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Foreword of the President of the SAO

Dear readers,

The Annual Report is a reflection of the past year in words, figures, graphs and pictures. We have attempted to produce not only an informative document, but first and foremost a document which is beneficial, and therefore we dedicated a substantial part to audit findings, their interpretation and possibilities to improve the unfavourable state.

Our objective is to have an annual audit plan which reflects the most significant problems with most serious impacts on the state management. For that reason the SAO devotes an exceptional attention to risk detection and analysis. Key parameters for each audit are objectivity, impartiality and independence. A natural fact is that our audit activity is in compliance with international recommendations and standards.

The result of audit work cannot however be only the ascertaining of findings. The Supreme Audit Office observes carefully whether and how the Government and auditees approach the outcomes of audits and whether they accept and fulfil measures to remedy the ascertained shortcomings. Past year brought an improved cooperation with the Government. It has been univocally proved by the amendment of the Government's rules of procedure which gave the grounds to a fundamental change in 2014. The Government has a new duty to invite the President of the SAO to deliberations of audit conclusions and the SAO has also the right to give its opinion to accepted measures.

Being in the position of those who audit the management of others, we try to set an example and reduce our expenditures. We saved more than CZK 43 million from the budget set for the 2013. It was mainly due to a new lease of the current SAO headquarters on the basis of which the lease expenditures dropped by more than a half to CZK 16.7 million a year. Savings have also been successfully made in current expenditures as purchase of ICT services or fuel. The budget for 2014 is in comparison with 2013 also lower.

The SAO has also significantly contributed within international cooperation between supreme audit institutions of the whole world. A delegation of the SAO participated at the XXI Congress of the International Organisation of Supreme Audit Institutions (INTOSAI) in China. The Congress ratified so called *Beijing Declaration* and new international standards. In 2013 the SAO admitted delegations from Slovakia, Poland, Germany and Switzerland.

The year 2013 was also notable for the 20th anniversary of establishment of the Supreme Audit Institution. The meeting at the expert seminar held in the Senate of the Parliament was an opportunity to review, remembrance and future planning. Moments like this make everyone to realise the responsibility we bear for our work. It is an honour to me to be a part of it, and it is my great pleasure to use this unique opportunity to thank the past and current co-workers for their excellent work.

**Miloslav Kala,
The SAO President**

I. Status and Powers of the SAO

1. General information about SAO's status and powers

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

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

The statutory bodies of the SAO are the President and the Vice-President, Senates and the Disciplinary Chamber. For to ensure an objective assessment of audited facts and in essential issues related to auditing activities of the SAO, its collective bodies decide -the Board and Senates of the SAO.

The independence of the Supreme Audit Office provides for the SAO not being influenced either by legislative, executive nor the judicial power in planning, preparation and carrying out its audit activity. Apart from its institutional independence, the SAO also has reasonable financial independence. The decisive body in this regard is the Chamber of Deputies of the Parliament of the Czech Republic which approves the State budget, part of which also forms a separate budget chapter of the *Supreme Audit Office*.

Audit activity of the SAO is carried out according to an audit plan. The audit plan after its adoption by the Board of the SAO is submitted for information by the SAO President to the Parliament and the Government of the Czech Republic, and is published in the *SAO Bulletin*. The results of audit activity are audit conclusions which summarise and assess the facts ascertained in the audit. Audit conclusions are adopted by the Board or respective Senates of the SAO.

Within the delegated powers the SAO carries out an audit in compliance with the audit standards of the SAO which build upon the international standards of supreme audit institutions (ISSAI). The SAO carries out a compliance audit which includes legality audit and financial audit, and furthermore a performance audit.

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

In performance audit, the SAO assesses the economy, efficiency, and effectiveness with which auditees use the state budget funds and state assets or other finances falling under the SAO's competence.

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

2. The Board of the SAO

In 2013 the Chamber of Deputies of the Parliament of CR nominated Mr Miloslav Kala for the President of the SAO and Ms Zdeňka Horníková for the Vice-President of the SAO who were consequently appointed by the President of the Czech Republic.

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



The SAO Board members (from left): Mr Jiří Kalivoda, Mr Jan Vedral, Mr Daniel Reisiegel, Mr Rudolf Kufa, Ms Eliška Kadaňová, Ms Zdeňka Horníková, Mr Zdeněk Brandt, Mr Rudolf Němeček, Mr Miloslav Kala, Mr Petr Neuvirt, Ms Zdeňka Profeldová, Mr Pavel Hrnčíř, Ms Jaromíra Steidlová, Mr Jiří Adámek, Mr Karel Sehoř, Mr Antonín Macháček

The SAO Board members carry out audit activity and draw up audit conclusions. They manage the audit process from the warrant issue to the adoption of an audit conclusion. In the following part, there are presented completed audits whose audit conclusions were approved in 2013.¹

¹ Individual audits are marked by numbers in the Annual Report. These numbers are the same as in the SAO's Audit Plan for the respective year. Audit conclusions and detailed information on finished audits are available in *SAO Bulletins* (in the Czech language only).

Table No. 1: Overview of audits carried out in 2013

SAO Board Member name	Member since	Number of audits managed by the Member until the end of 2013	Overview of audits managed by the Board Member in 2013	
			Completed	Incomplete
Mr Jiří Adámek	25. 4. 2001	33	12/18 12/27 12/31	13/27 13/33
Mr Zdeněk Brandt	3. 5. 2002	32	12/36	13/17 13/36 13/40
Mr Pavel Hrnčíř	11. 12. 2009	9	12/03 12/19 13/01	13/32
Ms Eliška Kadaňová	4. 6. 1998	37	12/17 12/23 12/29 13/10*	13/22
Mr Jiří Kalivoda	17. 9. 1993	56	12/21 12/26 13/03	13/16 13/25
Mr Rudolf Kufa	15. 9. 2009	7	12/24 13/04 13/12	13/26
Mr Antonín Macháček	9. 12. 2005	21	12/13 12/16 13/06	13/20 13/31
Mr Petr Neuvirt	21. 12. 2010	10	12/25 13/08	13/21 13/30 13/37
Mr Rudolf Němeček	17. 9. 1993	48	12/12 12/20 12/33 13/05	13/13
Ms Zdeňka Profeldová	18. 4. 2002	37	12/22 12/35 13/15 13/02*	13/23 13/35
Mr Daniel Reisiegel	30. 4. 2010	11	12/09 12/14 12/28	13/18 13/19 13/39
Mr Karel Sehoř	15. 9. 2009	9	12/08 12/11 13/09 13/14*	13/24
Ms Jaromíra Steidlová	16. 11. 2006	16	12/15 12/30 13/11	13/38
Mr Jan Vedral	25. 4. 2001	38	12/32	13/07 13/28 13/29 13/34

* Audit conclusions from the audits will be published in the SAO Bulletin issue 1/2014.

3. The management of the SAO

The management of the SAO consists of employees directly subordinated to the President - these are the Senior Director of Audit Section, the Senior Director of Administrative Section, the Director of President's Office, the Secretary of the SAO Board, the Director of Security Department and the Director of Internal Audit Department.



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

II. Assessment of Audit Work Undertaken in 2013

1. SAO Audit Plan for 2013

The Audit Plan, as the basic document for planning the scope of the SAO's audit work, determines the subject and time frame of audits beginning in the relevant budget year. The SAO paid special attention to compiling the Audit Plan for 2013. The SAO's efforts were aimed at auditing the most risky areas and the weakest points in government spending, so that parliament, the government and the public could be provided with current and reliable information about how the government manages public funds.

The Audit Plan was drawn up in compliance with the powers exercised by the SAO according to Sections 3 and 4 of Act No. 166/1993 Coll. Under these statutory powers, the audit work focused on priority areas that were, in compliance with the strategic objectives of the SAO's work and based on identified risks, ascertained as topical and socially and financially important. The audits included in the Audit Plan for 2013 were based prevalently on the results of the SAO's own monitoring and analytical efforts.

The Audit Plan for 2013 was adopted by the SAO Board at its meeting held on 15 and 16 October 2012. A total of 39 audits were approved. During 2013, an additional audit was added to the Audit Plan, bringing the total number of audits to 40.

When drawing up the Audit Plan for 2013, the SAO focused on the following priorities in particular:

- **Collection of state budget (SB) revenues and administration of state receivables**

One of the objectives of the audit was to focus on the efficiency of collection of SB revenues and the administration of the state receivables. The audits were aimed, for example, at the collection and write-off of tax arrears and at the administration of fines for breaches of budgetary discipline. An entirely new area in the plan that had previously never been audited was the administration of revenues from lotteries and other similar games.

- **Management of state assets and financial resources by certain organisations**

As part of the scrutiny of the management activities of certain organisations, it was planned to focus more on certain costs in terms of the economy, efficiency and effectiveness of their expenditure. The Audit Plan included audits of the state enterprise Řízení letového provozu (Flight Traffic Control), the Ministry of Transport (MoT) and other selected government organisations. One audit was included in the plan to examine whether the purchase of public information and communications services complied with the principle of value for money.

- **Expenditure of financial resources on information and communication technology (ICT)**

The financial resources expended on ICT had already been subject to scrutiny in previous audit plans, both because of the marked increase in the volume of funds expended on these technologies and the risks associated with their efficient and cost-effective procurement. The Audit Plan for 2013 included, e.g., scrutiny of the national registers system and the electronic public procurement system (Public Procurement and Concessions Portal).

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

The utilisation of EU resources was again assessed as an area with a high level of risk, as had also become clear in some previous audits conducted with respect to programmes and projects co-financed using EU resources. Audits of the operational programmes *Enterprise and Innovations*, *Environment*, *Fisheries* and *Czech Republic - Poland Cross-border Cooperation* were also included in the Audit Plan for 2013. An audit focused on other foreign financial instruments – such as the *Swiss-Czech Cooperation Programme*, which focuses on trying to reduce economic and social differences in an enlarged European Union – was also included in the Audit Plan.



- **Selected important state investment programmes and subsidy chapters**

In the area of financing important investment programmes, the aim was to review the government subsidy system for research and development under the Ministry of Education, Youth and Sports, support of regional health care, the travel industry, fixed infrastructure of the Ministry of Defence (MoD), and transport infrastructure projects. In the area subsidy policy, the Audit Plan included audits aimed at government expenditure supporting agricultural research, resort-type sport centres, and social services.

- **Awarding public contracts (public procurement)**

Scrutiny of public procurement is an important priority of the SAO's audit work and is, therefore, in varying degrees part of numerous audits. One example of an audit with a system focus on public procurement that was approved for inclusion in the Audit Plan was the audit of the electronic public procurement system. Public contracts awarded based on negotiated procedure without publication of a contract notice (NPWOP) and on the application of exemptions under the Public Procurement Act² were also the subject of other system audits in this area.

- **Important changes in accounting and reporting**

In connection with new accounting regulations implemented as part of government accounting reforms, audits aimed at examining the reliability of the financial statements and final reporting of certain auditees and at the closing accounts of various chapters were included in the Audit Plan. One of the audits also focused on the compilation of the *auxiliary analytical overview*, a new report helping to monitor and manage public finances in 2012.

Appendix No. 1 provides a more detailed overview of the various audits included in the audit plan for 2013, including the respective timetable. In compliance with the timetable, the individual audits were conducted progressively over the course of 2013. Depending on the commencement dates and duration of the audits, the deadlines for completion of the audits, i.e., approval of the audit conclusions, are planned for 2013 and 2014. The results of audits concluded in 2013 were used in this annual report.

In 2013, the SAO obtained one request for an audit from the Senate of the Parliament of the Czech Republic. This request pertained to a review of the decision of an administrative authority in the matter of the building Kozákův Dům on Václavské náměstí (Wenceslas Square) in Prague. The SAO is not authorised under the law, however, to conduct the requested audit.

2. Results of Audits in 2013

Assessment of the audit work listed in this chapter is based on the results of the 41 audits completed in 2013. Of these, 28 were commenced according to the Audit Plan for 2012 and 13 according to the Audit Plan for 2013. These audits, in compliance with their subject and objective, examined the assets and financial resources at 235 auditees and their buildings. Audit reports were drawn up with respect to all the auditees and, based on these reports, audit conclusions were elaborated. We managed to keep the number of conducted audits high this year. One more audit than in the previous year was completed despite the SAO not having the full number of its Board members.³ The number of auditees and buildings may have been lower than the previous year, but this state was chiefly due to the different focus of the audits, specifically on systems, which meant a lower number of audited aid beneficiaries.

For the SAO, 2013 was a successful year. The results of the audits are certainly the most important from the point of view of assessment. The SAO was able to reveal and call attention to the most urgent system problems in various areas of government expenditure. It also provided immensely valuable feedback for the management, control and decision-making efforts of the responsible

² Act No. 137/2006 Coll., on public procurement.

³ The office of one member of the SAO was not occupied for the whole of 2013.

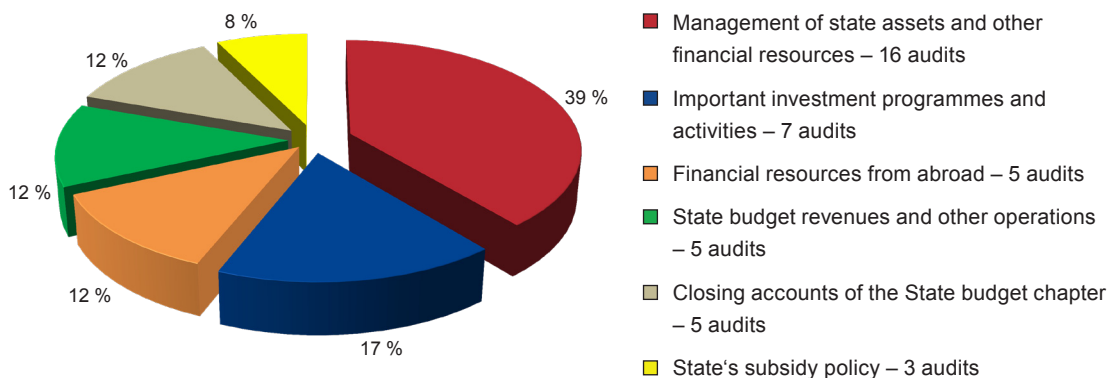
authorities. This feedback, if applied, will contribute to improving government expenditure. Other benefits can certainly be seen in the form of numerous system recommendations and in the quite substantial amount of financial resources reported to the appropriate tax authorities for the reason of a breach of budgetary discipline. Last but not least, thanks to the audits, the law enforcement authorities became aware of possible crimes.

Unfortunately, however, the system findings show that the view of government spending has not changed to any substantial degree. The government is still not a good manager of public finances in certain areas. The repeated occurrence of the same shortcomings indicate insufficient management and control, insufficient or ineffective measures to remedy the shortcomings discovered by previous audits, formalism in the adoption of measures or even a refusal to deal with certain serious shortcomings. Although certain measures have been undertaken by the public authorities in a number of cases and although the SAO assesses certain measures proposed in response to its recommendations positively, there has been no fundamental reversal, however. The common denominator among the numerous long-existing shortcomings is the failure of anyone to take responsibility for the proper execution of the activities that the public authorities are responsible for. This is manifested in the failure to observe laws, rules and principles and, chiefly, in the failure to observe the principles of economy, effectiveness and efficiency. The inability or lack of interest to demonstrate the value obtained from the government spending also relates to a dysfunctional system of control and a refusal by the relevant persons or entities to take responsibility. New threats are emerging, however, and these could result in other significant losses in government spending.

The following, for example, are among the most important system-related shortcomings in the performance of certain auditees in 2013:

- **The collection of certain state revenues is not economic or efficient and the success rate in tax arrears collection is low.**
- **The targets of subsidy chapters are not sufficiently set and assessed and rules, principles and the concept of transparency are not observed when awarding subsidies.**
- **There are errors in preparing and executing ICT projects, the influence of a competitive environment is suppressed, and dependence on one supplier is created.**
- **Certain state activities are delegated to external law firms, advisors and consultants, which decision is often not very cost-effective.**
- **Materials are procured without tenders or contracts are not concluded in writing, which leads to marked price differences.**
- **The proprietary rights of the state are not exercised sufficiently.**
- **Measures and mechanisms in place to help make the construction of transport infrastructure more efficient are ineffective.**
- **Programme financing is failing and, as such, is unable to ensure observance of a fixed time frame or financial framework, nor is it able to assess the targets and effects of state investment policy.**
- **Management and control in the case of certain programmes co-financed from EU resources are insufficient and utilisation of these resources is falling behind.**
- **The data reported by the state for monitoring and managing public finances is unreliable in connection with shortcomings in government accounting reforms.**

Appendix No. 2 provides an overview of the audits completed in 2013. Graph No. 1 shows the structure of audits according to their predominant focus.

Graph No. 1: Focus of audits whose audit conclusions were approved in 2013

The above graph shows that the primary focus of the SAO's audits was the management of state assets and important investment programmes and projects. In the scope of its powers, the SAO also focused on other no less important areas of scrutiny.

The results of the audits are summarised in more detail hereinbelow.

2.1 State revenues and other financial operations in this area

State revenues have long been a key area of scrutiny by the SAO. In 2012, five audits were conducted in this area. These audits focused on the following:

- Revenues from access fees (tolls) and time-based fees (time vouchers) for the use of roads (Audit No. 12/12)
- Tax arrears administered by the tax offices (Audit No. 13/02)
- Czech foreign debt managed by the Ministry of Finance (Audit No. 13/10)
- Administration of fines for breach of budgetary discipline (Audit No. 13/15)
- Industrial cooperation programmes (offsets) as a tool to compensate government expenditures in connection with certain public contracts (Audit No. 12/08).

Permanent attention is directed at state revenues where the SAO sees certain risks, especially with respect to shortcomings in the systems used to manage them. The results of the audit confirm that there are important shortcomings in the way the systems are set up even with regard to the activities of responsible persons. These shortcomings results in certain revenues not being collected by the government in a cost-effective and efficient manner. In 2013, for example, the SAO completed audits that built on the results of previous audits focused on the toll collection system and on the administration of fines for the breach of budgetary discipline. Due to insufficient planning, legislation, management and assessment, the costs of attaining and managing these revenues is very high:

- Audit No. 12/12 built on the audit that the SAO conducted in 2011⁴ on the resources spent on procuring and operating the road toll system. The SAO assessed that although the objective of the toll collection system (TCS), i.e., to obtain financing for road development, was achieved, the costs were extremely high and the fee of using the tolled roads had to be increased significantly. Over five years of operation of the TCS (2007-2011), **CZK 31.3 billion** was collected, but the costs of running it was **CZK 15.6 billion**, i.e., almost **50%** of the collected amount. In the case of the time vouchers, however, the ratio of operating costs to fee collection was **7%** for the same period, with net revenues from this form of collection attaining **CZK 8.5 billion**. The toll collection system results affected the MoT negatively, especially because it failed to ensure proper organisation of the toll collection system in accordance with the approved concept and did not monitor or assess the costs expended on the TCS from the point of view of economy, effectiveness and efficiency.

⁴ The audit conclusion of Audit No. 11/13 - *Funds expended on procurement and operation of the toll collection system for use of the road infrastructure in the Czech Republic* was published in issue 2/2012 of the SAO Bulletin.

A significant portion of the operations was, at variance with the plan, provided by private entities. The MoT did not proceed in the most cost-effective way, having negotiated with the general contractor an “enhanced service success fee” in an amount that was disadvantageous for the state. When negotiating success fee, it did not take into account the fact that the system, once put into practice, would run smoothly. The method used to determine the fee was also based on the amount of toll collected, which made the fee disadvantageous for the state and highly advantageous for the general contractor, as any increase in toll rates would mean a rise in this fee. For the period from 2007 to 2011, the Road and Motorway Directorate of the Czech Republic (RMD) paid **CZK 755 million** for the success fee and **CZK 113 million** to independent experts for assessing the level of success. The total costs of operating the system also rose because the MoT substantially underestimated the percentage of toll payments that would be made by payment card, and the RMD, because of this, had to pay an additional **CZK 500 million** on payment card fees, which were not addressed in the agreement. The method used to collect tolls and arrears was also ineffective. The RMD began identifying and charging unpaid tolls and then, with a three-year delay, began enforcing the receivables and arrears, but through the use of outsourcing. In 2009, the RMD concluded an agreement with a private entity on the collection of toll receivables. This agreement included not only legal services but also the development of software for almost **CZK 40 million**. Although it paid a total of **CZK 57 million** under the agreement, only **CZK 18 million** had been collected by September 2012, which amount translates to only 32 halers for each crown spent. According to all available documents, toll arrears should have been collected by the customs authorities, not by an external supplier. The SAO recommended that the results of this audit be used to draft and implement a new toll system operation agreement and when expanding the toll collection system.

- As part of the follow-up Audit No. **13/15**⁵, the SAO discovered that between 2011 and the first quarter of 2013, the tax offices assessed fines totalling **CZK 13.5 billion**, of which the General Financial Directorate (GFD) waived fines totalling **CZK 9.8 billion**, i.e., **73%** of them. The costs related to the administration of such fines amounted to **CZK 562 million** in 2011 and 2012. In previous Audits, the SAO discovered that the Ministry of Finance (MoF) waived **90%** of the assessed fine. The SAO stated that the administration of fines for breach of budgetary discipline continues to be uneconomical and inefficient. The MoF did not adopt appropriate measures to eliminate the discovered system shortcomings. The MoF did not reassess the fees to be imposed for less serious breaches of budgetary discipline and did not specify the reasons for waiving fines. The adopted amendments of the affected legal regulations had little impact on the assessment of fines or on their subsequent waiver. A system solution to the fundamental shortcomings identified by the SAO was also demanded in a resolution issued by the Control Committee of the Chamber of Deputies of the Parliament of the Czech Republic.

Another area that the SAO has been monitoring over the long-term is the administration of state receivables or, more precisely, their enforcement. In the previous period, the SAO called attention repeatedly to the need to adopt measures that would more effectively prevent new tax arrears, help increase the success of their enforcement and prevent tax fraud. There is truly lots of room for improvement in the area of tax arrears, and by their enforcement, the state would obtain the resources needed to cover expenditures without having to compensate for the uncollected revenues in other ways. The inadequacy of the measures in place at this time is confirmed by the ever increasing amount of tax arrears. According to the *Report on Implementation of the State Budget for the First Half of 2013*, which the government submitted to the Chamber of Deputies of the Czech Parliament, the balance of tax arrears has reached almost CZK 210.9 billion⁶, with 2010 seeing the volume

⁵ Audit No. 13/15 was a follow-up audit to Audit 10/08 - *Administration of fines for breach of budgetary discipline*, and its audit conclusion was published in issue 1/2011 of the *SAO Bulletin*.

