFRGF



AS PART OF THE DISCUSSION OF THE AGRICULTURE MINISTRY'S OPINION FOR THE CZECH GOVERNMENT THE SAO PROPOSED THAT THE MINISTRY MAKE SUPERVISION OF THE PROVISION OF STATE FUNDS MORE TRANSPARENT AND REGULARLY CHECK THE USE OF SUBSIDIES AWARDED TO THE FARMING AND FORESTRY RELIEF AND GUARANTEE FUND FROM THE STATE BUDGET IN TERMS OF COMPLIANCE WITH THE RELEVANT PROVISION OF THE ACT ON AGRICULTURE⁸⁸.

Following the results of the SAO audit, the MoA adopted a measure to address the issue of the legal form and further direction of the FFRGF in the inter-ministerial working group for the Strategy of State Ownership Policy and to inform the government about the results. Furthermore, the MoA declared that it would carry out regular audits of the use of subsidies allocated to the FFRGF and that it would give the SAO, at its request, access to the results of these audits, including the documents underpinning the audit results, as part of its audit activities.

In previous audits, the SAO pointed out systemic deficiencies in the system for providing national⁸⁹ and European⁹⁰ subsidies. In this context, the SAO considers it highly important that the MoA accepted the SAO's recommendations as effective assistance and, in response to the audit results, adopted a number of measures aimed at improving the national and European subsidies provision system.

- As part of national subsidies, at the start of 2020 the MoA transferred the system of providing these subsidies to the State Agricultural Intervention Fund (SAIF), which is the accredited paying agency for agriculture in the Czech Republic. This should improve the quality of the administration of applications and make their control more rigorous. At the same time, the MoA has drawn up new methodological guidelines for the administration of certain national subsidies, setting out in detail the procedure for submitting applications and selecting applications, including proof of eligible costs, which should ensure better control of the effectiveness and economy of expenditure.
- Within the framework of European subsidies, the MoA made changes to the rules for providing subsidies for projects financed from the Rural Development Programme. These changes should lead to improved administration and control of projects and better specification of eligible expenditure, including the introduction of expenditure limits. According to the MoA, the 2021-2027 programming period should bring improved design of subsidies and conditions for applicants in terms of greater support for small and medium-sized enterprises and support for projects that are more in line with the Czech Republic's priorities and farmers' needs, an issue that has been frequently flagged up by the SAO and other audit institutions in recent years, including the ECA.

⁸⁸ Section 2da of Act No. 252/1997 Coll., on agriculture.

⁸⁹ Audit No. 15/09 – Funds spent on education support, consultation and promotion within the Ministry of Agriculture (audit report published in volume 3/2019 of the SAO Bulletin); audit No. 18/08 – Funds spent on the support of the animal production sector (audit report published in volume 3/2019 of the SAO Bulletin).

⁹⁰ Audit No. 14/26 – Funds spent on the projects of the Rural Development Programme (audit report published in volume 2/2015 of the SAO Bulletin); audit No. 15/09 – (see footnote above); audit No. 17/06 – EU and state budget funds spent on forestry support (audit report published in volume 1/2018 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); audit No. 18/08 – (see footnote above).

5.8 ENVIRONMENT

The main objective 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 environmental impacts of human activities. The implementation of effective environmental protection was defined by *the State Environmental Policy of the Czech Republic 2012-2020*, which also included the area of threat mitigation, including emergencies and crisis situations (disasters). In recent years, their occurrence has been significantly influenced by the growing effects of climate change, in particular by the more frequent occurrence of droughts and other dangerous hydro-meteorological phenomena such as floods, torrential rainfall or strong winds. These threats cannot be prevented in their entirety, which is why emphasis must be placed on a system of prevention, mitigation and, in particular, adaptation measures in relation to the manifestations of climate change in the Czech Republic. In 2020, the SAO focused on how prepared the state is for confronting natural disasters and how it implements some of the above-mentioned measures.

In 2020, the SAO completed two audits in this area, examining:

- system for and implementation of support for anti-flood measures (audit No. [19/04](#));
- financial management by Forests of the Czech Republic, state firm, including the firm's actions in response to the bark beetle calamity (audit No. [19/33](#)).

According to the Ministry of the Environment, floods are the greatest direct danger for the Czech Republic in the area of natural disasters and are the cause of serious crisis situations that cause not only extensive material damage but also loss of life. Nevertheless, as audit No. [19/04](#) showed, the responsible authorities did not put in place the right conditions for preventing the occurrence of floods and minimising their damage in line with the requirements of conceptual and strategic documents. The SAO drew attention to systemic deficiencies in the form of delays in the implementation of flood protection measures, the small scale of nature-based measures, including revitalisation and re-wilding, and systemic deficiencies in the form of building in active flood zones.

- In the government-approved plans for the years 2015 to 2021, the MoE and MoA specified **135** anti-flood measures, more than **50%** of which will not even have been commenced by 2021. They estimated the average annual funding requirement at **CZK 4.2 billion**. In reality, the MoE and MoA spent on average just **CZK 1.4 billion** per year in 2016-2018. Furthermore, the SAO found that the audited state-owned river basin administrators⁹¹ implemented mainly technical measures (e.g. dike building) from the MoE funds in the case of construction projects in 2010-2018, and only **4%** of the measures were nature-based flood control measures supported by the MoE through the OP En. The SAO also emphasised the serious problem of new building in active flood zones, although such building is prohibited by the Water Act⁹². In a sample of 40 construction projects completed between 2015 and 2018, audit of the issuance of opinions by river basin administrators found that in 11 cases the floodplain, including the active zone, had not been designated at the time when river basin administrator issued its opinion.

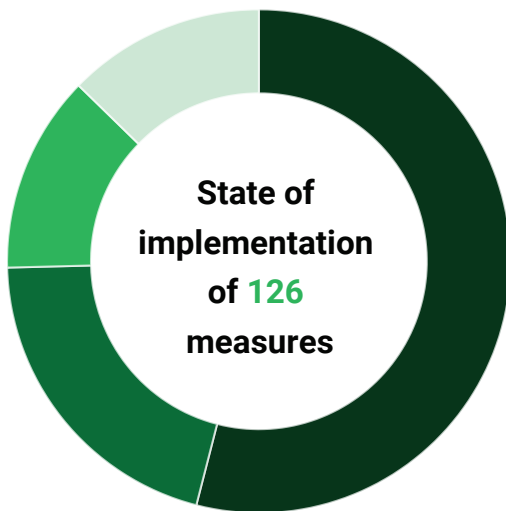
IN THE SAO'S VIEW, THE MAIN REASONS WHY THE RIGHT CONDITIONS FOR PREVENTING FLOODS ARE NOT IN PLACE ARE DELAYS IN THE IMPLEMENTATION OF ANTI-FLOOD MEASURES, THE SMALL EXTENT TO WHICH NATURE-BASED FLOOD CONTROL MEASURES ARE PROMOTED AND BUILDING IN ACTIVE FLOOD ZONES.

91 Povodí Labe, s.p., Povodí Moravy, s.p., Povodí Odry, s.p., Povodí Vltavy, s.p.
92 Act No. 254/2001 Coll., on water and amending certain acts (Water Act).



The state is slow to implement measures linked to natural disasters

THE STATE'S SLOW IMPLEMENTATION OF FLOOD CONTROL UNDERESTIMATES THE RISK OF FLOODS SERIOUSLY ENOUGH

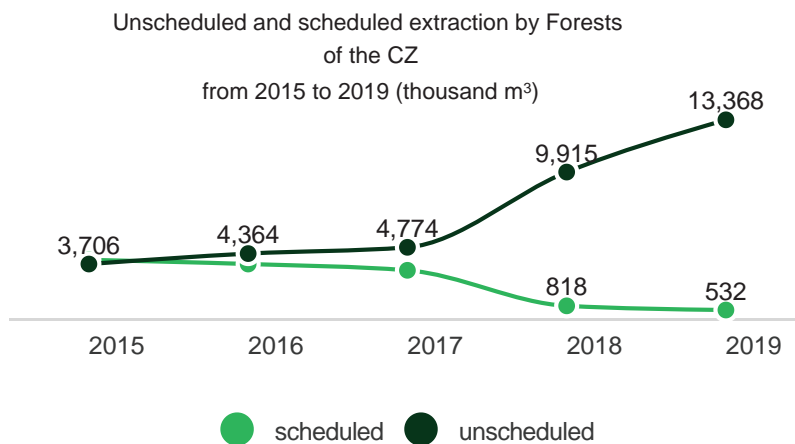


- 54% will not start before 31 December 2021
- 20.6% expected to start by 31 December 2021
- 12.7% being implemented
- 12.7% completed

The ten most extensive floods in recent years resulted in the loss of 135 lives and caused damage quantified at over **CZK 186 billion**

The SAO sees a systemic shortcoming in the fact that the state enables building in active flood zones

THE MŮE AND FORESTS OF THE CZ REACTED LATE TO THE EXTREME SPREAD OF BARK BEETLE AND FORESTS OF THE CZ CHOSE AN UNSUITABLE BUSINESS MODEL FOR SELLING TIMBER, WHICH MOREOVER HAD A NEGATIVE IMPACT ON THE CLEARANCE OF INFESTED TIMBER



The SAO welcomes the fact that its findings led Forests of the CZ to redesign its timber sales business model



One current threat in the area of natural disasters is the bark beetle calamity. As the results of audit No. [19/33](#) showed, both the Ministry of the Environment and Forests of the Czech Republic took measures to respond to the spread of bark beetle after a long delay. The SAO considers the most serious deficiency to be the fact that Forests of the CR did not respond to the extreme spread of bark beetle by amending the Czech Forests Strategy 2015-2019 until 2019, even though the bark beetle calamity had already started to escalate in 2016. Forests of the Czech Republic only responded with partial measures, even though it was obvious that the measures taken were not effective enough. The MoE did not demand or even propose adequate measures to limit the spread of bark beetle and reduce the impact of the bark beetle calamity. It was not until 2019 that Forests of the Czech Republic adopted a systematic solution in its strategy for the years 2019 to 2024.

- The SAO's assessment of the individual methods of timber sales showed that Forests of the Czech Republic sold timber in a less advantageous way in 2018 compared to 2016 and 2017. Until 2017, the more advantageous business model for Forests of the Czech Republic was that the costs of extraction were fully or partially passed on to the buyers. However, this model was no longer profitable during the extreme bark beetle calamity, mainly due to increased costs and lower timber sales prices. Due its long-term and complex contracts, Forests of the Czech Republic was unable to react in time to the situation during the calamity, when unscheduled logging was increasing, timber prices were falling and there was a shortage of labour and forestry equipment on the market. A more advantageous second model of selling timber products under its own control, which also brought the highest monetisation, was used by Forests of the Czech Republic in 2018, but accounted for just 7% of the total volume of timber sold. In addition, in its complex contracts Forests of the CR delegated to the buyers the obligation to rehabilitate harvested timber infested with bark beetle, thus removing its direct influence on this clearance work. According to the SAO, this represented a significant risk in terms of timely clearance of bark beetle infested timber, which led to a worsening of the calamity situation.

In 2018, the price for timber achieved by Forests of the CR using the timber products sale model was CZK 1,263/m³; via the auction method 613 Kč/m³; and via "business model P"⁹³ 786 Kč/m³.

The SAO welcomes the fact that in response to the results of audit No. [19/33](#), Forests of the Czech Republic adopted a strategic material entitled *Concept of the Strategic Development of Forests of the Czech Republic for the period from 1 September 2019 to 31 December 2024*, where the management model and timber business were revised in connection with the bark beetle calamity. In particular, there was a radical increase in the volume of timber supplied directly to processors, strengthening of the firms' own production capacities, introduction of new channels for production of own timber (dynamic purchasing system, framework agreements) and creation of the firm's own complete business structure. The new business model enables a more flexible response to changes in external conditions.

In the area of environmental protection, the SAO continuously monitors the response to the results of its audit work. In 2019, it completed audit No. [18/27](#)⁹⁴, which focused on measures implemented in the agriculture and environment ministries to mitigate the impact of drought and water shortages. Based on data from 2013 to 2018, the SAO's audit mainly pointed out that essential measures to combat drought are missing, as is the necessary legislation. The MoA and MoE report a significant amount of subsidies paid out to combat drought, but these are usually subsidy programmes that have been in place for many years and are not primarily designed for and targeted at drought and water shortages. New programmes are very slow to get off the ground and are substantially delayed. The results of the audit provoked a large media reaction and opened up a debate on the issue. The opinion of the MoA and MoE on the audit findings, including proposed remedial measures, was discussed by the government and the Environmental Committee of the Chamber of Deputies.

93 In "business model P", part of the extraction costs are passed on to the buyers (concentration, approximation and collection??) and the produced timber does not become part of the stocks of Forests of the Czech Republic. The name "business model P" refers to the place of sale, i.e. the stump (pařez in Czech), where ownership of the timber changes hands after felling and the necessary inspections. Forests of the Czech Republic uses business model P in forestry administrations.

94 Audit No. 18/27 – Measures implemented in agriculture and the environment to mitigate the effects of drought and water scarcity (audit report published in volume 6/2019 of the SAO Bulletin).

In response to the results of audit No. 18/27, the MoA and MoE took steps to address the issue of drought. This included the following actions:

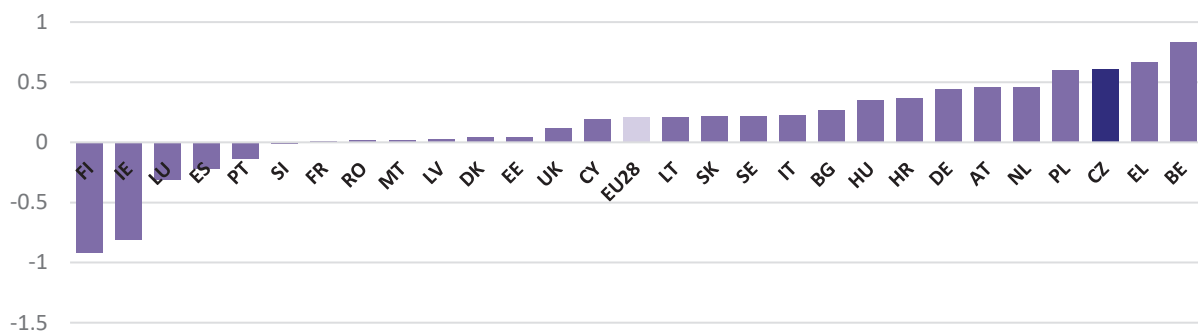
- in December 2020 an amendment of the Water Act⁹⁵ was approved, setting out a plan for coping with drought and water shortages; it also defines concepts and procedures for coping with drought;
- the MoE drew up a ten-year *Plan of Measures for Tackling Drought via Land Modifications and Hydro-melioration up to 2030* – the use of old melioration systems will now be part of land modification projects;
- the *Master Plan of Protected Areas for Surface Water Accumulation* was expanded to include 21 more localities;
- since 2021 the rule limiting single-crop fields to at most hectares has been extended to all arable land and not just land at risk of erosion.

95 Act No. 544/2020, amending Act No. 254/2001 Coll., on water and amending certain acts (Water Act), as amended, and other related acts.

5.9 RESEARCH, DEVELOPMENT AND INNOVATION

Research, development and innovation (RDI) is an important source of economic growth and competitiveness. However, RDI is an area where the Czech Republic has significant problems. Compared to other EU countries, the intensity of total RDI expenditure in the Czech Republic as a percentage of GDP is steadily increasing. As Chart 14 shows, RDI expenditure as a percentage of GDP increased by **0.61** percentage points between 2010 and 2019, the third largest increase among EU countries. By contrast, the innovation performance of the Czech Republic (as measured by the aggregate innovation index) has been steadily declining. While on average the EU increased its innovation performance by more than **9%** between 2010 and 2019, the innovation performance of the Czech Republic declined over this period (see visualisation). This puts the Czech Republic among the worst EU countries in this respect. It is therefore not only the amount of money spent that is important, but above all its efficient use.

Chart 14: Change in intensity of RDI expenditure between 2010 and 2019 (% of GDP)



Source: Eurostat.

The priorities of RDI support, which according to the strategic document *National Priorities of Oriented Research, Experimental Development and Innovation* should contribute to improving innovation performance, included support for security and medical research.

In 2020, the SAO completed two audits in the area of research, development and innovation, which focused on support for:

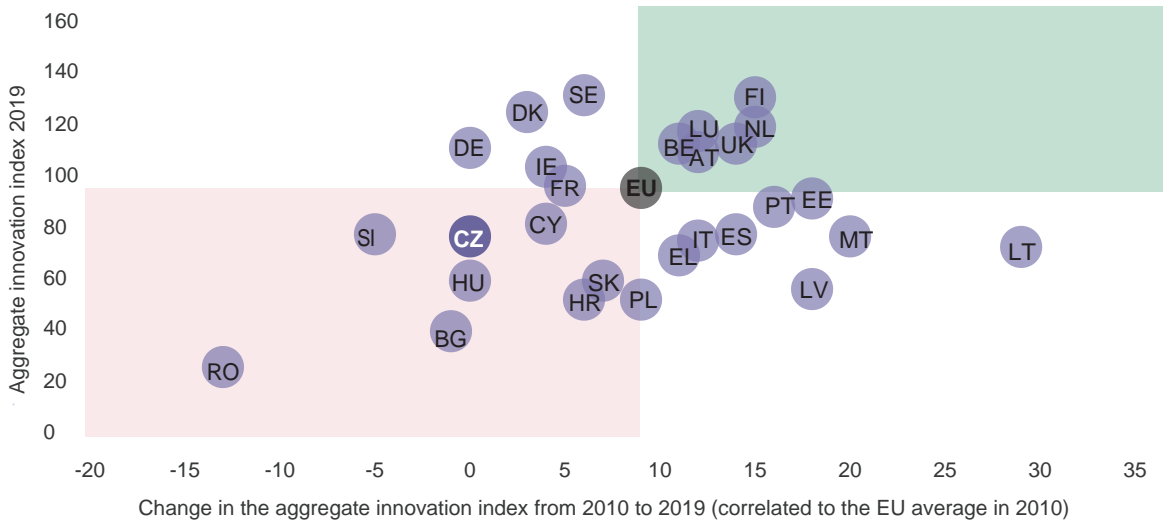
- security research (audit No. [19/11](#));
- medical research (audit No. [19/17](#)).

The results of both audits confirmed that the key deficiency in the area of RDI support is the absence of monitoring and evaluation of the impact of the support provided, i.e. a failure to monitor the effectiveness of the support. Both the MoI and MoH did set inappropriate indicators, which prevented them from evaluating the use of the results of research projects in practice. This ultimately makes it impossible to evaluate whether and to what extent the support provided to security research has contributed to improving the security of the state and its citizens and the support provided to medical research has contributed to improving the health of the Czech population and to meeting current healthcare needs.



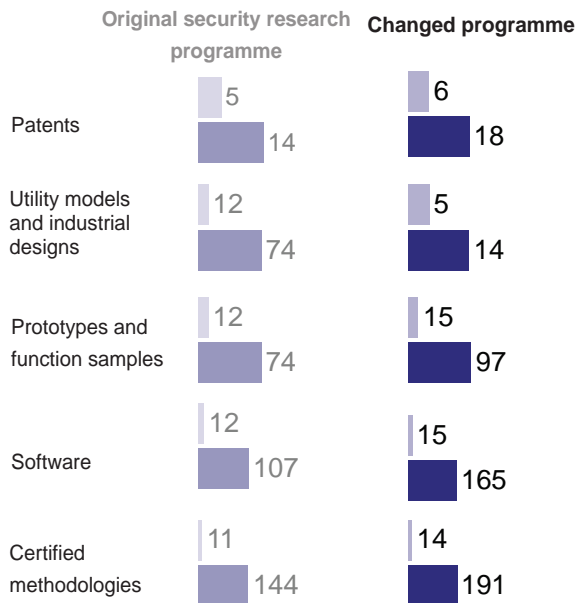
The MoI and MoH neither monitored nor evaluated the use of security and medical research results in practice

BY EUROPEAN COMPARISON SUPPORT FOR RESEARCH, DEVELOPMENT AND INNOVATION IS CLEARLY INCREASING, BUT INNOVATION PERFORMANCE IS BELOW THE EU AVERAGE, WITH NO IMPROVEMENT IN SIGHT

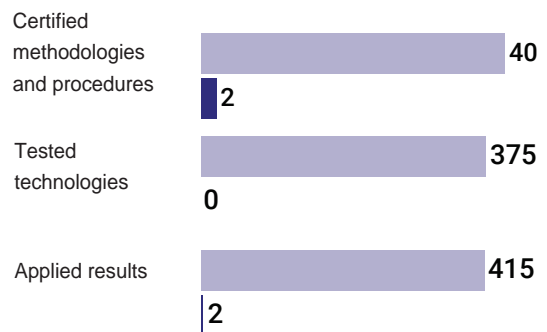


ONE SERIOUS SHORTCOMING IN MoI AND MoH SUPPORT FOR RESEARCH, DEVELOPMENT AND INNOVATION WAS AN INAPPROPRIATE SET OF INDICATORS

Security research



Medical research



- plan
- actual

Even after the change, the MoI significantly underestimated the expected numbers of security research outputs. Conversely, the MoH did not hit its targets

- In audit No. [19/11](#) the SAO found that the Ministry of the Interior provided more than **CZK 1.5 billion** in support of security research⁹⁶ under two programmes between 2015 and 2018. The system for project assessment and selection was well designed, but had minor deficiencies. As a result, in one of the audited projects⁹⁷ **CZK 1.5 million** was provided for research even though the same issue had already been addressed by a research organisation under the responsibility of the MoI. That happened despite the fact that the MoI was represented in the body that proposed and recommended the duplicate project for implementation. In another supported project, the MoI did not perform a thorough interim check and so failed to find out that the expected results of the project already existed as a result of previous research. As part of the audit, the SAO carried out its own investigation based on a sample of **12** projects that received **CZK 157 million** in total. Seven of them were found to be efficient, effective and economical, four were found to be of limited effectiveness or efficiency and one project was found to be completely ineffective, inefficient and uneconomical.
- In audit No. [19/17](#), the SAO also found that the Ministry of Health did not set indicators accenting real applicability in healthcare in any of the three audited programmes of applied health research⁹⁸. It merely set quantitative indicators, such as the number of supported projects or achieved results. The support, which was intended to primarily target research that could be used in practice, mainly resulted in articles and publications. Yet the first programme, which ended in 2015, received over **CZK 3 billion** by the Ministry of Health, and the second programme has so far received **CZK 4.2 billion**. It is alarming that the MoH defined the same kind of indicators for the new programme for 2020–2026 with an allocation of **CZK 5.5 billion**. The MoH established the Agency for Medical Research of the Czech Republic to administer the support, without clearly defining its powers and responsibilities. The rules set for communication between the MoH and this agency resulted in administrative complexity, delays and other shortcomings.