⁶ The greatest volume of receivables recorded by the Czech Financial Administration as of 30 June 2013 totalled CZK 137.4 billion, of which VAT receivables amounted to CZK 85.7 billion. The second greatest amount of arrears totalling CZK 63.1 billion is recorded by the Czech Social Security Administration.



increase by CZK 35.4 billion, for the most part with respect to arrears on value added tax (VAT). The audits concluded last year in the area of administration of receivables showed the following, for example:

- Audit No. **13/02**, the specific aim of which was to carry out an analysis of tax arrears administered by the Financial Administration of the Czech Republic in the period of 2010-2012 and assess the impact of legislative changes in this area, showed that the balance of tax arrears had increased by more than **CZK 28 billion** between 2010 and 2012 and amounted to almost **CZK 135 billion** as of 31 December 2012, with the success rate of enforcement in the 2010-2010 period being just under **9%** on average. As of 31 December 2012, VAT arrears comprised the biggest portion at **61%**. In addition to these arrears, the Czech Financial Administration recorded tax arrears amounting **CZK 124 billion** as of 31 December 2012 that were written off due to their irrecoverability under the Tax Code.⁷ The low enforcement rate was mainly due to the fact that the biggest debtors were legal entities established specifically with this purpose in mind; it is therefore not possible to even begin recovery of the receivables. This state is a permanent one, and the SAO has observed that the numerous measures adopted to prevent tax evasion and to make recovery more effective have had no effect on the balance of tax arrears or in a greater recovery rate.

According to the SAO, the recovery of arrears may be negatively affected by the falling number of personnel in enforcement departments and the frequent amendment of legal regulations, especially tax laws. The SAO further observed the incompleteness and high error rate of statistical outputs from the ATIS information system⁸ pertaining to arrears in the process of collection and collected, especially in 2011, when changes related to the adoption of a new tax code were implemented into the system. Due to frequent changes in the structure of reported data, their incompleteness, their high error rate and impossibility to check them, it is not possible to monitor through ATIS the long-term development of arrears and their collection or where the effectiveness of the various collection methods is improving.

- In Audit No. **13/10**, the SAO examined the procedure used by the MoF to management and recover the Czech Republic's receivables of a civilian nature. The amount of such receivables, which was still as high as **CZK 122.2 billion** in 1998, has fallen dramatically. At the end of 2012, the MoF was managing receivables amounting to just over **CZK 16 billion**. In the procedures used by the MoF, however, certain serious issues were discovered in connection with the conclusion of agreements on the collection or sale of receivables (unblocking). In the period under review, i.e., in 2011 and 2012, not a single agreement of this type was concluded with the 11 unblocking agents with which a contractual relationship was in place. A review of the existing agreements showed that in seven cases, the unblocking agents were selected without a tender. The concluded agreements, despite pertaining to high amounts, did not contain any collection clauses. The nominal amount of the receivables that the MoF gradually assigned to the unblocking agents were worth tens of millions of USD, but the amounts collected were minimal. In fact, in four cases no payment was collected; furthermore, it was found that in 2006, the MoF allowed one receivable worth almost **USD 5 million** with respect to one unblocking agent to become statute-barred.

The MoF also did not proceed in the most economical manner and breached budgetary discipline when it expended over **CZK 2.2 million** in 2006 and 2007 on a foreign receivables information system, which, however, it never used, and the project was scrapped in 2011. In connection with the management of the foreign receivables, the MoF used specific banking services, for which it paid **CZK 14 million** in 2012. The scope of the banking services varies, however, with regard to the various receivables. In most cases, however, the services only constitute account maintenance and the dispatch of reports to the MoF. Therefore, there is clearly no justification for the maintenance of certain accounts with respect to certain receivables and, thereby, the need to pay for the maintenance of such accounts.

⁷ Act No. 280/2009 Coll., the Tax Code.

⁸ Automated Tax Information System.

An audit relating to state revenues and other benefits for the state, e.g., in the form of support for industry and jobs, was conducted to answer the question how the state makes use of the potential of offsets⁹, which are to compensate the state for its expenditures on defence and security industry contracts:

- In Audit No. **12/08**, the SAO discovered that the Ministry of Industry and Trade (MoIT), which was responsible for the preparation, execution and assessment of offset programmes, transferred core responsibilities to the contracting authority, i.e., the MoD and the Ministry of the Interior (MoI), thereby relinquishing the possibility to effectively influence offsets in those areas that are the most important for the Czech Republic. The assessment of the fulfilment of the objectives and priorities of the offsets was essentially reduced to reporting the values of the execution of offset transactions. However, errors in billions of crowns were found even in such reporting. Both the significance and potential of support are apparent: in ten reviewed offset programmes, contractors had obligations worth **CZK 57.4 billion**. The MoD and MoI, as the contracting authorities, recognised the fulfilment of obligations worth **CZK 42.8 billion**. In its review, however, the SAO discovered that the obligations could have amounted to an additional **CZK 1 billion**. At the same time, these ministries included among fulfilled obligations even those obligations that should not have been including, having incorrectly recognised performance of at least **CZK 1.1 billion**. In the offset programmes, obligations worth almost **CZK 10 billion** have still not been fulfilled. Although offset programmes have brought contracts to Czech industry, especially export contracts, worth tens of billions of crowns, in August 2012, the government suspended the use of such programmes despite the fact that Community law permits the use of direct offsets.

The seriousness of certain system shortcomings discovered by the SAO in previous years in the management of state revenues is the reason for the increased level of interest on the part of the SAO in whether any changes occurred after the respective audits were completed and whether such changes were an adequate response to the discovered errors, or, in other words, what the impact of the audit results is on the respective area. As already mentioned, e.g., in the area of administration of fines for breach of budgetary discipline, there have been no fundamental changes. The MoF did not respond to the SAO's recommendations and proposed amendments to legal regulations were not adopted or submitted in the legislative process.

Conversely, an example where certain positive steps were taken as a result of the SAO's audit work is Audit No. 11/07¹⁰, which focused on the system of administration of VAT connected to goods imported from third countries. During this audit, the SAO discovered that the procedures used by the customs and tax authorities were unable to prevent the non-payment of VAT from goods that were imported from third countries. Despite voicing its disagreement with the results of the audit in the media, it is encouraging that the MoF, after the audit was completed, took certain steps that could help eliminate the shortcomings:

For example, on 1 January 2013, along with the amendment to the VAT Act¹¹, the following measures entered into force: the basic taxation period was reduced to one month, the unreliable payer concept was introduced, the recipient of the taxable supply became the guarantor of the supplier's payment obligations, and the obligation to execute VAT payments through bank accounts published by the tax administrator was introduced. As of 1 January 2014, taxpayers are obliged to file VAT returns electronically (with the exception of natural persons with a turnover of up to CZK 6 million a year). It became clear in the media presentation given by the Czech Financial Administration that this body, in cooperation with the customs authorities, would be securing the payment of VAT on imported goods by issuing payment requests before VAT is due or even assessed. Much more time is required to assess the effectiveness of these changes.

⁹ Offsets or offset programmes are based on the premise that the state awards a major public contract to a foreign supplier and, at the same time, commits such supplier to undertake to compensate the state's expenditures for example in the form of contracts (offset transactions) that will support export and investment.

¹⁰ The audit conclusion of Audit No. 11/07 - *Administration of value added in connection with the importation of goods from third countries* was published in issue I/2012 of the *SAO Bulletin*.

¹¹ Act No. 235/2004 Coll., on value added tax.

2.2 The state's subsidy policy

In 2013, the SAO completed three audits that examined the provision, utilisation and application of SB resources designated for the following:

- Non-governmental, non-profit organisations through the budget chapter Ministry of the Interior (Audit No. **12/22**)
- Drug control policy (Audit No. **12/25**)
- The specific support of agricultural research, development and innovations, and the system of assessing benefits from the awarded aid through the budgetary chapter Ministry of Agriculture (Audit No. **13/08**).

State subsidy policy is an area that the SAO focuses on systematically in its audits. Based on an analysis of the risks in this area, the SAO calls attention to serious shortcomings, the occurrence of which over the past few years has fundamentally not changed and which have been observed in the majority of auditees. A long-existing problem is that lack of transparency behind the selection of projects, shortcomings in the specification of programme objectives, an ineffective internal control system, insufficiently set up assessment indicators and failure to observe methodological instructions. Last but not least, shortcomings were discovered regarding aid beneficiaries, namely their failure to fulfil the conditions of the decision based on which aid was granted to them. Even in 2013, the audit findings confirmed that some of the subsidy providers created subsidy programmes that did not always have specific, measurable and clearly verifiable objectives, did not set up criteria for assessing the results and use of granted aid, and selected projects in a non-transparent way. Shortcomings were identified even in terms of the course of fulfilment of the set objectives. These errors have a significant impact on cost-effectiveness, efficiency and effectiveness and do not allow for an objective assessment of the efficacy of the provided support. The following are some examples:

- During Audit No. **12/22**, the SAO discovered that the MoI did not, with respect to the scrutinised subsidy programmes aimed at the development of sports and physical education, set criteria for assessing the effectiveness, efficiency and economy of expenditures. For example, in the 2009-2011 period, the MoI reduced significantly the aid requested by one beneficiary numerous times by **21-61%**. What is more, the project documentation did not contain the number of sport and other activities or the number of participants. The MoI thus provided funds without even knowing the original scope of a project and, therefore, could not even verify what part of the project was executed in connection with the reduction. This fact also makes it substantially less likely that the control of expended funds performed by the provider will be effective.
- In Audit No. **12/25**, which focused on anti-drug policy, the SAO also assessed the actual implementation of anti-drug policy. In 2010 and 2011, **CZK 1.2 billion** was earmarked for it from the public budgets. In 2012, the Government approved the *National Drug Policy Strategy for 2010-2018*. Its implementation should be guaranteed by three three-year action plans. As part of the first plan, the greatest number of tasks were completed in the area of monitoring, research and assessment and the fewest in the area of medical treatment and social inclusion, where just under two-fifths of tasks were completed. In the area of alcohol and tobacco, the number of completed tasks was only a quarter. The SAO assessed the actual implementation of the government's drug control policy and called attention to the fact that the government was not managing to fulfil some of its strategic objectives. The Czech Republic has the highest number of cannabis users in Europe; the number of intravenous drug users is also growing.
- In connection with Audit No. **13/08**, the SAO discovered shortcomings in connection with the provision of specific-purposes aid in agricultural research, development and innovation. The Ministry of Agriculture (MoA) financed this area through programmes that did not always have specific, measurable and clearly verifiable objectives, results or benefits, which led to problems with assessing the achievement of the results, benefits and efficacy of the programme. Nevertheless, in 2010-2012, **CZK 1.2 billion** was expended on the specific support of agricultural research.

The MoA also did not stipulate the binding rules for conducting public tenders for the selection of projects that are to receive support. The selection of projects was not transparent and certain rules were unknown to applicants. During the project selection process, frequent changes in order (rank) occurred even after points were awarded. The list of public tenders for 2011 showed, for example, that some members of the advisory body had a personal connection with some of the projects being reviewed. With respect to projects completed in 2012, in most cases the MoA did not conclude agreements with the beneficiary on the utilisation of project results, nor did it have a plan for applying these results.

A prime example of how the MoA chose projects is the project entitled “*Elaboration of the Optimal Methods for Determining the Drinkability of Czech Beer*”. The MoA first agreed to finance a project where a single beneficiary was to receive **CZK 13 million** in aid over five years, but then stated that the project may be categorised as commercial research. It concluded an agreement with the beneficiary according to which it recognised expenditure in the amount of **CZK 5.1 million** for 2009 and 2010. Nevertheless, the MoA did not make use of the possibility to withdraw from the subsidy agreement, did not conclude an agreement on utilisation of results, and did not demand an assessment of the benefits of the project. The final result of the utilisation of the funds is only an article in the reviewed periodical *Kvasný průmysl (Brewing Industry)* and a methodology on the same topic. The SAO qualified the MoA’s approach as uneconomical.

The aid chapters constitute an instrument of the government to implement support in various areas of life in society. In order for the objectives of such support to be fulfilled, the government sets out the rules and principles for expending state budget funds on their implementation. As the results of the audit work show, the central public administration bodies do not always observe these principles and rules when managing state subsidy policy. An ongoing problem is, for example, the late determination of the amount of the aid to be provided; every year, this results in uncertainties for those aid beneficiaries whose activities are of a permanent nature, e.g., in social services. The principles also include regular audits of awarded aid; however, such audits are often carried by the public administration only in part if at all. The above situation is document by a number of discovered shortcomings:

- As part of Audit No. **12/22**, the SAO discovered that the MoI, with regard to aid programmes for the development of sport and physical education, often breached the government-approved rules for providing aid to non-government non-profit organisations in that, with respect to aid to be allocated in 2010, it did not adhere to the binding deadline for publication of those applicants whose applications did not fulfil formal particulars or it did not publish a list or the order (rank) of projects that were successful in the selection procedure and received aid. It also did not adhere to the binding deadline for determining the amount of aid granted in 2011. The MoI did not pay sufficient attention to the quality or completeness of both its own documentation and the documentation submitted by the aid beneficiaries or even to compliance of the documentation with the government’s rules and issued decisions.
- In Audit No. **12/25**, which was focused on anti-drug policy, the SAO revealed that the Ministry of Health (MoH) and the Ministry of Education, Youth and Sports (MoEYS) did not observe the government’s rules, the objective of which was to accelerate the aid process with respect to non-governmental, non-profit organisations. The MoH and MoEYS had not published a list or the order (rank) of the projects that were successful in the selection process on their websites by the end of 2010. The MoH also did not adhere to the binding deadline for determining the amount of aid to be provided in 2011. The small number of audits of the aid beneficiaries was also a system shortcoming. In the audited years of 2010 and 2011, the Office of the Government of the Czech Republic (OG CR), the MoA and the MoEYS approved aid for 379 beneficiaries. The MoH audited only one aid beneficiary in 2010 and none in 2011, and the MoEYS audited no beneficiaries in 2010 and only one in 2011. The OG CR audited 11 aid beneficiaries in each of 2010 and 2011.

Government resources for drug control policy are allocated to a number of state budget chapters, something that requires coordination of the subsidy proceedings conducted by the central public administration bodies, and such coordination should be provided by the appropriate government council. Its role as coordinator is defined by the government-approved *Rules for Expending State Budget Resources on Drug Policy*. For the purposes of coordination, these rules set out the obligation of the central public administration bodies to submit a report to the council each year containing information about, for instance, those subsidy applications that are submitted to more than one central public administration body. The OG CR, the MoH and the MoEYS failed to fulfil this obligation, and the council also did not receive such supporting documentation from the central public administration bodies. The new rules for 2012 no longer impose such obligation.

- Similarly, in connection with Audit No. **13/08**, the SAO called attention to the insufficient financial control of beneficiaries by the MoA, the subsidy provider. Control of the fulfilment of project objectives, the utilisation and application of the awarded aid, and the suitability of costs expended on the project according to the concluded agreement related to the granted aid was performed by the MoA only in the form of an assessment of the annual periodical reports sent to it by the beneficiaries. Furthermore, in 2010 and 2012, the MoA also did not fulfil its statutory obligation¹² to conduct a financial audit of beneficiaries at least with respect to 5% of the amount of the specific and institutional aid.

2.3 Management of state assets and resources and other financial resources

2.3.1 Management of state assets and resources

Government expenditure is one of the priorities of the SAO's audit work. In 2013, fifteen audits were conducted in the area of management of state assets and resources. These audits focused on the following:

- Expenditure of certain organisational units of the state and contributory organisations (the Czech Hydrometeorological Institute (CHMI) was the subject of Audit No. **12/16**, the Czech Office for Surveying, Mapping and Cadastre (COSMC) of Audit No. **12/24**, the RMD of Audit No. **12/31**, and the Office for Protection of Competition (OPC) of Audit No. **13/01**)
- Expenditure of companies in which the state has a capital participation and state enterprises [Municipální finanční společnost a.s. (MUFIS) was the subject of Audit No. **12/17**, VOP CZ, s.p. (state enterprise) of Audit No. **12/26** and Palivový kombinát Ústí, s.p. (state enterprise) of Audit No. **13/05**]
- Establishment of the Labour Office of the Czech Republic and the management of the assets and resources related to its foundation and activities (Audit No. **12/35**)
- Review of the settlement of costs of operations of certain teaching hospitals (Audit No. **12/23**) and certain ministries (Audit No. **12/32**) and of the purchase of certain commodities at the MoI in connection with the central procurement project (Audit No. **12/29**)
- Execution of certain projects in the field of ICT (the state treasury information system was the subject of Audit No. **12/09**, data boxes were the subject of Audit No. **12/36**, public contracts awarded by the MoD without a tender in the area of information technology was the subject of Audit No. **13/09** and national registers were the subject of Audit No. **13/12**).

As a result of the ineffective, inefficient and uneconomic use of state assets and resources, the state budget is losing billions of crowns each year. In connection with the above, the SAO tends to focus its audits more on those areas that carry the highest risk.

The SAO sees government spending on information and communication technology as the area that carries the highest risk. In the last four years, the ministries and other central

¹² Act No. 130/2002 Coll., on support of research, experimental development and innovations from public funds and on amendments to certain related acts (the Research and Development Act).



public administration bodies have spent more than **CZK 12.3 billion** on various information systems, of which **61%** were awarded in the form of NPWOP. Even though the amounts in question are by no means small, projects for the procurement and operation of ICT are often not properly prepared, do not have clear financial requirements and, in some cases, the operation of the relevant ICT is not even ensured. The above situation results in insufficient functionality of information systems, extensive delays in bringing them into operation and, chiefly, a several-fold increase in costs. Furthermore, the ministries often show little regard for the connection between the economic benefits of implementing ICT and the cost of such projects. The situation in this area can be documented by the following examples from audits completed in 2013:

- As part of Audit No. **12/09**, which focused on developing the State Treasury information system, the SAO called attention to the fact that according to the State Treasury project, which was approved by the government in February 2005, the whole system was to be launched in 2010 at a cost of no more than **CZK 2.4 billion**. The MoF concluded ten addenda to the agreement on the supply of the *Integrated Treasury Information System* (ITIS), and in one of them the planned launch of the system was moved back three and a half years. Planned spending on the State Treasury project has grown to **CZK 4.9 billion**. The main reason for the rise in costs was the inclusion of other projects to support ITIS operations and an increase in the costs of the pivotal ITIS project. The MoF signed five addenda to the ITIS supply agreement without a tender, thereby violating the Public Procurement Act. The MoF made the same error in the case of another agreement on the provision of services worth **CZK 67 million**.
- In Audit No. **12/35**, which also focused on information systems for the payment of welfare benefits, the SAO discovered that the Ministry of Labour and Social Affairs (MoLSA) prepared and implemented the new applications for payment of the various kinds of benefits under time pressure. Testing of the new solution took place at the same time as live operations and without Czech Labour Office employees receiving training, which had a negative impact on both welfare beneficiaries and Labour Office employees. In the first quarter of 2013, a benefit application required twice as long to process than was the case before the new applications were introduced. To acquire the new ICT solution, the MoLSA acceded to the Master Agreement concluded between the Mol and Microsoft, the provider of the licence to the products. Based on this Master Agreement, the Mol concluded with the provider an Implementation Agreement in favour of the MoLSA, according to which the MoLSA was to pay **CZK 435 million**. Eight addenda were eventually concluded, substantially changing the proportion of the licence costs (CZK 332 million) and service costs (CZK 1.7 billion, i.e., which is 410% more than the licence costs), which resulted in the contractual price increasing to **CZK 2 billion**, i.e., by **365%**. In the audited years of 2011 and 2013, the MoLSA paid a total of **CZK 825 million**. The Implementation Agreement concluded by the MoLSA is effective until 2015. In addition to the new applications for paying out the various benefits, the MoLSA continued to use the original system for paying out welfare benefits in particular, paying a total of **CZK 681 million** in 2011 and 2012 for this. The SAO also assessed that the MoLSA, at the time that it was transitioning to the new ICT solution, did not spend resources on ICT system integration effectively, as the system integration was carried out by two companies, which meant that the MoLSA had to pay two suppliers for the same services.

In connection with the results of this audit, the MoLSA set up a stricter procedure for approving contractual services and began preparing a new ICT strategy, which is to take effect on 1 January 2014. As spending on ICT system integration was ineffective, the MoLSA is planning a new tender in the form of an open tender in 2014. Furthermore, in light of the final decision issued by the OPC regarding the “new benefit applications” awarded based on the Implementation Agreement to the Master Agreement, the MoLSA will, because of its errors, again have to work on procuring an information system for the payment of welfare benefits.

- In Audit No. **12/36**, the SAO discovered that the total amount spent from the state budget in the period from 2009 to 2012 to procure and operate data boxes amounted to **CZK 2.9 billion**.



According to the feasibility study drawn up for the data box project, savings should have amounted to **CZK 550 million** a year. The MoI, however, did not objectively assess whether implementing the data box system would lead to the expected revenues in the form of reduced processing times at the public authorities and improve the effectiveness and efficiency of their work. As the SAO discovered, one message cost **CZK 27** on average in the period 2009-2012. The SAO also called attention to the fact that Act No. 300/2008 Coll.¹³ made it possible for Česká pošta, s.p. (CP), as the only postal licence holder in the Czech Republic, to act as the only possible supplier to the MoI, which meant that CP would be advantaged in agreements with the MoI. The Ministry of Interior thus concluded an agreement and a number of addenda thereto with CP in a way that made it impossible to affect the amount invoiced for services. For example, in 2010, CP invoiced the MoI **CZK 286 million**, i.e., **CZK 140 million** more than the costs actually incurred by CP. The above amount that CP invoiced the MoI thus amounted to almost double the costs actually incurred.

The SAO also called attention in its audits to legislative shortcomings. For example, Act No. 300/2008 Coll., categorises private entities, such as notaries and court distrainers (executors), as public authorities. Therefore, in the period 2010-2012, where almost **40%** of all data messages were intended for these entities, **CZK 623 million** spent out of the state budget as a result.

As already mentioned, most public contracts for the procurement of ICT are awarded outside the public tender process, either in the form of NPWOP or by applying exemptions under the Public Procurement Act¹⁴, which allow the auditees to accept prices for services provided by information technology providers without comparing them with fair prices, a situation that in fact creates a long-term dependence on one supplier and on that supplier's ICT system. Under such conditions, there is no competitive environment and, over the long-term, it is impossible to achieve the required cost-effectiveness, efficiency and effectiveness of expended funds. In the past year, the SAO completed a number of audits, the results of which confirm these facts:

- In Audit No. **13/09**, the SAO discovered, by analysing data from the public contract information system, that between 2009 and 2012, the various ministries awarded public contracts worth **CZK 52.2 billion**¹⁵ and almost **38%** of them in the form of NPWOP. At the MoD, the percentage of public contracts in the field of ICT awarded outside the tender process (either in the form of an exemption or in NPWOP) was approx. **72%**. In connection with the review of specific information systems, the SAO discovered that in the case five such systems, the MoD concluded agreements on technical improvements worth **CZK 710 million**, of which almost half comprised forced investments called for by amendments to various pieces of legislation and other legal regulations, and technical support worth **CZK 386 million**. With respect to the reviewed public contracts awarded by the MoD, the SAO identified elements of the *vendor lock-in* effect, i.e., the factual dependence on one contractor. The MoD has concluded contractual relationships lasting up to 20 years and extends them by using NPWOP, making reference to the protection of exclusive rights held by the contractors in justification. A competitive environment cannot exist under such conditions. The SAO verified that the MoD, since the time that it had procured the information systems, never once performed a comparison of the prices of the supplied application software with fair prices. The final prices of the contracts corresponded **99%** of the time with the anticipated prices that were indirectly dictated by the suppliers. The SAO assessed the above as a serious system shortcoming that creates an environment where there is the risk that state budget resources will be spent uneconomically.

The MoD also violated the Public Procurement Act when it awarded two software product contracts worth a total of **CZK 88 million** in NPWOP instead of open procedure. According

¹³ Act No. 300/2008 Coll., on electronic operations and authorised conversion of documents.

¹⁴ NPWOP and the exemptions under Sections 18 and 23 of Act No. 137/2006 Coll., on public procurement.

¹⁵ The public contracts information system does not provide information about minor contracts.



to the SAO, it is not entirely possible to preclude that in this way it used budget resources uneconomically, as the procurement of such software could have been awarded through open procedure, which could have had a positive effect on the price. The influence of open procedure on reducing the price of contracts is also documented by studies conducted by the European Commission¹⁶, according to which such procedure increased the number of bidders twofold and decreased the value of a contract by about 9%. The MoD confirmed this effect on a contract for a new information system, for which it held a tender in 2013. In open procedure, the winner bid amounted to only 37% of the anticipated price.

- In Audit No. **13/12**, the SAO discovered that the launch of the national registers system was delayed by one year compared to the original plan and even on the date on which operations were launched the various projects were not entirely completed. From the point of view of fulfilment of objectives, the SAO discovered that although the MoI did launch the *Register of Inhabitants* and the *Registry of Rights and Responsibilities (RRR)*, the RRR did not fulfil the objectives of its reference part, as it was unable to make use the reference data on legal regulations obtained from the *eSbirka* project or information serving to optimise public administration processes from the *Public Administration Process Modelling* project, as these projects were not completed. Up until the completion of the audits, the MoI and the Nation Registers Authority (NRA) spent **CZK 1.6 billion** on preparation, execution, operation and administration of the national registers. In the area of data centres, the MoI delegated its responsibilities to the NRA, which concluded agreements on the provision of data centre services under time pressure and awarded the mentioned contracts in the form of NPWOP. Neither the NRA nor the MoI examined whether the use of other data centres would be more cost-effective, nor did the MoI attempt to negotiate a price reduction for the data centre services.

The method for covering the costs of operation of the national registers for the period 2013 - 2015 was approved by the Czech government; however, with regard to the terms and conditions of financing from EU resources, it is necessary to ensure the sustainability of the national registers project for a period of five years. By the time the audit was completed, no method for covering the costs of operation of the national registers until 2018 in a way that would ensure the sustainability of the projects was arranged. Thus, the risk of a shortage of funding in the operating phase of the project remains a current problem for the operation of the national registers.

In the area of management of state assets and financial resources, the SAO also pays special attention to certain costs of the operations of various auditees. Among the most problematic costs are the costs of external legal, advisory and consultancy services. As an example from the previous annual report, it can be mentioned the millions of crowns spent by the Railway Infrastructure Administration, the Ministry of Justice and the Ministry of Agriculture on legal advisors or consultants¹⁷, where the benefits of such services were not always demonstrated, nor were such contracts awarded in an economical or transparent manner. The current negative trend is that certain organisations managing state assets and financial resources spend substantial amounts on such services although these activities are supposed to be carried out by the various specialised departments of such organisations according to their organisational rules. These costs are even increasing at some ministries from year to year. It is not an exception that certain auditees are paying more for the provided services than agreed and have not even concluded any agreements. In this connection, the SAO calls attention to a ruling of the Constitutional Court¹⁸ that applies by analogy to this situation. According to this ruling, if the government, in its respective organisations, has

¹⁶ European Commission document COM(2013) 455 of 25 June 2013.

¹⁷ See the audit conclusion of Audit No. 11/31 - *State assets managed by the state enterprise Railway Infrastructure Administration* (published in issue 4/2012 of the *SAO Bulletin*); the audit conclusion of Audit No. 11/34 - *Funds expended on settlement of the costs of activities at certain ministries* (published in issue 3/2012 of the *SAO Bulletin*); and audit conclusion of Audit No. **12/04** - *Management of state assets and funds in connection with the execution of information and communication technology projects at the Ministry of Agriculture* (published in issue 1/2013 of the *SAO Bulletin*).

¹⁸ Constitutional Court Ruling No. I ÚS 2929/07.



the required financing and personnel to allow the state's interests to be served, then there is no reason for such rights and responsibilities in this area to be delegated to a private entity.

- In Audit No. **12/31**, the SAO discovered that the costs expended by the General Directorate of the RMD (GD RMD) on legal services had grown substantially in the period 2010-2012, so much so that in 2012, these costs were **77%** higher than in 2010. GD RMD paid out **CZK 357 million** on such services over a three year period. For the procurement of legal services, GD RMD made use of a Master Agreement concluded with four legal advisors. Based on this Master Agreement, it then concluded Implementation Agreements for specific services. For example, it concluded 21 Implementation Agreements, worth a total of **CZK 110 million**, with one of the advisors, of which 17 were signed just prior to the expiration of the Master Agreement. The SAO discovered that the services supplied based on 9 of these 17 Implementation Agreements did not correspond to either the Master Agreement or the respective Implementation Agreement in terms of content and that the RMD had not selected the contractor in any of the ways specified under the Public Procurement Act. Nevertheless, it paid a total of **CZK 54 million** to the legal advisor. Under three agreements that were concluded with respect to activities that should have been performed by RMD's own employees, the legal advisor, for example, archived agreements at a rate of **CZK 3 500** per hour (**CZK 155 000**), modified tables related to the archived agreements (**CZK 95 000**), moved the archive two floors up (**CZK 30 000**) or created a diagram to a regulation (**CZK 7 000**). With respect to some Implementation Agreements, GD RMD did not document what services were provided on the basis of these agreements.
- Just like in the previous case, Audit No. **12/32** also showed that between 2010 and 2012, the greatest increase in costs occurred in the area of consulting, advisory and legal services, specifically at the Ministry of Environment (MoE) by **91%**, the MoIT by **67%**, and the Ministry of Regional Development (MoRD) by **44%**. All of the audited ministries paid for services that according to their organisational rules should have been carried out by their specialised departments. For example, the MoIT paid an external company **CZK 2.1 million** for organising a selection procedure for six test institution directors. Similarly, the MoRD paid an external provider **CZK 1.1 million** to draw up an internal regulation and a draft plan although this work was in the remit of its own special departments with dozens of employees. The SAO discovered the same situation at the MoE, which paid **CZK 1.6 million** to an external provider to draw up a waste management plan although the MoE is the central guarantor for waste management in the Czech Republic and had at least 17 employees in its waste management department at the time. It also paid **CZK 2.4 million** to an external law firm to draw up a legal opinion on *problematic water management projects* although it has two departments with 52 employees assigned to this area.
- In Audit No. **13/12**, the SAO discovered that the MoI made use of advisory services when executing national registers projects, but these services did not result in the problem-free course of these public contracts. When utilising legal services, the MoI acted uneconomically, as it paid **CZK 1.2 million** more to a law firm than agreed and did not have an agreement supporting this additional expenditure. By doing so, it breached budgetary discipline and for such breach and as a result of a fine assessed by the tax office it paid almost **CZK 2 million** in 2012. Furthermore, in 2010, the MoI paid **CZK 14 million** for legal services without concluding a written agreement with the law firm in question. The MoI has not paid this amount, but the law firm is demanding payment. If it pays the demanded fee, the MoI will breach budgetary discipline and again will have used state budget resources uneconomically.

The SAO is also interested in how much the auditees spend on ordinary materials intended for consumption and in what way. The results of the audit work conducted in these areas in 2013 also show negative and positive examples of spending by government organisations. A negative example is the procurement of various commodities even for billions of crowns without tenders and without agreements and for substantially differing prices. It is in this approach that the SAO sees the greatest risk of subjective assessment and failure to observe the principles of transparency and equal treatment. An example of good practice where



the procurement system is made more economical and efficient is the central procurement project implemented by the MoI, even though shortcomings can be found here as well. The audits showed the following, for example:

- Audit No. **12/23** focused on the reimbursement of costs of operations of four teaching hospitals (THs), especially the costs of the system of procurement of medicinal and health care products, which comprised the greatest share of total costs. The total amount spent by the selected THs on such products was **CZK 14.4 billion**. In the audited period, the THs observed the Public Procurement Act only in an extremely small number of cases. Medicinal products were procured by institutional pharmacies for all of the facilities of the audited THs based on so-called “positive certificates”, which is a list of recommended medicinal products and, in some cases, even suppliers, or even negative certificates, which is a list of not recommended medicinal products for procurement at THs. The SAO discovered that written agreements for the purchase of medicinal products were concluded only with a small number of suppliers, e.g., one TH purchased medicinal products from more than 230 suppliers, but only concluded purchase agreements with only three of them. Purchases from the other suppliers were carried out based on orders made by e-mail, fax or telephone. Two THs, for example, purchased medicinal products for **CZK 280 million** without concluding written agreements. The audit also revealed a huge difference in the prices of the purchased medicinal and health care products. For example: the biggest difference in price with regard to certain central drugs was **CZK 33 000** per package; the biggest difference in price with regard to cardioverters was **CZK 520 000** per piece.
- In connection with Audit No. **12/29**, the SAO discovered that although the central procurement system resulted in more effective purchases by MoI, the cost savings were not calculated in an entirely objective manner. The MoI monitored cost savings using its information system, which, however, did not always contain reliable data. The effectiveness of the entire project was negatively affected by certain shortcomings, such as inaccuracies when determining the number of items of a particular commodity that is expected will be needed. In certain cases, the degree of inaccuracy was more than **80%**. The SAO considers the following to be an example of an extremely uneconomical way to spend public funds: the MoI, at the end of the year, repeatedly made one-off purchases of fuel, which it then stored on premises that it did not own and, because of this, was forced to incur additional storage costs.
- In Audit No. **12/32**, the SAO, when reviewing the costs expended on the activities of certain ministries, discovered a difference between the unit prices of, for example, office supplies and furniture or in the prices of telecommunication services. Whereas the MoIT purchased one office chair in 2012 for an average price of **CZK 1 950**, the MoRD did so for **CZK 6 232**. The MoRD also purchased office paper at double the price, paying **CZK 106** on average for a package of paper while the MOIT did so at **CZK 63** and the MoE at **CZK 67**.

Reviewing the compliance of the auditees' activities with legal regulations is an integral part of most of the SAO's audits. The SAO revealed shortcomings regarding compliance of the auditees' procedures with the law especially when it comes to disposing of state assets and resources and asserting the rights of the state. The most frequent offences pertain to breaching rules concerning the purchase and sale of property and the conclusion of lease agreements, reducing revenues from state assets or failing to sufficiently assert the rights of the state when enforcing receivables. A number of violations of legal regulations on the disposal assets also pertained to cost-effectiveness and the need to use funds to ensure the fulfilment of the various responsibilities of the audited organisations. The above can be illustrated by the following examples:

- In Audit No. **12/16**, the SAO called attention to the fact that the CHMI breached rules when selling unnecessary assets. In violation of the State Property Act¹⁹, the CHMI disposed of assets (predominantly passenger cars) worth **CZK 831 000** without first obtaining a written decision on

¹⁹ Act No. 219/2000 Coll., on the property of the Czech Republic and its representation in legal relations.



the redundancy of such assets and without checking whether any other organisational units of the state (OUS) would be interested in acquiring them.

- In Audit No. **12/24**, the SAO discovered that in certain cases, the audited OUS did not dispose of assets in compliance with the State Property Act. It was revealed, for example, that the COSMC has been providing the use of a kitchen and canteen to a private company, which does business to generate profit, free of charge since 2006 even though it (COSMC) has been paying **CZK 500 000** annually as rent for these premises. It thus reduced revenues that could be generated from its assets without justification. As regards the acquisition of assets, the COSMC also did not act in compliance with the Act on Budgetary Rules²⁰ when it purchased three computer licences worth **CZK 179 000** in total and then, a day after including them in its assets, no longer needed them and transferred them to a different OUS under the same SB chapter free of charge. It also missed the deadlines for submitting four of its claims worth **CZK 37 000** in total in insolvency proceedings, which resulted in their forfeiture.
- In Audit No. **12/31** as well, the SAO assessed that the RMD failed to fulfil its obligations under the Act on Budgetary Rules concerning the management of financial resources and its obligations under the State Property Act concerning the management of state property. The discovered shortcomings in this area pertained in particular to the cost-effective and efficient use of passenger cars to carry out the RMD's responsibilities. This applied on average to 53 vehicles per year. The share of kilometres driven for private purposes amounted on average from a quarter to a third of the total number of kilometres driven. For some vehicles, this share was even as high as **85%**. The RMD did not use their vehicles economically to fulfil state-related functions, and, in the case of private trips, it did not use the vehicles to carry out the stipulated activities, nor did it arrange a corresponding fee (rent) to be paid for their use. The SAO called attention to this shortcoming in previous audits aimed at the RMD's spending.²¹

As regards the management of state financial resources, the SAO discovered, for example, that the majority of RMD plants and administrations even made use of passenger cars provided by the contractors of the road construction projects to carry out technical supervision. All costs related to the use of the vehicles were included in the price of the respective construction projects. It was discovered from the operating records pertaining to these vehicles that the way the use of the vehicles was arranged was not economical. For example, the Pardubice Administration paid **CZK 226 000** to the contractor over nine months for the use of one vehicle, such price being included in the price of the construction project, but the maximum distance driven using the vehicle was only 15 000 km. In a different case, the supplier of a construction project had **CZK 1.3 million** paid out to him as the cost of operating a vehicle provided to the Karlovy Vary Administration for the period from December 2009 to October 2012, although the distance driven using the vehicle was only about 80 000 km. The wide range of values of certain unit costs related to activities between the audited plants and administration also point to possible sources of savings for the RMD. In a number of cases, it was not possible to explain this wide range by the different nature of the activities or by special circumstances.

In the past year, the SAO also focused on the activities of the organisational units of the state as the enforcers of the proprietary rights of the state. The audit findings testify to the fact that in certain cases, the state is unable set the rules for its role as founder and does not perform this role properly. It fails to assess both the substance and purpose behind the existence of the organisations that it sets up. It does not decide on their existence based on a plan, substantiated needs or economic criteria. The following examples confirm that

²⁰ Act No. 218/2000 Coll., on budgetary rules and on amendments to certain related acts (the Budgetary Rules).

²¹ See the audit conclusion of Audit No. 04/24 - *State budget resources and management of state assets by the Ministry of Transport* (published in issue 2/2005 of the *SAO Bulletin*) and the audit conclusion of Audit No. 06/37 - *Management of state assets by the state contributory organisation Road and Motorway Directorate of the Czech Republic* (published in issue 3/2007 of the *SAO Bulletin*).



unsubstantiated payments were made from the state budget and that certain transactions related to the sale of state assets were disadvantageous.

- Audit No. **12/17** was focused on the joint-stock company MUFIS, the sole shareholder of which is the MoF. Based on what is known as the Programme Agreement concluded with the USA in 1994, MUFIS was able to utilise resources that amounted to **USD 43.2 million** after deduction of the initial fees. As MUFIS paid back **USD 85.5 million** to the USA, it was clear that the development project was financed under strictly commercial terms and conditions. A total of 122 infrastructure projects (insulation, natural gas etc.) were financed through this aid in the form of loans with an average interest rate of 12% p.a. As the terms and conditions of the loans had become disadvantageous, MUFIS paid off the last instalment early, in January 2012.

Through State Budget Chapter 398 - *General Treasury Administration* (GTA), the MoF provided MUFIS with state budget funds. In some cases, however, the MoF paid its financial obligations to MUFIS above that agreed in the Programme Agreement. Without any legal reason for doing so, it paid interest-related losses. This was assessed by the SAO as the unjustified provision of finances from the GTA chapter in an amount exceeding **CZK 31 million**. On the other hand, the MoF did not carry out certain activities under this agreement, e.g., it did not approve interest rates on loans provided by participating banks to MUFIS, nor did it approve interest rates or conditions under which the banks could then provide loans to municipalities. The funds available under the *Housing Guaranty Programme* (HGP) had been, with the government's consent, used for environment protection since 2003, and the MoF undertook to reimburse MUFIS the requisite costs expended in connection with obtaining and providing HGP funds. As of February 2012, MUFIS no longer incurred any costs; nevertheless, the MoF continued to make these payments. The SAO also stated that, with regard to the fulfilment of the purpose for which MUFIS was set up in the 1990s, it saw no reason for its long-term existence. Based on a government resolution adopted in response to the results of the audit, an addendum was concluded to the agreement on the use of HGP resources based on which the fee for 2013 and 2014 will no longer be paid from the state budget. The government also asked the MoF to assess the need for the further existence of MUFIS and to draw up a plan for its different use.

- Audit No. **12/26** focused on funds provided to the state enterprise VOP CZ, s.p., formerly VOP-026 Šternberk, and on the procedure connected to its restructuring. The SAO discovered that the MoD, as the founder, did not lay down the rules for discharging its position or the rules according to which state enterprises are to manage state assets, which includes defining strategic assets and the criteria for assessing economy and efficiency. As a result, assets were not listed in the foundation deed explicitly or clearly identified to allow for a comparison with the asset records of the state enterprise.

When deciding on merging the state enterprises, the MoD did not conduct economic analyses to prove that the merger was necessary, nor did it assess the costs of merger or whether the merger would secure defence needs in a more effective and efficient way, although the total costs of the merger amounted to **CZK 22 million**. The MoD's decision to restructure the state enterprise was made in an unplanned and uncoordinated manner, which fact was demonstrated by the decision to end production and sell the assets in the Šternberk location. As a result of this decision, the investment into a new assembly hall purchased in 2007 for **CZK 219 million** resulted in a loss. The audit found that both the supervisory board and the founder agreed to sell the assets following a tender and bid evaluation despite it being clear that the sale would result in an accounting loss of **CZK 146 million**. In connection with the sale, the state enterprise created a reserve of **CZK 41 million** in 2011 for the employees' severance pay. The total loss is expected to exceed **CZK 187 million**.

For reasons described above, the SAO will continue to focus on the state's management of assets and financial resources in the future. It will also monitor and assess the measures that will be adopted by the auditee and the government, especially with regard to system shortcoming and our recommendations. In connection with the shortcomings discovered by

its audits, the SAO noted the adoption of certain measures last year that could help improve government spending; conversely, however, the SAO could see that certain reasonable measures that could have remedied the discovered errors were not introduced, nor was any responsibility assumed. The following examples can be provided:

- Audit No. **10/26**²², which was completed in 2012, called attention to the significant amount of available funds in the billions of crowns in the possession of the state enterprise Lesy České republiky. In connection with this finding, the State Enterprise Act²³ was amended effective 1 August 2013. The amendment allows profit generated by the state enterprise to be transferred to the founder's newly created fund. The aim of the regulation was to allow the founder of the state enterprise to transfer available funds to the state budget.
- An example of the non-constructive approach to the audits results is the stance taken by the MoA to serious system shortcomings in the field of ICT totalling **CZK 1 billion**. These shortcomings were discovered by the SAO in Audit No. **12/04**²⁴ completed in 2012. The SAO sees the way that the MoA awards public contracts - i.e., by using NPWOP, stipulating discriminatory selection criteria and dividing up contracts - to be a serious breach of the Public Procurement Act. The MoA did not agree with these conclusions and, therefore, did not propose any measures in response to the specified errors when discussing the results of the audit with the government. Publicly available sources showed that the tax office responded to the breach of the Public Procurement Act by assessing a fine for breaching budgetary discipline in excess of half a billion crowns. The MoA continues to disagree.

2.3.2. Management of other financial resources

In the area of management of other financial resources, Audit No. **12/20** was completed in 2013. This audit focused on resources collected based on the law in connection with the disposal of hazardous waste²⁵, specifically the collection of fees and fines for storing hazardous waste in landfills in the period from 2007 to 2011.

This audit was a follow-up audit to Audit No. 05/28²⁶, which discovered that the system for collecting and imposing fees is complicated and allows waste producers and dump operators to pay only minimum fees or avoid paying fees altogether. The results of the follow-up audit showed that no substantial positive changes have taken place in this area in over eight years. Conversely, the SAO found that in 2011, for example, hazardous waste was stored in landfills at no charge in almost every single case:

- The system for collecting, imposing and controlling the collection of fees for storing hazardous waste in landfills remains very complicated. At the same time, it allows for waste to be disposed of in ways that are exempted from fines, although this hazardous waste is in fact stored. This leads to the storage of a large amount of waste without any fees being paid to the budget of the State Environmental Fund (SEF), although such fees could be used by the SEF for waste disposal or environmental protection. Even though the risk component of this fee, which is a form of revenue for SEF, grew in 2009 from **CZK 3 300** to **CZK 4 500** per tonne, the collection of risk component fell between 2007 and 2004 by almost a half, specifically from **CZK 108 million** to **CZK 59 million** per year. In 2011, the percentage of hazardous waste stored without a fee

²² The audit conclusion of Audit No. 10/26 - *State assets and financial resources provided to the state enterprise Lesy České republiky* was published in issue 1/2012 of the *SAO Bulletin*.

²³ Act No. 77/1997 Coll., on state enterprise.

²⁴ The audit conclusion of Audit No. 12/04 - *Management of state assets and financial resources in connection with the execution of information and communication technology projects at the Ministry of Agriculture* was published in issue 1/2013 of the *SAO Bulletin*.

²⁵ The basic rules for disposing of waste, the amount of statutory fees and the obligations of the various stakeholders in waste management are laid down in Act No. 185/2001 Coll., on waste and on amendments to certain other acts.

²⁶ The audit conclusion of Audit No. 05/28 - *Management of state financial resources in connection with the disposal of hazardous waste* was published in Part 2/2006 of the *SAO Bulletin*.

increased to almost **99%**. Furthermore, the SEF - unlike municipalities, which are the recipients of the basic fee for storing hazardous waste - has no statutory power to check that these fees are paid in the case of landfill operators. At the same time, municipalities are not obliged to inform the SEF about controls and their results.

The MoE's standpoint to the audit presented to the government stated that the shortcomings discovered by the SAO in connection with the collection of fees associated with the storage of waste were so significant that they warranted an amendment to legal regulations. In this connection, certain legislation measures²⁷ were adopted. The scope of the MoE's obligations in relation to information about waste management in the Czech Republic was expanded with effect from 1 October 2013. Furthermore, the MoE prepared a methodological standpoint on the possibilities for using waste in landfills (so-called *landfill structural components*) intended for the regional authorities and the Czech Environmental Inspection. The SAO will continue to monitor the system for collecting, paying and checking the collection of fees for storing hazardous waste.