*The SAO's assessment of the project entitled **Unique Universal Nanotechnology-based Security Camera**, which received over **CZK 25 million** in funding was that it was entire ineffective and inefficient: the camera had not been completed by the end of the project, all the declared results were not achieved and moreover the project's outcome was not a "unique solution".*

***415 applied results** were expected from the Ministry of Health Departmental Research and Development Programme III, which received **CZK 3 billion** in funding, but only **2** materialised. Conversely, **2,945** articles and publications resulted in place of the planned **180**.*

THE MOI AND THE MOH FAILED TO EVALUATE THE SECURITY AND MEDICAL RESEARCH PROGRAMMES' ACTUAL BENEFITS AND THUS ALSO THE EFFECTIVENESS OF THE SUPPORT AS A WHOLE, MAINLY BECAUSE THEY DID NOT SET SMART GOALS AND RELATED INDICATORS THAT COULD BE USED TO MEASURE THE USE OF RESULTS IN PRACTICE.

⁹⁶ These were subsidies to beneficiaries for e.g. network security, image data analysis, developing security cameras, smart security systems etc.

⁹⁷ Project entitled *Impact of advertising devices on road safety*.

⁹⁸ *Ministry of Health Department Research and Development Programme III*, implemented in 2010–2015 (first programme); *Applied Medical Research Support Programme for 2015–2022* (second programme); *Applied Medical Research Support Programme for 2020–2026* (new programme).

In connection with audit No. [19/11](#), the SAO welcomes the statement of the Ministry of the Interior that the audit exposed weaknesses in the RDI support system and its conclusions contributed to further improvement of the Mol's activities as the authority in charge of security research. In line with the recommendations of the SAO and the measures imposed by the Government, the Mol furthermore declared that it would do the following:

- ensure a clear audit trail in the project selection system and require applicants to confirm that equivalent research is not receiving other state budget funding and that the expected results do not already exist as an output of other research;
- perform thorough interim checks on projects, focusing on assessing whether a project will deliver the required results as specified in the agreement;
- monitor a set of indicators measuring progress towards the programme's goals and the use of results/outputs in practice, with the indicator target values set on a realistic level.

Following the SAO's findings in audit No. [19/17](#), the MoH declared that it would draw up evaluation methodologies to assess the benefits and impacts of medical research support programmes. At the same time, in the new support programmes it would set objectives and indicators in an interconnected manner so that the indicators set provide a real indication of progress towards the defined objectives. The MoH has also committed itself to evaluating the benefits and impacts of individual completed projects.

6. INSTITUTIONAL MANAGEMENT

The SAO's auditing and analysis work, in addition to scrutinising individual state expenditure policies, also focuses on the management of state institutions, which covers a wide range of activities related to their management, control and management. When auditing their management and control systems, the SAO focuses primarily on how the audited institutions manage the state property and funds entrusted to them in fulfilling their mission and ensuring their operations. The SAO's audit work also pays close attention to the management of funds provided to the Czech Republic from foreign sources, mainly from the EU budget.

This chapter summarises the SAO's findings in these areas. The shortcomings identified during the audits of economy, efficiency and effectiveness indicate to the SAO that there is room for improvement in the above-mentioned activities.

6.1 INSTITUTIONS' FINANCIAL MANAGEMENT

One of the areas regularly monitored by the SAO is financial management by state institutions. In recent years, when the SAO has primarily focused its audit work on the main areas of government spending and their effectiveness, the audits have also covered state institutions' financial management. In 2020, the SAO completed a total of five audits in this area, focusing on:

- financial management by the Prison Service (audit No. [19/07](#)), the Central Institute for Supervising and Testing in Agriculture (audit No. [19/24](#)), and the Radioactive Waste Repository Authority (audit No. [19/25](#));
- protection of museum collections owned by the CR (audit No. [19/09](#));
- financial management by Forests of the Czech Republic, state firm (audit No. [19/33](#)).

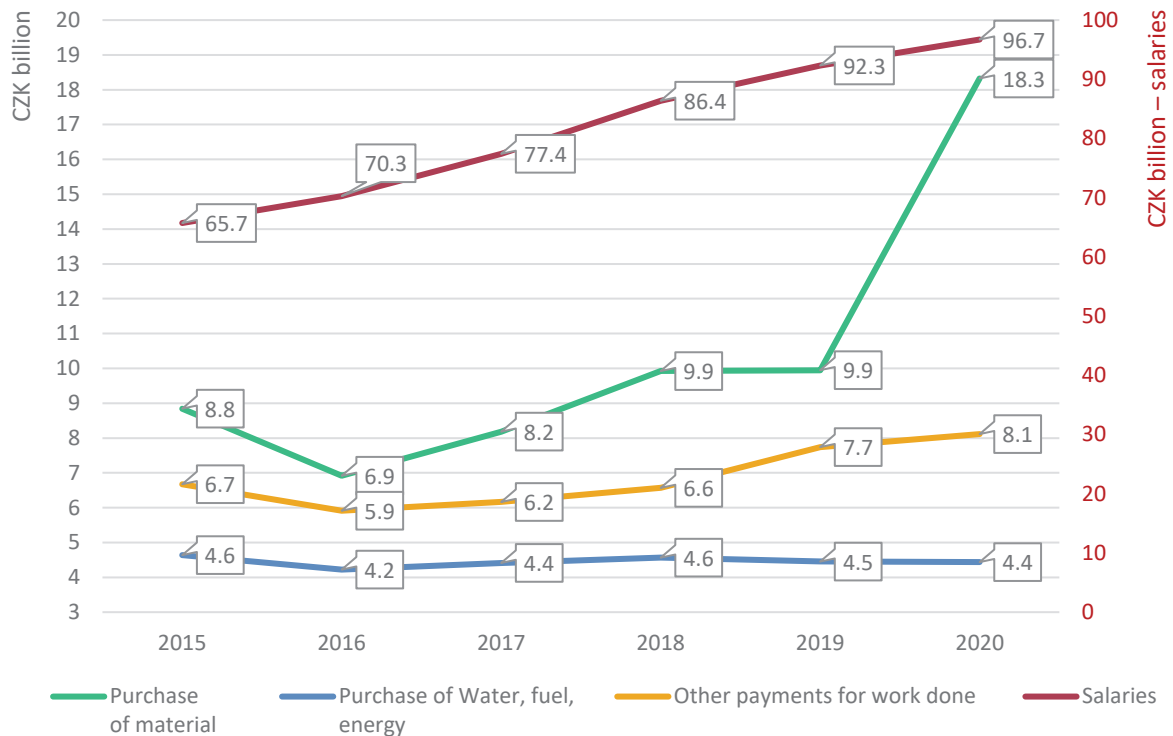
In the past year, the SAO continued to monitor state budget expenditure related to the operation of state institutions and the management of state property. The year-on-year increase in total state budget expenditure in 2020 was largely driven by current expenditure, which was dominated by mandated and quasi-mandated expenditure. However, some current expenditure that is part of the operating expenditures of state organisations also grew. The significant increase in expenditure was confirmed in the *Report on the Implementation of the State Budget of the Czech Republic for the first half of 2020* as well as in the up-to-date data detailed in Chapter II.2 of this Annual Report.

The State Closing Account for 2019 states that a total of **CZK 106.6 billion** was spent on salaries and other payments for work done in 2019, with salaries amounting to **CZK 98.2 billion**, a year-on-year increase of **CZK 6.3 billion**, i.e. **6.9%** more than in 2018. Other payments for work done amounted to **CZK 8.4 billion**, a year-on-year increase of **CZK 1.2 billion** (i.e. **16.5%**). Compared to 2018, non-investment purchases and related expenses decreased by a total of **CZK 3.2 billion** (i.e. **2.9%**) year-on-year, which was mainly due to a fall in expenses related to non-investment purchases, contributions, reimbursements and gifts in kind (by **CZK 3.4 billion**), interest and other financial expenses (by **CZK 1.2 billion**) and spending on purchasing of water, fuel and energy (by **CZK 0.1 billion**). On the other hand, expenditure on purchases of services increased the most year-on-year (by **CZK 1.5 billion**).

The development of selected items of ministries' non-investment expenditure in 2020 confirms the negative rising trend in current expenditure on some items. As shown in Chart 15, within the selected items of these expenditures, besides the growth in payroll expenditure, there was also a significant **CZK 8.4 billion** increase in expenditure on the purchase of material (i.e. a rise of about **85%**) compared

to 2019. This jump was due to measures implemented in connection with efforts to prevent the spread of Covid-19. Salaries in 2020 amounted to **CZK 96.7 billion** with a year-on-year increase of **CZK 4.4 billion** (i.e. **4.6%**). On the other hand, spending on water, fuel and energy has been stagnant over the years.

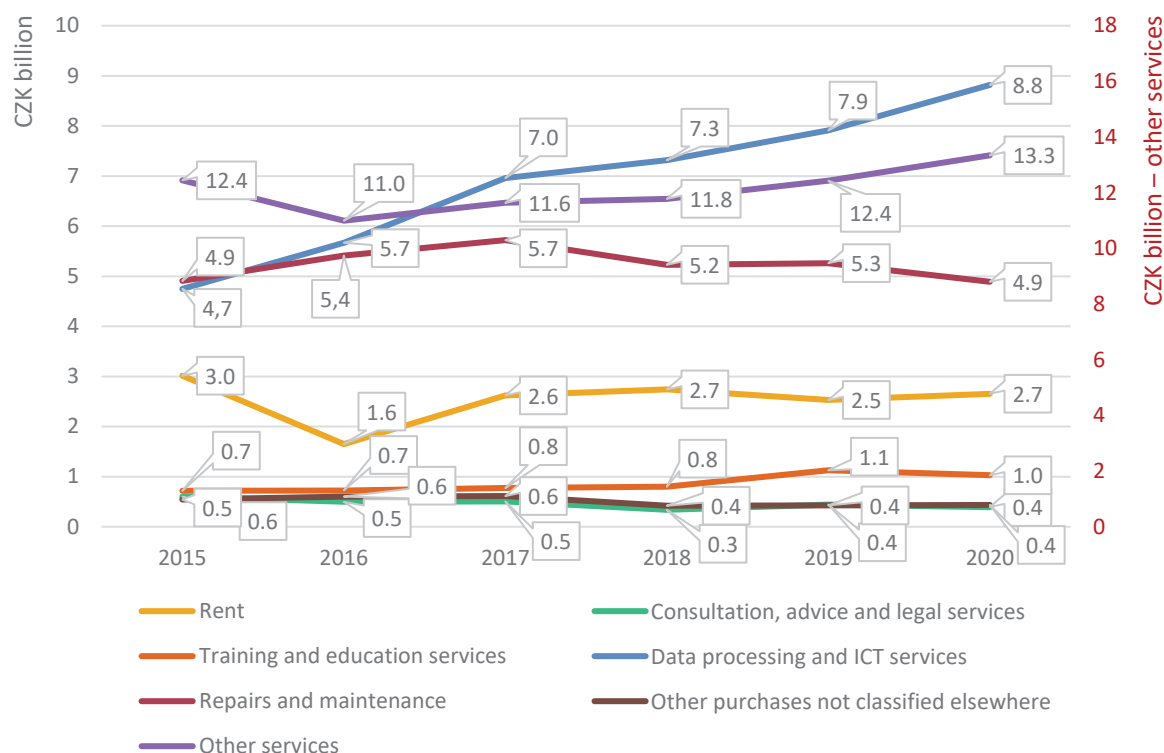
Chart 15: Development of selected items of ministries' non-investment expenditure from 2015 to 2020 (CZK billion)



Source: State Treasury Integrated Information System.

Non-investment purchases also include purchases of services. Chart 16 shows the evolution of ministries' expenditure on purchases of selected types of services. It is evident that spending on data processing and ICT-related services has registered a significant and sustained annual increase. Expenditure on other services registered a significant increase in 2020, up by **CZK 0.9 billion** (i.e. **7.3%**) year-on-year. This expenditure started its rising trend in 2017. Expenditure on the purchase of consultancy, advisory and legal services remained unchanged, as did expenditure on other purchases not elsewhere classified. Conversely, expenditure on repairs and maintenance has fallen by **CZK 0.4 billion** compared to 2019. After a fall in expenditure on rent last year, it increased again to reach **CZK 2.7 billion**.

Chart 16: Development of ministries' expenditure on selected services from 2015 to 2020 (CZK billion)



Source: State Treasury Integrated Information System.

THE SAO HAS LONG MONITORED EXPENDITURE RELATED TO THE OPERATION OF STATE ORGANISATIONS AND THE MANAGEMENT OF STATE PROPERTY NOT ONLY IN TERMS OF THE AMOUNT SPENT, BUT ALSO AND ESPECIALLY IN TERMS OF ITS EFFECTIVENESS AND ECONOMY. THE SAO SEES SIGNIFICANT SCOPE FOR OPTIMISING STATE EXPENDITURE BY ADHERING TO THESE BASIC PRINCIPLES.

In audit No. [19/25](#), the SAO examined whether the Radioactive Waste Repository Authority („the Authority“) managed state funds and property in accordance with the legal regulations, efficiently and economically in the years 2014 to 2019. During the audit, the SAO also focused on the process of preparation of an underground repository⁹⁹ and related expenditures.

In the process of site selection and preparation of the deep repository for radioactive waste, the SAO uncovered facts that demonstrate that Authority's expenditure on the preparation and site selection for the deep repository was not sufficiently effective and economical. This preparatory work has been going on for more than 23 years and the Authority has spent more than CZK 1.8 billion during this time. The deadline for the selection of the final site is still being postponed. The MoIT had not submitted the shortlist of four preferred sites to the Czech government by the time the audit was completed, even though a government resolution¹⁰⁰ required it to do so already by January 2019.¹⁰¹ The Authority spent almost CZK 566 million on the process of selecting four sites in the audited period alone. The reasons for the delays include opposition from the affected municipalities and the fact that at the audit completion date no law had been passed regulating their involvement in the repository site selection process.¹⁰²

99 A storage site for radioactive waste and burnt nuclear fuel that cannot be stored in near-surface storage sites.

100 Czech government resolution No. 464 of 18 July 2018, on the Annual Report on the Work of the Radioactive Waste Repository Authority in 2017.

101 The MoIT fulfilled this task in December 2020 and in resolution No. 1350 of 21 December 2020 the Czech government approved the choice of four localities.

102 The draft of a legislative intention for an act on the involvement of municipalities in the selection of a locality was approved by government resolution No. 1349 of 21 December 2020.

- Expenditure on the Bukov underground test site is linked to the preparations for the underground repository. The Authority spent a total of **CZK 506 million** on the preparation, construction and operation of the Bukov underground research site and the implementation of the experimental research programme. Of this, **CZK 328 million** was spent on the operation of the site, but also on the operation of the Rožná mine¹⁰³, of which the site is a part, without the possibility of separating the expenditure relating to the Bukov site itself. In the SAO's opinion, part of the expenditure paid by the Authority to the state firm DIAMO for the operation of the site is not sufficiently efficient and economical. The SAO also found that, although the Authority had a number of studies and assessments highlighting the site's weaknesses and the effectiveness and efficiency of expenditure on the site had not been demonstrated, the Authority and MoIT plan to spend an additional **CZK 2.3 billion** on the expansion and operation of the Bukov site by 2030.

*Out of the total expenditure of **CZK 506 million**, the Authority paid state firm DIAMO **CZK 444 million** for preparing and building the Bukov underground research site, **CZK 60 million** on its own research programme and **CZK 2 million** on external studies.*

IN 2020 THE SAO ALSO HIGHLIGHTED A CASE WHERE EFFORTS TO SAVE AND OPTIMISE COSTS BY MERGING TWO PUBLIC INSTITUTIONS HAD THE OPPOSITE EFFECT AND DID NOT CONTRIBUTE TO MORE EFFICIENT MANAGEMENT. IT GENERALLY APPLIES THAT MERGING ORGANISATIONS SHOULD BE PRECEDED BY A THOROUGH, OBJECTIVE ANALYSIS TO DEMONSTRATE THE BENEFITS OF SUCH A MOVE.

In audit No. [19/24](#) the SAO verified whether the Central Institute for Supervising and Testing in Agriculture (CISTA) manages state resources efficiently, economically and in compliance with the law. The audit also examined the process of preparation and transformation of the CISTA and the State Phytosanitary Administration /SPA/ on the basis of Act No. 279/2013 Coll.¹⁰⁴ and verified whether the defined objectives were achieved.

The audit showed that neither the MoH nor the CISTA had any documents or information evidencing the strategic decisions made during the preparation of the transformation, or any documents evidencing the process of defining objectives, their realism, benefits or savings. The MoH did not set sufficiently specific, time-bound and measurable transformation objectives. At the time of the audit, the MoH did not know the overall impacts of the transformation. As regards management of state property and funds, the audit sample of CZK 625 million did not reveal any significant deficiencies with a negative impact on the economy and effectiveness of expenditure.

- The costs of merging the CISTA and SPA were not tracked, so it is not possible to quantify the amount spent on this transformation. The MoH also has no information on how successful the merger was, i.e. whether the stated objectives and state budget savings were achieved. The reduction in state budget expenditure was the only specific transformation objective that the SAO was able to assess. The audit found that the transformation did not result in the declared expenditure savings, however. The MoH did not monitor, for example, whether duplication of activities between the two institutions had been eliminated or whether red tape had been cut. As far as financial management is concerned, the SAO found no significant deficiencies. The SAO recommended that the MoH and CISTA develop a long-term strategy for asset management in order to reassess the structure and necessity of the assets the CISTA is responsible for.

*The expected savings in the transformation of CISTA and SPA were to be **CZK 96.3 million** in 2015 compared to 2012. However, this did not happen; in 2015 the expenditures were even higher by **CZK 36.9 million**.*

¹⁰³ Rožná Mine is state property. Management of the mine is entrusted to state firm DIAMO, which keeps the Bukov site and other parts of the mine in operational condition and maintained under a services provision contract.

¹⁰⁴ Act No. 279/2013 Coll., amending Act No. 147/2002 Coll., on the Central Institute for Supervising and Testing in Agriculture and amending certain related acts, as amended, and other related acts.

THE SAO HAS LONG DRAWN ATTENTION TO CASES WHERE STATE INSTITUTIONS FAIL TO FULFIL THEIR LEGAL OBLIGATIONS AND INADEQUATELY PROTECT THE STATE PROPERTY ENTRUSTED TO THEM. AT THE SAME TIME, THEY DO NOT CONSISTENTLY USE ALL THE AVAILABLE LEGAL MEANS TO ASSERT AND DEFEND THE RIGHTS OF THE STATE AS OWNER.

The above-mentioned facts were pointed out by audit No. [19/09](#), which examined the Ministry of Culture and 10 selected collections administrators to determine whether the established system ensured proper and effective protection of museum collections owned by the state. The audit focused particularly on the rules of such protection and the institutions' compliance with these rules.

In the SAO's opinion, the fact that still, 20 years after the entry into force of the Act on the Protection of Collections¹⁰⁵, not all collections have been registered in the central collections register („the Register“) is a fundamental deficiency. Even for the collections already registered, the Register did not provide a true and up-to-date overview and therefore did not serve as a tool for their effective protection. The legal framework for the protection of collections was very general and out-dated. Consequently, the MoC laid down specific rules for the management and protection of collections. These rules, however, were not uniform or binding on all custodians of collections owned by the state. The MoC did not consistently enforce compliance with the rules and its control activities were insufficient. The MoC did not even provide collection custodians with a procedure for cases of failure to track down collection items. With a few exceptions, collection custodians did not address responsibility for the loss of collection items and simply removed them from the records after a period of unsuccessful searching.

- The SAO also concluded that shortcomings in stock-taking of collections or parts thereof meant that the collection records did not give a true overview of the actual state of the collections, which reduced the efficiency of their use and increases the risk of loss or theft of collection items. The collections management and records system was fragmented, complicated and highly bureaucratic, especially owing to the large number of paper and electronic records, information systems and databases used and their mutual incompatibility. The MoC's formal attitude towards authorising and monitoring exports of collection items abroad was another problem for the effective protection of collections. For example, the MoC granted an export permit even in cases where the collection custodians failed to present all the necessary documents, i.e. loan agreements or insurance. The MoC did not possess complete and reliable information about executed exports. The SAO even detected cases where collection items were abroad for some time without a valid permit. To eliminate the above shortcomings, the SAO recommended that the MoC draft more precise legislation on the protection of collections.

*During stock-taking in 2016–2018, eight of the ten audited custodians of collections failed to locate **2,869** collection items.*

6.2 MANAGEMENT OF FUNDS PROVIDED TO THE CR FROM ABROAD

During 2020, the SAO completed a total of eight audits covering not only state budget funds but also funds provided to the Czech Republic from abroad. These audits, which accounted for almost a quarter of all audits carried out, concerned funds provided under thematic operational programmes (OPs) for co-financing joint projects with the EU. The audits focused on the following areas:

- construction work and supplies including road bridge repairs and maintenance (audit No. [19/10](#)) and reconstruction and revitalisation of passenger railway stations (audit No. [19/16](#)) financed via the State Transport Infrastructure Fund and also OP *Transport* (OP T) and IROP;

105 Act No. 122/2000 Coll., on the protection of museum collections and amending certain other acts.

- projects in the field of information and communication technologies, specifically projects to introduce electronic identification and electronic access to public administration services (audit No. [19/14](#)) funded from IROP, and to support the development of high-speed access to the internet (audit No. [19/15](#)) with expected funding from the OP *Enterprise and Innovation for Competitiveness /OP EIC/* and for measures to strengthen cyber security in the Czech Republic (audit No. [19/26](#)) funded from the budget chapter of the National Office for Cyber and Information Security and from IROP;
- to support flood control measures (audit No. [19/04](#)) with state funding via MoA and MoE programmes and with contributions from the regions and co-funding from OP *Environment* (OP En);
- school and education measures (audit No. [19/19](#)) designed to promote inclusive education and funded from the state budget and OP Education for Competitiveness (OP EC), OP *Research, Development and Innovation* (OP RDI) and IROP;
- support for the employment of the over-50s and for active ageing policy (audit No. [19/23](#)) funded mainly from OP *Employment* (OP Em).