2.4 Important investment programmes and projects

The SAO continued to pay systematic attention to important state investment programmes and projects. In 2013, the SAO conducted a total of seven audits, in which it scrutinised financial resources earmarked for the following:

- Development of material and technical facilities of teaching hospitals (Audit No. **12/03**)
- Flood measures (Audit No. **12/27**)
- Procurement of arms and technology for the ground and special forces of the Armed Forces of the Czech Republic (Audit No. **12/33**)
- Investments in the purview of the Academy of Sciences of the Czech Republic (AS CR) and public research institutions founded by this institution (Audit No. **13/06**)
- Transport infrastructure (Audit No. **12/11** - modernisation of important railway hubs; Audit No. **12/18** - construction of motorways and dual carriageways; and Audit No. **13/14** - modernisation of the railway network outside TEN-T²⁸).

2.4.1 State investment in transport infrastructure

One of the most monitored areas by both the SAO and the public over the long-term is state investment in transport infrastructure. During its systematic examination of the reasons why conditions do not exist in the Czech Republic that would ensure the economical, effective and efficient use of state resources for transport-related projects, the SAO repeatedly called attention to the absence of a plan that would form an objective basis for making decisions on the procedure for preparing and executing transport infrastructure projects in line with the development of traffic and transport needs. The failure to guarantee stable financing through the state fund budget and shortcomings in planning and management activities are the principle causes behind delays in the construction of transport infrastructure. Even the results of audits completed in 2013 correspond to the mentioned situation.

- In Audit No. **12/11**, the SAO discovered that the MoD did not have any material at its disposal that would comprehensively address the modernisation of railway hubs, including an assessment of the overall impacts on the railway network in the Czech Republic or its integrated sections. A serious shortcoming is also the unclear division of decision-making powers and responsibilities for preparing and implementing railway hub modernisation projects between the MoT, the State

²⁷ In connection with the audit findings, Act No. 169/2013 Coll., which amends Act No. 185/2001 Coll., on waste and on amendments to certain other acts, as amended, Act No. 25/2008 Coll., on the integrated pollution register and the integrated environmental protection reporting system and amendments to certain acts, as amended, and Act No. 56/2001 Coll., on the conditions for operating vehicles on roads, as amended, was adopted.

²⁸ The TEN-T (Trans-European Transport Network) programme is intended for the development of the trans-European transport network. The objective of the programme is to ensure continuity, interconnectivity and interoperability of the transport network as well as access to the network.



Fund for Transport Infrastructure (SFTI) and the Railway Infrastructure Administration (RIA). The MoT was in charge of approving the various projects, but it did not show on what basis it made its decision in each case and whether it carried out feasibility studies or assessed the cost-effectiveness of projects and, if it did, then what the results were. Furthermore, the setup of the financing of projects spanning a number of years is doing the most to complicate railway modernisation, as the RIA had only secured one year's worth of financing for the various projects, i.e., it did not secure funding for subsequent years. Even the RIA did not concern itself with efficiency when preparing the budget, providing financial resources or carrying out its own controls, although pursuant to Act No. 104/2000 Coll.²⁹ and even Act No. 320/2001 Coll.,³⁰ it is responsible for using resources effectively.

- In Audit No. **12/18**, the SAO stated that according to the MoT's original concept developed at the end of the 1990s, the network of motorways and dual-carriageways should already be completed. According to developments to date, however, it will take at least another 32 years to complete the network, and by that time over **CZK 520 billion** will have been spent on it, which is **64%** more than anticipated in 1999. What is more, since 2007, the preparation and implementation of construction projects have not been based on any medium-term or long-term plan. The creation of a realistic transport infrastructure development plan was also limited by the low level of accuracy of predictions regarding the availability of funds for the development of traffic infrastructure in the medium- and long-term.

The effectiveness of certain measures adopted by the MoT between 2010 and 2012 to make the construction of transport infrastructure more efficient has so far had no marked effect. Investors erred when preparing and executing certain projects. The process of selecting the various projects for execution was not sufficiently transparent and did not ensure maximum possible efficiency and effectiveness. During the preparation and implementation of projects, important changes occurred in their financing and timing and even in the scope and process of the work without a sufficient explanation being provided or an assessment of the consequences and impacts. Certain changes were forced by the parties to zoning and building permit procedures. Serious shortcomings were also discovered in tendering procedures and when awarding additional construction work. The following are some of the findings of the audits:

- In Audit No. **12/11**, the SAO discovered that railway hub modernisation was decided on and its course was monitored only on the level of the specific projects without taking into account other construction projects within the various integrated transport solutions. Of the twelve scrutinised projects, five projects were completed by the time the audit was completed, with all of them seeing an **8-19%** increase in the price agreed in the respective agreements. When executing projects, the RIA awarded additional construction work in negotiated procedure without prior publication without demonstrating the fulfilment of the conditions stipulated by the law for doing so, especially the need for such work as a result of objectively unforeseeable circumstances and their inseparability from the original public contract. For example, when executing one project with total costs of **CZK 7.8 billion** in the mentioned manner in the period of 2005-2010, it awarded additional construction work to the supplier worth **CZK 1.6 billion**.
- In Audit No. **12/18**, the SAO stated that neither the RMD nor the SFTI created effective mechanisms to control and assess prices in the field of transport projects. As part of the preparation of projects, RMD did not create the prerequisites for their proper execution. This resulted in an unsubstantiated number of changes, with unforeseeable additional work comprising only a small part of the total amount of additional work. The execution of construction projects, from the moment of approval of the investment plan or from the moment of drafting of documentation

²⁹ Act No. 104/2000 Coll., on the State Fund for Transport Infrastructure and on the amendment of Act No. 171/1991 Coll., on the competence of the Czech authorities with regard to the transfer of state-owned Property to other persons and the National Property Fund of the Czech Republic.

³⁰ Act No. 320/2001 Coll., on financial control in public administration and on amendments to certain acts (the Financial Control Act).



for the zoning decision, took an unreasonable amount of time, usually around 12 years. One of the reasons was the weaker position of the state in zoning and building permit procedures and resolution of real estate and land issues. Procedural errors in zoning and building permit procedures were another reason, as these made it possible to contest issued decisions frequently and successfully. Expected construction costs increased during zoning procedures by **68%** and during building permit procedures by **37%**. The causes behind this were the acceptance of the demands of parties to zoning and building permit procedures and the design of unsubstantiated building and technical solutions that the RMD accepted and in some cases even requested.

The SAO discovered serious shortcomings in the procedure for awarding public contracts. Of the 38 scrutinised public contracts worth **CZK 6.4 billion** awarded by the RMD, 21 of them, worth a total of **CZK 4.3 billion**, were awarded in violation of the Public Procurement Act. In the case of 11 projects, the RMD awarded additional work in the amount of **5% to 29%** of the original price of the project and worth a total of **CZK 2.4 billion** without a tender or without its completion and in some cases even without a written agreement. Furthermore, the RMD violated the Public Procurement Act in the case of an advisory services agreement worth **CZK 100 million**, when it awarded the contract in negotiated procedure without publication without fulfilling the conditions under the law for doing so and tailored the tendering conditions to one supplier.

- In Audit No. **13/14**, the SAO discovered that the procedure applied by the MoT to decide on the course of preparations of railway modernisation projects outside the TEN-T network was not transparent. In certain cases, the MoT itself contested the veracity of documents based on which a decision was to be made. The correctness and objectiveness of the assumptions applied in the economical assessments of projects were not examined when deciding on the preparation and execution of the projects. The financial parameters and timing of projects during the course of decisions changed substantially also without an examination of the causes and impacts of such changes. The SAO discovered serious shortcomings even in the contractual documentation pertaining to the projects. The RIA's acted ineffectively and uneconomically when it stipulated in the respective contracts the price of the works including "reserve items" without specifying the method and conditions for their application and utilisation. The RIA also awarded additional work in negotiated procedure without publication at the time when it was already carried out. In certain cases, the changes in the subject and scope of the works were made only on the basis of the project engineers' instructions without concluding addenda to the contracts for works. According to the hitherto results of the execution of the railway network modernisation project and the utilisation of resources from the Transport Operational Programme, which is one of the sources of the modernisation, there is the real threat that the planned amount of resources under the respective priority axis will not be utilised in full.

A certain culmination of audit work in the area of transport infrastructure in 2013 was cooperation with the German Federal Court of Auditors (BRH). The potential possible savings in the construction of motorways and dual carriageways that the SAO's audits called attention to in Audit No. 12/18 was estimated at 12% to 20% of total project costs. To verify the estimate, a comparison was made in cooperation with the BRH of the comparable construction costs per km of motorways in the Czech Republic and in Germany. Whereas the price in the Czech Republic amounted to CZK 355 million, the price in Germany amounts to CZK 260 million, i.e., 27% lower. Cooperation with the BRH also showed that the percentage of open procedures should be increased if such tenders are conducive to competition, help reduce prices and substantially reduce the chances of corruption. The price could also be influenced by the obligation to award contracts in parts, which is mandatory under German law and increases the number of bidders, thus creating pressure on the price. Unlike in Germany, there is no central database of prices of structural engineering projects in the Czech Republic that would allow for an objective comparison of prices to see whether they are justified.

The importance of the discovered system shortcomings in transport infrastructure and the ineffectiveness to date of certain previously adopted measures are the reasons for the SAO's peaked interest in whether corresponding measures are being adopted to remedy the unsatisfactory situation. At the end of 2013, the SAO registered certain positive steps taken in response to its findings and recommendations:

- As was already mentioned, the SAO repeatedly called attention in its audit conclusions to the unplanned approach to financing construction, repairs and maintenance of transport infrastructure and to errors in management and control efforts, which resulted in the state losing substantial amounts of money. With respect to the result of Audit No. 09/27,³¹ the MoT adopted measures according to which it would present a long-term transport infrastructure development strategy to the government by the end of 2011 and then, by the end of 2012, present a proposal for a system approach that would guarantee stable financing for this area. Government Resolution No. 71 of 26 January 2011 imposed the fulfilment of these measures on the MoT. By the stipulated deadlines, however, the MoT only adopted partial measures and only managed to present a complete strategy in November 2013, which the government approved by its Resolution No. 850 of 13 November 2013.
- With regard to the results of Audit No. 12/18, the MoT, in documentation for the government, presented a set of adopted measures based on all of the SAO's previous audit conclusions and on audits conducted by other entities regarding the process of preparing and executing construction projects, including the area of awarding public contracts and increasing construction costs. According to the MoT, these measures, together with the newly adopted transport sector strategy, should substantially improve the situation in this area, including completion of the primary TEN-T network by 2030 and the global network by 2050. However, the SAO calls attention to the fact that implementation of the strategy in full is conditional upon obtaining **CZK 70 billion** a year beginning in 2015. According to the MoT, however, obtaining this amount of financing is subject to political decisions, which includes the necessary transfer of resources from other EU operational programmes.

In connection with the discovered shortcomings and according to the results of cooperation between the SAO and BRH, Government Resolution No. 742 of 10 October 2012 charged the MoT, based on the SAO's audit, with the task of assessing the possibility of awarding public contracts in parts even in the Czech Republic.

2.4.2 The state's investment policy in other areas

In audits focused on the field of programme financing, shortcomings that have a negative effect on the economy, efficiency and effectiveness of the use of state budget resources are repeatedly observed. The programmes are often not based on long-term and clear plans drawn up by their managers, do not have a realist time frame or financial framework, nor are the objectives and the effects that are to be achieved assessable. What is more, substantial changes occur during their execution. The programmes are rather a tool for the continuous financing of various projects, often executed without a proper assessment of their benefits based on economic criteria. The SAO considers this state of affairs to be a violation of the principles of the programme financing system. Financing investments through programmes has become a formal instrument that does not fulfil its function, as it does not ensure the effective allocation of public resources. The typical shortcomings were demonstrated by audits completed in 2013 as well:

- In Audit No. 12/03, the SAO discovered that the MoA does not have a clear plan regarding the issues of status, number and equipment of teaching hospitals, which is a reason for the absence of follow-up strategic and planning documents that would be a condition for long-term, system

³¹ The audit conclusion of Audit No. 09/27 - *Financial resources intended for the construction of roads* was published in issue 4/2010 of the *SAO Bulletin*.



and effective expenditure. The MoA did not assess the fulfilment of aid objectives (indicators) for teaching hospital investment projects, although the budget of the scrutinised programme grew by more than **557%** in the period from 2004 to 2010 to the current **CZK 18.7 billion** and the programme execution period was extended by nine years. The current manner of financing the purchase, renewal and modernisation of medical equipment does not guarantee the economical, effective and efficient use of financial resources because a medium-term plan for the distribution of medical equipment, an overview of equipment purchased through other types of subsidies and a register of referential prices, based on which it would be possible to objectively verify offered prices, are all absent. Such register would, however, be the foundation of a corruption fighting strategy in this area. The fact that the MoH does not have an overview of the purchased equipment and the fact that the conditions for an effective and economical system for using programme resources are non-existent were also documented in the example of the Ostrava TH, where a computer tomograph, modernised through a **CZK 15 million** grant, was used for only 12 months before being placed in storage after this hospital purchased a new instrument from EU resources to replace it. The SAO's audit at the teaching hospital discovered shortcomings in particular in the awarding of public contracts. It showed the absence of a competitive environment, as the teaching hospital in most cases (**73%**) evaluated only one bid in tendering procedures.

The government, however, did not accept the results of the SAO audit and did not adopt measures that would allow the MoH to draw up a plan for the development of teaching hospitals, obtain an overview of the equipment in the ownership of the hospitals and set up a referential price register that would be used when purchasing equipment using public resources. There continues to be a risk of the uneconomical and ineffective use of resources.

- The findings of Audit No. **12/27** showed that in both scrutinised flood protection programmes, the MoA focused chiefly on individual projects in a way that would ensure the full utilisation of the financial resources earmarked for the execution of the programmes. The MoA did not sufficiently quantify the expected benefits for improving flood protection. Thus, in the case of financially demanding programmes, where costs totalled **CZK 15.6 billion**, it will not be possible to verify whether and to what extent it was ensured that the maximum effect will be achieved as a result of executing the programme and that the objectives will be fulfilled. In the case of one programme focused on improving the state of reservoirs and ponds, with costs totalling **CZK 4 billion**, it specified its technical parameters but not the effect these would have on flood protection. As was discovered in the case of this programme, in 8 out of 15 reviewed projects, the MoA had allowed for financial resources to be used on projects that had little or no importance for flood prevention or for the protection of property and inhabitants. Shortcomings were ascertained in tendering procedures for the selection of a project contractor. These shortcomings pertained mainly to average values in the case of certain evaluation criteria, specifically the "*contractual penalty*" criterion and "*warranty period*" criterion. Here certain bidders offered unreasonably high amounts, which led to the selection of less advantageous bids or to their non-transparent evaluation.
- In Audit No. **12/33**, the SAO found that the scrutinised MoD programmes for the procurement certain arms and equipment for the Armed Forces of the Czech Republic did not have a fixed material/financial framework, time frame or plan, which also resulted in the haphazard purchase of military equipment and material. The duration of the sole completed programme under review was extended by two years for the reason of problems with the purchase of parachutes. The cost of another programme was increased by **CZK 595 million**, i.e., by **42%**, chiefly for the reason of a subsequently added purchase of specialised vehicles for rescue missions. Some of these vehicles, purchased in 2010 for approx. **CZK 121 million**, have still not been deployed in foreign missions.

A clear lack of planning in connection with the purchase of parachutes is demonstrated by the fact that the first part of this purchase was not executed until 2011 instead of 2008. Furthermore, the MoD reduced the number of parachutes from the planned 300 sets for **CZK 40 million** to 200

for the same total price, which increased the anticipated price of one set from **CZK 133 000** to **CZK 200 000**, i.e., by about **50%**. In the end, the MoD purchased only 150 parachutes. Despite the contractor not fulfilling the agreed technical parameters, the MoD selected the same contractor for the second part of the purchase, with the same technical issues arising and again resulting in a two-year delay. The SAO further discovered that prior to commencing the purchase of the parachutes, the MoD already had 712 sets of parachutes in storage. These were purchased in 1996 for approx. **CZK 120 million** and never used. Once their technical life expired in 2010, they were destroyed.

In 2013, the MoD launched a new programme that should be based on the plan known as the *White Papers on Defence*, drawn up in 2011 and not subject to this audit. With regard to the problems discovered by the SAO with respect to the reviewed programmes, it will continue to monitor new programmes.

The SAO also scrutinised investments outside programme financing, specifically investments made under the Academy of Sciences of the Czech Republic. Even here it was discovered that this institution was unable to create sufficient mechanisms that would guarantee to the economical, efficient and transparent use of the provided funding.

- Audit No. **13/06** found that neither the AS CR nor its various facilities drew up an asset replacement plan that would specify priority projects according to a needs analysis thereby guaranteeing the economical, efficient and effective use of the provided financing. In 2008-2013, investment projects worth **CZK 3 billion** were approved nevertheless. The rules that the AS CR put in place for the selection and execution of investment projects were not observed either by the AS CR or its facilities and, in certain respects, were insufficient. The procedures for selecting projects for support were not sufficiently transparent. For example, when evaluating applications for completeness, the AS CR approved even those projects without a properly documented plan or without being properly prepared construction-wise. In 2010 to 2012, substantial changes were made to planned projects intended for final approval. Shortcomings were discovered in all of the AS CR facilities scrutinised, specifically with respect to tendering procedures, project execution, fulfilment of the conditions of the granted subsidies and bookkeeping. As a result of poor preparedness, a number of projects was not executed or the amount of the provided funding was adjusted. The total amount of unutilised resources related to approved construction projects for the period from 2008 to 2012 amounted to **CZK 394 million**.

2.5 Financial resources from abroad

During 2013, the SAO completed five audits that focused first and foremost on the management of resources provided to the Czech Republic from abroad.³² In terms of amount of available resources, the EU budget is the most important source of financing for the Czech Republic. Economic and Social Cohesion Policy and Common Agricultural Policy are financed from the EU budget via specific funds. At the same time, these funds are an important source of financing for the development of important sectors in the Czech Republic along with co-financing from the state budget.

In the past year, the SOA's audits focused on resources provided to the Czech Republic from the EU budget for the reimbursement of expenses incurred under the following:

- Technical Assistance Operational Programme (Audit No. **12/13**)
- Human Resources and Employment Operational Programme (Audit No. **12/19**)
- Research and Development for Innovations Operational Programme (Audit No. **12/21**)
- Direct payments to farmers (Audit No. **13/03**)
- Czech Republic - Poland Cross-Border Cooperation Operational Programme (Audit No. **13/04**)

³² During these audits, the SAO reviewed the entire process of implementing EU resources, i.e., it examined the correctness of the various transactions, which included assessment of the setup and functioning of the internal management and control system of the respective operational programme.



The other five audits (Audit Nos. **12/18**, **12/35**, **12/36**, **13/12** and **13/14**), during which projects co-financed by the EU were scrutinised, are, with regard to their predominant focus on management of state assets and important investment programmes, discussed in the pertinent parts hereof (i.e., in sections 2.3 and 2.4).

From the point of view of management of resources provided to the Czech Republic from the EU budget, 2013 was important for a number of reasons. With regard to certain operational programmes, shortcoming related to delays in the launch of the programmes, incompetence with respect to utilising the allocated resources despite a sufficient number of quality projects in the respective area at the time, and administrative problems with processing aid applications were fully brought to light. The above has in recent years been leading to relatively marked stagnation in the utilisation of resources allocated from the EU. As a result, there is growing risk that it will not be possible to utilise all of the allocated amounts and a significant portion of the EU resources earmarked for the Czech Republic will automatically expire and will no longer be available. According to the status of utilisation of resources earmarked for the 2007-2013 programming period, it is likely that by the end of November 2013³³, the Czech Republic will irrecoverably lose billions of crowns earmarked for 5 of 18 operational programmes as a result of the failure to utilise resources under the n+2/n+3 rule³⁴. According to a review conducted by the European Commission, the Czech Republic belongs to a group of EU Member States with the lowest allocation utilisation rate.³⁵

Stagnation in terms of utilising EU resources is due to many factors. The ones deserving the most attention are: the complexity of the implementation system and rules related to the operational programmes; insufficient risk management by the relevant managing and coordination authorities; inadequate performance level and responsibility of the managing authorities; and administrative issues, including frequent turnover in important positions. The SAO, however, would like to note that this situation does not mean that pressure should be focused on utilising the resources in full at all cost. Instead, pressure should be placed on making use of the full potential of these resources to support projects on a rational basis. This information should also be used to set up a more effective system in the new 2014-2020 programming period. With regard to the state of preparations, however, it is clear that the same situation may arise again in the next programming period.

The long-term results of audits concluded by the SAO show that errors are repeated again and again, especially as regards improperly set up operational programmes and inadequate management and control systems. Strategic objectives of the programmes are often formulated only generally and, in a number of cases, are not made concrete by specific targets. The setup of monitoring indicators are also problematic: in some cases, they do not allow for an assessment of the progress made in fulfilling material objectives or whether aid provided was used effectively, economically and efficiently. Management and control systems are not sufficiently effective in terms of their ability to monitor financial progress, especially in terms of monitoring the effectiveness of utilisation of allocated resources. The above is documented by examples from audits completed in 2013. Although in these audits the SAO assessed the management and control system as effective or partially effective, the results point to certain system shortcomings, also in terms of significant risks that are not managed sufficiently.

- In Audit No. **12/13**, the SAO focused on scrutinising the implementation of the Technical Assistance Operational Programme (OP TA). Although the objective of this programme was to reinforce central management and coordination of operational programmes on the national level, it was

³³ *The Monthly Monitoring Report on the State of Implementation of the Structural Funds, the Cohesion Fund and National Co-financing in the Programming Period 2007–2013* - November 2013, issued by the MoRD on 19 December 2013.

³⁴ The n+2/n+3 rule is an administrative instrument to ensure the efficient utilisation of resources from the structural funds and the *Cohesion Fund*. According to this rule, the allocation of support for the nth year has to be fully utilised in the next two/three calendar years.

³⁵ Communication of the Commission to the European Parliament, Council, European Economic and Social Committee and the Committee of the Regions: *Cohesion Policy: Strategic Report 2013*; SWD (2013) 129 final, 18 April 2013.



approved almost a year after the programming period began as one of the last programmes. The SAO stated that the MoRD, as the managing authority of the programme, set up and assessed certain OP TA monitoring indicators in a way that makes it impossible to verify progress in relation to the initial situation or the fulfilment of the objectives of the programme or its priority axes. The MoRD set up the only impact indicator - "*degree to which the project administration procedures are shortened*", which expresses the effectiveness of the programme - in such a way that its target value was already met at the beginning of the programming period in 2008. An indicator set up in this way does not allow for a clear assessment of the cost-effectiveness and efficiency of OP TA resources at the end of the programming period. The problems and risks in the area of the long-term low utilisation of allocations, the insufficient number of quality projects and the long preparation and execution times for tendering procedures with respect to OP TA projects have appeared repeatedly over a number of years. Up until the time that the SAO's audit was completed, the MoRD had not managed to adopt measures that would be sufficient to remedy the low absorption capacity of the OP TA or eliminate the risk of failure to utilise the allocation in full. According to the mentioned monthly monitoring report of the MoRD, this programme is also one of five programmes where there is a high risk that the limit specified for 2013 will not be utilised in full. At the end of November 2013, OP TA-related expenditures amounting to **CZK 2 billion** were certified, i.e., only **32%** of the total programme allocation.