The findings of the above audits are assessed in accordance with their priority focus on the relevant areas of expenditure in the previous sections of this annual report. A number of common systemic and procedural shortcomings can be characterised in relation to the use of EU funds in these areas. In order of their frequency of occurrence, the groups of shortcomings are:

- **The objectives of strategic documents transposed to the programme level were not sufficiently specific and measurable, so it was not possible to monitor and evaluate the benefits of the implementation of individual projects.**

This fact was highlighted by the absence of monitoring indicators or the choice of inappropriate indicators for monitoring changes in the supported area, e.g. for projects focused on the inclusion of pupils with special educational needs and socially disadvantaged pupils into mainstream schools - support was drawn from OP RDE and OP PGP (audit No. [19/19](#)).

- **Allocated funds were not utilised because of the supported areas' insufficient absorption capacity.**

The managing authority for the High-speed Internet programme did not provide a single subsidy out of OP EIC and half the funds were transferred to other operational programmes (audit No. [19/15](#)).

- **The design and functionality of management and control systems (MCS), most notably shortcomings in the administration of applications, monitoring of interim results, adoption of measures and effective control work.**

This was the case in the implementation of projects financed by the OP Em, where the managing authority did not take any steps to improve the monitoring of the supported projects' effectiveness (audit No. [19/23](#)). Similarly, the administrator of the state budget chapter did not systematically monitor and evaluate the economy, efficiency and effectiveness of expenditure on cyber security projects in its chapter. (audit No. [19/26](#)).

- **Assessments for project selection were not based on the principles of effectiveness, efficiency and economy.**

For example, OP RDE funding was to a large extent used to support projects that did not guarantee inclusive education for children with special educational needs and socially disadvantaged children (audit No. [19/19](#)).

- **Public procurement errors.**

Suppliers were not selected in compliance with the applicable legislation: e.g. the contracting organisation awarded a public contract worth over CZK 50 million for remedying the critical condition of a bridge on the D1 motorway in negotiated procedure without publication, even though the statutory conditions were not in place (audit No. [19/10](#)).

Table 7: Incidence of typical shortcomings in the cited audits

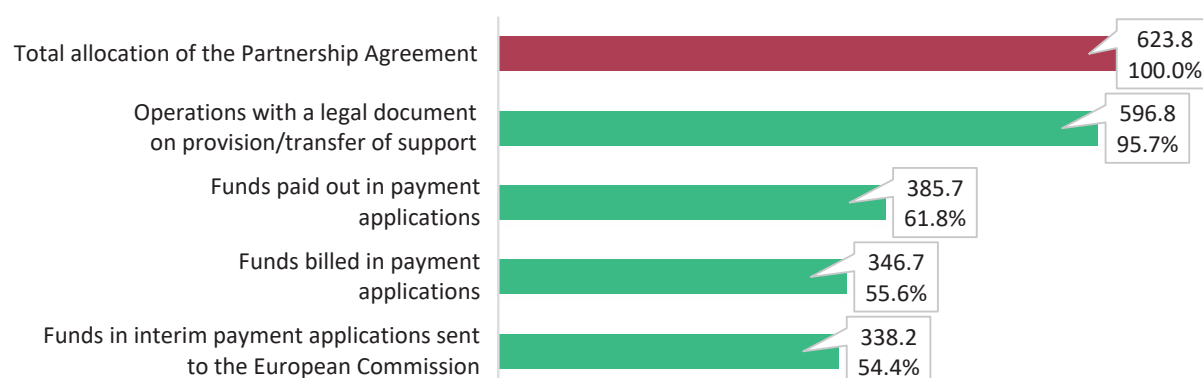
Shortcoming	audit No. 19/04	audit No. 19/10	audit No. 19/14	audit No. 19/15	audit No. 19/16	audit No. 19/19	audit No. 19/23	audit No. 19/26
Programme goals		●	●		●	●	●	
Project selection						●		
MCS design and working						●	●	●
Public procurement		●						
Incomplete use of allocation	●			●	●			

Source: SAO.

IN 2020, THE TREND OF THE ACCELERATING DEVELOPMENT OF INDICATORS CHARACTERISING THE USE OF SUPPORT FROM THE EUROPEAN STRUCTURAL AND INVESTMENT FUNDS (ESIF) WAS CONFIRMED. THE CZECH REPUBLIC IS THUS CLOSER NOW TO THE EUROPEAN AVERAGE.

Chart 17 shows the state of drawdown. Relative the total allocation, the volume of funds in legal documents awarding support reached **96%**; **62%** of funds had been paid; and interim payment applications sent to the European Commission reached **54%**. Compared to the data reported at the end of 2019, these figures represent an improvement of **12.5** percentage points on average. Moreover, from 1 January 2020 these indicators now refer to the total allocation¹⁰⁶, including the performance reserve. Consequently, in real terms the improvement in these indicators compared to 2019 is even greater.

Chart 17: ESIF drawdown in CZK billion and as a % of the total allocation as at 31 December 2020

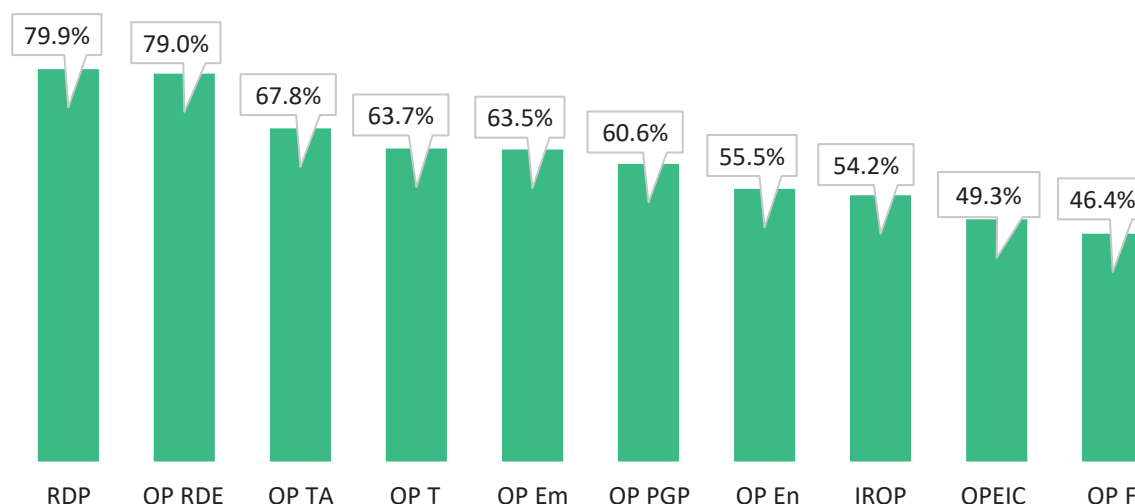


Source: *Monthly Information on the Implementation of the ESIF in the Czech Republic in the 2014–2020 Programming Period, December 2020*; data generated on 7 January 2021; published by MoRD-NCP under ref. No. 2020_12.

106 By hitting the milestones set by the European Commission, the Czech Republic gained the possibility of drawing down a 6% performance reserve in addition to the main allocation. Consequently, all the indicators correlate to the total value, i.e. the total allocation.

According to the MoRD-NCP's monthly information for December 2020, the positive development was mainly due to the *Rural Development Programme 2014-2020*, which achieved a drawdown rate of **80%**¹⁰⁷ of the allocation. The second most successful programme is OP RDE, which had already drawn down 79% of the allocation. On the other hand, the OP *Fisheries 2014-2020* (**46%**) and OP EIC (**49%**) showed the lowest uptake. In the „proportion of concluded legal acts“ indicator, OP *Prague - Growth Pole of the Czech Republic* (OP PGP) displayed the lowest value, i.e. **85%** of the allocation.

Chart 18: Funds in paid payment applications as a proportion of the main allocation for operational programmes of the CR as at 31 December 2020 (%)



Source: *Monthly Information on the Implementation of the ESIF in the Czech Republic in the 2014–2020 Programming Period, December 2020*; data generated on 7 January 2021; published by MoRD-NCP under ref. No. 2020_12.

AS IN PREVIOUS YEARS, OP EIC SHOWED A VERY LOW INTERIM ABSORPTION RATE IN 2020. IN TERMS OF THE VOLUME OF ALLOCATED FUNDS, HOWEVER, IT IS ONE OF THE MOST FINANCIALLY SIGNIFICANT PROGRAMMES - ITS ALLOCATION AMOUNTED TO CZK 109 BILLION AFTER ADJUSTMENT.

All OPs managed to comply with the n+3 rule in 2020, i.e. to draw down the allocation defined for 2017 by the end of 2020; they achieved this by the end of the 3rd quarter of 2020. These data are revealed by the quarterly MoRD-NCP report published on 12 November 2020¹⁰⁸.

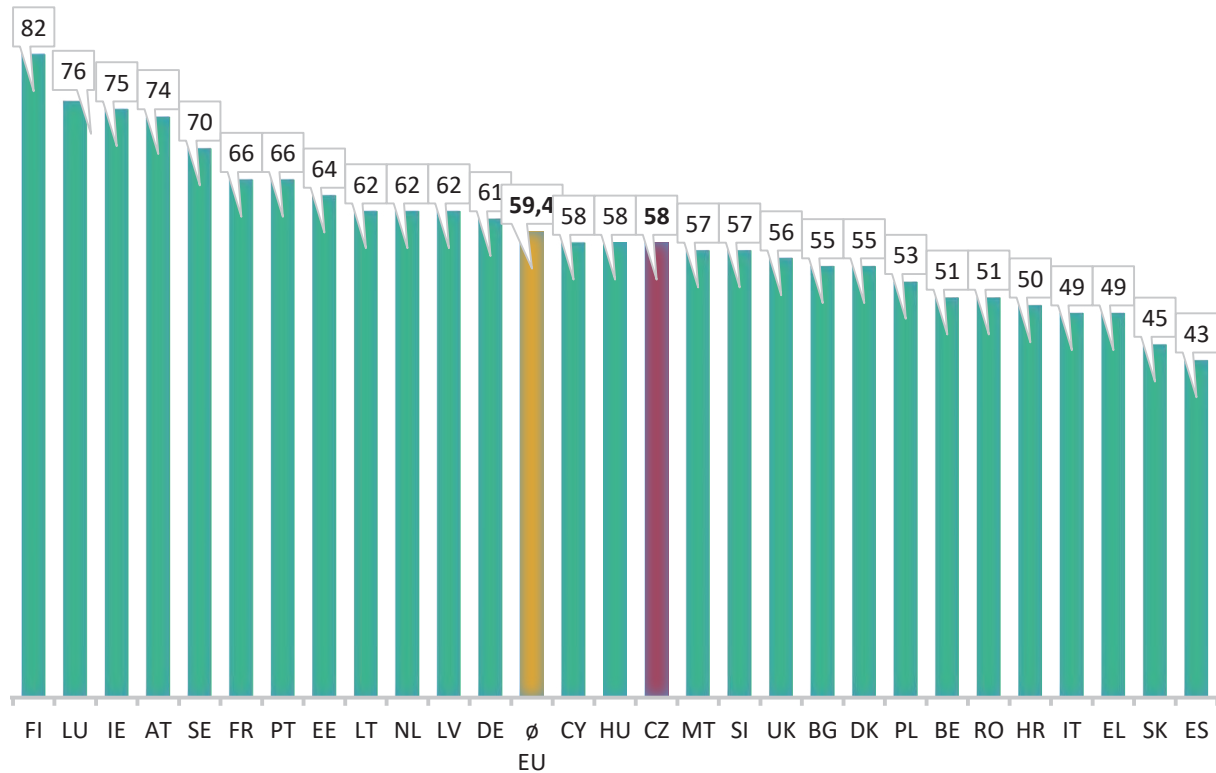
The intensification of the drawdown of ESIF support during 2020 was also reflected in the Czech Republic's shift in the ranking of the success rate of allocation utilisation by EU Member States. The data presented by the European Commission showed that by the end of 2019 the proportion of funds in the Czech Republic in the concluded legal documents relative to the total allocation was only **82%**, about 6.5 percentage points below the EU average, with only three other Member States performing worse. By the end of 2020 the Czech Republic had already reached **89%**, ranking 22nd and **4** percentage points short of the average.

¹⁰⁷ The higher rate of drawdown was driven mainly by area-based payments to farmers at regular intervals on the basis of a uniform application in a similar way to direct payments.

¹⁰⁸ *Quarterly Report on the Implementation of the ESIF in the Czech Republic in the 2014–2020 Programming Period, 3rd Quarter 2020*; data generated on 6 October 2021; published by MoRD-NCP under ref. No. 2020-3Q.

By the end of 2020, more than **58%** of the total allocation was paid to the CR from the EU budget under the Partnership Agreement for the 2014–2020 Programming Period, which put the CR in the **13th to 15th position** out of the 28 Member States. The CR was then just **1.4 pp** short of the EU average (see Chart 19).

Chart 19: Funds paid out to EU Member States by the end of 2020 relative to their total allocation (%)



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

7. SAO OPINIONS ON THE STATE'S FINANCIAL REPORTING

7.1 OPINION ON THE DRAFT STATE CLOSING ACCOUNT

In 2020, the SAO issued its *Opinion on the Draft State Closing Account of the Czech Republic for 2019* regarding the accuracy of the reported data¹⁰⁹, i.e. the completeness and correctness of the reporting of the state budget revenues and expenditures presented in the draft state closing account.

The principal instrument used by the SAO to verify these data is financial audit, which systematically verifies the final accounts of individual chapters, the data presented for the assessment of the state budget implementation in terms of their classification by budget composition and the data in accounting statements.

Another applied method was to compare the state closing account data in books G and H with the data in the relevant budgetary and accounting information systems and check the consistency between these books and the data in the evaluation reports.

For book H, the scope of the data presented in the following table was verified using this method.

Table 8: Overview of the number of verified figures contained in the text section of book H of the state closing account for 2019 and applicable to the management of state budget chapters

Absolute				Relative			
Total number of figures	Number of discrepancies detected	Number of verified and approved figures	Number of unverified figures	Verified figures relative to the total	of which: discrepancies relative to the total	of which: verified and approved relative to the total	Unverified figures relative to the total
4,985	74	4,578	333	93.3%	1.5%	91.8%	6.7%

Source: state closing account 2019 – book H, Central System of State Accounting Information.

THE SAO EXPRESSED THE OPINION THAT THE FIGURES CONTAINED IN THE 2019 DRAFT STATE CLOSING ACCOUNT CAN BE CONSIDERED CORRECT¹¹⁰. AT THE SAME TIME, HOWEVER, THE SAO HAS LONG POINTED OUT THAT THE CLOSING ACCOUNTS MAKE ONLY MINIMAL USE OF ACCRUAL-BASED DATA FROM THE FINANCIAL STATEMENTS. GIVEN THAT ACCRUAL-BASED DATA PROVIDES VERY MEANINGFUL INFORMATION ON THE PERFORMANCE OF STATE BUDGET CHAPTERS, THE SAO CONSIDERS IT APPROPRIATE FOR THE RELEVANT LEGISLATION TO PLACE GREATER EMPHASIS ON THE USE OF SUCH DATA IN CLOSING ACCOUNTS.

109 These are data from the draft SCA for 2019 contained in book G – *Tables Section for the Draft State Closing Account of the CR and book H – Results of Chapters' Budget Management*.

110 For more on the opinion on the accuracy of SCA data see: <https://www.nku.cz/cz/publikace-a-dokumenty/stanoviska-nku-ke-statnimu-rozpocetu/stanovisko-nku-k-navrhu-statniho-zaverecneho-uctu-cr-za-rok-2019-id11437/>.

7.2 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 increase users' confidence in this information and also helps 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 2020 the SAO completed the following four financial audits, as part of which it issued an opinion on the financial reporting:

- audit No. [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* (audit No. 19/08 MoT);
- audit No. [19/21](#) – *Closing account of the state budget chapter “Ministry for Regional Development” for 2018, the Ministry for Regional Development’s financial statements for 2018 and the data submitted by the Ministry for Regional Development for evaluation of implementation of the state budget in 2018* (audit no. 19/08 MoRD);
- audit No. [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* (audit No. 19/29 CSSA);
- audit No. [19/31](#) – *Closing account of the state budget chapter “Ministry of Education, Youth and Sports” for 2018, the Ministry of Education, Youth and Sports’ financial statements for 2018 and the data submitted by the Ministry of Education, Youth and Sports for evaluation of implementation of the state budget in 2018* (audit No. 19/08 MoEYS).

Two of these were ex-post audits, where the audit scrutinised an already closed accounting period (audit No. 19/08 MoT and audit No. 19/21 MoRD); two were interim audits, where the audit partly covers the ongoing accounting period and the audited entity has the opportunity to make corrections (audit No. 19/29 CSSA and audit No. 19/31 MoEYS).

Table 9: Results of financial audits with regard to financial statements (CZK billion)

Audit no.	Audited entity	Type of financial audit	Financial audit results: financial statements					Financial audit results: financial reporting				Financial audit results: closing account	
			Audited volume				Quantified inaccuracies	Opinion on financial statements	Audited volume		Quantified inaccuracies	Reliability of financial statements	Reliability of financial statements data
			Net assets / liabilities	Costs	Revenues	Off-balance sheet			Income	Expenditure			
19/08	MoT	Ex post	51.695	48.669	14.990	76.650	5.941	FS unreliable in certain items of statements BS, P/L and Notes ¹¹¹ (see Chart 21)	22.875	51.513	3.767	Material inaccuracies in sectoral structuring of expenditure ¹¹²	Non-material inaccuracies bar an isolated case of incorrect reporting of expenditure by sector
19/21	MoRD	Ex post	13.218	22.346	18.445	57.301	5.425	FS unreliable in certain items of statements BS, P/L and Notes ¹¹³ (see Chart 21)	4.255	2.257	0.011	Non-material inaccuracies relative to total reported data ¹¹⁴	Non-material inaccuracies relative to total reported data
19/29	CSSA	Interim	34.312	506.877	539.877	21.204	0.000	FS reliable	534.308	499.396	0.000	No inaccuracies found	Closing account not audited
19/31	MoEYS	Interim	251.590	209.745	11.106	52.547	0.090	FS reliable ¹¹⁵	5.014	38.538	0.808	Non-material inaccuracies relative to total reported data ¹¹⁶	Non-material inaccuracies relative to total reported data
Total			350.815	787.637	584.418	207.702	11.456		566.452	591.704	4.586		

111 Most significant errors: incorrect reporting of costs for fare discounts compensation provided (CZK 2.07 billion) and related unpaid liabilities (CZK 0.55 billion); incorrect reporting of use of reserve fund finances (CZK 0.72 billion); reporting of non-existent conditional receivables (CZK 2.41 billion).

112 Most significant errors: misclassification of expenditure by sectoral structuring of budgetary composition in the general section instead of a specific sector section.

113 Most significant errors: incorrect accounting for costs for subsidy provision (CZK 0.659 billion); incorrect accounting for prior-period adjustments (CZK 0.453 billion); off-balance-sheet incomplete owing to non-systemic increase in materiality (min. CZK 1.537 billion); off-balance-sheet liabilities from court disputes incomplete (CZK 0.288 billion); incorrect accounting for provisions (CZK 0.209 billion); shortcomings in overview of changes in equity (CZK 0.208 billion).

114 Most significant errors: misclassification of expenditure for purchase of annual software licence.

115 Most significant errors: incorrect accounting for longevity of advance payments provided under programme financing (CZK 0.040 billion); incorrect accounting for and reporting of repayments of subsidy funds (CZK 0.019 billion).

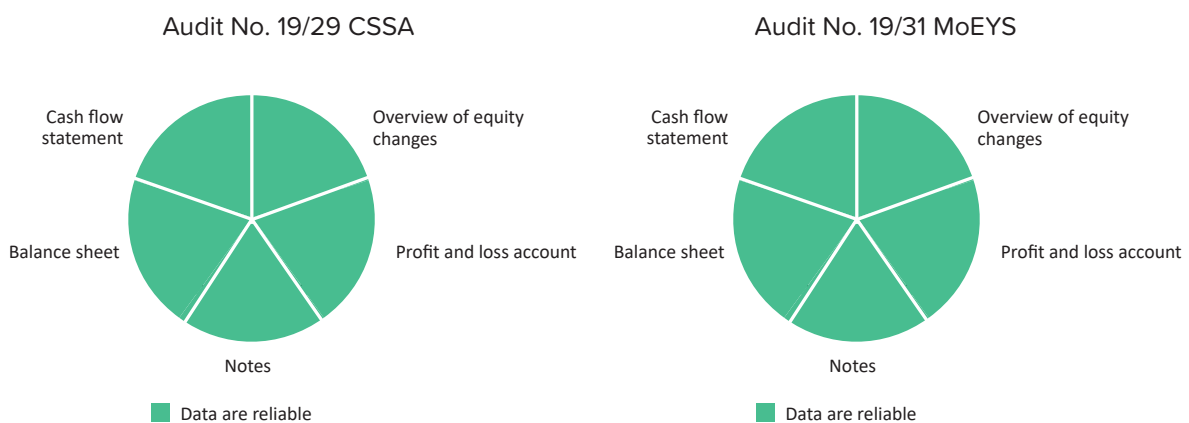
116 Most significant errors: misclassification of expenditure by sectoral structuring of budgetary composition in the general section instead of a specific sector section.

AUDIT RESULTS WITH REGARD TO FINANCIAL STATEMENTS

The main focus of financial audits is on book-keeping and the preparation of financial statements. The SAO examined whether the audited entities kept accounts in such a way that the financial statements prepared on the basis of those accounts gave a true and fair view of the subject of the accounting.

The results of the audits showed that interim audits, where audited entities have the opportunity to correct the deficiencies identified during the audit, contribute significantly to the reliability of the reported data.