- In Audit No. **12/21**, the SAO scrutinised the execution of the Research and Development for Innovations Operational Programme (OP R&DI) and found that although the management and control system is functional, it shows certain shortcomings. When setting up the operational programme, the MoEYS set up progress monitoring indicators that do not always allow measurement of the gradual fulfilment of set objectives and set the target values of certain monitoring indicators too low. The system for reporting financial forecasts for OP R&DI was not able to assess duly and in a timely manner the financial risks tied to the fulfilment of the stipulated utilisation limits under the n+2/n+3 rule. The SAO also identified the risk that the limit of **10%** stipulated for cross-financing would not be adhered to.

Fundamental problems with the setup of the management and control system are repeatedly observed also in the mechanisms that are used to select projects for financing. These mechanisms do not lead to the economical, effective and efficient fulfilment of programme objectives. Errors pertained to the way the conditions for admissibility and material evaluation of projects were set up, the high degree of subjectivity of the evaluation, the existence of a conflict of interest with respect to the evaluators, evaluations performed at variance with the evaluation criteria and the risks of non-transparency and discrimination. The mentioned shortcomings may result in a violation of the principles of proper financial management, i.e., failure to use resources in an economical, effective and efficient way, and in the ineligibility of expenditures and discrepancies under EU regulations. For the audits completed in 2013, the following examples can be highlighted:

- In Audit No. **12/19**, which focused on the Human Resources and Employment Operational Programme (HREOP), specifically on the priority axis "*Active Labour Market Policy*", the SAO assessed that the MoLSA, as the managing authority, did not set up conditions in certain cases that would lead to the effective utilisation of funds earmarked for HREOP. Serious shortcomings were discovered in **21%** of the reviewed projects. Projects are selected based on subjective evaluation criteria that do not take into account the economical, effective and efficient use of resources. For example, when selecting individual projects, only **20%** of all of the selection criteria related to the economical, effective and efficient use of resources. This resulted in differences in the results arrived at by the evaluators in the evaluation process. Although the aim of the area of support was to increase the employability of the unemployed, the MoLSA provided the support in such a way that even individuals who were employed, self-employed or acting as the statutory representative of the civic associations involved in the project could receive support. One of the monitoring indicators was, for example, "*number of created jobs*" (33 000 jobs), and although this number



was exceeded (**40 000 jobs were created**), **95%** of the jobs were only temporary, usually lasting for just one year. The MoLSA violated EU legal regulations by approving expenditures related to a project carried out in cooperation with the labour offices (LOs) without conducting a review of the accounting documents.

The MoLSA did not verify that the created jobs were sustained in cases where the sustainability condition applies after the completion of the project, nor did the LOs monitor the effect of these projects on the individuals who received support. The SAO audit found that in the case of the LOs there were other cases of participants where there is reasonable doubt as to the need to include them in the project. For examples, two primary school headmasters were among the individuals who stated that they were looking for a job (retraining as a welders). Individuals employed as an accountants and secretaries were being retrained as seamstresses, education staff as masseurs/masseuses, etc.

- Similarly, Audit No. **12/21** found that the MoEYS, as the managing authority for OP R&DI, erred when evaluating and selecting projects, thereby negatively influencing the transparency of the evaluation and selection process. In the process of evaluating the substance of the projects, the MoEYS did not make sure that the projects were evaluated in compliance with the approved criteria, thereby acting at variance with EU regulations. The MoEYS used exemptions to the rules and procedures of the OP R&DI, which it had laid down itself, already in the project evaluation and selection phase, thereby creating an environment conducive to inequality and corruption.
- When conducting Audit No. **13/04**, which scrutinised the resources allocated to projects as part of the Czech Republic - Poland Cross-Border Cooperation Operational Programme (OP CBC CR-POL), the SAO discovered specific shortcomings in controls in the following areas: project admissibility, project partner controls and tendering procedure controls. For example, a review of the project approval process discovered that in the case of ten project applications (of the 235 assessed), the monitoring committee had not justified their financing recommendations in the minutes of the evaluation meeting although the secretariat responsible for the control and evaluation of the projects had not recommended their financing. One of the project applications was recommended for financing by the monitoring committee at variance with the provisions of the rules of procedure. This approach represents the risk of non-transparency and discrimination in the project approval process.

With regard to beneficiaries, the most common transgressions included: violation of the Public Procurement Act, violation of subsidy conditions, reporting of ineligible costs and an ineffective and uneconomical approach to executing certain projects. At the same time, the results of the audits completed in 2013 confirmed that the controls performed by the managing authorities were insufficient in those cases where the ministries were both the managing authorities of the operational programmes and the beneficiaries of the support or where the aid beneficiaries were organisations falling under the ministries. The following are examples of the above:

- Audit No. **12/13** found that as part of the OP TA, one organisation falling under the MoRD was carrying out two functions – managing authority and beneficiary – at the same time. The proper functioning of the managing and control system for the OP TA was jeopardised by such setup. In those cases where the MoRD acted as both the project beneficiary and the intermediary body controlling the project, it could not be guaranteed that controls would be carried out sufficiently or that shortcomings would be revealed. In its audit, the SAO discovered that specific criteria set by the beneficiary (MoRD) for selecting the contractors for public contracts were essentially immeasurable, incomparable and objectively impossible to evaluate, which the SAO assessed as posing a risk to the transparency of the process for evaluating and selecting the most advantageous bid. A breach of the principles of efficiency and economy and, at the same time, budgetary discipline was discovered in the case of a public tender for the organisation of the annual meeting of the organisational department of the MoRD - National Coordination Body in 2010, as certain services that were ordered and paid for were not, in terms of their scope and

type, necessary for the project and did not fulfil the principle of cost-minimisation in relation to the objectives of the project.

- In Audit No. **12/19**, it was discovered in three cases that the MoLSA and the labour offices, as beneficiaries of aid from HREOP, violated the Public Procurement Act substantially, thereby significantly affecting the results of the tendering procedure. The MoLSA, e.g., in the tendering procedure for a project regarding the national professions system (NPS), did not excluded the sole bidder despite this bidder not having the required qualifications and even chose his offer as the winning offer. By doing so, it violated the Public Procurement Act and breached budgetary discipline by as much as **CZK 149 million**. The LOs violated the law even despite having used legal and advisory services to prepare the tendering procedure. For some of the project activities, certain LOs chose payment in the form lump-sum amounts. The price that was paid was thus not based on the contractor's actual performance. The results of this practice also resulted in the situation where the price paid to the contractor for providing direct aid to project participants was up to twelve times higher than the total amount of the aid actually paid to project participants. Upon scrutiny of the projects executed by the LO, ineligible costs were discovered. These ineligible costs were a result of a breach of the project conditions, payment for work in fact not carried out or payment for unnecessary work. At the same time, by executing the NPS, the MoLSA transferred responsibility to the contractor for activities that it itself should be carrying out under the law. For the reason of cost-effectiveness, the SAO recommends that the NPS catalogue for the next period should be updated by the MoLSA by its own employees and not outsourced and that employers should also contribute to its financing.
- In Audit No. **12/21**, the SAO also discovered shortcomings with respect to the MoEYS, which erred in administrative controls of the eligibility of expenditures billed by aid beneficiaries. With respect to the aid beneficiaries, the SAO discovered shortcomings in connection with the selection of suppliers and in the reporting of the eligibility of costs. With respect to the scrutinised projects, the SAO discovered a breach of budgetary discipline of **CZK 1.4 million**. The most significant single breach of **CZK 536 000** occurred when the aid beneficiary billed expenditures based on a master agreement with a contractor whose bid should have been eliminated in the tendering procedure.
- Audit No. **13/04** discovered ineligible project costs in the case of aid beneficiaries under the OP CBC CR-POL. For example, the municipality of Český Těšín, requested reimbursement of construction work included in the purchase price of real estate in the ownership of the city despite this work being carried out in the adjacent real estate in the ownership of a private company. It thus used funds totalling **CZK 1.9 million** illegitimately. Similarly, after the handover and acceptance of the construction project *Revitalisation of the Railway Line Szklarska Poreba - Harrachov*, the RIA paid the entire invoiced amount for the complete execution of the project although some of the work was not carried out until the following year. The RIA thus used funds totalling **CZK 209 000** illegitimately to settle ineligible expenditure.

One audit was completed in 2013 in the area of common agricultural policy. Audit No. 13/03 focused on aid provided to farmers through direct payments:

- Although the audit did not find any serious shortcomings in the system of implementation and administration of such aid, the SAO discovered shortcomings pertaining in particular to the MoA information system for keeping a record of the use of agricultural land, which is a condition for paying out the aid. The SAO recommended improving the quality of this system, as it does not comply with the indicators stipulated by European regulations. Furthermore, the SAO called attention to persistent shortcomings with respect to the MoA in the area of preliminary management controls and in the field of risk management, and to a necessary change in its approach to imposing fines on late reporting of changes in data about soil blocks and a change in the methods used to control special aid granted for cows reared for the market production of milk. The audit also called attention to the fact that the requested aid is also provided to entities whose primary business objective is not agriculture, and although this is not at variance with legal



regulations, it does not contribute to attaining the objective of securing income for the agricultural community.

In the case of the provision of aid from EU resources, the SAO has repeatedly recommended adopting adequate measures in the above areas, for example, measures modifying the rules for granting aid, for selecting projects, including appropriate, objective and measurable evaluation criteria, and for determining the output and result indicators to allow for the monitoring and assessment of the economy, effectiveness and efficiency of expended resources.

The auditees often reject the recommendations and findings of the SAO and, in this connection, even do not adopt measures to remedy the shortcomings. Only some ascertained shortcomings are remedied by measures adopted during the course of the audits or after the audits are completed. In certain cases, the managing authorities intend to use the findings to prepare the new programming period.

It is necessary to call attention to the fact that the results of the audits in this area are also monitored by the EU authorities, and in connection with the SAO's findings, the European Commission (EC) demands a corresponding response and explanation from the Czech authorities (MoF or the managing authorities).

Repeated findings that transgressions discovered by the SAO or by other controlling bodies, such as the European Court of Auditors or the EU, have not been addressed could lead to the EC demanding remedial measures, for example in the form of action plans on the level of the operational programmes or on the national level. A worse case would be the adoption of measures in the form of sanctions, i.e., the suspension of certification and financing, financial adjustments and even loss of revenues from the European budget and additional costs to the Czech budget.

2.6 Review of the closing accounts of state budget chapters and other data for monitoring and managing public finances

The objective of the SAO's audits of the closing accounts of state budget chapters was to examine whether the auditees acted in compliance with legal regulations when compiling the closing accounts of their respective chapters and whether the data in the financial statements and financial reporting submitted as the basis for the closing accounting were reliable. In 2013, four financial audits were completed:

- Audit No. **12/14** - *Closing account of the state budget chapter Ministry of Transport for 2011, financial statements and financial reporting of the Ministry of Transport for 2011*
- Audit No. **12/15** - *Closing account of the state budget chapter Ministry of Agriculture for 2011, financial statements and financial reporting of the Ministry of Agriculture for 2011*
- Audit No. **12/28** - *Closing account of the state budget chapter Ministry of Labour and Social Affairs for 2012, financial statements and financial reporting of the Ministry of Labour and Social Affairs for 2012*
- Audit No. **12/30** - *Closing account of the state budget chapter Ministry of Education, Youth and Sports for 2012, financial statements and financial reporting of the Ministry of Education, Youth and Sports for 2012*

The audits carried out in the form of a financial audit scrutinised the data included in the auditee's financial statements for the mentioned period. Furthermore, the data in the financial statements indicated total net assets of **CZK 316 billion**, total expenditure of **CZK 226 billion** and total revenues of **CZK 68 billion**. According to the data in the auditees' financial statements for assessing budget implementation, revenue amounted to **CZK 54 billion** and expenditure totalled **CZK 245 billion**.

In the area of observance of legal regulations when compiling the final accounts, the SAO discovered that in certain cases, the closing accounts were not compiled fully in compliance

with legal regulations (e.g., assessment of the economy, effectiveness and efficiency of chapter expenditures). The primary focus of the financial audits was bookkeeping. It was examined whether the auditees keep their books in a way that allows for the closing accounts to provide a true and fair view of the accounting. In the mentioned audits, however, the SAO again discovered serious shortcomings in particular in the fulfilment of these basic requirements:

- The auditees applied accounting methods incorrectly when, e.g., the MoA did not verify the correctness of the reported valuation of capital participation, i.e., it did not ascertain the reasons for creating provisions to such capital participation although the SAO's audit found that a reduction of the value of the capital participation did in fact occur (Audit No. **12/15**).
- The scrutinised accounting entities did not maintain complete accounting when, e.g., the MoLSA did not account for a receivable from the National Fund and the income arising from such receivable in connection with submitted bulk requests in the amount of **CZK 1.4 billion** (Audit No. **12/28**). Another example is the MoT, which did not account for the acquisition of an intangible asset worth **CZK 20 million** although it was entitled to exercise the right to use the author's work after it had concluded the respective agreement, i.e., a licence (Audit No. **12/14**).
- The auditees did not account for facts that were the subject of accounting in the relevant period in terms of time and substance, for example when the MoLSA did not record assets, purchased in 2011 and already eligible for use at the time, in the asset accounts until 2012. As a result of the delay, depreciation was distorted by **CZK 16 million** (Audit No. **12/28**).
- The auditees did not introduce a system that would ensure stocktaking to the full extent as a basic tool for conducting controls of assets and liabilities in compliance with Act No. 563/1991 Coll., on accounting, and Decree No. 270/2010 Coll.³⁶ For example, the MoLSA, as of the date of compilation of the financial statements, did not present any documentation that would prove that stocktaking of assets and liabilities was carried out for 2012 (Audit No. **12/28**).
- The accounting entities did not observe the content requirement with respect to items in the financial statements in accordance with Decree No. 410/2009 Coll.³⁷ when, for example, the MoLSA accounted for liabilities of **CZK 174 million**, which was a payable in nature and which was to be subsequently transferred to the state budget or some other authorised entity, as its own resources (Audit No. **12/28**).

Despite problems with the ambiguity of accounting regulations, certain accounting entities have managed to successfully cope with the new bookkeeping requirements. An example of such accounting entity is the MoEYS, which, upon comparing the results of audits conducted since reforms were introduced, has managed to reduce the number of errors discovered. At the same time, however, the scope of data that it is not possible to respond to due to the ambiguity of regulations is growing. This is not held against the accounting entity, however. An opposite example is the MoLSA, which has still not managed to come to terms with some of the changes brought by accounting reforms. This concerns: mapping transfers, in which case the fact that this area is regulated by a special accounting standard is not taken into account; and off-balance-sheet accounting.

In 2013, one audit focused on data in the *Auxiliary Analytical Overview (AAO)*, which provides more details on accounting data and is intended especially for processing data that are submitted by the Czech Statistical Office to the European Commission or Eurostat. The audit in question was Audit No. 13/11 - *Data provided by the Ministry of Industry and Trade as of 31 December 2012 in the form of an auxiliary analytical overview via the state central accounting information system for the purposes of monitoring and managing*

³⁶ Decree No. 270/2010 Coll., on the stocktaking of assets and liabilities.

³⁷ Decree No. 410/2009 Coll., implementing certain provisions of Act No. 563/1991 Coll., on accounting, as amended, for certain selected accounting entities.

public finances. The AAO is submitted by accounting entities into state central accounting information system. Submission of the AAO has become a new obligation for certain accounting entities as of 1 January 2012 under new Decree No. 383/2009 Coll.³⁸ As the AAO is based in particular on accounting data, the accuracy of this data is dependent on the accuracy of the accounting:

- In Audit No. 13/11, the SAO discovered that inaccuracies totalling **CZK 89 billion** stemming from violations of legal regulations by the MoIT appeared in the AAO. Some of the submitted data totalling **CZK 13 billion** was not reported in compliance with the *AAO Creation Methodology*, and the lack of clarity in the application of accounting regulations had the most significant impact on assessing the correctness of the data, as it was not possible to assess the accuracy of data totalling **CZK 168 billion**. Generally, it was thus possible to assess that data submitted via the AAO suffered substantially from inaccuracies and ambiguities. In the SAO's opinion, the manner in which the methodology was issued by the MoF is a system problem, as this methodology cannot be considered legally binding.

Support of good accounting practice

Public sector accounting and reporting have been undergoing reforms in recent years. Reforms began on 1 January 2010. Over this entire period, further changes, specifications and additions of legal and other regulations have been taking place in this area. The situation where amendments to regulations are being issued shortly in advance of their effective date is repeating and causing problems for certain accounting units in terms of proper and timely application. Despite the constant changes, certain areas of accounting pertaining to organisational units of state are still burdened by application-related ambiguities. This concerns the following cases in particular:

- Financial resources from the state budget earmarked for pre-financing expenditures, which should then be covered by EU budget resources either directly or through the National Fund³⁹; for many accounting entities, however, these amounts are substantial.
- Valuation and reporting of the state's capital participations in business companies.⁴⁰

Thus in practice it happens that audited accounting entities are forced to adopt accounting procedures based on their own interpretation and application of regulations. For this reason, the SAO recommends that procedures for accounting and reporting be laid down for standard and typical accounting situations. A conceptual framework, which still does not exist in Czech accounting, should be put in place for all other cases. This framework should be used to formulate standpoints on how reporting should be constructed, define key terms and so on. This would substantially contribute to ensuring correct bookkeeping and, thereby the reliability and comparability of the reported data.

At this time, the conceptual framework can only be inferred indirectly, from a host of provisions of various accounting regulations. However, a conceptual framework should, in addition to providing definitions and key terms, state the purpose and objective of reporting, how this objective can be achieved and who are the users of the financial statements. As a conceptual framework is missing, it is desirable for legal and other regulations pertaining to accounting and reporting to contain relatively detailed procedures that would specify how to record and report various accounting transactions.

³⁸ Decree No. 383/2009 Coll., on accounting records in a technical form of the selected accounting units and their submission to the state central system of accounting information and on requirements for technical and mixed forms of accounting records (the technical decree on accounting records).

³⁹ See, e.g.: Audit No. 10/20 – *Closing account of the state budget chapter Ministry of Education, Youth and Sports for 2010* (the audit conclusion was published in Part 3/2011 of the *SAO Bulletin*); Audit No. 11/29 – *Closing account of the state budget chapter Ministry of Education, Youth and Sports for 2011* (the audit conclusion was published in Part 3/2011 of the *SAO Bulletin*); or Audit No. 12/15 – *Closing account of the state budget chapter Ministry of Agriculture for 2011, final accounts and financial statements of the Ministry of Agriculture for 2011* (the audit conclusion was published in Part 2/2013 of the *SAO Bulletin*).

⁴⁰ See, e.g., Audit No. 12/15 – *Closing account of the state budget chapter Ministry of Agriculture for 2011, final accounts and financial statements of the Ministry of Agriculture for 2011* (the audit conclusion was published in Part 2/2013 of the *SAO Bulletin*).

The Ministry of Finance is the public administration body responsible for the field of accounting. It is responsible for elaborating concepts and drafting legislation pertaining to matters in its purview.

During 2013, organisational units of the state and state contributory organisations compiled and submitted various kinds of data usable for monitoring and managing public finances. This data is also used to compile the national closing account of the Czech Republic and draw up reports for the needs of government statistics. Table No. 2 provides an overview of the data submitted.

Table No. 2: Overview of data submitted for the needs of monitoring and managing public finances

Submitted data	Type of data	Manner of submission and publication*
Financial statements (balance sheet, profit and loss account, notes to the financial statements and, in most cases, an overview of cash flow and an overview of changes in equity)	Accrual	Report (in writing) - the data are submitted electronically in the form of consolidated accounting records in the <i>State Central Accounting Information System</i>
Auxiliary analytical overview	Accrual with a more detailed structure including a record of, for example, the kinds of changes or partners of assets, liabilities and transactions	Data are only submitted into the <i>State Central Accounting Information System</i> electronically
In the case of organisational units of the state: financial reports (reports for the assessment of the implementation of the budget, reports on claims from unused expenditures and an overview of budgetary measures)	Pecuniary	Data is submitted electronically into the budget information system
In the case of organisational units of the state - administrators of the state budget: the closing account of state budget chapters	Extensive text body and commentary, otherwise usually pecuniary and in part accrual	Data are submitted both electronically and in paper form

* All data indicated in the table required for monitoring and managing public finances are used by professionals and experts, such as the Ministry of Finance, the Czech Statistical Office, the Czech National Bank and the Supreme Audit Office. The financial statements and financial reports are available to the general public on <http://www.info.mfcr.cz/ufis/> or <http://monitor.statnipokladna.cz/2013/>.

As is apparent from Table No. 2, organisational units of the state and contributory organisations submit a host of data for the purposes of monitoring and managing public finances; the question, however, is whether and to what degree these sometimes extremely detailed data are utilised by their users.

Imposing ever new requirements on the organisations in question may lead to these organisations, should the amount of resources available to them remain the same, not being able to fulfil the respective requirements and follow them; furthermore, they may give up on requirements that applied before these changes took effect although these organisations had no problems following them in the past.

Furthermore, certain code lists and rules used when compiling the auxiliary analytical overview or certain areas of financial reporting are not issued in the form of legal regulations, but are most often published by the Ministry of Finance in a way that allows for remote access, with its not being clear how they are to be enforced and if past versions can be accessed.

The SAO proposes performing an analysis of the requirements for reporting the data that can be used for the purposes of monitoring and managing public finances, with the aim of assessing to what degree all such data are necessary and whether the work required to monitor, compile and submit such data corresponds to their later utilisation.

2.7 Opinions regarding the draft state closing account and the interim report on implementation of the state budget

The SAO submitted to the Chamber of Deputies of the Parliament of the Czech Republic its *Opinion on the Draft State Closing Account of the Czech Republic for 2012* and its *Opinion on the Report on Implementation of the State Budget for the First Half of 2013*.⁴¹ When drawing up its opinions on the state closing account (SCA), the SAO based its opinions also on the audit conclusions and other findings from its audit and analytical work.

The SAO, in the *Opinion of the Draft State Closing Account of the Czech Republic for 2012*, again called attention to the increasing number of reported claims from unused expenditures, the utilisation of which could have a negative impact on implementation of the state budget. In connection with state budget revenues, the SAO would again like to call attention to the fact that expectations that the collection of value added tax would increase once one of the tax rates increased were not fulfilled and to the ever growing tax arrears despite the annual write-off of such amounts. Efforts to meet the budgeted pension insurance amounts have not been successful for quite some time and the deficit in the system of this insurance continues to exist.

The SAO would again like to point out the increasing share of the public debt on gross domestic product and, in connection with the public debt, is again calling attention to the failure to use relatively advantageous financing through short-term debt in the anticipated scope. The SAO assesses the use of privatisation revenues for the payment of the pension insurance deficit as future risk for the expenditure side of the state budget due to the extent of existing privatization liabilities in the form of guarantees stemming from agreements dealing with old ecological burdens.