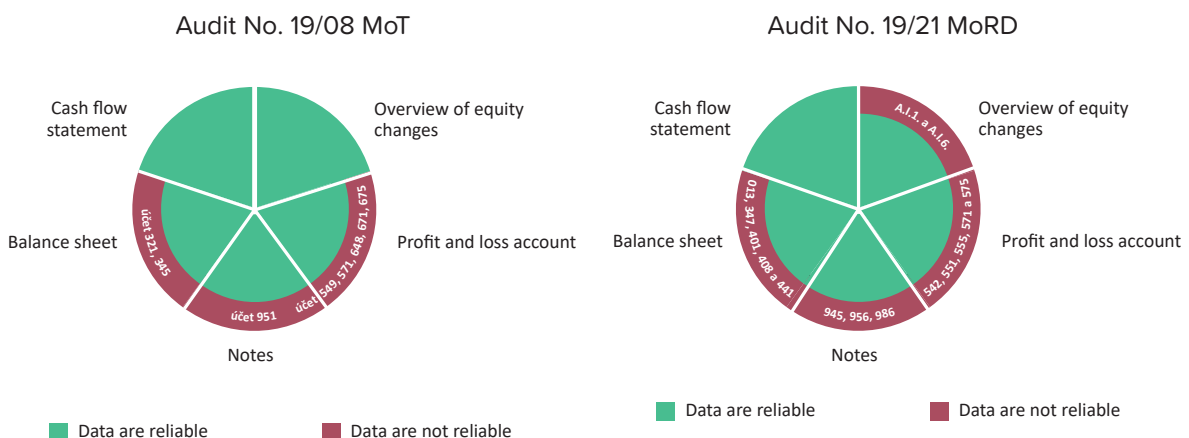
Chart 20: Opinions on financial statements issued during interim audits



Source: information from audits.

In the case of the interim audit done at the MoEYS, inaccuracies with a total value exceeding CZK 49 billion were corrected before the accounts were closed¹¹⁷.

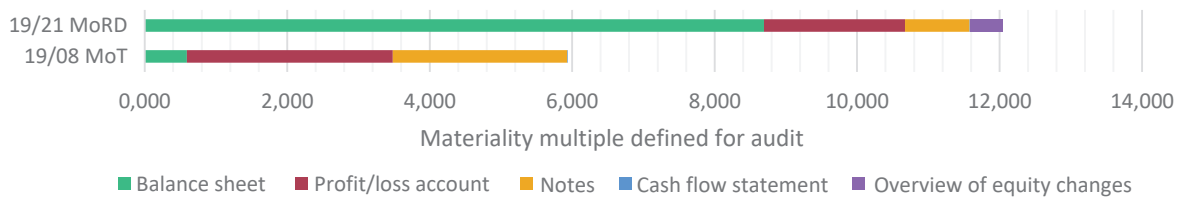
Chart 21: Opinions on financial statements issued in ex post audits



Source: information from audits.

117 In particular, incorrect representation of changes in the states of accrued items in cash flow statement (CZK 46.5 billion) and incorrect representation of conditional liabilities linked to member contributions to international organisations (CZK 2.9 billion).

Chart 22: Inaccuracies in financial statements by type of statement – ex post audits



Source: information from audits.

Most affected in terms of the extent of the errors and consequent reliability were the balance sheet (incorrect accounting for prior-period adjustments, incorrect accounting for provisions, incorrect accounting for the outstanding liability for fare discount compensation), the profit and loss account (misclassified expenses) and the notes to the financial statements (information on contingent assets and liabilities was missing/over-reported or incorrectly reported).

AUDIT RESULTS WITH REGARD TO FINANCIAL STATEMENTS

In its financial audits the SAO also checks data for assessing the implementation of the state budget and the financial statements those data underpin.

As far as the audited financial statements are concerned, material errors were only detected by audit No. [19/08](#). These concerned structuring by sector. The inaccuracies detected in the other audits were not material relative to the total value of the reported financial data.

AUDIT RESULTS WITH REGARD TO CLOSING ACCOUNTS OF STATE BUDGET CHAPTERS

Isolated deficiencies were found in the accompanying reports of the audited closing accounts concerning the omission of certain information required by law. Inaccuracies were found in numerical datasets and in the annexed tables containing the financial statements which, even in aggregate, would not have had a significant impact on the accounts' reliability.

As part of its audits of closing accounts, the SAO has repeatedly emphasised that it would be appropriate to make greater use of accrual-based data, including their use for drawing up closing accounts, and presented comparisons of certain accrual-based and cash-based information (e.g. in audit No. [19/21](#))¹¹⁸.

MEASURES TO CORRECT IDENTIFIED SHORTCOMINGS

The audit report from audit No. 19/08 was discussed by the government of the Czech Republic in 2020. The audited entity's opinion on the audit report showed that efforts were made to eliminate the identified deficiencies, and the audited ministry responded to all the identified deficiencies mentioned in the audit report.

Another component of financial audits is the systematic verification of the implementation of corrective measures from previous audits.

Table 10: Overview of the implementation of corrective measures from previous audits

Audit No.	Audited entity	Previous audit No.	Number of corrective measures adopted	Number of measures implemented completely and correctly	Number of measures implemented partially	Number of measures not implemented	Number of measures no longer relevant (e.g. due to legislative changes)
19/08	Ministry of Transport	13/39	18	12	x	x	6
19/21	Ministry for Regional Development	17/08	17	11	5	1	x
19/29	Security Administration	14/38	3	1	2	x	x
19/31	Ministry of Education, Youth and Sports	15/35	7	2	x	x	5

Source: audit conclusions.

Table 10 reveals that in most cases the audited entities responded to the imposed measures.

118 In the case of audit No. 19/21 it was found that if the assessment of the MoRD's budget management had been based on cash flow, the MoRD would have achieved a surplus of CZK 2.01 billion for 2018 according to the financial reporting. By contrast, if the assessment was accrual-based, the result would have been a loss of CZK -3.90 billion per the profit and loss account. The main reason for this difference was that in 2018 the MoRD collected finances from the National Fund as a replacement for the EU budget for transfers pre-financed out of the state budget, but the MoRD had already accounted for the related revenue in previous years. **This situation was an example of the difference between revenues representing an increment of economic utility and incomes that are real movements of money.** Accrual-based financial statements in the notes also contained information about the size of conditional liabilities (CZK 48.3 billion), 94.4% of which comprise long-term conditional liabilities from transfers due to subsidy provision decisions already issued, 3.5% of which are long-term conditional liabilities from court disputes and administrative and other proceedings, and 2.1% long-term conditional liabilities from other contracts. All these conditional liabilities represent potential claims on future budgets. **Similarly, information from the profit and loss account on the size of costs from the MoRD's operations (CZK 1.66 billion) inform not about effected expenditure on operations (CZK 1.83 billion) but about total consumption of finances for MoRD operations in 2018. It is clear from the structure of these costs that the most significant item in terms of value is services (36.46% of total operating costs) and over 50% that comprises costs for licences and software, data services and data processing services. Payroll costs are in second place, making up 26.96% of total operating costs (for more, see the audit report from audit No. 19/21).**

AUDIT RESULTS IN THE FIELD OF REPORTING RELATIVE TO INTERNAL CONTROL SYSTEMS

Financial audit includes an examination of internal control systems. It checks whether for the transactions tested the internal control system is set up in compliance with the relevant legislation¹¹⁹ and tests selected control mechanisms in the accounting systems. The effective and reliable functioning of an internal control system has a significant impact on the completeness, reliability and accuracy of the information presented in financial statements and other reports. The financial audits identified some shortcomings and risks, in particular in the areas of financial control, reliability of reported information and management of state property (audit No. [19/21](#)).

7.3 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.

In 2020 the SAO used findings from scrutiny of the reliability of reported accounting and budget information when issuing comments on draft amendments (amendments of Decrees Nos. 410/2009 Coll. and 323/2002 Coll.) or other materials (draft legislative intention of an act on accounting, which was approved by the Czech government in October 2020 after the comments had been dealt with):

- the amendment of Decree No. 410/2009 Sb., which is effective from 1 January 2021, primarily regulates the content of certain items in cash flow statements; it was a response by the MoF to the audit findings presented in audit No. **18/05**;
- in the context of the comments on the draft legislative intention of the act on accounting the Government Legislative Council drew attention to shortcomings in the publishing of information from consolidated statements in the public sector and the absence of the purpose of book-keeping in the form of “rendering accounts”, which tallies with the opinion that the SAO has long expressed in this context.

In the context of the Covid-19 pandemic, the SAO participated in the EUROSAI working group for exchanging experiences related to the pandemic's impact on financial audit activities.

In October 2020, the SAO also held a three-day international expert seminar to exchange financial audit experiences with the Supreme Audit Office of the Slovak Republic.

¹¹⁹ In particular, Section 3 of Act No. 320/2001 Coll., on financial control in public administration and amending certain acts (Act on Financial Control).

III. FINANCIAL EVALUATION OF AUDIT WORK

1. OVERALL FINANCIAL EVALUATION OF AUDITS

The overall financial value of audit activity is monitored annually in terms of the total volume of funds, assets and liabilities audited. This indicator informs about total audited volume of the state budget revenue and expenditure, state assets and liabilities, funds provided to the Czech Republic from abroad and other finances (e.g. from state funds or funds collected by law). This indicator is influenced by the number of audit operations, their objectives and subjects of focus and the length of the audited period.

The total value of funds and property audited is **CZK 108 billion**. This volume is based on the audits listed in Annex 2. The figure does not include data from audits examining the closing accounts of state budget chapters (see Chapter II.7.2 of this annual report) or data on funds assessed only at systemic level (e.g. when auditing strategic and conceptual documents or when auditing programme finances in the context of audit of the activities of their administrators or intermediate bodies). The value of funds audited at system level in audits completed last year was **CZK 171 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 deficiencies identified and specified in audit protocols and related to the audited entities' tax obligations. Specific audit findings can be used by the appropriate tax administrators to initiate proceedings that may result in a decision imposing a penalty for a breach of budgetary discipline.

In 2020, **21 notifications from nine audits** were sent to tax administrators in connection with tax administration. The total financial sum quantified in these notifications was **CZK 229 million**. The notifications concerned breaches of obligations identified at subsidy beneficiaries (12) and breaches of obligations by organisational units of the state and contributory organisations (9).

IV. ASSESSMENT OF OTHER ACTIVITIES

1. COOPERATION WITH THE CRIMINAL JUSTICE AUTHORITIES IN 2020

In 2020 the SAO filed **four** notifications of circumstances indicating the commission of a crime pursuant to Section 8(1) of the Criminal Code and based on findings from **four** audits.

These notifications concerned suspicion of the crime of subsidy fraud, the crime of breach of trust, the crime of breach of trust by neglect, the crime of misrepresentation of data on the state of financial management and capital and the crime of abuse of office.

The criminal justice authorities requested the SAO's cooperation in **seven** cases in 2020. Further to these requests the SAO provided audit materials from **two** audits. In 2020 the SAO President released nine 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 2020

In inter-ministerial 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 2020 the SAO received for assessment a total of **143** legislative drafts and other materials relating to legislation. The SAO issued specific comments on **56** drafts, mainly based on findings from its audit work.

The most significant draft legislation the SAO issued an opinion on in 2020 included the government draft of an act amending Act No. 134/2016 Coll., on public procurement, that was presented for consultation by the Ministry of Regional Development. The draft amendment mainly responds to the opinion of the European Commission concerning the insufficient transposition of certain rules laid down in the European procurement directives. The SAO also issued comments on a government draft of an amendment of the act on free access to information presented for consultation by the Ministry of the Interior; a government draft of a whistleblowers act presented for consultation by the Ministry of Justice; and a government draft of an act on electronicisation of healthcare presented for consultation by the Ministry of Health.

In 2020 the SAO also took part in the consultation organised by the Ministry of Finance regarding a draft update of the *National Strategy for the Protection of the Financial Interests of the European Union*, which takes into account new legislation adopted in this area both at national level and by the EU.

Draft legislation the SAO issued an opinion on in previous periods, i.e. the government draft of an act amending Act No. 166/1993 Coll., on the Supreme Audit Office, and other related acts, concerning an extension of the SAO's powers to include audit of the management of public funds and funds provided out of public budgets, as well as audit of the management of property of self-governing territorial units (regions and municipalities with extended competency) and property of legal persons in which the state or a self-governing territorial unit holds a majority of registered capital or in respect of which they are controlling entities (parliamentary print 360) and a parliamentary deputy draft act covering the same issue (parliamentary print 230) were debated by the Chamber of Deputies in the second reading in January 2020. The related draft amendment of the Constitution of the Czech Republic (parliamentary print 229) was approved by the Chamber of Deputies in the third reading on 12 February 2020. The third reading of acts amending the Act on the SAO was adjourned by the Chamber of Deputies until the draft amendment of the Constitution of the CR was debated in the Senate. The draft amendment of the Constitution of the CR was discussed by Senate committees in the first half of 2020. The Standing Senate Commission on

the Constitution of the Czech Republic and Parliamentary Procedures discussed it in December 2020, but it was not debated in the Senate before the end of 2020.

Another parliamentary deputy draft act amending Act No. 166/1993 Coll., on the Supreme Audit Office, as amended, deals with extending the SAO's powers to include audit of the management of the property of Czech Radio and Czech Television (parliamentary print 626). This draft was not debated in the first reading by the Chamber of Deputies before the end of 2020.

3. INTERNATIONAL COOPERATION

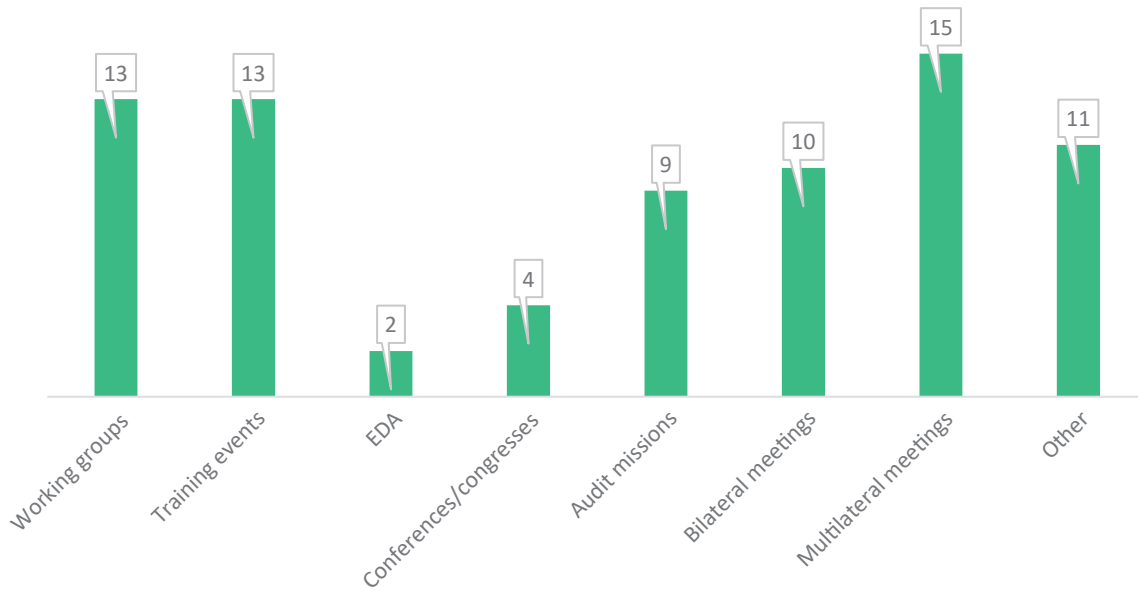
The common denominator of international cooperation in 2020 was the Covid-19 pandemic. In this context, international cooperation between supreme audit institutions (SAIs) has involved coordinating special audits aimed at governmental measures against the spread of the new type of coronavirus and shifted from the negotiating table to the online environment.

The beginning of 2020 was marked by intensive preparations for the XI EUROSAI Congress, which was due to be held in Prague from 31 May to 4 June 2020. Due to the pandemic and the introduction of travel restrictions in most European countries, the EUROSAI Governing Board decided that the XI EUROSAI Congress would be held in April 2021 in a virtual format. In this context, the SAO's chairmanship of the EUROSAI Working Group on Strategic Goal 1 – Professional Cooperation has been postponed until April 2021. The SAO will take over the chairmanship of EUROSAI from the SAI of Turkey at the XI Congress 2021. The mandate of the EUROSAI chairmanship is three years and the SAO will lead the whole organisation from 2021-2024, i.e. with a one-year delay from the original 2020-2023 term.

In addition, planned activities of INTOSAI, EUROSAI, ECA working groups or the Contact Committee meetings have either been cancelled, postponed to 2021 or (in most cases) staged online. On the other hand, the pandemic has significantly increased cooperation between regulatory authorities. It has given rise to new multilateral working groups and virtual platforms for international cooperation. Last but not least, the crisis has also encouraged the development of international training activities and expert virtual conferences leading to increased professionalism in audit work.

INTERNATIONAL ACTIVITIES OF THE SAO IN THE CR AND ABROAD

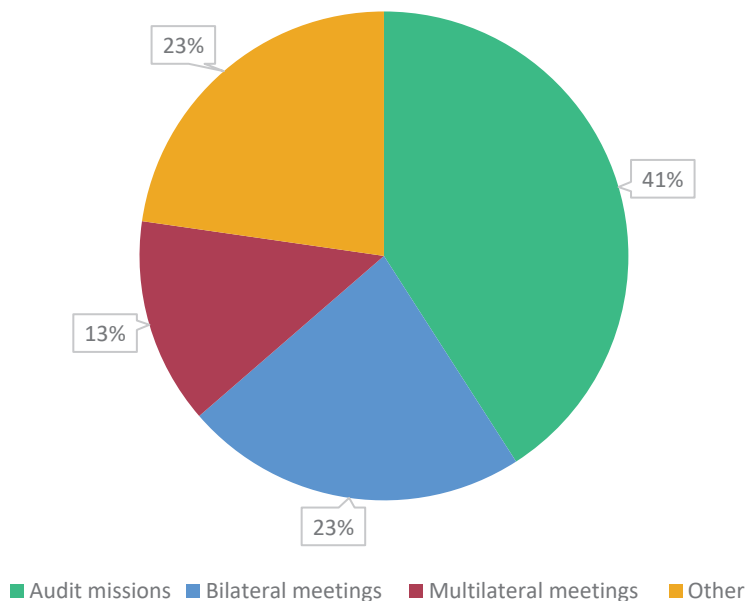
Chart 23: International events in the CR and abroad



Adapting supreme audit institutions to the ongoing pandemic, innovation in auditing, digitalisation of public administration, cyber security, climate change and the UN Sustainable Development Goals (SDGs) have become important topics of discussion at the international level in 2020.

Despite the pandemic and its consequences, SAO representatives attended a total of 77 international events in 2020 (i.e. 12 more than in the previous year), 64 of which took place online. International activities included ECA audit missions, the SAO's involvement in the European Defence Agency (EDA) and a visit to the SAO headquarters by representatives of the European Parliament's Committee on Budgetary Control.

Chart 24: Foreign visits to the CR and online meetings organised by the SAO



At the beginning of 2020, before the state of emergency was declared on 12 March 2020, the SAO was visited by the highest representatives of the Polish, Slovak and Israeli supreme audit institutions in turn.

On 16 and 17 January 2020, the SAO was visited by a delegation from the Supreme Audit Office of Poland, headed by its president Mr Marian Banaś. The Polish SAI is a member of the governing board together with the SAO and is also a vice president of EUROSAI. The meeting focused on the results of audits in the fields of gambling, healthcare and road toll collection. Future cooperation during the Czech Presidency of EUROSAI and cooperation within the V4+2 group were discussed.



On 23 January 2020, the president of the Czech SAO met with the President of the Supreme Audit Office of the Slovak Republic, Mr Karol Mitrík, in Brno, halfway between the two head-offices, to discuss joint work activities in 2020. They mainly discussed two coordinated audits. One (already completed) audit concerned selected areas of climate and energy policy and the other (ongoing) is focusing on the administration of social security contributions and state employment policy contributions.



Another visit took place at the end of February, when the SAO was honoured by a visit by the State Comptroller and Ombudsman of Israel, Mr Matanyahu Englman. Apart from presenting the results of the SAO's work, the meeting was mainly about deeper cooperation within EUROSAI, including the SAO's coming presidency. Representatives of the Israeli authority expressed serious interest in taking over the presidency of EUROSAI from the SAO and leading the organisation for the following three years.



The first-ever International Hackathon of Supreme Audit Institutions was a major event held at the SAO headquarters in Prague from 3 to 6 March 2020, bringing together 68 programmers, data analysts and auditors from 21 mainly European countries. Out of a total of 11 applications, the jury selected three winning projects that managed to use publicly available data to create applications and visualisations that can facilitate audit work and support information sharing between auditors in different countries.



At a working meeting held at the SAO's headquarters on 10 March 2020, i.e. just before the state of emergency was declared, SAO auditors discussed the role of audit authorities in the fight against corruption with representatives of the Portuguese and Austrian courts of auditors.

A meeting in March with the President of the Spanish Court of Auditors and the Secretary General of EUROSAI, Mrs María José de la Fuente y de la Calle, was held online and focused on the organisation and agenda of the XI EUROSAI Congress and the celebration of the 30th anniversary of EUROSAI. The top representatives of the Spanish and Czech supreme audit institutions jointly discussed the vision and mutual cooperation during the SAO's presidency of EUROSAI in 2020-2023.

On 3 June 2020, the European Commission requested the SAO's cooperation in connection with the *Rule of Law Report*. Commission representatives had a virtual meeting with the legal representatives of the Supreme Audit Office to discuss the SAO's activities in the field of the fight against corruption and cooperation with other state bodies in the Czech Republic etc.

On 3 December 2020, the 4th meeting of the EUROSAI Strategic Goal 1 Task Force was held online. The task force is led by the SAO together with the supreme audit institution of Germany. A total of 41 participants from 15 audit institutions involved in the seven *EUROSAI Strategic Plan 2017-2023* project groups discussed the progress made in each project. The SAO representatives informed all the participants about changes and plans related to the organisation of the XI EUROSAI Congress.

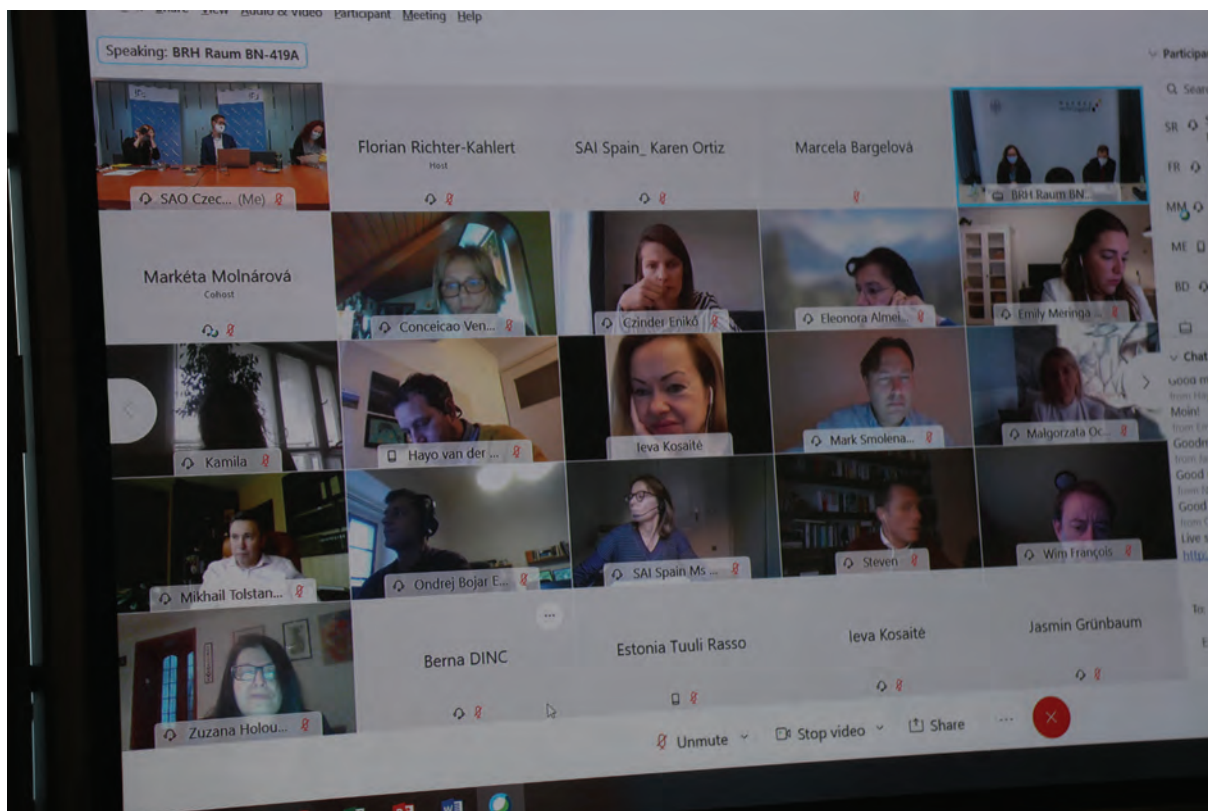
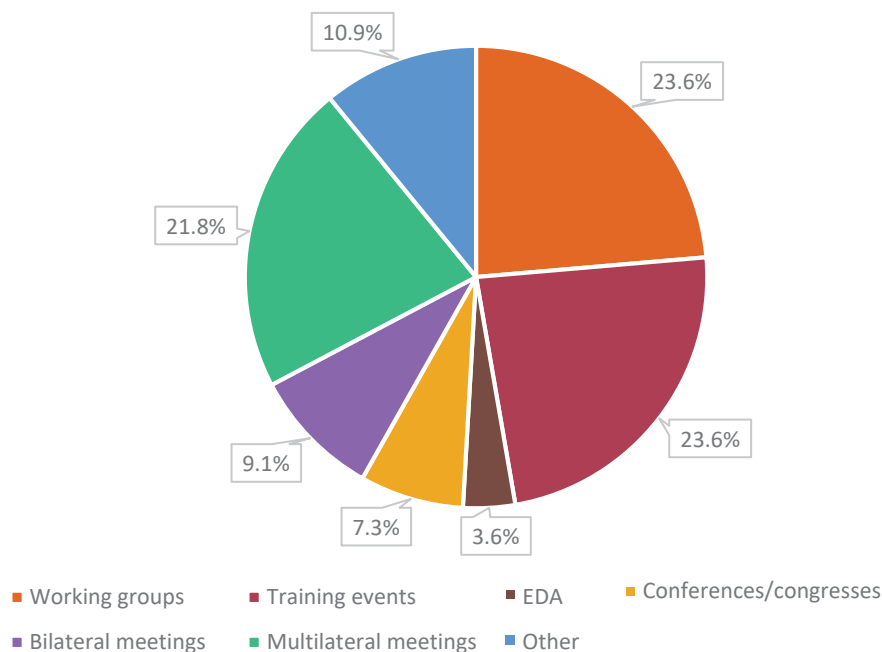


Chart 25: Trips abroad by SAO employees and representatives and participation in virtual international events



BILATERAL AND MULTILATERAL MEETINGS AND CONFERENCES ATTENDED BY SAO REPRESENTATIVES

Bilateral and multilateral meetings accounted for the largest share (31%) of international activities. On 19-20 February 2020, SAO financial auditors met with their Austrian and Dutch counterparts in Vienna to discuss the issue of improving the quality of public finances information, and the meeting also touched on EPSAS. On 25 February 2020, representatives from audit systemic support discussed visual communication and publication of audit outputs in the Dutch city of The Hague.

True to tradition, on the bilateral level the SAO was in closest contact with the SAI of the Slovak Republic. Slovak auditors came to Prague in February for a two-day working meeting dedicated to the exchange of experience from audits in the health sector. On 13-14 May 2020 and 1 December 2020, meetings were held via videoconference call on audit of the administration of social security contributions. A joint report of the SAO and the SAI of Slovakia on the performance of coordinated audits focusing on support in selected areas of climate and energy policy, with the emphasis on sustainable public revenues, was published in July. On 24 September 2020, auditors from the two SAIs held a virtual meeting on the coordination of audits scrutinising road bridge repairs and maintenance. A three-day work placement under leadership the SAI of the Czech Republic took place from 12-14 October 2020, specialising in financial audit planning and execution.

In June and November, two meetings of the EUROSAI Governing Board were held by videoconference, attended by all members, i.e. the SAO and the SAIs of Turkey, Spain, Poland, Finland, Latvia, Moldova and the Netherlands. The Governing Board decided on matters important for the running and functioning of the organisation, e.g. extension of the mandates of auditors examining the organisation's financial statements, extension of the chairmanship of working groups for another year and the budget for 2017 to 2020. At the November meeting, the members commemorated the 30th anniversary of EUROSAI and approved by a majority the admission of the 51st member of EUROSAI, which will be the Supreme Audit Institution of the Republic of Kosovo as of 1 January 2021.



Two webinars organised on 16 July 2020 and 8 December 2020 by the audit authorities of the Netherlands and the UK focused on 'investigative work' (an audit practice used in particular by the UK SAI, consisting in rapid, fact-based audits) and how this investigative work can be applied to audits focused on government responses and actions during the coronavirus pandemic.

The main theme of the three-day EUROSAI and OLACEFS virtual conference in September, organised by the SAI of Hungary, was increasing the impact of SAIs' activities. 22 SAO representatives discussed with their counterparts from 55 other SAIs topics such as anti-corruption, relations with law enforcement agencies, preventing and combating corruption, digital tools, measurement indicators etc.

On 9-11 September 2020, representatives of the SAO participated in a working meeting at the ECA headquarters in Luxembourg, the purpose of which was to learn about the design and functioning of quality management systems for audit activities and to exchange experiences with ensuring the quality of audit outputs, the quality of recommendations and evaluation of their implementation.

SAO PARTICIPATION IN INTERNATIONAL TRAINING ACTIVITIES

Activities related to professional training were also significant, accounting for 24% of the total number of international activities. More than 60 SAO representatives participated in professional e-seminars and webinars. These training events covered e.g. implementation and modification of financial instruments, non-financial reporting, European law on state aid, financial management and audit of EU Structural Funds, use of innovative language technologies in audit work etc. This training was provided by the Association of Chartered Certified Accountants, the United Nations Institute for Training and Research, the European Commission, the European Confederation of Institutes of Internal Audit and the European Academy for Taxes, Economics and Law, among others.

SAO INVOLVEMENT IN INTERNATIONAL WORKING GROUPS

During 2020, the SAO actively participated in several new international working groups under the auspices of EUROSAI, the ECA and INTOSAI.

On 3 March 2020, a meeting of the EUROSAI Working Group on Information Technology (the group is chaired by the SAI of Estonia since June 2020) was organised in Switzerland in the form of a workshop to assess the organisation's own IT systems and audits. The next meeting of this working group, which has more than 30 members, was held in a videoconference format on 12 November 2020 with the intention of sharing audit authorities' information and experiences in the field of digitalisation of public administration, digital strategy for audit authorities, ways to integrate IT audits into comprehensive audit work etc. At this meeting, SAO representatives prepared one of the workshops for their foreign colleagues on the topic of mapping the competences of auditors dealing with IT issues.

In April and September, two meetings were held of the EUROSAI Working Group on Environmental Auditing (WGEA), which has been headed by the SAI of Poland since June 2020. A total of 43 SAIs are currently members of the WGEA. The topic of the first meeting, organised by the SAIs of Malta and Estonia, was sustainable energy. The second and also annual WGEA meeting was organised by the SAI of Poland to discuss air quality and urban transport. At this meeting, SAO representatives presented the results of audit No. 18/04 - *Funds earmarked for the support of air quality*. In cooperation with the Finnish Environment Institute, the WGEA also organised the *European Environmental Evaluators Network Forum* on 4-5 November 2020, with the UN Sustainable Development Goals as the main topic.

In response to the spring emergency caused by the Covid-19 pandemic, a project group on auditing the response to the Covid-19 pandemic was established within EUROSAI at the initiative of the SAIs of the UK and Finland. The group was presented to potential interested EUROSAI members in a webinar on 4 June 2020. The aim of the project group is to coordinate and facilitate the exchange of information regarding audits of funds spent in the fight against the pandemic. To this end, the SAO has offered the BIEP portal to foreign partners as the primary platform for sharing information and documents across the group. Subsequently, on 17 June 2020 and 2 July 2020, the group, made up of representatives of 31 audit institutions, met in two online meetings, during which all the participants were able to exchange experiences from ongoing and planned audits focusing on measures implemented in the context of the Covid-19 pandemic.

The BIEP portal will now also be used by a project group entitled „Preparing for future risks and climate crisis: Time for audit to take a long-term view?“, which was initiated by ECA and the SAI of Finland to explore forecasting methods and long-term approaches to building resilience and addressing risks that audit authorities may face in the future.

Furthermore, SAO representatives joined two working groups chaired and managed by the ECA. One group focuses on performance audit in the transport sector and brings together experts from a total of 11 audit institutions. The second working group consists of the INTOSAI network of liaison officers for international professional standards; in addition to the SAO, the audit authorities of Poland, Slovakia, Slovenia, Hungary and Austria are actively involved in this group.

SAO auditors are also involved in a new ECA platform called TiNA. Bringing together auditors, data scientists, data visualisation experts and IT experts from the SAIs of EU Member States, this platform takes into account the specific institutional, political and regulatory context in which the SAIs of EU Member States operate.

Several working group meetings have also been held in the context of the global INTOSAI organisation. The Steering Committee of the INTOSAI Working Group on Environmental Auditing (INTOSAI WGEA), which currently lists 76 SAIs among its members, met on 24 - 26 March 2020. The meeting focused on several specific Sustainable Development Goals (SDGs). INTOSAI WGEA organised a webinar on 24 September 2020 focusing on climate change and SDG progress.

Within the framework of both EUROSAI and INTOSAI, a new expert group was established to focus on the strategic role of audit institutions in addressing the challenges of the Covid-19 pandemic. The formation of this group was initiated by the INTOSAI Supervisory Committee on Emerging Issues. Its members met during two webinars. At the first one, held on 22 June 2020, SAO representatives discussed audit issues and priorities for audit institutions in the pandemic era with their foreign colleagues. At the second webinar on 20 November 2020, participants addressed how audit institutions can adapt to the „new normal“ of work using virtual communication tools. SAO representatives shared their experiences with internal communication as well as communication with international colleagues and partners.

Employees from the forty-seven member audit institutions of the INTOSAI Working Group on Information Technology Audit met on 16 October 2020 to discuss topics such as cybersecurity, data analytics and the security of local government communications and uniform interconnection systems.

On 24 November 2020, the INTOSAI Working Group on the Fight against Corruption and Money Laundering held its annual meeting for its 34 member audit institutions to present the results and outputs of its work. Representatives of some audit authorities presented their national anti-corruption programmes.

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 2020 the SAO received 19 written requests for information under the terms of Act No. 106/1999 Coll., on free access to information, as amended (“the Information Act”). In response to ten requests the SAO provided the full information: e.g. information about the results of audits, contracts awarded, and land administered by the SAO. In accordance with Section 11(4)(d) of the Information Act the SAO rejected one request for information from the course of an audit. In response to one request the SAO provided part of the requested information, rejecting the part of the request concerning information that did not exist. The SAO shelved five requests in line with Section 14(5)(c) of the Information Act because the requested information did not concern the SAO's competency. In response to one request for several hundred pieces of information from various areas of the SAO's work and for the sending of many documents in

paper form the SAO located the requested information and notified the applicant of the fee charged for the exceptionally extensive search for information and for making copies of the requested documents. When payment of the fee was not forthcoming, the SAO shelved the request in line with Section 17(5) of the Information Act. In the case of one request from which it was unclear what specific information was being requested the SAO asked the applicant to rephrase the application. The applicant failed to rephrase the request within the thirty-day time limit, so the SAO rejected the request under the terms of Section 14(5)(b) of the Information Act.

The applicant filed an appeal against the decision. The Office for Personal Data Protection decided on the appeal in accordance with Section 20(5) of the Information Act, rejecting the appeal and affirming the SAO's processing of the request. Five complaints were filed against the SAO's processing of applications (four against the shelving of applications, one against the demand for a fee to cover costs). The complaints were decided on by the Office for Personal Data Protection, which affirmed the SAO's procedure.

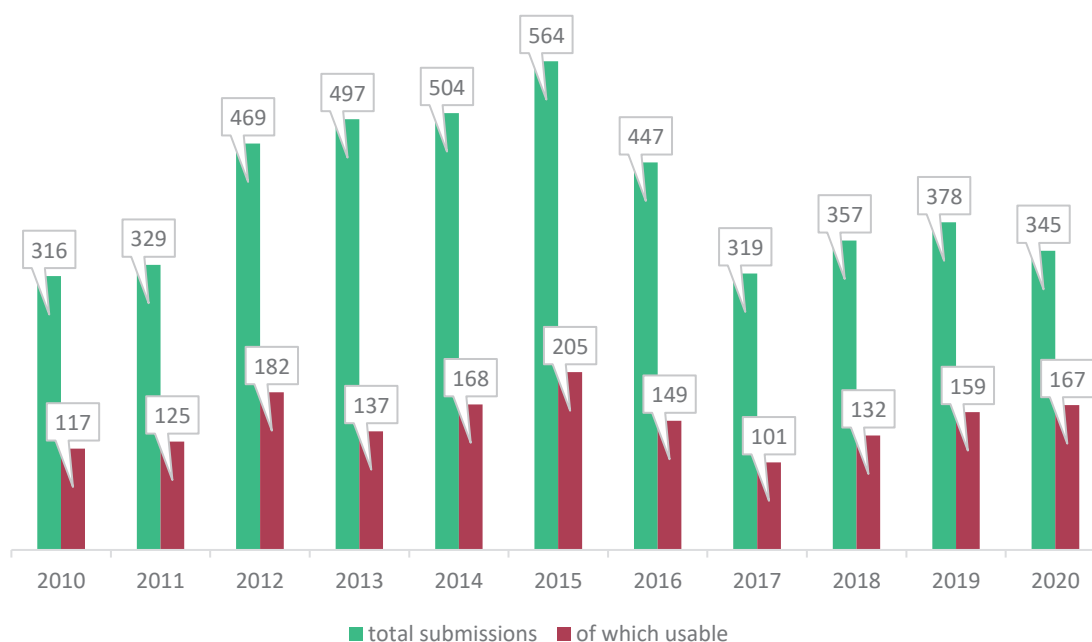
All the requests for information were dealt with within the statutory time limits.

4.2 CITIZENS' SUBMISSIONS

In 2020 the SAO's communication division registered 345 written submissions (suggestions, complaints, requests, enquiries etc.) from citizens and legal entities. 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 competency 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 2020 the SAO received 167 external suggestions that could be acted on, i.e. 48% of the total number of submissions received.

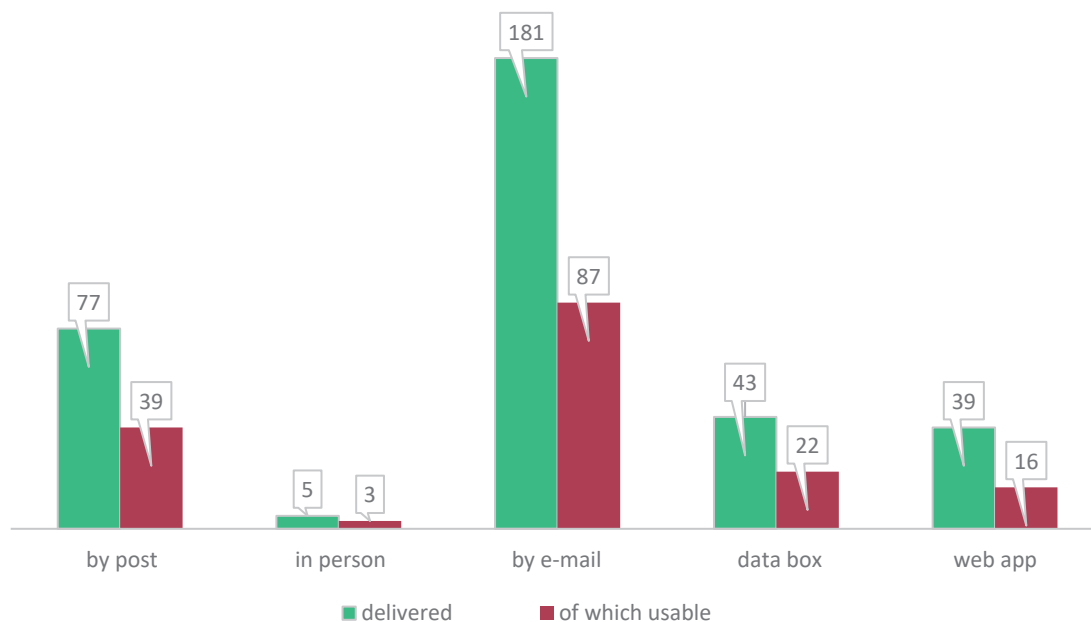
In its audit work the SAO made use of information from submissions focusing mainly on management of state property and state budget finances and the use of subsidies provided from national sources and from European funds to various beneficiaries; 147 submissions, i.e. 88% of the actionable external suggestions, concerned these areas.

Chart 26: Overview of the total number of submissions and their usability for audit work, 2010–2020



Most communication – 76% of submissions – from citizens to the SAO in 2019 was again in electronic form, i.e. e-mail, data box and the *Write to Us* application on the SAO website.

Chart 27: Breakdown of submissions in 2020 by manner of delivery and their usability



5. MANAGEMENT OF FINANCES ALLOCATED TO THE SAO BUDGET HEADING IN 2020

5.1 IMPLEMENTATION OF MANDATORY INDICATORS OF THE SAO BUDGET CHAPTER

The approved budget of heading 381 – *Supreme Audit Office* for 2020 was set by Act No. 355/2019 Coll., on the state budget of the Czech Republic for 2020.

The following table gives an overview of the implementation of defined mandatory indicators in 2020.

Table 11: Overview of the implementation of defined mandatory indicators in 2020

	Approved budget	Budget after changes (BC)	Final budget (FB)	Actual	Implementation (BC) in %	Implementation (FB) in %
Summary indicators						
Total revenues	518	518		709.42	136.92	–
Total expenditure	644,751	644,751	665,019	623 587.13	96.72	93.77
Specific indicators – revenues						
Total non-tax revenues, capital revenues and received transfers	518	518		709.42	136.92	–
in which: Total revenues from the EU budget without the CAP	0	0	–	0,00	–	–
Total miscellaneous non-tax revenues, capital revenues and received transfers	518	518		709.42	136.92	–
Specific indicators – expenditure						
Expenditure on performance of the SAO's duties	644,751	644,751	665,019	623 587.13	96.72	93.77
Cross-cutting indicators						
Staff pay and other payments for work done	343,194	343,194	343,194	341,360.36	99.47	99.47
Obligatory insurance premiums paid by the employer	116,000	116,000	116,000	114,897.92	99.05	99.05
Transfer to the social and cultural needs fund	6,275	6,275	6,275	6,261.87	99.80	99.80
Salaries of employees only	313,726	313,726	313,726	313,574.65	99.95	99.95
Pay to employees in civil service positions pursuant to the Act on the Civil Service					–	–
Total expenditure funded in whole or in part from the EU budget bar the CAP	–	–	–	–	–	–
in which: from the state budget	–	–	–	–	–	–
EU budget share	–	–	–	–	–	–
Total expenditure registered in EDS/SMVS programme financing information	52,000	52,000	63,000	54,962.05	105.70	87.24

REVENUES

Budgeted revenues in the SAO chapter were CZK 518,140 and actual revenues were CZK 709,420, i.e. 136.92% of the budgeted figure.

EXPENDITURE

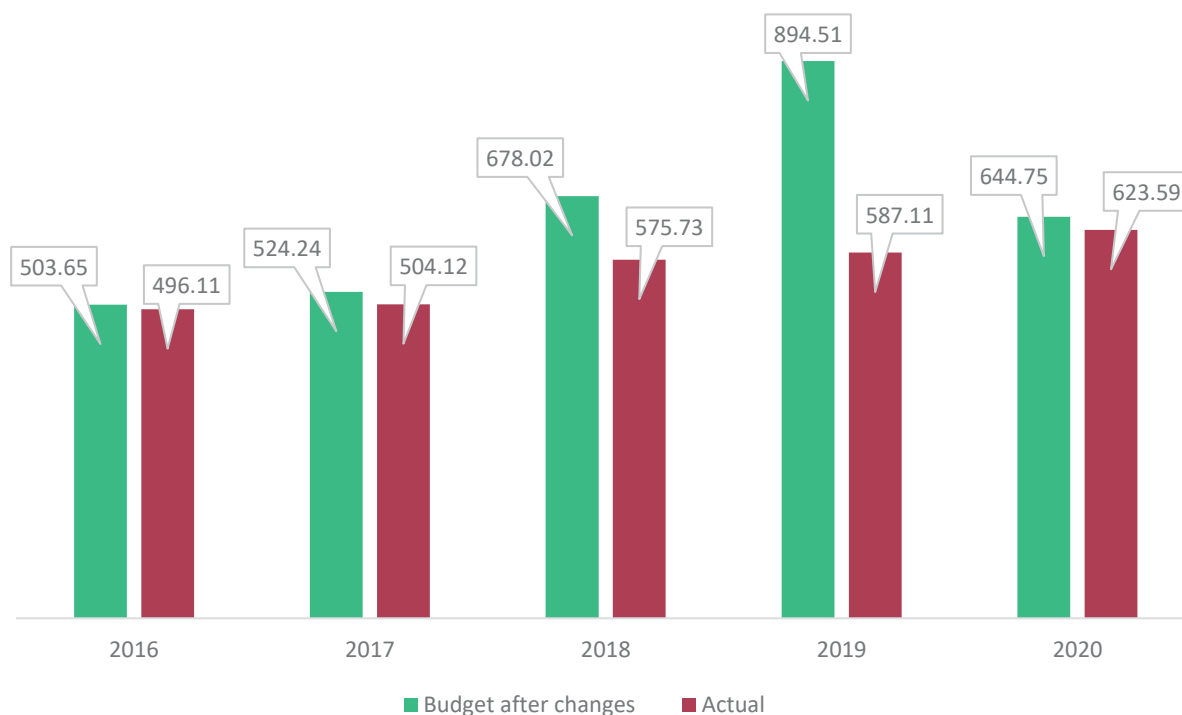
The chapter's budgeted expenditure of **CZK 644,751,490** was modified, with savings of CZK 20,268,000 from previous periods carried forward. The final expenditure budget was CZK 665,019,490. CZK 623,587,130 was utilised, i.e. 96.72% of the initially approved budget and 93.77% of the final budget.