Insufficiently secured revenues for public funds is another such risk that could lead to these funds becoming ever more reliant on subsidisation from the state budget to finance their activities. The opinion on the SCA also contains findings from the SAO's audits focused on the effective and economical use of state resources and assets, including specific breaches of the appropriate regulations. The information gained from the financial audits is listed separately. In these audits, the SAO repeatedly observed shortcomings in documentation serving to compile the closing accounts of SB chapter accounts, both in the area of accounting and in the area of financial reporting. In connection with the utilisation of resources from the European Union, the SAO calls attention to the fact that, as a result of financial adjustments carried out by the EC in a number of operational programmes, the burden on the public budgets of the Czech Republic are set to increase.

In the *Opinion on the Report on Implementation of the State Budget of the Czech Republic for the first half of 2013*, the SAO negatively assesses the transfer of part of the expenditures under the SB chapter *State Debt* to a different SB chapter through budgetary measures. In the area of state budget revenues, the SAO calls attention to the long-term inability to implement the budget with respect to personal income tax and on the low degree of effectiveness of the collection system. The SAO also recommends that the government provide information in the report on the measures that it intends to adopt to improve the effectiveness of the activities of the tax offices aimed at collecting tax arrears. Just like in the opinion on the SCA for 2012, the SAO believes it to be serious that the majority of extra-budgetary funds do not have sufficient resources to implement the set-up expenditure programmes.

⁴¹ This opinion was submitted to the SAO in compliance with Section 5 of Act No. 166/1993 Coll., on the Supreme Audit Office.

2.8 Discussion of audit conclusions in the Parliament and Government of the Czech Republic and impacts on the SAO's audit work

2.8.1 Discussion of audit conclusions in the Parliament and Government of the Czech Republic

To advocate the results of audits, the SAO has an integral role in discussing its audit conclusions in the Parliament and Government of the Czech Republic. The SAO provides objective and independent information on government expenditure to these bodies for their legislative and executive duties. For this reason, the SAO considers cooperation with these bodies to be key, both with regard to improving the state expenditure and with regard to the impact on the SAO's work.

Every audit conclusion is sent to the Chairpersons of both Chambers of the Czech Parliament and to the Czech Prime Minister immediately after being approved. The SAO also sends these institutions its Annual Report, its opinion on the state closing account, and its opinion on the implementation of the state budget.

The SAO's key partner in the Parliament is the Committee on Budgetary Control of the Chamber of Deputies (the CBC). The CBC discusses the SAO's audit conclusions, its Annual Report, the draft budget chapter of the SAO, its closing account, the SAO's opinion on the state closing account, and other materials. In 2013, the CBC discussed six of the SAO's audit conclusions. Appendix 3 hereto gives an overview of audit conclusions discussed by the CBC in 2013 and a summary of the resolutions adopted.

The government discusses all audit conclusions in the presence of the president of the SAO. It adopts a resolution to each one. In more than eighty per cent of them, these resolutions have an "imposition" part, in which the government imposes the obligation on the relevant minister to adopt and introduce specific remedial measures. In 2013, the government discussed 32 audit conclusions. Appendix 4 hereto provides an overview of audit conclusions discussed by the Government in 2013 and a summary of the measures imposed.

2.8.2 Impact of the SAO's audit work

The results of the SOA's audit work cannot end with just a statement on the ascertained state, but should be the first step in the changes to be made in cases where shortcomings were discovered. For this reason, the SAO carefully monitors whether and in what way the government and the auditees address the results of the audits, including whether they make system recommendations, and whether they adopt and implement measures to remedy the discovered shortcomings. Attention is paid to these measures even over a longer period of time, as the effects of certain changes cannot due to their nature occur immediately. The SAO's objective is not only to call attention to shortcomings, but also to contribute to correcting errors and avoiding them in the future. By doing so, the SAO would like to fulfil its vision and mission, i.e., to contribute to a more effective, economical and effective state.

For the SAO, an important indicator is that the government has discussed over eighty percent of audit conclusions and has imposed on the appropriate ministers the task of adopting and introducing measures to remedy the shortcomings revealed. This is a sign that its work is an important form of feedback that provides objective information for implementing the appropriate changes in government expenditure. The SAO appreciates that the government is adopting measures to such a degree. The SAO considers it a success that cooperation with the government has improved dramatically in recent years. A fundamental change in the discussion of audit conclusions in the government is taking place based on an amendment of the government's rules of procedure, approved in 2013, pertaining to the participation of the SAO president when discussing the audit conclusions in the government and expressing the SAO's opinions to the proposed remedial measures contained in the ministries opinions



for the meeting of the government. These changes, which should take force in 2014, should strengthen measures arising from the results of the SAO's audit work.

To ensure the greatest benefits from results of its audits, the SAO, in accordance with its strategy, chooses to focus on system-related issues and risks in its audit work. Among the benefits of the audits, it is possible to include numerous system recommendations, which the SAO formulates with the aim of helping to resolve problems and implement good practice in the management of state resources and assets. The effect of the audit results is augmented thereby. In the past year, the SAO, for example, conducted 41 audits and drew up 33 system recommendations, e.g., in the area of legislation, development plans and concepts, effectiveness of government programmes, etc.

Another clear benefit is the preventive effect of audits and their results on potential auditees. The SAO is, therefore, an active supporter of public access to the results of audits, informing the public through the media, issuing publications, presenting the results at professional seminars, etc.

The SAO appreciates the fact that in the past year, after the completion of its audits, a number of positive changes have taken place in a number of areas in response to its findings and recommendations or that were in compliance with them. This is a sign that the SAO's audit work is having an impact and is of value to society. This is documented by the general fact that there is nothing that can take the place an independent external audit for the proper functioning of a democratic state. The scope of this annual report provides only some examples (for more detailed examples see parts 2.1 to 2.6).

Positive steps were taken, for example, in the administration of VAT on goods imported from third countries. After Audit No. 11/07 was completed, the MoF adopted important legislative measures that, in the SAO's opinion, could contribute to eliminating significant shortcomings in VAT collection in this area.

The SAO also contributed to enshrining in legislation the possibility to use available state resources in the form of profit from state enterprises to strengthen the state budget. The SAO called attention to the significant amount of available resources in its Audit No. **10/26** regarding the state enterprise Lesy ČR. Another example is the collection of fees for storing hazardous waste. After Audit No. **12/20**, which was a follow-up audit to Audit No. **05/28**, the MoE, in response to the seriousness of the discovered shortcomings, guaranteed a solution to the problem by amending the appropriate legislation.

A positive example of improving conditions in the area of procurement of certain commodities, especially with regard to cost-effectiveness, is also the situation where a pilot central procurement project was executed by the MoI after the completion of Audit No. **12/29**. In connection with the results of the audit, the MoI adopted measures that will increase the objectivity of the calculation of reported savings and will prevent high expenditures at the end of the budget year resulting from the purchase of fuel supplies for the next period stored with the supplier. This will also prevent unnecessary storage costs.

In connection with the results of Audit No. **09/27** and Audit No. **12/18** in the area of transport construction projects, the SAO registered certain measures that could substantially improve the unsatisfactory state in this area. The adopted measure should resolve issues concerning the preparation and execution of construction projects. Important is also the adoption of transport sector strategies approved by the government in 2013. In accordance with the results of cooperation with the BRH, the possibility of awarding public contracts in parts will be assessed.

Since 2010, important changes have been taking place in the area of public sector accounting and reporting. The SAO audits aimed at this area are leading to an improvement in the state of accounting and reporting, helping to specify and supplement the appropriate regulations and generally contributing to improving the quality of data necessary for monitoring and managing public finances. As the results of the SAO audits have shown, a good example is the MoEYS, which, despite problems with the ambiguity of accounting regulations, was able to respond to the

discovered shortcomings and effectively reduce the number of inaccuracies and irregularities. Conversely, however, the MoLSA has not been able to cope with certain changes.

Here the constructive approach of the respective auditees to the audit results should be highlighted, as without it there would be no positive changes. However, the effectiveness of the majority measures introduced by the central bodies needs to be examined by follow-up audits.

An assessment of the results of the audits listed above in this annual report also showed that discrepancies continue to exist in the state's approach to the management of public funds in terms of the economy, effectiveness and efficiency of the activities of certain auditees. The results also showed that although numerous and serious shortcomings are discovered and measures are then introduced by the government to deal with most of these shortcomings, the effectiveness of the measures, however, is not always sufficient. Improvements in the area concerned are to a great degree affected by the approach of the respective auditees - central public administration bodies.

Examples of the negative approach are numerous: from voicing fundamental disagreement with the results of audits in the media, through belittling the systemic shortcomings as only formal shortcomings and rejecting system recommendations and findings, to adopting measures that are only formal in nature. It needs to be mentioned that the negative approach taken by some the auditees to the SAO's audits are manifested in obstructions to the gathering of information and documentation, which the SAO finds inadmissible in terms of the purpose of the audits and takes steps to secure its authority.

The occurrence of ineffective measures or even the failure to adopt adequate measures to the SAO's findings can be found in various areas described above in this annual report.

For example, in the area of administration of fines for breaching budgetary discipline based on Audit No. **10/08** and Audit No. **13/15**, only piecemeal legislative amendments that have had no impact on improving the poor economy and efficiency of the system have been registered. However, the delegation of decision-making powers in the area of pardoning fines from the Ministry of Finance to the General Financial Directorate can be seen as a positive step. The SAO will continue to monitor the waiving of fines and place pressure on the adoption of effective measures to ensure economical and effective administration and greater transparency of the entire process. System solutions to fundamental shortcomings were also demanded by the Audit Committee of the Chamber of Deputies of the Czech Republic.

Insufficient measures were also discovered with respect to the utilisation of resources provided to the Czech Republic from the EU budget as part of certain audited programmes. In addition to a serious warning of the risks of failure to fulfil the utilisation limits and the threat of irrecoverable loss of funding, recommendations were made to resolve other issues tied to the assessment of the effectiveness and economy of expended resources. The SAO has repeatedly called attention to these facts either in the audits or in some other way, e.g., when publishing reports on the financial management of EU resources in the CR.

An example of the rejection of serious shortcomings is the response to Audit No. **12/04**. The MoA did not agree with the SAO's finding regarding violation of the Public Procurement Act when awarding contracts in the field of ICT and, when discussing the results of the audit in the government, it did not propose any measures. The shortcomings discovered by the SAO were then confirmed by the appropriate tax office, which assessed a fine for a breach of budgetary discipline exceeding a half billion crowns.

Similarly, the MoH did not accept the audit conclusions in the area of development of material and technical safeguards at teaching hospitals (Audit No. **12/03**). The inefficient and uneconomical spending of state resources thus continues to be a threat.



The SAO is aware that discussion of its audit results with its primary partners, i.e., the Parliament and Government of the Czech Republic, is fundamental to the audits having an impact. At the same time, the SAO is paying ever greater attention to other activities, the primary purpose of which is to improve efforts to promote good practice in government expenditure. The SAO work is focused in particular on presentation of audit results to professionals, experts and the general public, on legislative recommendations as part of consultations on bills, and on publicising the results of audits and the preventive effects of audits on potential auditees.

For example, in 2013, the SAO, organised for the representatives of public contracting authorities a conference entitled *Public Contracts - Value for Money*. Public contracts are an area that has long carried the greatest risk in terms of how state resources are handled. The SAO's efforts, therefore, were focused on helping public contracting authorities observe the principles of economy, effectiveness and efficiency and on contributing to the sharing of good practice in this area. The conference pointed out important factors that without a doubt are influenced by the contracting authorities themselves. In addition to the quality and effectiveness of the tendering process itself, it is chiefly the decision to execute a truly meaningful project.

Last but not least, even the fulfilment of the SAO's reporting duty to the financial authorities in cases where the audit findings related to the auditees' tax obligations and the reporting duty to the law enforcement authorities in cases where it was discovered that a crime may have been committed also belong to the direct consequences of audit work. The next section discusses this in more detail.

2.9 Cooperation with law enforcement authorities

In 2013, the SAO, based on the findings from the audits, filed, in accordance with Section 8(1) of the Criminal Code, five notifications testifying to the possibility that a crime may have been committed. These notifications pertained to 10 auditees.

Criminal complaints were filed based on serious shortcomings discovered in Audit No. **12/04** - these serious shortcomings pertained to the execution of projects in the field of information and communication technology.

Facts discovered by Audit No. **12/06**, where the aid beneficiaries received funding to cover ineligible costs, were also reported.

Audit No. **12/19** discovered that an aid applicant submitted false documents with the application for aid from EU resources.

Audit No. **12/31** discovered cases where legal services were paid for without documentation proving that the services were actually provided or money was paid out of state budget resources at variance with the terms and conditions of the Master Agreement.

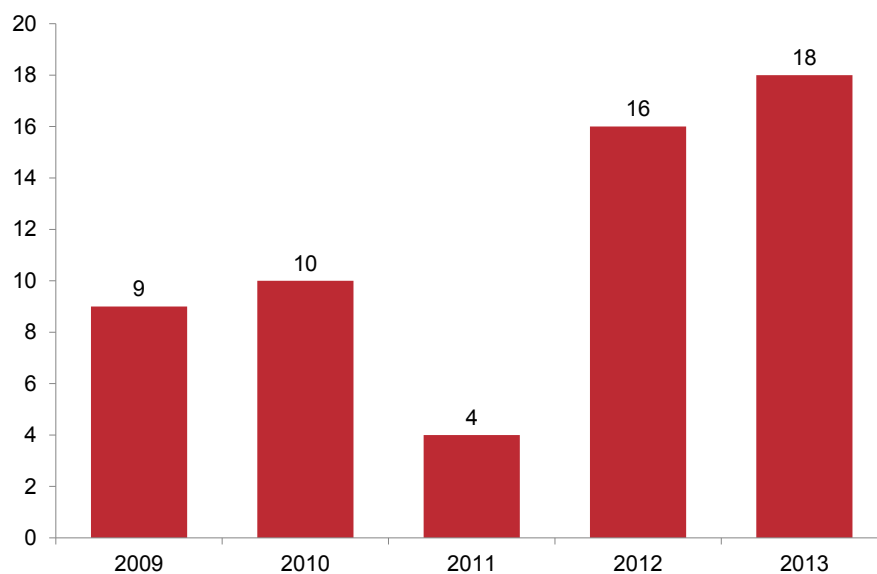
Other criminal complaints were filed based on the facts discovered by Audit No. **12/29**: resources from the state budget were used to pay for the purchase of certain commodities at variance with the Master Agreement.

In its complaints, the SAO stated that the above actions could have resulted in the following crimes having been committed: breach of obligations in connection with the management of someone else's property, breach of obligations in connection with the management of someone else's property due to negligence, breach of regulations on competition rules, damaging the financial interests of the European Union, and subsidy fraud.

In 2013, the law enforcement authorities requested cooperation from the SAO in a total of 18 cases (see Graph No. 2). Based on these requests, the SAO provided audit material from 19 audits and the president of the SAO relieved five employees of their confidentiality obligation pursuant to Section 23 of Act No. 166/1993 Coll., for the reason of important state interests.

These are cases where the law enforcement authorities require supporting materials and documentation from the audit to be provided, the files and records already provided to be supplemented, and for the SAO's auditors being relieved of their confidentiality obligation so they can provide explanations or be heard as witnesses. Upon request, the SAO provides cooperation to law enforcement authorities in accordance with Section 8(1) of the Criminal Code or complies with requests in accordance with Section 18 of Act No. 273/2008 Coll., on the Police of the Czech Republic.

Graph No. 2: Number of requests for cooperation from law enforcement authorities in 2009-2013





III. Financial Evaluation of Audit Work

1. Summary financial evaluation of audits

Each year, the SAO monitors the summary financial evaluation of audits by means of an indicator of the overall volume of audited state funds, assets and liabilities. This indicator is first and foremost an informative piece of data that indicates the total extent of audited state budget revenue and expenditure items, state assets and liabilities, financial resources provided to the Czech Republic from abroad and other financial resources (e.g., state fund resources). It can be substantially affected especially by the number of audits, the subject and objective of the audits, and the length of the audited period.

The audits whose conclusions were approved in 2013 scrutinised funds and assets totalling **CZK 222 billion**.

Data from the audits focused on reviewing the closing accounts of the state budget chapters are not included in the total amount (see Section 2.6 hereof). Financial resources assessed only on the system level, e.g., in connection with the audit of strategic and conceptual materials and in connection with the audit of programmes as part the audit of the activities of their administrators or intermediate bodies, are also not included. In system audits completed in 2013, these resources totalled CZK 495 billion.

The audited amount of financial resources, assets and liabilities was significantly affected chiefly by the amount of the financial resources and assets audited as part of the review of transport investments (construction of roads, dual carriageways and railway infrastructure) and as part of the review of the toll collection system and the state enterprise VOP CZ.

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

Based on the facts discovered during audit work, the SAO reports data to the appropriate tax administrators in audit reports that pertain to tax administration. Specific audit findings may be used by the appropriate tax administrator to commence proceedings that may lead to a ruling to collect illegitimately used funds or impose fines.

In 2013, a total of **28** notifications related to the expenditure and revenue side of the state budget were sent to the tax offices as part of the notification duty. The financial resources in these notifications totalled **CZK 1 937 million** and **EUR 2.7 million**. The highest reported amount related to the notification of the breach of budgetary discipline in the amount of **CZK 982 million** in connection with the implementation of projects in the field of information and communication technology.

IV. Evaluation of Other Activities

1. Other SAO activities related to audit work

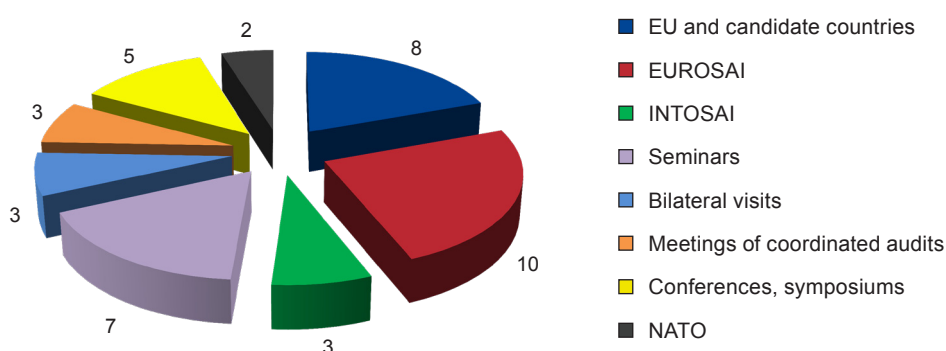
In an inter-departmental consultation process conducted pursuant to the *Government's Legislative Rules*, the SAO gave its opinion on draft legislation that concerned it as an organisational unit of the state or fell within its competence. In 2013, the SAO obtained a total 132 legislative drafts. The SAO made specific comments, stemming primarily from audit findings, to 53 drafts. Particular attention was also paid to drafts of the Act on Rules of Budgetary Liability and the Act on Management and Control System in Public Administration, discuss of which, however, could not continue because the Chamber of Deputies was dissolved, as well as to drafts of the implementing regulations to the Act on Budgetary Rules and the Accounting Act.

2. International cooperation

International cooperation in 2013 concentrated mainly on activities within the European Organisation of Supreme Audit Institutions (EUROSAI), on events of the Supreme Audit Institutions (SAIs) of the European Union and on the exchanging the knowledge and experience of SAO staff at international seminars devoted to special audit topics. On the bilateral level, the SAO worked in particular with the Supreme Audit Office of Slovakia; coordinated audits were conducted with the supreme audit institutions of Germany, Poland and Switzerland.

SAO representatives attended a total of 41 events abroad. Almost a quarter comprised activities under EUROSAI, which corresponds to the SAO's role as the team leader for one of the goals of the EUROSAI Strategic Plan for 2011-2017. The purposes of trips were also meetings and activities with the SAIs of the European Union. The main topics of discussion included the issue of awarding and auditing public contracts, international standards of the supreme audit institutions, performance audit and environmental audits. Graph No. 3 shows the structure of foreign trips made by SAO representatives.

Graph No. 3: Number and focus of foreign trips taken by SAO representatives in 2013



An important international cooperation event was the XXI Congress of the International Organisation of Supreme Audit Institutions, which was held in China. The congress is the supreme body of this independent and non-political international organisation. The main topics of the congress included national audit and national governance as well as the mission of the supreme audit institutions as a guarantee of the long-term sustainability of financial policy. In addition to these topics, the work of the various committees, subcommittees and working groups of INTOSAI were presented at the congress. At the congress, the new International Standards of Supreme Audit Institutions - ISSAI - were approved, certain new working groups were established and future action plans were presented. The document entitled the *Beijing Declaration* is the output of the congress.



Meeting of the XXI INTOSAI Congress

An important event was the annual meeting of representatives of supreme audit institutions of the Visegrád Group, Austria and Slovenia (V4+2), which took place in Slovenia in September. This time, the main topics of the meeting included the experience of the SAIs with risk assessment, fiscal sustainability and financial stability, the fight against corruption, and measuring the performance of the SAIs.



V4+2 meeting

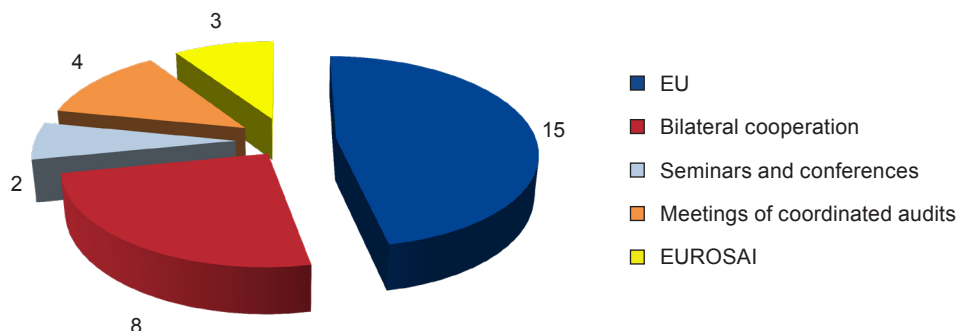
The annual meeting of the Contact Committee comprising the leading representatives of the SAIs of the European Union and the European Court of Auditors (ECA) was held in Lithuania. The main topics were issues tied to the development of the European Union with regard to the new financial framework for 2014-2020 and the changing tasks and roles of the SAIs.



Contact Committee of leading representatives of the ECA and SAIs of European Union, Lithuania 2013

In 2013, the SAO organised 32 international events in the Czech Republic. Graph No. 4 shows the structure of the international events organised by the SAO.

Graph No. 4: Number and focus of international events organised by the SAO in 2013



A significant number of the events were events, including the ECA audit missions, held in EU countries, and bilateral cooperation.