The biggest expenditure item (CZK 456,358,000, i.e. 73.18%) is pay and other payments for work done (including spending on SAO representatives' pay) and related outlays, i.e. statutory insurance premiums.

ALL THE MANDATORY INDICATORS OF THE SAO BUDGET HEADING WERE FULFILLED IN 2020.

Chart 28 gives an overview of expenditure in budget heading 381 – *Supreme Audit Office* from 2016 to 2020. The budget after changes increased by CZK 141,102,000 from 2016 to 2020. The increase in the budget is mainly driven by funds for pay, including mandatory contributions, which grew by CZK 113,593,000 from 2016, and in 2020 funds of CZK 32,000,000 for the construction of a head office in 2018.

Chart 28: Expenditure in budget chapter 381 – *Supreme Audit Office* according to the budget after changes and implementation of the budget for the years 2016 to 2020 (CZK million)



5.2 CLAIMS FROM UNUSED EXPENDITURE

Claims from unused expenditure stood at CZK 748,542,470 as at 1 January 2020. As at 31 December 2020 claims from unused expenditure stood at CZK 728,274,470. Claims amounting to CZK 20,268,000 were factored into the budget in 2020. Claims from unused expenditure thus amounted to CZK 769,706,830 as at 1 January 2021.

5.3 EXPENDITURE ON ASSET REPLACEMENT PROGRAMME FINANCING

The approved budget for expenditure on asset replacement programme financing was CZK 52,000,000. Claims from unused expenditure totalling CZK 11,000,000 were subsequently factored into the budget. The final budget was therefore CZK 63,000,000. CZK 54,962,050 of the budget was utilised.

Since 2020, programme 18101 – *Development and Renewal of the Material and Technical Resources of the SAO from 2011* has been used solely for the construction of a head office and for its fittings and furnishings by means of sub-heading 181V0120. After claims from unused expenditure amounting to CZK 11,000,000 were factored in, the final budget amounted to CZK 43,000,000. CZK 42,159,350 of that was utilised.

Programme 08101 – *Development and Renewal of the Material and Technical Resources of the SAO from 2020* covers the 2020–2022 period. The state budget's contribution to financing the programme is set at a maximum of CZK 69,050,000. A budget of CZK 20,000,000 was approved for 2020. The programme's goal is to put in place the right material and technical conditions for the SAO's audit work and employees on the nationwide scale. The total amount spent on the programme in 2020 was CZK 12,802,690,000.

5.4 INFORMATION ON EXTERNAL AUDITS IN THE SAO

The audits listed below were performed in the Supreme Audit Office by external bodies in 2020:

- From 3 February to 13 February 2020 the Prague Social Security Administration performed an extraordinary inspection of fulfilment of obligations in sickness insurance, pension insurance and payment of social security insurance premiums and the contribution to state employment policy laid down by Act No. 187/2006 Coll., Act No. 582/1991 Coll. and Act No. 589/1992 Coll. on the basis of corrected insurance premium overviews sent by the employer.
- **The inspection found no shortcomings needing further action.**
- On 29 June 2020 the Universal Health Insurance Company of the CR performed an inspection of payments of public health insurance premiums and an inspection of compliance with other obligations of insurance premiums payers in accordance with Act No. 48/1997 Coll., on public health insurance, and Act No. 592/1992 Coll., on public health insurance premiums.
- **The inspection found no outstanding commitments to the Universal Health Insurance Company of the CR as at 30 June 2020.**
- On 30 September and 1 October 2020 the Škoda Employee Insurance Company performed an inspection of payments of public health insurance premiums in accordance with Section 22 of Act No. 592/1992 Coll., on public health insurance premiums. The inspection mainly scrutinised compliance with deadlines and payments of insurance premiums.
- **The inspection found no outstanding commitments or other shortcomings in respect of the Škoda Employee Health Insurance Company as at 2 October 2020.**

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 2020 and its expenses and revenues and profit/loss from the period from 1 January 2020 to 31 December 2020 in accordance with the Czech accounting regulations."

6. INTERNAL AUDIT

The fundamental legal and regulatory norms governing the work of the internal audit department in 2020 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 Act No. 320/2001 Coll., on financial control in public administration and amending certain acts (Act on Financial Control), as amended by Act No. 309/2002 Coll., Act No. 320/2002 Coll. and Act No. 123/2003 Coll., as amended, 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 purpose, powers and responsibilities of internal audit were defined by Directive of the SAO President No. 77, on internal audit in the Supreme Audit Office. The high-quality and effective performance of internal audit, consultation and methodological work is also supported by the department's document ref. No. 227/20-NKU70/214/20. The average annual converted number of employees carrying out internal audit in 2020 was 5.

The *Strategy of the Internal Audit Division for the Years 2019–2021* forms the basis of the internal audit division's work in 2020, which was approved by the president of the Supreme Audit Office on 7 January 2020. 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 universe¹²⁰. 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, requirements of senior SAO staff, 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 2020, the Internal Audit Division conducted five audits and one consultation.

Table 12: Number of jobs done in line with the internal audit plan for 2020

Number of completed internal audits included in the audit plan	Number of completed consultations included in the audit plan	Number of completed internal audits and consultations not included in the audit plan
5	1	0

Source: reports on the internal audit department's findings.

¹²⁰ In line with the implementation of *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.

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 set 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;
- the 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 internal audit department's compliance with the requirements of international standards for the professional practice of internal audit;
- the working and effectiveness of the internal control system;
- the performance of work away from the employer's workplace – occasional work from home;
- personal data protection;
- compliance with the relevant provisions of Act No. 181/2014 Coll., on cyber security and amending certain acts (Act on Cyber Security), as amended.

As part of consultation work, a group of auditors monitored the unification and centralisation agenda linked to SAO risks, which was moved into a new Risk Management functional subsystem with effective IT support. At the same time, coordination support was provided to SAO sections when their risk areas were migrated to the new software tool.

The results of audits and consultations completed in 2020 were discussed with senior staff of the audited sections. Their findings delivered value added in suggestions for draft modifications of certain internal regulations or methodologies in the interest of bringing them into line with the generally binding legal regulations, in listing areas of risk, detecting errors or confirming that selected audited processes are properly designed and sufficiently functional. Shortcomings were identified mainly in the fields of crisis management and 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 2020 the internal audit division 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 2020 were executed by the responsible employees.

The performed internal audits produced no serious findings within the meaning of Section 22(5) of the Act on Financial Control. No possibility of corruption or fraud was detected. No breaches of the *SAO Code of Ethics* were identified.

In addition, throughout 2020 the internal audit division:

1. performed consultation work and methodological work, primarily in the following areas:

- internal regulations;
- supplier/customer relations;
- implementation of measures from action plans;
- crisis management;
- basic registers;
- catalogue of services;
- staffing;
- anti-corruption measures;

2. carried out the internal auditors' continuous professional development plan;

3. cooperated with external auditors BDO Audit s.r.o. with a view to ensuring the proper performance of audit of the SAO's accounting and financial reporting and annual financial statements for 2020, in the scope necessary for verifying the effectiveness of the internal control system;

4. analysed the results of external audits at the SAO.

5. took part in volunteering work during the state of emergency¹²¹.

121 The state of emergency was declared by Czech government resolution No. 194 of 12 March 2020.

On 11 February 2021 President of the Supreme Audit Office Mr Miloslav Kala received and signed the Annual Report on the Results of Internal Audit for 2020. 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 protection of public finances, the performance of financial management and the functionality of the internal audit system. They are, however, 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 division’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. 1311. External assessment must be performed at least once every five years. At the SAO this was performed by an independent external assessor; the next assessment will take place in 2021. The director of the internal audit department regularly informs the president of the Supreme Audit Office about the results of the *Quality Assurance and Improvement Programme* within the meaning of international standard 1320.

7. SECURITY DEPARTMENT

The Security Department is responsible for duties imposed on the Supreme Audit Office by the legislation on the protection of classified information. The department also takes care of buildings security, protection and safety at work and internal protection of data and information of the SAO. The department is also responsible for tasks related to the preparation of national defence and tasks related to civil protection and crisis management.

In 2020, there was no area of the country that was unaffected by a state of emergency and related measures as a result of the pandemic. The Supreme Audit Office reacted very quickly to the situation. In order to prevent the risk of the emergence and spread of the Covid-19 disease caused by the SARS-CoV-2 coronavirus in the Supreme Audit Office, **the Security Department, in cooperation with other SAO departments, analysed the government’s measures, updated the risks of failing to protect the health of the SAO staff and continuously took measures in the operation of the SAO.** The materials in question were also discussed with and approved by trade union representatives in accordance with the provisions of the collective agreement for 2020 and 2021.

The priority of the SAO’s social policy is to preserve good labour relations, where the employer pays great attention to cooperation with the trade union. In the context of the standard practice of employers in the Czech Republic, the SAO has an above-standard approach to its work/life balance policy, and regular meetings were held between the employer and representatives of the trade union organisation during 2020 to discuss information in accordance with the Labour Code and other legislation affecting the SAO’s activities.

In connection with the introduction of preventive measures and the possible risks of contracting Covid-19, the security department organised the provision and later the purchase of personal protective and disinfecting equipment.

In the area of occupational safety and health, activities also focused on the elimination of deficiencies identified during occupational health and safety inspections or routine control activities. In the context of the provision of occupational health services, the Security Department arranged a total of 90 occupational health examinations through the providers of these services, namely the Na Bulovce Hospital and the SAO employees’ GPs (see Tables 13 and 14).

Table 13: Number of employees who underwent an initial medical examination or periodical medical examination at Na Bulovce Hospital between 1 January 2020 and 31 December 2020

Type of examination	Number of persons
Initial medical examination	35
Periodical medical examination, including drivers using the SAO fleet	14
Periodical medical examination for professional drivers	3
Medical examination for professional drivers	3

Table 14: Number of employees who underwent a periodical medical examination or extraordinary medical examination after maternal leave or parental leave and after illness at their GP from 1 January 2020 to 31 December 2020

Type of examination	Number of persons
Periodical medical examination or extraordinary medical examination after maternal leave or parental leave and after illness at their GP	35

During the state of emergency in 2020, the initial medical examination could be replaced by an affidavit of medical fitness to perform the agreed work. This procedure was not used by any of the applicants for employment in the SAO. They all underwent an initial medical examination at the Na Bulovce Hospital.

In addition to the specified types of examinations, examinations were carried out through the contracted service provider to supervise workplaces as part of occupational health and safety inspections.

Within the framework of the security of its territorial departments, the Security Department implemented 7 service contracts with Trade FIDES, a.s. In 2018, a new Instruction of the Director General of the Fire Rescue Service of the Czech Republic No. 40/2018 of 17 August 2018 (Instruction No. 40/2018) came into force, changing the conditions for new and existing remote transmission equipment of the fire signalling system, with the understanding that the transmission of information in the coming period must be secured by two independent channels. For this reason, a new device was installed in the Přestavlky training centre to transmit the fire alarm from the fire signalling output to the centralised protection system of the Fire Brigade of the Czech Republic. In addition, a security project for the new workplace of the České Budějovice branch was prepared and after its approval by the Technical Protection Department of the Regional Police Directorate of the South Bohemian Region in České Budějovice, and a security system was installed. The system was put into operation at the beginning of 2021.

Furthermore, the Security Department participated in drawing up documentation for the construction of the new SAO headquarters. The department had to reconcile the security requirements of the Protection Service of the Police of the Czech Republic, the Objects of Special Importance Department, with the requirements of the implementing regulations on protection of classified information and cyber security. In this area, close cooperation with the SAO's Investment Construction Department took place.

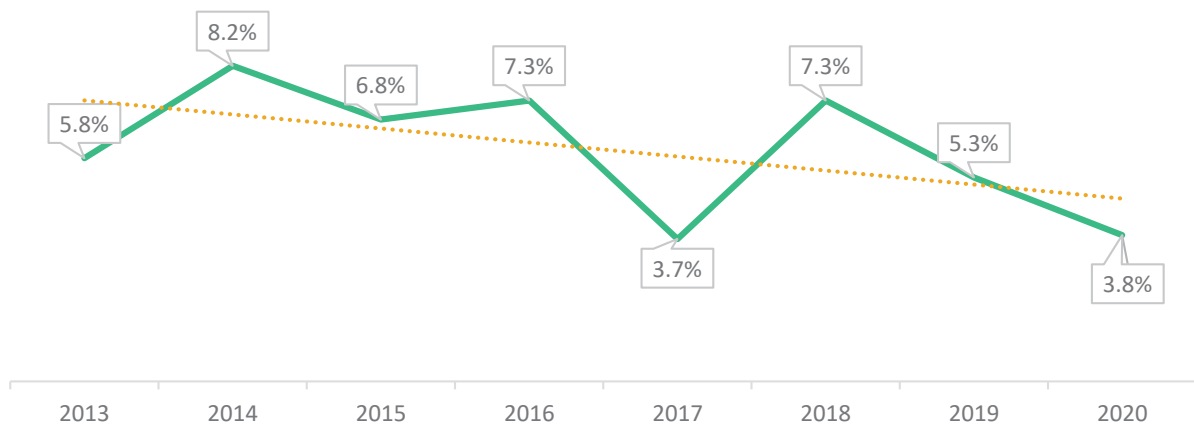
As regards protection of classified information, in 2020 the SAO received classified documents with various classification levels, both in the context of the Czech Republic and from NATO. One audit involving classified information began last year (audit No. 20/29). In the area of personnel security, a „*Notice of Compliance with the Conditions for Access to Classified Information*“ was issued to the employees of the Supreme Audit Office who were assigned by their superior to an audit where access to classified information of this classification level is strictly necessary. If a Supreme Audit Office employee needs access to classified information of a higher classification level, he/she must be issued with a „natural person certificate“ for the relevant classification level by the National Security Authority. Access to classified information of all classification levels is implemented in accordance with the Decision of the Security Director of the Supreme Audit Office approving the list of functions and posts within the competence of

the Supreme Audit Office where access to classified information, including European Union and North Atlantic Treaty Organisation classified information, is necessary.

8. SAO STAFFING

In 2020 the SAO had 480 employees¹²², 321 of whom worked in the audit section, i.e. 66.88% of the total registered average number of SAO employees in 2020. 38 new employees were hired in 2020 and 3 others returned to work after completing parental leave. 30 employees ended their employment. The fluctuation rate in 2020 was 3.75%. Chart 29 shows how the annual employee fluctuation rate evolved in the SAO from 2013 to 2020.

Chart 29: Development of the annual employee fluctuation rate of the SAO in 2013–2020



¹²² Average registered numbers of employees for the year 2020.

The converted average number of SAO employees for 2020 was 467.53; the converted average number of employees in the audit section was 315. Chart 30 shows the converted average number of SAO employees and employees of the Prague and territorial divisions for the 2010 to 2020 period.

Chart 30: Development of the converted average number of SAO employees in 2010–2020

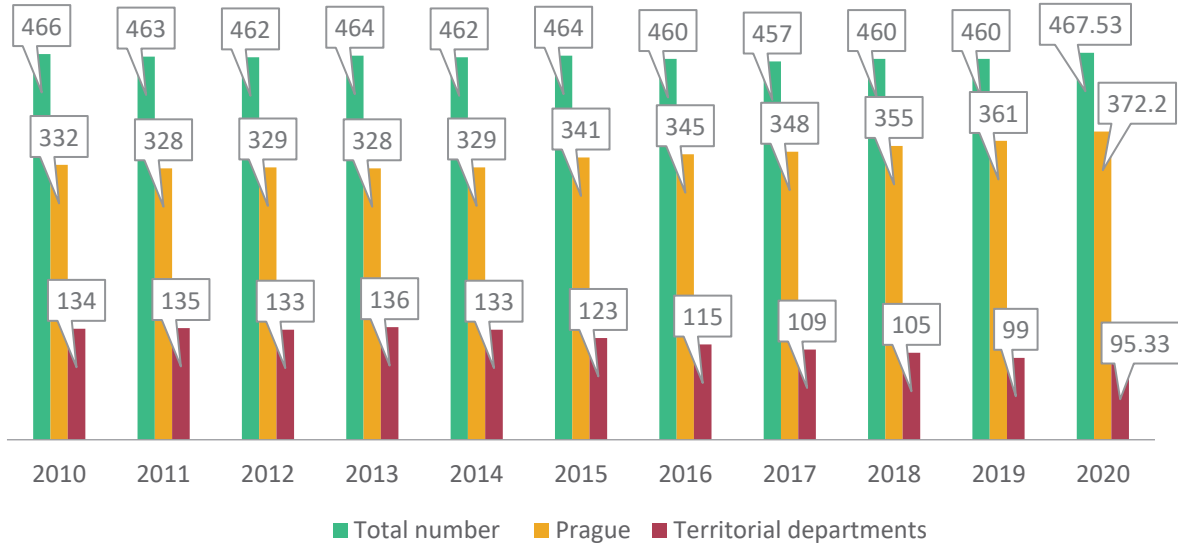
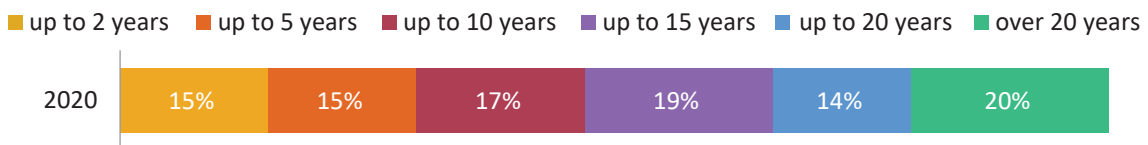


Chart 31 shows the duration of SAO employees’ employment as at 31 December 2020. 14.53% of the total number of employees had been employed by the SAO for less than two years as at that date. 19.57% of the total workforce had been employed by the SAO for over 20 years.

Chart 31: Duration of employees’ employment with the SAO as at 31 December 2020 (%)



The SAO offers its employees equal working conditions and opportunities. Chart 32 shows the proportion of men and women employed at the SAO in 2020.

Chart 32: Proportion of men and women employed at the SAO in 2020 (%)

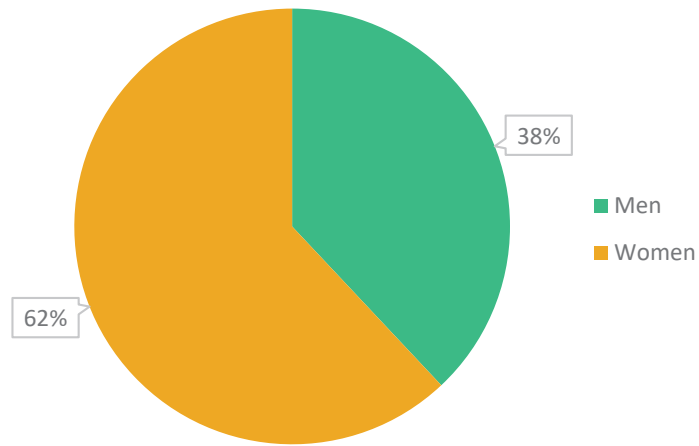
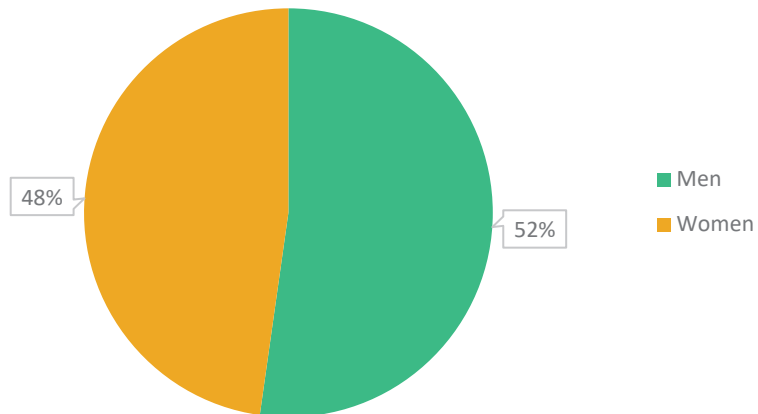


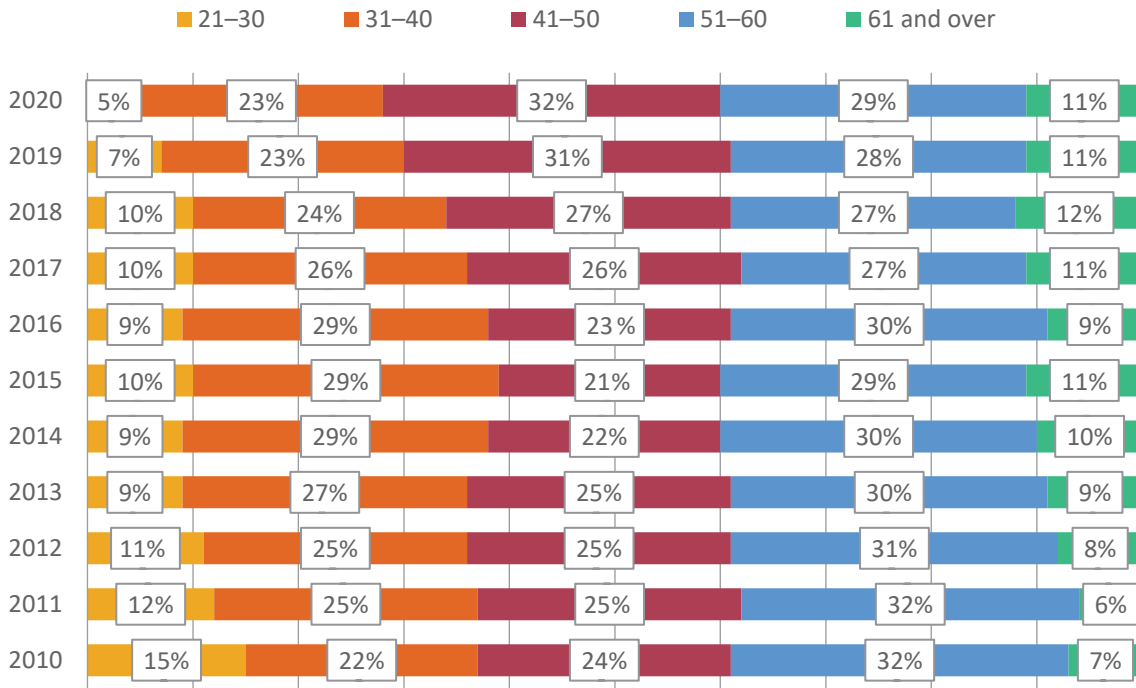
Chart 33 shows the proportion of men and women in management positions in the SAO as at 31 December 2020.

Chart 33: Proportion of men and women in management functions in the SAO, state as at 31 December 2020 (%)



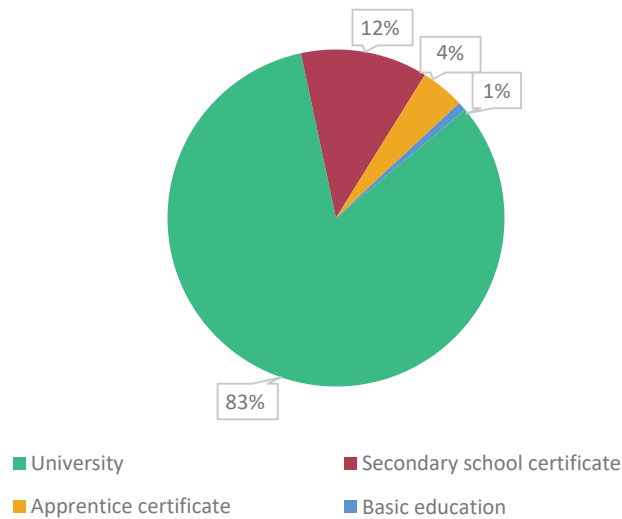
The average age of SAO employees in 2020 was 48. The age structure of the SAO workforce as at 31 December 2020, including a comparison with the years 2010 to 2019, is shown in Chart 34.

Chart 34: Age structure of SAO employees for the 2010–2020 period (comparison of the states at year-end)



82.98% of the SAO's workforce were university-educated as at 31 December 2020. Chart 35 breaks down the educational structure of SAO employees as at 31 December 2020.

Chart 35: Qualification structure of the SAO workforce by educational attainment as at 31 December 2020



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

TRAINING AND DEVELOPMENT

In 2020, training at the SAO continued to be an important tool for developing human capital. The constant need to deepen and broaden the professional knowledge and skills of SAO staff in response to the external environment was implemented in line with the training and development plan.

For a large part of the year, training had to contend with the need to use new technologies. To ensure professional knowledge and skills, training activities were implemented through webinars, videoconferences or e-learning courses, largely replacing the standard face-to-face form of training. The development of custom e-learning courses was launched on the Articulate technology platform and became an integral part of the learning tools.

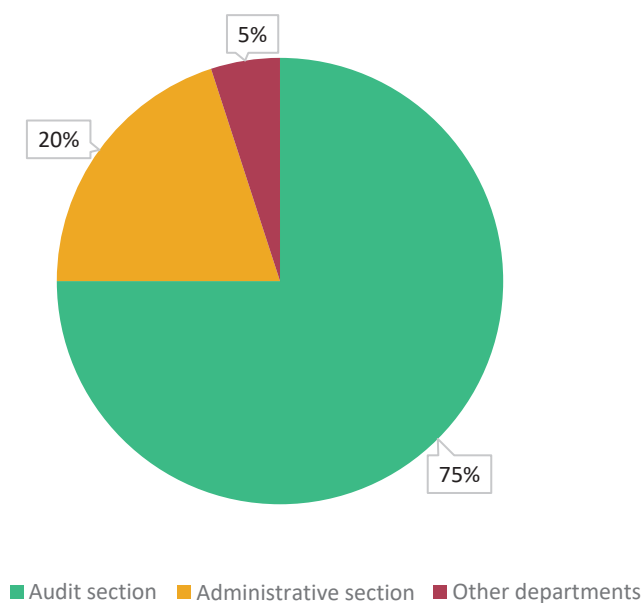
As regards professional training activities in the audit section, a new comprehensive design of the higher level of the Auditor II training programme was introduced to enable SAO staff to cope with the high demands placed on knowledge, skills and experience.

Induction training of new staff in the adaptation process has also undergone a complete overhaul.

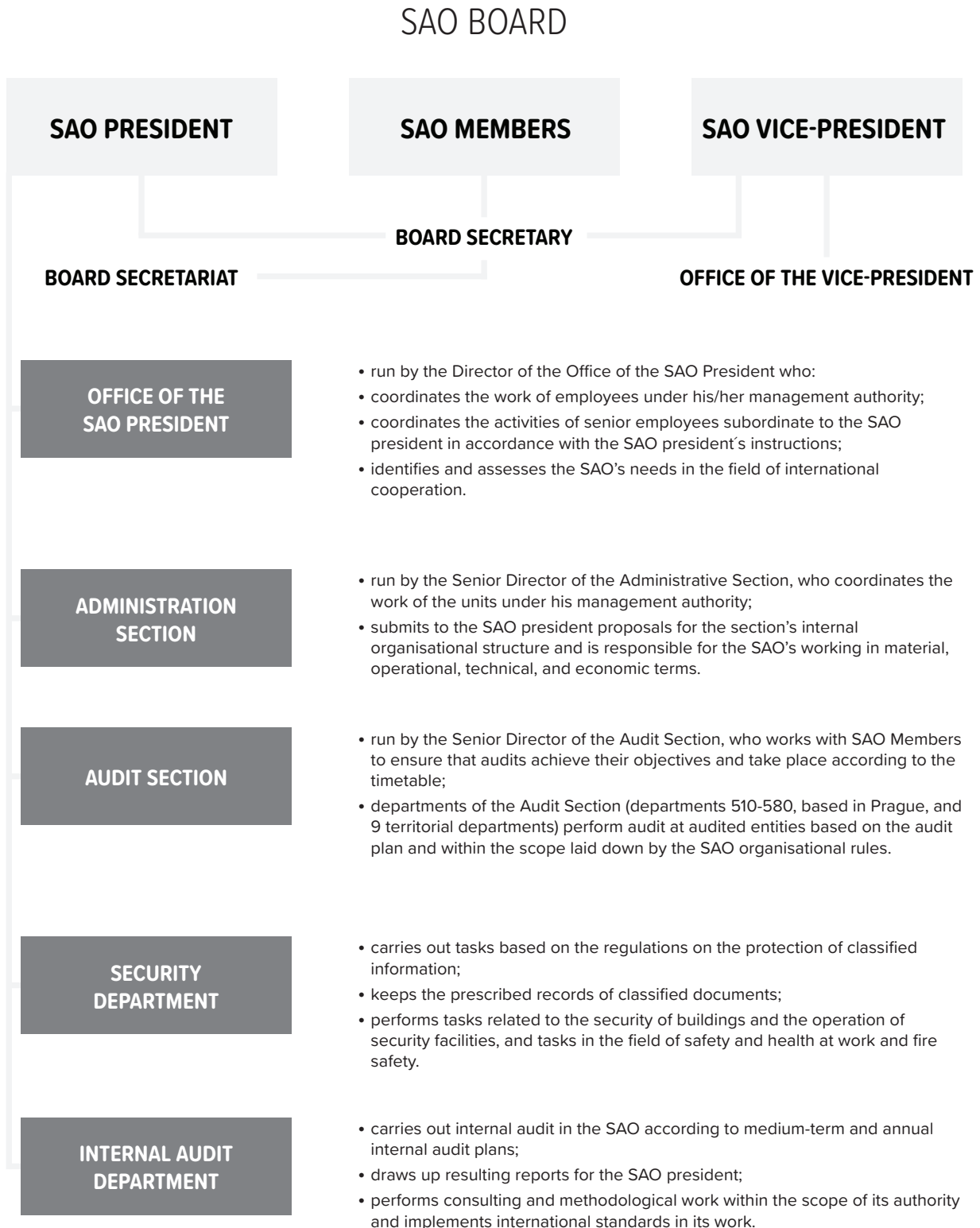
Language training played a significant role, supporting the preparation of staff for the SAO's chairmanship of the European Organisation of Supreme Audit Institutions (EUROSAI). Language training was also an area where alternative forms of learning involving online technologies were used.

The following graph shows the structure of SAO staff training by section in 2020.

Chart 36: Structure of SAO employee training by unit in 2020



ORGANISATIONAL STRUCTURE OF THE SAO



Annex 1: Audits included in the Audit Plan for 2020

Audit No.	Subject of audit	Start of audit (Month/year)	Audit report for approval (Month/year)	Chapter administrator	Audit report elaborated by	Audit report approved by
20/01	Administration of social security premiums and of payments regarding to the state employment policy	1/2020	2/2021	MoLSA	Mr Kalivoda	SAO Board
20/02	State property and funds under the management of the Office for Government Representation in Property Affairs	1/2020	12/2020	MoF	Mr Koniček	SAO Board
20/03	Acquisition of military equipment of the Armed Forces of the Czech Republic	1/2020	12/2020	MoD	Mr Procházka	SAO Board
20/04	Interventions to ensure sustainable water quality	2/2020	5/2021	MoH, MoA, MoE	Mr Neuvirt	SAO Board
20/05	Support for energy savings in public buildings	2/2020	2/2021	MoF, MoIT, MoE	Mr Neuvirt	SAO Board
20/06	State funds earmarked for public universities	3/2020	3/2021	MoEYS	Mr Neuvirt	SAO Board
20/07	Funds spent on ICT of the Ministry of Agriculture	3/2020	2/2021	MoA	Mr Vedral	SAO Board
20/08	Closing account of the state budget chapter "Ministry of Industry and Trade" for 2019, financial statements of the Ministry of Industry and Trade for 2019, and data submitted by the Ministry of Industry and Trade for the evaluation of the state budget implementation	The audit was excluded from the Audit Plan.				
20/09	Management of selected organizations under the administration of the Ministry of Regional Development	The audit was excluded from the Audit Plan.				
20/10	State funds spent on implementation of selected goals of the migration policy of the Czech Republic	5/2020	4/2021	MoI	Mr Kinšt	SAO Board
20/11	Construction, maintenance and repairs of cycling infrastructure	5/2020	2/2021	MoT, MoRD	Mr Málek	SAO Board

Audit No.	Subject of audit	Start of audit (Month/year)	Audit report for approval (Month/year)	Chapter administrator	Audit report elaborated by	Audit report approved by
20/12	State funds earmarked for anti-drug programmes	5/2020	4/2021	MoJ, MoEYS, MoH, OoG	Mr Beznoska	SAO Board
20/13	Investment incentives	6/2020	1/2021	MoIT	Mr Beznoska	SAO Board
20/14	<i>Public transport using electric power supported from the Transport 2014-2020 Operational Programme</i>	6/2020	3/2021	MoT	Mr Málek	SAO Board
20/15	Closing account of the state budget chapter "Office of the Public Defender of Rights" for the year 2019, financial statements of the Office of the Public Defender of Rights for the year 2019, and data submitted by the Office of the Public Defender of Rights for the evaluation of the state budget implementation for the year 2019	The audit was excluded from the Audit Plan.				
20/16	State property and funds allotted to the National Heritage Institute, the state-funded organisation	6/2020	4/2021	MoC	Mr Koniček	SAO Board
20/17	Projects and activities to ensure modernization of public administration and to optimize the performance of selected agendas	The audit was excluded from the Audit Plan.				
20/18	<i>Funds earmarked for meeting the national targets of the EUROPE 2020 strategy</i>	10/2020	8/2021	MoRD, OoG	Mr Kinšt	SAO Board
20/19	<i>Measures aiming at reducing energy performance of residential buildings supported from the Integrated Regional Operational Programme and from the New Green Savings Programme</i>	7/2020	5/2021	MoRD, MoE	Mr Neuvirt	SAO Board
20/20	Funds from the Enterprise and Innovation for Competitiveness Operational Programme granted to small and medium enterprises for consultancy, marketing, and training and in relation to the Covid-19 pandemic	8/2020	4/2021	MoIT	Mr Hrnčíř	SAO Board
20/21	State property and funds under the management of the General Financial Directorate	8/2020	6/2021	MoF	Mr Reisiegel	SAO Board
20/22	State funds earmarked for investments into social services	9/2020	5/2021	MoLSA	Mr Vedral	SAO Board

Audit No.	Subject of audit	Start of audit (Month/year)	Audit report for approval (Month/year)	Chapter administrator	Audit report elaborated by	Audit report approved by
20/23	State budget funds and European funds provided for food aid for the most deprived persons and earmarked to reduce food waste	9/2020	7/2021	MoLSA, MoA	Mr Procházka	SAO Board
20/24	Funds collected under the law in favour of the General Health Insurance Company of the Czech Republic	11/2020	12/2021	MoH	Mr Stárek	SAO Board
20/25	Closing account of the state budget chapter "Ministry of Justice" for the year 2020, financial statements of the Ministry of Justice for the year 2020, and data submitted by the Ministry of Justice for the evaluation of the state budget implementation for the year 2020	10/2020	8/2021	MoJ	Mr Steidlová	SAO Board
20/26	Financial statements of the Labour Office of the Czech Republic for the year 2020, data submitted by the Labour Office of the Czech Republic for the evaluation of the implementation of the state budget for 2020	The audit was excluded from the Audit Plan.				
20/27	State property and funds allotted to the General Inspection of Security Forces	11/2020	6/2021	GISF	Mr Vedral	SAO Board
20/28	Computerization of the Ministry of Justice	The audit was excluded from the Audit Plan.				
20/29	State property and funds allotted to the Military Intelligence of the Czech Republic	11/2020	8/2021	MoD	Mr Stárek	SAO Senate
20/30	Selected state property and state funds under the management of the Ministry of Foreign Affairs	The audit was excluded from the Audit Plan.				
20/31	Road tax administration	The audit was excluded from the Audit Plan.				
20/32	Funds spent in connection with the epidemiological situation in the Czech Republic	6/2020	1/2021	MoI, MoH, ASMR	Mr Kubíček	SAO Board
20/33	Closing account of the state budget chapter "Grant Agency of the Czech Republic" for the year 2020, financial statements of the Grant Agency of the Czech Republic for the year 2020, and data submitted by the Grant Agency of the Czech Republic for the evaluation of the state budget implementation for the year 2020	9/2020	6/2021	GACR	Mr Vedral	SAO Board

Audit No.	Subject of audit	Start of audit (Month/year)	Audit report for approval (Month/year)	Chapter administrator	Audit report elaborated by	Audit report approved by
20/34	Closing account of the state budget chapter "Ministry of Industry and Trade" for 2020, financial statements of the Ministry of Industry and Trade for 2020, and data submitted by the Ministry of Industry and Trade for the evaluation of the state budget implementation for the year 2020	9/2020	7/2021	MoIT	Mr Steidlová	SAO Board

Annex 2: Overview of audits with approved Audit Reports during 2020

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
18/32	State budget revenues collected in the field of labour taxation	MoF, MoLSA	Mr Kubiček	SAO Board	9 March 2020	3/2020
19/04	Support for flood protection measures	MoA, MoE	Mr Neuvirt	SAO Board	10 Feb 2020	1/2020
19/05	State funds provided for international organizations and expenditures relating thereto	MOEYS, MZV	Mr Kubiček	SAO Board	27 April 2020	3/2020
19/06	Funds provided on training of employees in health care	MoEYS, MoH	Mr Beznoska	SAO Board	24 Feb 2020	1/2020
19/07	Property and state funds managed by the Prison Service of the Czech Republic	MoJ	Mr Procházka	SAO Board	24 Feb 2020	3/2020
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	MoT	Mr Reisiegel	SAO Board	10 Feb 2020	3/2020
19/09	Protection of museum collections owned by the Czech Republic	MoC	Mr Kalivoda	SAO Board	9. March 2020	3/2020
19/10	Repair and maintenance of bridges	MoT, MoRD	Mr Málek	SAO Board	20 Jul 2020	4/2020
19/11	<i>Support for security research provided from the budget chapter of the Ministry of the Interior</i>	Mol	Mr Kinšt	SAO Board	24 Feb 2020	1/2020
19/12	Funds collected under the Act on employer's liability insurance for injury or for occupational disease	MoF, MoLSA	Ms Hykšová	SAO Board	6 April 2020	3/2020
19/13	Armoured vehicles of the Army of the Czech Republic	MoT	Mr Neuvirt	SAO Board	6 April 2020	3/2020
19/14	Introduction of electronic identification and enabling of electronic access to public administration services	Mol	Mr Vedral	SAO Board	15 Jun 2020	4/2020

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
19/15	<i>Support for the development of high-speed Internet access provided from the Operational Programme Enterprise and Innovations for Competitiveness</i>	MoIT	Mr Hrnčír	SAO Board	6 April 2020	3/2020
19/16	Reconstruction and revitalization of railway stations	MoT	Mr Málek	SAO Board	15 Jun 2020	4/2020
19/17	State funds from the budget chapter "Ministry of Health" earmarked for the health care research	MoH	Mr Neuvirt	SAO Board	18 May 2020	3/2020
19/18	Support provided by the Podpůrný a garanční rolnický a lesnický fond, joint-stock company	MoA	Mr Kinšt	SAO Board	18 May 2020	4/2020
19/19	Funds from the EU and state budget allotted for common education of pupils	MoEYS, MoRD, OoG	Mr Beznoska	SAO Board	17 Aug 2020	4/2020
19/20	University education of members of the security forces and soldiers of the armed forces	MoD, MoI	Mr Stárek	SAO Board	9 Nov 2020	6/2020
19/21	Closing account of the state budget chapter "Ministry of Regional Development" for 2018, the Ministry of Regional Development's financial statements for 2018 and the data submitted by the Ministry of Regional Development for evaluation of implementation of the state budget in 2018	MoRD	Ms Steidlová	SAO Board	20 Jul 2020	6/2020
19/22	Funds earmarked for demolitions of buildings in socially excluded localities	MoRD	Ms Hykšová	SAO Board	20 Jul 2020	4/2020
19/23	<i>Support for employment of people over 50 and for the policy of positive ageing from the Operational Programme Employment</i>	MoLSA	Mr Vedral	SAO Board	14 Sept 2020	4/2020
19/24	Management by the Central Institute for Supervising and Testing in Agriculture with state property and state budget funds after its transformation	MoA	Mr Hrnčír	SAO Board	17 Aug 2020	4/2020
19/25	Property and state funds managed by the Radioactive Waste Repository Authority	MoIT	Mr Stárek	SAO Board	31 Aug 2020	6/2020
19/26	Cyber security of eGovernment of the Czech Republic	MoI, NCISA	Mr Procházka	SAO Board	14 Sept 2020	6/2020

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
19/28	<i>Funds spent on selected investment programmes under the chapter "Ministry of Education, Youth and Sports"</i>	MoEYS	Mr Hrnčář	SAO Board	30 Nov 2020	1/2021
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	MoLSA	Mr Reisiegel	SAO Board	17 Aug 2020	4/2020
19/31	Closing account of the state budget chapter "Ministry of Education, Youth and Sports" for 2019, the Ministry of Education, Youth and Sports's financial statements for 2019 and the data submitted by the Ministry of Education, Youth and Sports for evaluation of implementation of the state budget in 2019	MoEYS	Mr Vedral	SAO Board	5 Oct 2020	6/2020
19/33	Selected state property under the management of the Lesy České republiky (Forests of the Czech Republic), state-owned enterprise	MoA	Mr Koniček	SAO Board	27 April 2020	3/2020
19/34	Foreign claims of the Czech Republic administered by the Ministry of Finance	MoF	Mr Reisiegel	SAO Board	18 May 2020	4/2020
20/03	Acquisition of military equipment of the Armed Forces of the Czech Republic	MoD	Mr Procházka	SAO Board	14 Dec 2020	6/2020

Annex 3: Overview of audits whose approved audit reports were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2020

Committee resolution	Date of debate	Session No.	Audit report	Material to government No.	Government resolution No.	Summary of Committee resolution
200	18. 11. 2020	35	18/09	451/19 728/20	682/19	The Committee I. notes: a) audit report 18/09; b) the MoLSA's opinion contained in Section IV of government material No. 451/19; c) government resolution No. 682/19; d) the MoLSA's information on the implementation of measures as contained in Section II of government material No. 728/20; II. demands that the labour and social affairs minister submit to the Committee by 31 Dec 2020 a report on progress in discussing and resolving the comments issued on the draft amendment of the Act on Social Services.
193	10. 9. 2020	33	17/20	779/18	718/18	The Committee notes: a) audit report 17/20; b) the MoLSA's opinion contained in Section IV of government material No. 779/18; c) government resolution No. 718/18.
192	10. 9. 2020	33	17/17	347/18 1167/19	390/18	The Committee notes: a) audit report 17/17; b) the MoEYS's opinion contained in Section III of government material No. 647/18; c) government resolution No. 390/18; d) the MoLSA's information on the implementation of measures as contained in Section II of government material No. 1167/19; II. demands that the education, youth and sports minister submit to the Committee for assessment by 30 Aug 2021 the Youth Support Concept 2014–2020.
190	11. 6. 2020	32	17/07	229/18	385/18	The Committee notes: a) audit report 17/07; b) the Mol's opinion contained in Section IV of government material No. 229/18; c) government resolution No. 385/18.