In June, an expert seminar took place in the Senate of the Parliament of the Czech Republic, the aim of which was to commemorate 20 years of the existence of an independent SAO. Contributions on two main topics were heard at the seminar: *Development from the state audit system to a modern audit office* and *the Activities and direction of the supreme audit institutions in the coming years*. In addition to speeches by SAO President Miloslav Kala, SAO Vice-President Zdeňka Horníková and President of the Czech Republic Miloš Zeman, speeches were also given by the SAO's senior staff and a number of important foreign guests, and leading representatives of the European Court of Auditors and of the SAIs of Slovakia, Poland, Slovenia, Austria, Germany and Hungary. The seminar was a special opportunity to meet former and current representatives and employees of the SAO, alumni, legislators as well as reporters and representatives of academia.



Expert Seminar on the Occasion of the 20th Anniversary of the SAO



In October, the SAO organised the 11th meeting of EUROSAI Working Group on Environmental Auditing, which was preceded by a seminar entitled *Addressing Fraud and Corruption Issues when Auditing Environmental and Natural Resource Management*. The main topics of the seminar were identifying fraud and corruption when auditing the environment, sustainable land use and assessment of the validity and reliability information in qualitative and quantitative analyses. At the working group meeting itself, the issue of audits in the area of sustainable land use and the issue of assessing the reliability of analyses were discussed. The event was attended by 69 representatives from 24 European SAIs, the ECA, the European Environment Agency, and other institutions.

In November, the results of the SAO's and the BRH's audit were presented at the SAO. The audit was focused on methods, practice and legislation in the area of awarding public contracts for transport infrastructure, construction projects and on the prevention of corruption in both countries. Special attention was paid to the disparity of prices for construction work (especially road construction) in the Czech Republic and Germany. The two main reasons for the higher price of construction work in the Czech Republic compared to Germany were discovered: unlike the Czech Republic, Germany practices open tendering procedures and awards public contracts for small sections. Furthermore, unlike Germany, the Czech Republic does not have a central database of prices of structural engineering projects.



Presentation of the conclusions of the joint report drawn up by the SAO and the BRH

In 2013, a meeting took place in the Czech Republic with the ambassadors of EU countries, a representative of the Ministry of Foreign Affairs and the head of the Representation of the European Commission in the Czech Republic.

In December, the SAO was paid a visit by a member of the European Court of Auditors, who acquainted SAO representatives with the *ECA Annual Report on Implementation of the European Budget for 2012* and with a special report on the implementation of the performance audit of the *Rural Development Programme*.

In December, the SAO welcomed representatives of SAI of Montenegro headed by its president. The SAO requested the UNDP (United National Development Programme) for assistance with the study trip for the highest representatives of SAI of Montenegro, on the grounds that the meeting should be aimed at improving the institutional capacity of SAI of Montenegro. Experts from the SAO prepared a presentation for the Montenegrin delegation focused on the audit of data for monitoring and managing public finances, financial audits, audit of the state closing account of the Czech Republic and quality control management at the SAO.

Other events included twelve audit missions of the European Court of Auditors, with a representative of the Supreme Audit Office attending as an observer. In addition to cooperation on audit missions, the SAO mediated or directly provided information to the European Court of Auditors based on various questionnaires, surveys and information requests.

The SAO worked with the SAI of Poland on a coordinated audit of resources intended to finance projects executed under the Czech Republic-Poland Cross-Border Cooperation Operational Programme 2007-2013. A coordinated audit of the Swiss-Czech Cooperation Programme, a programme focused on reducing economic and social disparities within an enlarged European Union, was conducted with the SAI of Switzerland.

3. SAO activities in respect of the public

3.1 Publishing activities

The **SAO Bulletin** (Volume XXI) was published in four quarterly issues appearing at the end of each calendar quarter. Approved audit conclusions, the Annual Report for 2012, amendments and changes to the Audit Plan, and the Audit Plan for 2014 were published in these issues. The outputs of individual audits were also regularly placed on the SAO web site.

In July 2013, the SAO published the **2013 EU Report - Report on Financial Management of European Union Resources in the Czech Republic**. The primary intent of the report is to provide comprehensive information about the SAO's audit findings related exclusively to revenues and expenditures of the European Union budget in the Czech Republic and place them in the context of the issue of financial relations as part of implementation of the priorities of the various EU policies. The data and information contained in the report pertain in particular to the 2012 calendar year, or the 2011 calendar year in those cases where more current data has not been officially made available. *EU Report 2013* is based in particular on the findings set out in the approved audit conclusions of the SAO published in 2012 in the various issues of the *SAO Bulletin*. At the same time, it works with numerical information and commentary obtained from the various departments of the Ministry of Finance and the Ministry of Regional Development or information from the annual reports of the European Court of Auditors for 2011 and information from the financial report of the European Commission on the EU budget for 2011. *EU Report 2013* is intended not only for institutions responsible for financial management of funds from the EU budget, but also for professionals from the Czech Republic and abroad.

In November 2013, a joint report entitled **Awarding Public Construction Contracts and Preventing Corruption** was issued following a concurrent audit conducted by the Czech Supreme Audit Office and the Federal Court of Auditors of Germany.

On the occasion of the 20th anniversary of the SAO, a memorial volume entitled **20 years of Independent Audits in the Czech Republic** was published.

In 2013, the SAO also issued the *Opinion on the Draft State Closing Account of the Czech Republic for 2012* and the *Opinion on Implementation of the State Budget of the Czech Republic for the First Half of 2013*.

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

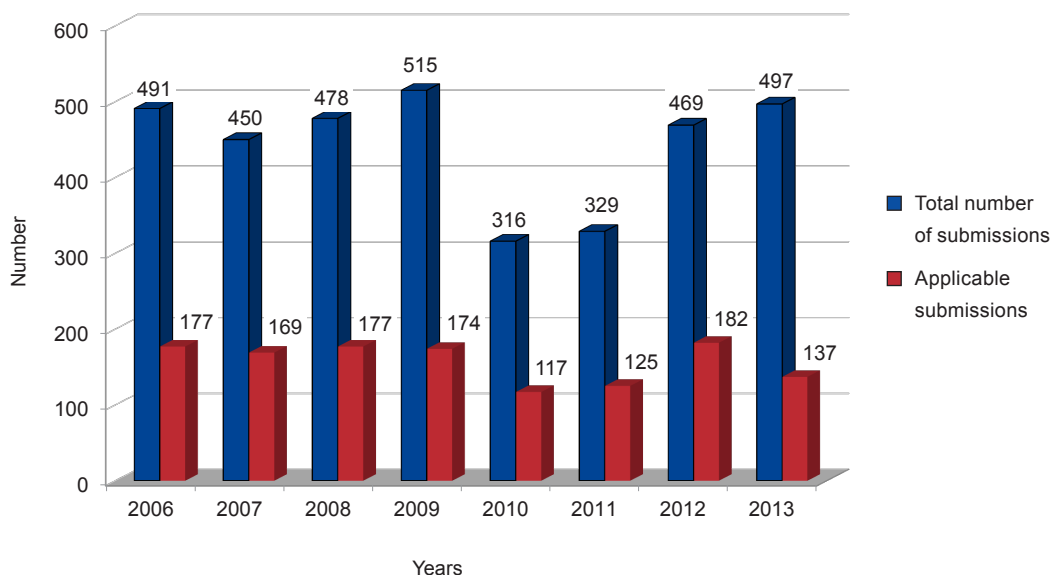
In 2013, the SAO received a total of 19 requests for information under Act No. 106/1999 Coll. The requesting parties were interested in information about the contractual relationships of the SAO, its approach to awarding public contracts via the e-tržišť (e-market) portal, technical support and administration of electronic communication applications, the costs of audit work, the number of employees and the progress of SAO's audits. Five of the requests pertained to information that the SAO could not provide for factual reasons, as it did not have such information at its disposal. This information either did not exist at all (e.g., the public contract in question was never executed) or the documentation that would contain the required information had already been destroyed in accordance with the law. A report stating that the information could not be provided for factual reasons

has to be seen as a rejection of the request; therefore, in the case of five requests, information that existed was provided along with a decision on rejection of part of the request for factual reasons. Furthermore, the SAO issued three decisions rejecting a request, as the information requested pertained to the progress of an audit being conducted by the SAO and such information cannot be provided pursuant to Section 11(4)(d) of Act No. 106/1999 Coll. The SAO stayed four requests as the requested information did not fall under the scope of the SAO's authority. One appeal was lodged against a decision rejecting a request, in which information about the progress of an SAO audit was requested (audit report from Audit No. 11/17). By a decision of the president of the SAO, the appeal was rejected and the original decision was confirmed. In 2013, no complaints pursuant to Section 16a of Act No. 106/1999 Coll., were made. All information requests were processed by the statutory deadlines.

3.3 Submissions from citizens

In 2013, the Communications Department of the SAO registered 497 written submissions (requests, complaints, enquiries, etc.) from citizens and corporate entities. The content of all submissions is assessed on the basis of the scope of the SAO's authority and from the point of view of the possibility to use the information contained in the submission for audit work. Submissions related to areas in the purview of the SAO serve as a supplementary source of information for materially relevant planned audits and for suggestions to the audit plan. In the above way, submissions containing information about management of state budget resources and state assets by the various ministries, information about awarding public contracts and about the provision and use of subsidies earmarked for regional development were used. In 2013, 137 external submissions contained usable information, i.e., 28% of the total number of submissions.

Graph No. 5: Overview of the total number of submissions and their usability for audit work for 2006 to 2013



4. Management of finances allocated to the SAO budget chapter in 2013

4.1 Implementation of the mandatory indicators of the SAO budget chapter

The budget of chapter 381 - *Supreme Audit Office* was approved by Act No. 504/2012, Coll., on the state budget of the Czech Republic, for 2013.

Table No. 3: Overview of the implementation of mandatory indicators in 2013 (in CZK thousands)

Indicator	Approved budget	Budget after changes	Implementation (in %)	Final budget	Actual state	Implementation (in %)
	(a)	(b)	(d/b)	(c)	(d)	(d/c)
Aggregate Indicators:						
Total income	339	339	281.17	-	953.15	-
Total expenditure	507 321	507 321	91.44	512 639.50	463 881.28	90.49
Specific indicators:						
Income	339	339	281.17	-	953.15	-
Expenditure covering performance of SAO's tasks	507 321	507 321	91.44	512 639.50	463 881.28	90.49
Cross-sectional indicators:						
Employees' pay and other payments for work performance	239 004	239 004	98.32	239 004	234 989.00	98.32
Mandatory insurance premiums paid by the employer	82 384	82 384	96.89	82 384	79 825.06	96.89
Transfer of Cultural and Societal Needs Fund	2 187	2 187	99.99	2 187	2 186.84	99.99
Pay of employees with fixed duration or temporary employment contract	218 700	218 700	99.99	218 700	218 683.81	99.99
Expenditure kept in the information system of programmed financing EDS/SMVS in total	48 700	48 700	92.73	54 019	45 159.05	83.60

Income

Revenue amounted to CZK 953.15 thousand, i.e., 281.17% compared to the approved budget and the budget after changes.

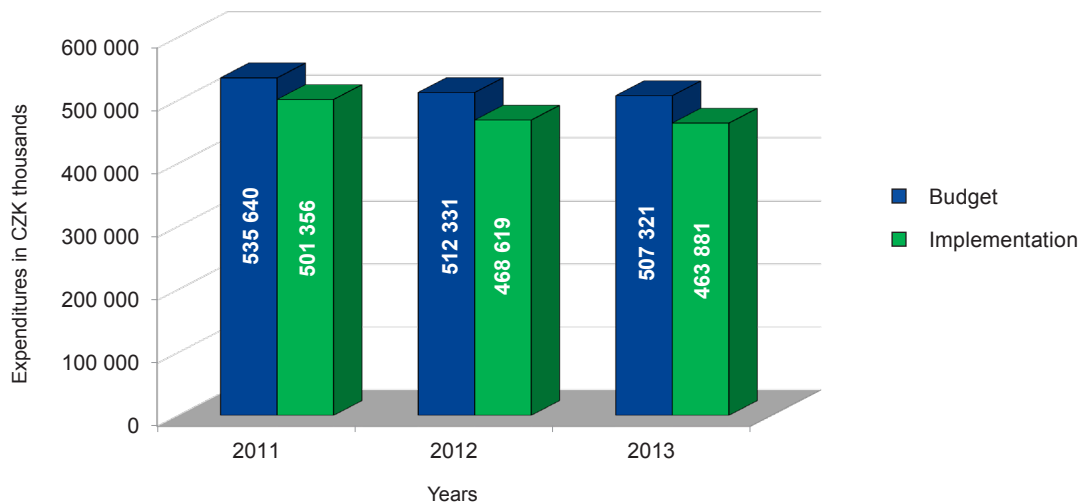
Expenditure

Total expenditure amounted to CZK 463 881.28 thousand, i.e., 91.44% of the approved budget and budget after changes. The biggest share comprised expenditure on salaries and related expenses (51.13%). 90.49% of the final budget of CZK 512 639.50 thousand was implemented.

All binding indicators of the SAO budget chapter were observed in 2013.

Graph No. 6 provides an overview of the expenditures of chapter 381 - *Supreme Audit Office* for 2011 to 2013. From 2012 to 2013, the approved budget fell year-on-year by 5 010 thousand, which amounts to 0.98%. In 2012, expenditure totalling CZK 7 312 thousand was tied to a specific purpose.

Graph No. 6: Overview of expenditures under chapter 381 - *Supreme Audit Office* according to the budget after changes and budget implementation for 2011 to 2013



4.2 Claims from unused expenditure

As of 31 December 2013, the balance of claims from unused expenditure totalled CZK 152 538.57 thousand. Claims of CZK 5 318 500 were included in 2013.

4.3 Expenditure on financing the asset replacement programmes

Budget funds were allocated to the implementation of Programme 18101 – *Development and Renewal of Material and Technological Resources of the Supreme Audit Office as of 2011*, namely to information and communication technology and asset replacement. A total of CZK 45 159.05 thousand was spent.

4.4 Information about external audits of the SAO

In 2013, one external audit was conducted at the SAO by Všeobecná zdravotní pojišťovna (General Health Insurance Company), the subject of which was adherence to the reporting duty, determination of the assessment bases and amount of insurance premiums, adherence to deadlines of premium due dates, observance of the other obligations of a premium payer, and submission of copies of records of work injuries. Only minor shortcomings arose from the audit, and these were corrected during the course of the audit. The overall result of the audit was without reservations.

4.5 Mandatory audit

The annual financial statements of the SAO were audited by an auditor in accordance with Section 33(3) of Act No. 166/1993 Coll., on the Supreme Audit Office, as amended. According to the auditor's statement, "*the financial statements and financial reports give a true and fair view of the assets and liabilities of the Supreme Audit Office as of 31 December 2013, the costs and revenues and its economic result, and the income and expenditure for the year ending 31 December 2013, in accordance with the Czech accounting regulations*".

5. Internal audit

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

The Annual Internal Audit Plan for 2013 was approved in 2013 by the SAO president on 8 January 2013. It was drawn up primarily on the basis of the SAO's aggregate risk analysis, which included risks identified during the execution of the internal audit. Furthermore, the annual plan was based on the medium-term internal audit plan for 2013-2015.

The Internal Audit Department, based on the approved annual audit plan, conducted a total of six audits. Based on a change to number 3 of the *internal audit plan for 2012*, Internal Audit No. 12/04 was completed, and based on a change to No. 1 of the *internal audit plan for 2013*, a special internal audit was conducted.

The internal audits focused on:

- system of stocktaking of assets and liabilities
- utilisation of financial resources
- approval of public revenue management procedures
- petty cash operations
- certain contractual relationships
- functioning an effectiveness of the SAO's internal control system.

The results of the audits completed in 2013 were discussed with the senior staff of the audited departments. Direct, specific and deadline-linked measures were adopted in respect of all the shortcomings found during the audits. The implementation of the adopted measures is monitored and assessed regularly by the internal audit department.

The internal audits did not raise any serious findings in accordance with provisions of Section 22(6) of the Financial Control Act.

The Internal Audit Department also provided certain consultations and methodological work and organised auditor trainings.

6. SAO headquarters

The lease agreement for the existing TOKOVO building was valid until 30 September 2013.

After numerous unsuccessful attempts to obtain state-owned premises for the SAO's headquarters, the option of buying a building and making it state property was advocated. However, the government withdraw its plan to purchase an existing building for SAO headquarters at its meeting in the first quarter of 2013.

Then, in June 2013, negotiations aimed at concluding a new lease agreement for the lease of non-residential premises was concluded. The term of the lease is two years with the possibility of four two-year extensions.

A number of new or clearly worded provisions helped to eliminate to the maximum extent any risk leading particularly to criticism of the uneconomical nature of the previous contractual relationship.

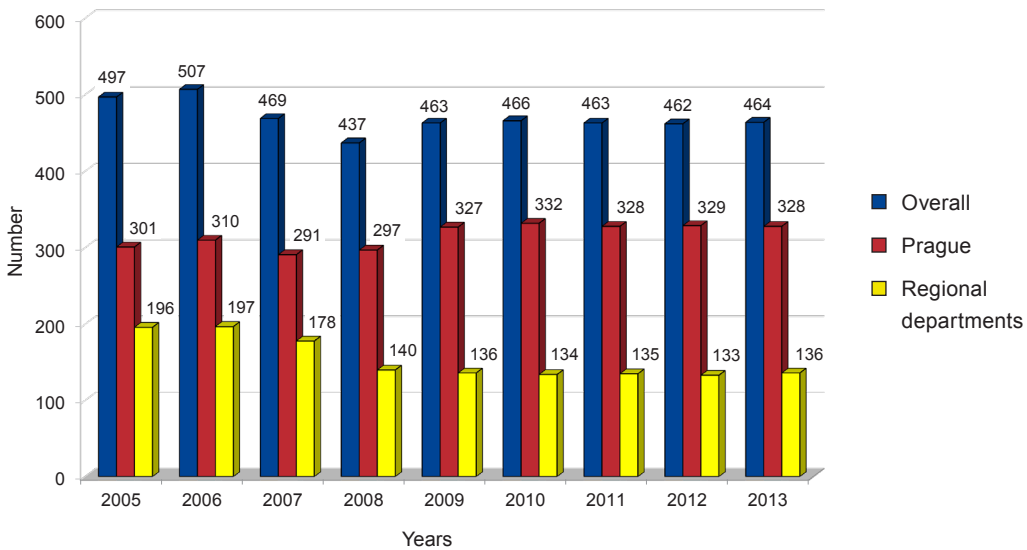
The annual lease amounts to CZK 16.696 million/year, which is 60% less than in the previous period. The lease may not be adjusted before 1 January 2015 and then only if the annual consumer price index for the previous year is more than 2%.

7. SAO staffing

In 2013, the total SAO workforce was 468⁴², of which 336 staff members were employed in the Audit Section. During 2013, 39 new employees were hired. 32 ended their employment, of which 5 retired or left for medical reasons. The fluctuation rate in 2013 was 5.77%.

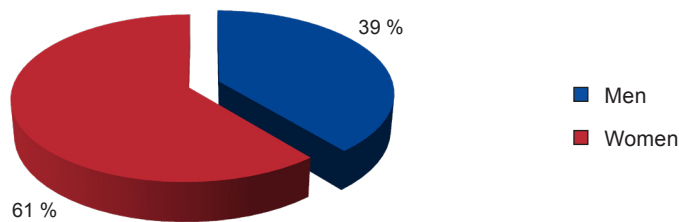
The average number of full time equivalent employees was 464 for 2013; the average number of full time equivalent employees in the audit section was 333 in 2013, i.e., 71.77% of the total average number of full time equivalent employees at SAO in 2013. Graph No. 7 shows development of the average number of SAO employees and employees of Prague and regional departments for the period 2005-2013.

Graph No. 7: Development of the staff number of the SAO in 2005-2013

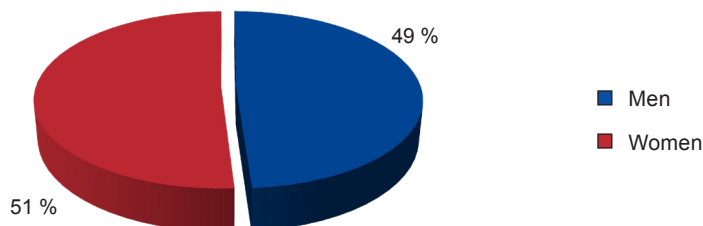


The SAO provides its employees with equal work conditions and job opportunities. Graph No. 8 and Graph No. 9 show, respectively, the proportion of men and women employed at the SAO and in the SAO's management in 2013.

Graph No. 8: Average proportion of men and women employed at the SAO, as of 31 December 2013 (in %)



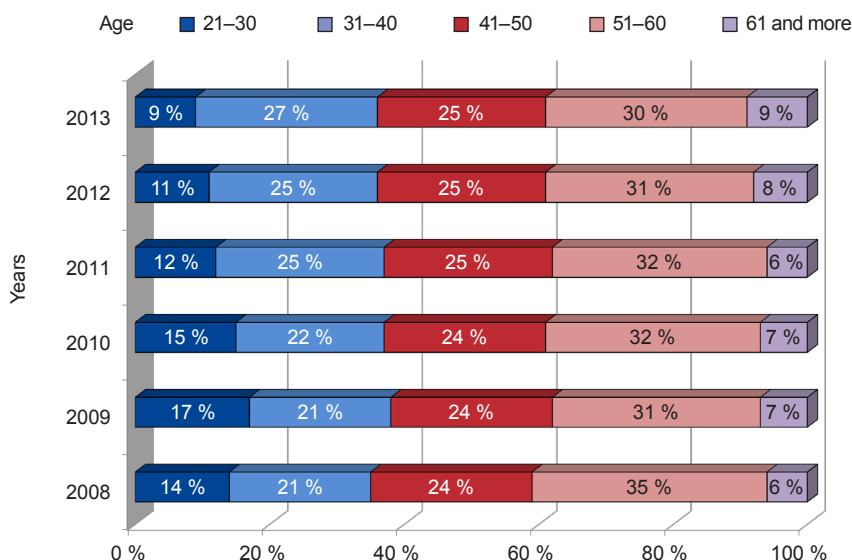
Graph No. 9: Average proportion of women and men in management position at the SAO, as of 31 December 2013 (in %)



⁴² Average number of employees recorded in 2013.

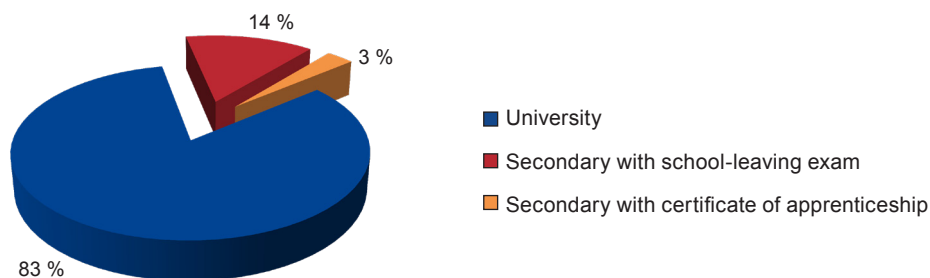
Graph No. 10 shows the age structure of SAO employees as of 31 December 2013, including a comparison with the years 2008 to 2013. The average age of SAO employees in 2013 was 47 years old.