Committee resolution	Date of debate	Session No.	Audit report	Material to government No.	Government resolution No.	Summary of Committee resolution
189	11. 6. 2020	32	18/20	803/19	670/19	The Committee I. notes: a) audit report 18/20; b) the opinion of the MoI, MoD and MoJ contained in Section III of government material No. 803/19; c) government resolution No. 670/19. II. officially suggests pursuant to Section 17(3) of Act No. 166/1993 Coll., on the Supreme Audit Office, that the SAO perform an audit of State funds earmarked for crime prevention.
188	11. 6. 2020	32	16/20	1161/17	785/17	The Committee notes: a) audit report 16/20; b) the MoEYS's opinion contained in Section III of government material No. 1161/17; c) government resolution No. 785/17; d) the education, youth and sports minister's information about the implementation of remedial measures stemming from the MoEYS opinion on the audit report of 21 March 2019 ref. No. PS 2019/4138.
180	14. 5. 2020	31	17/09	611/18	714/18	The Committee extends to 30 Sept 2020 the deadline set in Committee resolution No. 159 of 6 Feb 2020 for submitting the Analysis of Alternative Funding Systems for the Network of 2nd and 3rd Class Roads referred to in Committee resolution No. 106 of 16 June 2019.
179	14. 5. 2020	31	16/01	454/17	463/17	The Committee notes: a) audit report 16/01; b) the MoIT's opinion contained in Section IV of government material No. 454/17; c) government resolution No. 463/17.
178	14. 5. 2020	31	15/33	567/17 161/18	782/17	The Committee notes: a) audit report 15/33; b) the opinion of the MoF and GDC contained in Section III of government material No. 567/17; c) government resolution No. 782/17; d) the MoF'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. 161/18.

Committee resolution	Date of debate	Session No.	Audit report	Material to government No.	Government resolution No.	Summary of Committee resolution
177	14. 5. 2020	31	17/02	764/18 1186/19	48/19	<p>The Committee I. notes:</p> <p>a) audit report 17/02;</p> <p>b) the MoLSA's opinion contained in Section IV of government material No. 764/18;</p> <p>b) the Labour Office's opinion contained in Section IV of government material No. 764/18;</p> <p>b) the opinion of the Office of the Government of the CR contained in Section VI of government material No. 764/18;</p> <p>government resolution No. 48/19;</p> <p>f) the MoLSA's information about the implementation of remedial measures referred to in the MoEYS's opinion on the audit report as contained in Section II of government material No. 1186/19;</p> <p>g) the Labour Office's report on the implementation of remedial measures nos. 1, 3 and 4 in response to the audit report for the period from 1 Oct 2018 to 30 Sept 2019, as contained in Section III of government material No. 1186/19;</p> <p>h) the information of the Office of the Government of the CR on the implementation of measures in the opinion on the audit report, as contained in Section IV of government material No. 1186/19;</p> <p>II. recommends that the Committee on Social Policy of the Chamber of Deputies to pay attention to this audit report.</p>
176	14. 5. 2020	31	18/08	787/19 289/20	681/19	<p>The Committee notes:</p> <p>a) audit report 18/08;</p> <p>b) the MoA's opinion contained in Section III of government material No. 787/19;</p> <p>c) government resolution No. 681/19;</p> <p>d) the MoA's information about the implementation of remedial measures to eliminate the shortcomings referred to in the audit report, as contained in Section II of government material No. 289/20.</p>
175	14. 5. 2020	31	17/03	214/18 89/19	202/18	<p>The Committee notes:</p> <p>a) audit report 17/03;</p> <p>b) the MoH's opinion contained in Section III of government material No. 214/18;</p> <p>c) government resolution No. 202/18;</p> <p>d) the report on the implementation of remedial measures in response to the audit report, as contained in Section III of government material No. 89/19.</p>

Committee resolution	Date of debate	Session No.	Audit report	Material to government No.	Government resolution No.	Summary of Committee resolution
171	30. 4. 2020	30	16/27	85/18	195/18	The Committee notes: a) audit report 16/27; b) the opinion of the State Office for Nuclear Safety contained in Annex 1 to Section IV of government material No. 85/18; c) the opinion of the Office for Personal Data Protection contained in Annex 2 to Section IV of government material No. 85/18; d) the opinion of the Office of Industrial Property contained in Annex 3 to Section IV of government material No. 85/18; e) government resolution No. 195/18.
170	30. 4. 2020	30	16/22	844/17	787/17	The Committee notes: a) audit report 16/22; b) the MoT's opinion contained in Section IV of government material No. 844/17; c) government resolution No. 787/17.
169	30. 4. 2020	30	16/02	293/17 47/18	232/17	The Committee notes: a) audit report 16/02; b) the MoI's opinion contained in Section IV of government material No. 293/17; c) government resolution No. 232/17; d) the report on the implementation of measures adopted in response to the results of the SAO audit, as contained in Section II of government material No. 47/18.
167	30. 4. 2020	30	15/31	230/17 162/18	230/17	The Committee notes: a) audit report 15/31; b) the opinion of the MoF and GFD contained in Section III of government material No. 230/17; c) government resolution No. 230/17; d) the MoF's information about progress in the implementation of measures to eliminate the shortcomings referred to in the audit report, as contained in Section II of government material No. 162/18.

Committee resolution	Date of debate	Session No.	Audit report	Material to government No.	Government resolution No.	Summary of Committee resolution
166	30. 4. 2020	30	17/01	74/18 1093/18	196/18	The Committee notes: a) audit report 17/01; b) the MoC's opinion contained in Section IV of government material No. 74/18; c) government resolution No. 196/18; d) the MoF's information about progress in the implementation of measures to eliminate the shortcomings referred to in the audit report, as contained in Section II of government material No. 1093/18.
165	30. 4. 2020	30	18/30	1034/19	837/19, 694/20	The Committee I. notes: a) audit report 18/30; b) the MoI's opinion contained in Section III of government material No. 1034/19; c) government resolution No. 837/19. II. demands that the interior minister submit to the Committee by 31 May 2020 a study concerning secondary school graduates joining the Police of the CR.
164	30. 4. 2020	30	18/16	969/19	836/19, 566/20	The Committee I. notes: a) audit report 18/16; b) the MoT's opinion contained in Section IV of government material No. 969/19; c) government resolution No. 836/19. II. requests that the transport minister submit to the Committee by 31 May 2020 the Ministry of Agriculture's study on compensation measures.
—	30. 4. 2020	30	17/02	764/18 1186/19	48/19	Adjourned
159	6. 2. 2020	27	17/09	611/18	714/18	The Committee extends to 30 March 2020 the deadline for submitting the Analysis of Alternative Funding Systems for the Network of 2nd and 3rd Class Roads referred to in Committee resolution No. 106 of 16 June 2019.
156	6. 2. 2020	27	17/27	921/18 1104/19	44/19	The Committee notes: a) audit report 17/27; b) the opinion of the MoI and Czech Mail contained in Section III of government material No. 921/18; c) government resolution No. 44/19; d) the MoI's information on the implementation of measures stemming from the audit report, as contained in Section II of government material No. 1104/19.

Committee resolution	Date of debate	Session No.	Audit report	Material to government No.	Government resolution No.	Summary of Committee resolution
155	6. 2. 2020	27	16/18	912/17	790/17	The Committee notes: a) audit report 16/18; b) the MoA's opinion contained in Section IV of government material No. 912/17; c) government resolution No. 790/17.
154	6. 2. 2020	27	16/17	523/17 581/19	791/17	The Committee I. notes: a) audit report 16/17; b) government resolution No. 791/17; c) the MoFA's information about the implementation of measures to eliminate the shortcomings referred to in audit report, as contained in Section II of government material No. 581/19; II. requests that the foreign affairs minister submit to the Committee: a) by 1 June 2020 information on the course of the tender for a new accounting system; b) by 1 June and 1 December of every calendar year information about the preparation and introduction of the new accounting system.

Annex 4: Overview of audits whose approved audit report was discussed by the government of the CR in 2020

Government resolution No.	Date discussed	Government material No.	Audit No.	Government noted measures taken by auditee	Measures imposed by the government	Deadline
916	14 Sept 2020	1013/20	19/05	No	<p>The government I. instructs:</p> <ol style="list-style-type: none"> 1. members of the government and heads of other central bodies of state administration: <ol style="list-style-type: none"> a) to regularly assess membership of all international organisations under their authority and continuously strive for the maximum efficiency of such membership; b) to submit to the foreign affairs minister annually by 31 March information about the exercise of membership of international governmental organisations under their authority for the preceding calendar year; c) to submit to the deputy prime minister and finance minister annually by 31 March information about payments to international organisations under their authority for the preceding calendar year; d) not to assume any significant new financial commitments to international organisations, i.e. commitments of €1 million and over or equivalent in another currency per calendar year, without the government's prior consent; 2. the ministers of foreign affairs and education, youth and sports to implement the measures contained in the opinions contained in Section IV of material No. 1013/20 and to inform the government about their implementation by 28 Feb 2021; 3. the foreign affairs minister to convene annually after 31 March a coordination meeting of all appropriate authorities to discuss the exercise of the Czech Republic's membership of international organisations; <p>II. amends:</p> <ol style="list-style-type: none"> 1. government resolution No. 581 of 25 July 2012, on the evaluation of costs associated with the Czech Republic's membership of international organisations, by expunging point II/1(b); 2. government resolution No. 317 of 2 May 2013, on the Czech Republic's membership of international organisations, by expunging points III/1(e) and (f). 	28 Feb 2021
915	14 Sept 2020	999/20	19/17	No	<p>The government instructs the health minister to submit to the government by 31 July 2021 information about the implementation of the adopted measures stemming from the opinion contained in Section III of material No. 999/20.</p>	31 July 2021

Government resolution No.	Date discussed	Government material No.	Audit No.	Government noted measures taken by auditee	Measures imposed by the government	Deadline
914	14 Sept 2020	780/20	19/04	No	The government instructs the ministers of agriculture and the environment: 1. to implement the measures contained in the opinions presented in Section III of material No. 780/20 by 22 Dec 2021; 2. to inform the government about the implementation of remedial measures adopted in response to the findings presented in the SAO audit report within 6 months after the approval of this resolution.	22. 12. 2021
913	14 Sept 2020	798/20	19/08	No	No instructions	–
912	14 Sept 2020	1003/20	19/15	No	The government instructs the deputy prime minister, minister of industry and trade and minister of transport to implement the measures contained in the opinion referred to in Section IV of material No. 1003/20 and to inform the government about their implementation within 6 months after the adoption of this resolution.	Six months (14 Mar 2021)
722	13 July 2020	716/20	19/07	No	The government instructs the justice minister to implement the measures contained in the opinion contained in Section IV of material No. 716/20 and to inform the government about their implementation within 6 months after the adoption of this resolution.	Six months (13 Jan 2021)
721	13 July 2020	689/20	19/06	No	The government instructs the health minister to submit to the government by 30 June 2021 information about the implementation of the adopted measures stemming from the opinion contained in Section III of material No. 689/20.	30 June 2021
720	13 July 2020	674/20	17/22	No	The government instructs the labour and social affairs minister to ensure the implementation of the measures contained in the opinion contained in Section IV of material No. 674/20 and to inform the government about their implementation within 6 months after the adoption of this resolution.	Six months (13 Jan 2021)
719	13 July 2020	651/20	18/27	No	The government instructs the agriculture and environment ministers to implement the measures contained in the opinion presented in Section III of material No. 651/20 and to inform the government about their implementation within 6 months of the adoption of this resolution.	Six months (13 Jan 2021)
718	13 July 2020	580/20	19/11	No	The government instructs the 1st deputy prime minister and interior minister to implement the measures contained in the opinion referred to in Section III of material No. 580/20 and to inform the government about their implementation by 28 Feb 2021.	28 Feb 2021

Government resolution No.	Date discussed	Government material No.	Audit No.	Government noted measures taken by auditee	Measures imposed by the government	Deadline
689	29 June 2020	373/20	19/02	No	The government instructs the 1st deputy prime minister and finance minister to implement the measures contained in the opinion referred to in Section III of material No. 373/20 and to inform the government about their implementation within 6 months of the adoption of this resolution.	Six months (29 Dec 2020)
688	29 June 2020	338/20	18/36	No	The government instructs the culture minister: 1. to ensure the implementation of measures contained in the opinion and the implementation of Ministry of Culture measures referred to in Section IV of material No. 338/20; 2. to inform the government about the implementation of these measures by 31 Dec 2020.	31 Dec 2020
687	29 June 2020	275/20	18/22	No	No instructions	—
182	9 Mar 2020	187/20	19/03	No	The government instructs the culture minister to implement the measures contained in the opinion referred to in Section IV of material No. 187/20 and to inform the government about their implementation by 31 Jan 2021.	31 Jan 2021
181	9 Mar 2020	169/20	18/21	No	No instructions	—
180	9 Mar 2020	168/20	19/01	No	The government instructs the deputy prime minister, minister of industry and trade and minister of transport to submit to the government by 31 Aug 2020 information about the implementation of the adopted measures stemming from the opinion referred to in Section IV of material No. 168/20.	31 Aug 2020
141	24 Feb 2020	1177/19	18/23	No	The government instructs the environment minister: 1. to implement the measures contained in the opinion referred to in Section III of material No. 1177/19; 2. to inform the government about progress in the implementation of the given measures within 6 months after the adoption of this resolution.	Six months (24 Aug 2020)
140	24 Feb 2020	64/20	18/18	No	The government instructs the education, youth and sports minister to implement the measures contained in the opinion referred to in Section III of material 64/20 and to inform the government about their implementation within six months of the adoption of this resolution.	Six months (24 Aug 2020)
139	24 Feb 2020	98/20	18/24	No	The government instructs the regional development minister to implement the measures contained in the opinion referred to in Section IV of material No. 98/20 and to inform the government about the implementation of the adopted measures within 6 months after the adoption of this resolution.	Six months (24 Aug 2020)

Government resolution No.	Date discussed	Government material No.	Audit No.	Government noted measures taken by auditee	Measures imposed by the government	Deadline
138	24 Feb 2020	109/20	18/29	No	The government instructs the deputy prime minister, minister of industry and trade and minister of transport: 1. to continuously assess remedial measures already adopted in the relevant ICT programmes of OP Enterprise and Innovation for Competitiveness and to adopt new measures necessary to prevent any errors in their implementation and the proper drawdown of subsidy support funding; 2. to inform the government by 30 June 2020 about the implementation of adopted measures stemming from the opinion referred to in Section IV of material No. 109/20.	30. 6. 2020
12	6 Jan 2020	1042/19	18/25	No	The government instructs the justice minister to implement the measures contained in the opinion referred to in Section IV of material No. 1042/19 and to inform the government about their implementation within 6 months after the adoption of this resolution.	Six months (6. 7. 2020)
11	6 Jan 2020	1129/19	18/19	No	The government instructs the culture minister to ensure the implementation of the measures contained in the opinion and the measures referred to in Section IV of material No. 1129/19 and to inform the government about their implementation by 30 June 2020.	30 June 2020
10	6 Jan 2020	1102/19	18/26	No	The government instructs the labour and social affairs minister to ensure the implementation of the measures contained in the opinion referred to in Section IV of material No. 1102/19 and to inform the government about their implementation within 6 months after the adoption of this resolution.	Six months (6 July 2020)
9	6 Jan 2020	1105/19	18/28	No	The government instructs the labour and social affairs minister to implement the measures contained in the opinion referred to in Section III/a of material 1105/19 and to inform the government about their implementation by 30 Nov 2020.	30 Nov 2020

Annex 5: Visualisation sources

PUBLIC FINANCES

Macroeconomic data – **source:** CSO STIIS.

Open Budget Survey 2019 map – **source:** <https://www.internationalbudget.org/open-budget-survey/coun-try-results/2019/czech-republic>.

EXPENDITURE ON THE FIGHT AGAINST THE COVID-19 PANDEMIC

Expenditure paid out for preventing the spread of the Covid-19 pandemic by item – **source:** IISSP.

Total state budget expenditure utilised in 2019 and 2020 and structure of year-on-year growth of total expenditure – **source:** STIIS, MoF cash data.

STATE REVENUES

Year-on-year comparison of the collection of state budget tax revenues for 2020 and 2019 (CZK billion) – **source:** STIIS.

Dysfunctional system for sharing information between audited entities – **source:** Audit report [18/32](#), visualisation by the SAO.

DIGITALISATION OF PUBLIC ADMINISTRATION

Digital Economy and Society Index (DESI) – **source:** <https://ec.europa.eu/digital-single-market/en/digital-economy-and-society-index-desi>.

Digital public services (DESI) – **source:** <https://ec.europa.eu/digital-single-market/en/digital-public-services>.

ICT expenditure by organisational components of the state – **source:** STIIS; budget items 5042, 5162, 5168, 5172, 6111 and 6125.

TRANSPORT

Condition of motorway and road bridges – **source:** RMD, overviews from the Information System on the Road and Motorway Network of the CR, state as at 1 July 2019.

Development of the drawdown of allocated funds – **source:** Rail Track Administration information; visualisation by the SAO.

State of repairs and investments – based on material submitted by the Ministry of Transport for a session of government on 25 Nov 2019 (ref. No. 938/19) and Annex 1 to SAO audit report 19/16.

SOCIAL POLICY AND EMPLOYMENT

Overview of the number of projects executed and socially excluded localities in regions – **source:** MoRD; Analysis of Socially Excluded Localities in the CR, MoLSA 2015.

Increase in proportion of total job seekers accounted for by the over-50s between 2015 and 2019 (pp) – **source:** Labour Office of the CR.

EDUCATION

Percentage of all schoolchildren accounted for by children with special educational needs – source: audit report [19/19](#).

MoEYS, MoRD and City of Prague funds spent on projects and programmes linked to support for inclusive education – source: audit report [19/19](#), visualisation by the SAO.

Percentage of schools where conditions not suited to the needs of successful inclusion of children with special educational needs – source: audit report [19/19](#), SAO questionnaire survey.

HEALTHCARE

MoH expenditure on further education of healthcare workers – source: closing accounts of chapter 335 – Ministry of Health for 2015–2018.

Specialisation training system – source: audit report [19/06](#), visualisation by the SAO.

DEFENCE, SECURITY AND INTERNATIONAL RELATIONS

Defence spending in European NATO countries as a % of GDP (2020 – estimate) – source: https://www.nato.int/cps/en/natohq/news_178975.htm.

Number, life span and age of armoured vehicles of the Army of the CR – source: MoD.

AGRICULTURE

Subsidies provided to the Farming and Forestry Relief and Guarantee out of the state budget and support disbursed by this Fund (CZK billion) – source: decision on subsidy, financial settlement with the state budget, FFRGF annual report for 2018.

Overview of the total support disbursed under various programmes in 2014–2018 and selected support programmes under the authority of the FFRGF – source: FFRGF annual report for 2018

ENVIRONMENT

State of implementation of flood control measures – source: information from audited state river basin administrations.

Course of random and deliberate logging by Forests of the CR in 2015–2019 (thousands of m³) – source: Forests of the Czech Republic annual report for 2019.

RESEARCH, DEVELOPMENT AND INNOVATION

International comparison of innovation performance measured by aggregate innovation index – source: European Innovation Scoreboard 2020.

Security research – source: audit report [19/11](#); Mol documents.

Medical research – source: audit report [19/17](#).

Abbreviations

AE	audited entity
BIEP	Benchmarking Information Exchange Project
CA CR	Customs Administration of the Czech Republic
CERT	Computer Emergency Response Team
CNB	Czech National Bank
Commission	European Commission
Contact Committee	Contact Committee of heads of supreme audit institutions and the European Court of Auditors
CR	Czech Republic
CSO	Czech Statistical Office
CSSA	Czech Social Security Administration
ECA	European Court of Auditors
DESI	Digital Economy and Society Index
EDA	European Defence Agency
EIA	environmental impact assessment
EPSAS	European Public Sector Accounting Standards
ESIF	European Structural and Investment Funds
EU	European Union
EU-27	Twenty-seven European Union Member States (now without the United Kingdom)
EUROSAI	European Organization of Supreme Audit Institutions
FA	financial audit
FM	financial mechanisms of the European Economic Area and Norway
FA CR	Financial Administration of the Czech Republic
GDC	General Directorate of Customs
GDP	gross domestic product
GACR	Grant Agency of the Czech Republic
GFD	General Financial Directorate
GIBS	General Inspectorate of the Security Forces
ICT	information and communication technologies
INTOSAI WGEA INTOSAI	working group on environmental audit
INTOSAI	International Organization of Supreme Audit Institutions
IO	international organisation
IROP	international organisation Integrated Regional Operational Programme
IS	information system
IT	information technology
LO CR	Labour Office of the Czech Republic
MCS	management and control system
MoA	Ministry of Agriculture
MoC	Ministry of Culture
MoD	Ministry of Defence
MoE	Ministry of the Environment
MoEYS	Ministry of Education, Youth and Sports
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoH	Ministry of Health
MoI	Ministry of the Interior
MoIT	Ministry of Industry and Trade
MoJ	Ministry of Justice
MoLSA	Ministry of Labour and Social Affairs
MoRD	Ministry for Regional Development

ABBREVIATIONS

MoRD-NCA	National Coordinating Authority (department of the Ministry for Regional Development)
MoT	Ministry of Transport
NATO	North Atlantic Treaty Organization)
OECD	Organisation for Economic Co-operation and Development
OHA	department of the chief architect of the Ministry of the Interior
OIP	Office for Industrial Property
OP EIC	Operational Programme Enterprise and Innovation for Competitiveness
OP PGP	Operational Programme Prague – Growth Pole
OP RDE	Operational Programme Research, Development and Education
OP	Operational Programme
OPDP	Office for Personal Data Protection
OP EI	Operational Programme Enterprise and Innovation
OP EC	Operational Programme Education for Competitiveness
OP Em	Operational Programme Employment
OP En	Operational Programme Environment
OP F	Operational Programme Fisheries
OP T	Operational Programme Transport
OP TA	Operational Programme Technical Assistance
PA CR	Police Academy of the CR
pp	percentage point
PS CR	Prison Service of the Czech Republic
RDI	research, development and innovation
RDP	Rural Development Programme
RMD	Roads and Motorways Directorate
SAI	supreme audit institution
SAIF	State Agricultural Intervention Fund
SAO	Supreme Audit Office of the CR
SCA	state closing account
SDGs	UN Sustainable Development Goals
SEL	socially excluded localities
SEN	special educational needs
SG1	EUROSAI working group for professional cooperation
SMART	method for defining goals: Specific, Measurable, Achievable, Realistic, Time-bound
SW	software
TSIIS	State Treasury Integrated Information System
V4+2	informal grouping of the supreme audit institutions of the Visegrad Group (Czech Republic, Hungary, Poland, Slovakia) + Austria and Slovenia
VZP ČR	Všeobecná zdravotní pojišťovna České republiky (Universal Health Insurance Company of the Czech Republic)
WEF	World Economic Forum