Graph No. 10: Overview of the total age structure of SAO employees for 2008-2013 (comparison as of 31 December of the respective year)



As of 31 December 2013, 83% of the total SAO workforce was university educated. Graph No. 11 provides an overview of the educational structure of SAO employees as of 31 December 2013.

Graph No. 11: Qualification structure of SAO employees according to level of education reached, as of 31 December 2013



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

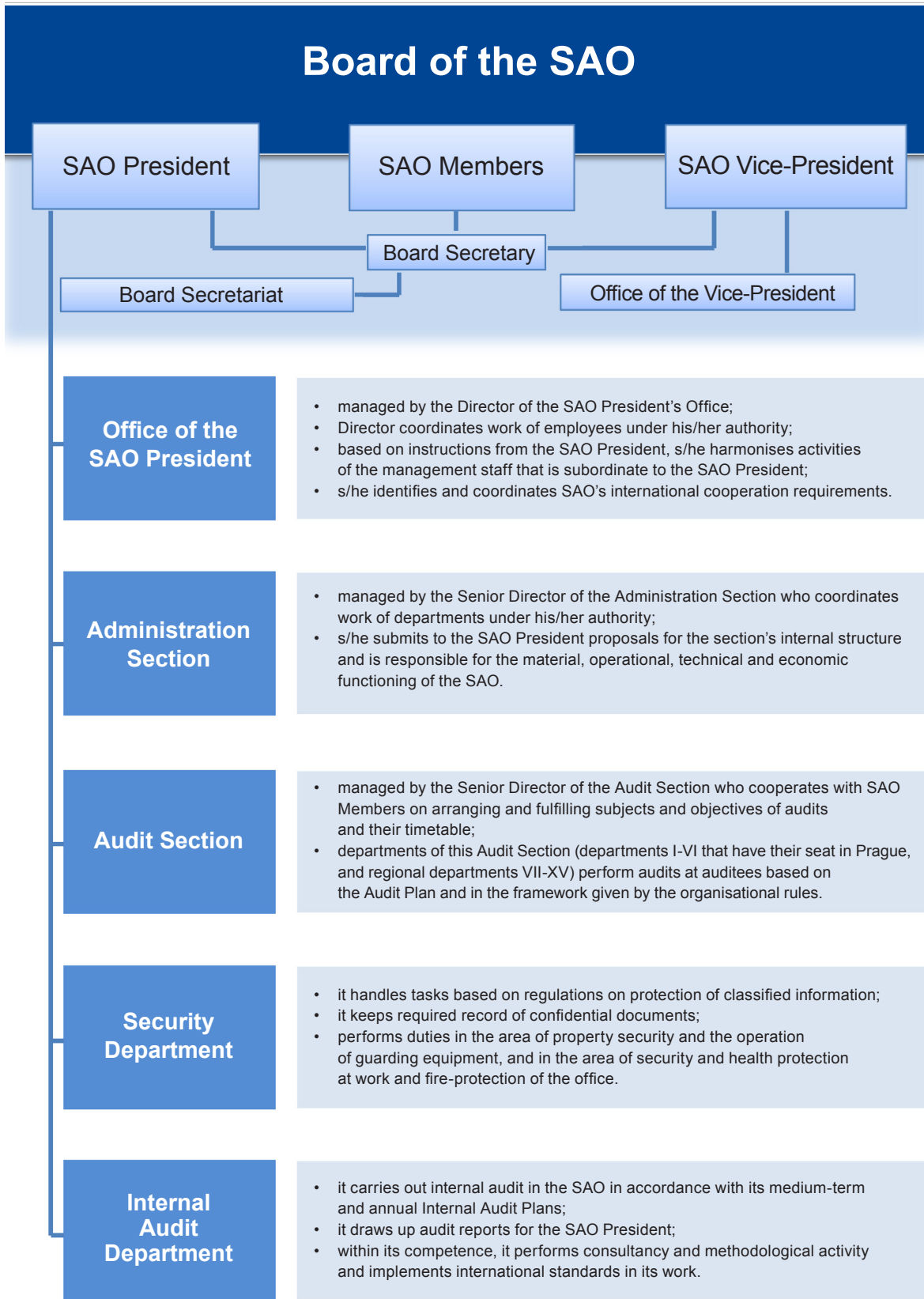
Training and development

Training and development activities at the SAO in 2013 focused mainly on deepening and improving the professional skills of SAO employees.

The SAO has a functioning induction and professional training system. This system is modified and developed in compliance with the needs of the SAO as well as with the needs of SAO employees.

The objective of systematic training is to prepare SAO employees for their position and in case the skill set required for this position changes.

8. SAO organisational structure



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

Conclusion

In the SAO's opinion, last year was successful. From the point of view of the results of the audit work conducted in the area of government expenditure, the SAO managed to identify the most serious cases of non-observance of the principles of economy, efficiency and effectiveness and breach of laws, rules and principles. At the same time, the SAO called attention to fundamental system shortcomings in the activities of the auditees. It also obtained important feedback that can be used for both the work of the Parliament and Government of the Czech Republic and the decision-making, management and control efforts of the responsible bodies. The consistent use of this feedback contributes to improving government expenditure.

The audits were focused primarily on those areas facing the greatest threat of the uneconomical, ineffective and inefficient use of state resources, both on the expenditure side and the revenue side. The results of the 41 audits conducted showed that the awarding of public contracts (public procurement) continues to be one of the areas with the highest risk of non-observance of the principles of transparency, non-discrimination and equal treatment. Other persistent shortcomings included the insufficient substantiation of the need for contracts, the ambiguous scope of contracts, unsubstantiated expensive technical solutions and the creation of a large amount of additional work on projects. Awarding contracts through NPWOP without fulfilling the statutory conditions that would allow for the use of this procedure continued to occur. In the case of ICT contracts, for example, this approach led to the suppression of competition and the creation of dependence on one supplier. In the SAO's opinion, the uneconomical expenditure of large amounts on external consultancy, legal and advisory services that should have been provided by the public authorities themselves was another serious shortcoming. The SAO considers the failure to address shortcomings in the area of ICT and the unsubstantiated use of external services to be a proof that high government expenditures will continue to be a threat into the future.

Another shortcoming was the unusual purchases of medical and health care products with substantial price differences without tenders and without concluding written agreements. In the area of subsidy policy, the SAO also called attention to the insufficient setup and assessment of the objectives of subsidy chapters and failures to observe rules, principles and transparency when awarding aid. On the revenues side, the SAO discovered that the state is failing to collect certain revenues economically and effectively, e.g., in connection with the administration of fines or the collection of road tolls. The SAO also considers the low effectiveness in the enforcement of tax arrears to be a great problem.

In the past year, the SAO paid special attention to scrutinising the financial resources provided to the Czech Republic from the EU budget. It called attention to fundamental problems with the setup of the management and control system in respect of certain operational programmes, as these problems are caused by the relatively marked degree to which the utilisation of allocated EU resources is falling behind. This is increasing the risk that it will not be possible to utilise the allocated amounts in full and the Czech Republic will irrevocably forfeit EU resources in the billions of crowns.

The results of the SAO's audit work have however not ended just by identifying serious shortcomings or making numerous system recommendations; in many cases, they have become the trigger for changes leading to the elimination of these shortcomings. For this reason, the SAO carefully monitored whether and in what way the government and the auditees approached the results of the audits and whether they adopted and introduced measures to remedy the shortcomings. Over **80%** of the audit conclusions were discussed by the government, which then charged the respective ministers with the task of adopting and introducing measures to address the shortcomings. The SAO is pleased to note that in the past year, after the completion of its audits, a number of positive changes have taken place in many areas in response to its findings and recommendations or that were in compliance with them. This is a sign that the SAO's audit work is having an impact and is of



value to society. The above is also demonstrated by the improvement in cooperation between the SAO and the Government.

The amendment of the Government's rules of procedure was the culmination of efforts to improve the enforcement of measures stemming from the results of the SAO's audits. This amendment has ensured that the SAO president would be present at government's working sessions focused on discussing audit findings and have the chance to respond to the measures proposed in the ministries' opinions prepared for the government meeting.

The signing of a cooperation agreement with the Supreme Public Prosecutor's Office was another successful step taken by the SAO. This step allowed for cooperation to be intensified in the following areas of scrutiny: the "solar business", ICT contracts and protection of the financial interests of the Czech Republic and the European Union.

In 2013, a new SAO development strategy was prepared. The preparations behind this strategy focused on improving the state of public financing and managing state assets, reinforcing the position of the SAO, increasing the effectiveness and efficiency of its audit work, developing human resources and managing the funding received in exemplary fashion.

The SAO continued with its efforts to improve the effectiveness and efficiency of its operations. To better target its audit work, it is also making use of one of its new tools: a computer system developed to detect the risks of uneconomical activity. It analyses data from the public contract information system and utilises a system for analysing data from other information systems, such as the Treasury Information System. The substantial reduction in its requests for state budget resources was another one of the SAO's important successes. The SAO managed to save tens of millions of crowns, especially by reducing the amount of the lease for the buildings that it needs for its operations.

In the past year, the SAO celebrated 20 years of its existence, the primary objective of which is to serve society and the people of this country. Even in the coming years, its work will always be based on its long-term strategic goals, current social significance and analyses of the high-risk areas of government expenditure. In this spirit, the Audit Plan for 2014 was drawn up. The audit work will focus on, for example, ICT contracts, church restitutions, and subsidies promoting renewable energy sources, including solar energy.

The SAO is now beginning to face new challenges, which it sees in particular in the consistent promotion of good practice in government expenditure and efforts to make the enforcement of measures based on audit findings more effective, thereby making the SAO's work even more valuable to the whole of society.

Appendix No. 1 to the SAO's Annual Report for 2013

Audits included in the Audit Plan for 2013									
Audit No.	Subject of audit	Start (month/year)	Audit conclusion submitted for approval (month/year)	Audited area	Chapter Administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by		
13/01	State property and funds allotted to the Office for the Protection of Competition	01/13	09/13	Management of state property and funds	OPC	Mr Hrnčíř	SAO Board		
13/02	Tax arrears administered by tax offices	01/13	11/13	State revenues and other financial operations	MoF	Ms Profeldová	SAO Board		
13/03	Funds earmarked for direct payments	02/13	10/13	Funds from abroad	MoA	Mr Kalivoda	SAO Board		
13/04	Funds earmarked for the funding of projects implemented within the <i>Operational Programme Cross-Border Cooperation the Czech Republic - Poland 2007-2013</i>	02/13	10/13	Funds from abroad	MoRD	Mr Kufa	SAO Board		
13/05	State property under the management of "Palivový kombinát Ústí", state-owned enterprise	02/13	11/13	Management of state property and funds	MoIT	Mr Němeček	SAO Board		
13/06	Funds earmarked for the investments under the management of the Academy of Sciences of the Czech Republic and public research institutions founded by the Academy of Sciences	02/13	11/13	Important investment programmes and activities	AS CR	Mr Macháček	SAO Board		
13/07	State property and funds allotted to the Ministry of Environment	02/13	11/13	Management of state property and funds	MoE	Mr Vedral	SAO Board		
13/08	Funds earmarked for the support of agricultural research, development and innovations within the budget chapter of the <i>Ministry of Agriculture</i>	02/13	11/13	State's subsidy policy	MoA	Mr Neuvirt	SAO Board		
13/09	Selected public procurement contracted without award procedure	03/13	10/13	Management of state property and funds	MoD	Mr Sehoř	SAO Board		
13/10	Foreign claims of the Czech Republic administered by the Ministry of Finance	03/13	12/13	State revenues and other financial operations	SFAO	Ms Kadaňová	SAO Board		
13/11	Data for the monitoring and control of public finances provided by the Ministry of Industry and Trade as of 31. 12. 2012 in the form of Auxiliary Analytical Overview from the Central System of Accounting Information of the State	03/13	10/13	Closing accounts of SB chapters and data for monitoring of public finances	MoIT	Ms Steidlová	SAO Board		
13/12	Funds spent on preparations, implementation and operating of information system of basic registers	03/13	12/13	Management of state property and funds	MoI	Mr Kufa	SAO Board		



Audits included in the Audit Plan for 2013									
Audit No.	Subject of audit	Start (month/year)	Audit conclusion submitted for approval (month/year)	Audited area	Chapter Administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by		
13/13	State funds allotted to regional healthcare institutions	03/13	12/13	State's subsidy policy	MoH	Mr Němeček	SAO Board		
13/14	Funds earmarked for the modernisation of railway system	03/13	12/13	Important investment programmes and activities	MoT	Mr Sehoř	SAO Board		
13/15	Administration of levies from the breach of budgetary discipline	04/13	08/13	State revenues and other financial operations	MoF	Ms Profeldová	SAO Board		
13/16	State property under the management of state-owned enterprise "Air Navigation Services"	04/13	01/14	Management of state property and funds	MoT	Mr Kalivoda	SAO Board		
13/17	EU and state budget funds earmarked for the implementation of the Operational Programme <i>Enterprise and Innovation</i>	04/13	01/14	Funds from abroad	MoIT	Mr Brandt	SAO Board		
13/18	State budget funds provided to Export Guarantee and Insurance Corporation, joint-stock company, and to Czech Export Bank, joint-stock company, state guarantees for the liabilities from the insurance of credit export risks and exercising of shareholder rights of the state at the Export Guarantee and Insurance Corporation, joint-stock company	05/13	02/14	Management of state property and funds	GTM	Mr Reisiegel	SAO Board		
13/19	Closing account of the state budget chapter the <i>Ministry for Regional Development</i> for the year 2012, the financial statements and financial records of the Ministry for Regional Development for 2012	05/13	01/14	Closing accounts of SB chapters and data for monitoring of public finances	MoRD	Mr Reisiegel	SAO Board		
13/20	State property and funds allotted to selected state-funded organisations of the Ministry of Education, Youth and Sport	05/13	01/14	Management of state property and funds	MoEYS	Mr Macháček	SAO Board		
13/21	Funds of the Operational Programme <i>Environment</i> earmarked for wastewater treatment	05/13	01/14	Funds from abroad	MoE	Mr Neuvirt	SAO Board		
13/22	Funds collected in accordance with law in favour of the Czech Industrial Health Insurance Company	06/13	04/14	Management of other financial resources	-	Ms Kadaňová	SAO Board		
13/23	State budget funds earmarked for the funding of sport centres supporting sports and fitness in the government departments of the Czech Republic	06/13	02/14	State's subsidy policy	MoD, MoI, MoEYS	Ms Profeldová	SAO Board		
13/24	Funds spent on the project <i>National infrastructure for electronic public procurement (NIPEZ)</i> and purchase of selected commodities via e-market	06/13	03/14	Management of state property and funds	MoRD	Mr Sehoř	SAO Board		
13/25	State funds spent on social care of national or supra-regional extent	06/13	03/14	State's subsidy policy	MoLSA	Mr Kalivoda	SAO Board		

Audits included in the Audit Plan for 2013									
Audit No.	Subject of audit	Start (month/year)	Audit conclusion submitted for approval (month/year)	Audited area	Chapter Administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by		
13/26	Administration of levies imposed by administration authorities and transferred for recovery to customs authorities (so-called "shared administration")	06/13	03/14	State revenues and other financial operations	MoF	Mr Kufa	SAO Board		
13/27	Funds earmarked for projects designated for repair and maintenance of roads	07/13	05/14	Important investment programmes and activities	MoT	Mr Adámek	SAO Board		
13/28	Support for fisheries in the Czech Republic in accordance with Operational Programme <i>Fisheries</i> in 2007-2013	07/13	04/14	Funds from abroad	MoA	Mr Vedral	SAO Board		
13/29	Closing account of the state budget chapter the <i>Ministry of Defence</i> for the year 2012, the financial statements and financial records of the Ministry of Defence for 2012	08/13	04/14	Closing accounts of SB chapters and data for monitoring of public finances	MoD	Mr Vedral	SAO Board		
13/30	Funds earmarked for selected programmes of the Ministry of Defence and organisations set up by the Ministry of Defence, and sale of redundant immovable assets	09/13	06/14	Important investment programmes and activities	MoD	Mr Neuvirt	SAO Board		
13/31	State property and funds allotted to the Ministry of Health	09/13	05/14	Management of state property and funds	MoH	Mr Macháček	SAO Board		
13/32	Funds earmarked for the development of tourism	09/13	06/14	Important investment programmes and activities	MoRD	Mr Hrnčíř	SAO Board		
13/33	State property and funds allotted to the Ministry of Transport and its selected organisational units of the state	09/13	05/14	Management of state property and funds	MoT	Mr Adámek	SAO Board		
13/34	Funds spent on payments of costs related to working activity of selected organisational units of the state	09/13	05/14	Management of state property and funds	MoF, CSO, CTO	Mr Vedral	SAO Board		
13/35	State budget revenues from lottery and other similar games	10/13	07/14	State revenues and other financial operations	MoF	Ms Profeldová	SAO Board		
13/36	Funds spent on services aimed at the support of agricultural products and food on the local state market	10/13	06/14	Management of state property and funds	MoA	Mr Brandt	SAO Board		
13/37	Funds earmarked for the implementation of the Swiss-Czech Cooperation Programme contributing to the reduction of economic and social disparities within the enlarged EU	11/13	07/14	Funds from abroad	MoF, MoE	Mr Neuvirt	SAO Board		



Audits included in the Audit Plan for 2013							
Audit No.	Subject of audit	Start (month/year)	Audit conclusion submitted for approval (month/year)	Audited area	Chapter Administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by
13/38	Closing account of the state budget chapter the <i>Ministry of Agriculture</i> for the year 2013, their financial statements and financial records for 2013	11/13	07/14	Closing accounts of SB chapters and data for monitoring of public finances	MoA	Ms Steidlová	SAO Board
13/39	Closing account of the state budget chapter the <i>Ministry of Transport</i> for the year 2013, the financial statements and financial records of the <i>Ministry of Transport</i> for 2013	11/13	07/14	Closing accounts of SB chapters and data for monitoring of public finances	MoT	Mr Reisiegel	SAO Board
13/40	Management of immovable property and state funds with regard to utilization of this property by selected organisational units of the state	11/13	05/14	Management of state property and funds	MoF, MoD, MoRD, MoLSA, MoI, MoEYS	Mr Brandt	SAO Board

Appendix No. 2 to the SAO's Annual Report for 2013

Overview of audits whose audit conclusions were approved in 2013									
Audit No.	Subject of audit	Audited area	Chapter Administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by	Date of approval	Published in SAO Bulletin (Issue/year)		
12/03	Funds earmarked for the development and renewal of material and technical background of university hospitals	Important investment programmes and activities	MoH	Mr Hrmčič	SAO Board	18. 2. 2013	2/2013		
12/08	Industrial cooperation programmes (offsets) as a tool of economic compensation for the state expenditures incurred in relation to selected public procurement, including tax administration of tax payers participating in the respective audited programmes	State revenues and other financial operations	MoD, MoI	Mr Sehoř	SAO Board	28. 1. 2013	1/2013		
12/09	Funds spent on the construction of the information system of the Treasury	Management of state property and funds	MoF	Mr Reisiegel	SAO Board	28. 1. 2013	1/2013		
12/11	Funds earmarked for modernization of important railway junctions	Important investment programmes and activities	MoT	Mr Sehoř	SAO Board	18. 2. 2013	1/2013		
12/12	Incomes from the motorway toll and from time coupons (time framed charge for using roads) including related expenditures	State revenues and other financial operations	MoT, MoF	Mr Němeček	SAO Board	15. 4. 2013	2/2013		
12/13	EU and state funds earmarked for the realization of the operational programme <i>Technical Assistance</i>	Funds from abroad	MoRD	Mr Macháček	SAO Board	18. 2. 2013	1/2013		
12/14	Closing account of the state budget chapter the <i>Ministry of Transport</i> for the year 2011, their financial statements and financial records for 2011	Closing accounts of SB chapters and data for monitoring of public finances	MoT	Mr Reisiegel	SAO Board	28. 1. 2013	1/2013		
12/15	Closing account of the state budget chapter <i>Ministry of Agriculture</i> for the year 2011, their financial statements and financial records for 2011	Closing accounts of SB chapters and data for monitoring of public finances	MoA	Ms Steidlová	SAO Board	18. 2. 2013	2/2013		
12/16	State property and funds allotted to the state-funded organisation Czech Hydrometeorological Institute	Management of state property and funds	MoE	Mr Macháček	SAO Board	18. 2. 2013	2/2013		
12/17	State budget funds and state property allotted to the Municipal Financial Company, joint-stock company, funds guaranteed by the state and state share in the company	Management of state property and funds	GTM	Ms Kadaňová	SAO Board	25. 3. 2013	2/2013		
12/18	Funds earmarked for the construction of motorways and high-speed roads	Important investment programmes and activities	MoT	Mr Adámek	SAO Board	24. 6. 2013	3/2013		



Overview of audits whose audit conclusions were approved in 2013									
Audit No.	Subject of audit	Audited area	Chapter Administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by	Date of approval	Published in SAO Bulletin (Issue/year)		
12/19	Funds earmarked for the implementation of the operational programme <i>Human Resources and Employment</i>	Funds from abroad	MoLSA	Mr Hrnčíř	SAO Board	29. 4. 2013	2/2013		
12/20	Funds collected in accordance with Act on Hazardous Waste Management	Management of other financial resources	MoE	Mr Němeček	SAO Board	29. 4. 2013	2/2013		
12/21	EU and state funds earmarked for the implementation of the operational programme <i>Research and Development for Innovation</i>	Funds from abroad	MoEYS	Mr Kalivoda	SAO Board	13. 5. 2013	3/2013		
12/22	State funds provided to non-state, non-profit organisations through the budget chapter the <i>Ministry of the Interior</i>	State's subsidy policy	Mol	Ms Profeldová	SAO Board	25. 3. 2013	2/2013		
12/23	Funds spent by selected university hospitals on their operational costs	Management of state property and funds	MoH	Ms Kadaňová	SAO Board	27. 5. 2013	3/2013		
12/24	State property and funds allotted to the Czech Office for Surveying, Mapping and Cadastre and its selected subordinated organizational state bodies	Management of state property and funds	COSMC	Mr Kufa	SAO Board	29. 4. 2013	2/2013		
12/25	State funds provided for programmes on anti-narcotics politics	State's subsidy policy	MoH, MoEYS, OG CR	Mr Neuvirt	SAO Board	29. 4. 2013	2/2013		
12/26	State property and funds provided to the state enterprise VOP-026 Štemberk	Management of state property and funds	MoD	Mr Kalivoda	SAO Board	27. 5. 2013	3/2013		
12/27	Funds earmarked for anti-flood prevention programmes	Important investment programmes and activities	MoA	Mr Adámek	SAO Board	5. 8. 2013	3/2013		
12/28	Closing account of the state budget chapter the <i>Ministry of Labour and Social Affairs</i> for the year 2012, their financial statements and financial records for 2012	Closing accounts of SB chapters and data for monitoring of public finances	MoLSA	Mr Reisinger	SAO Board	5. 8. 2013	3/2013		
12/29	Funds spent on the purchase of selected commodities in the Ministry of the Interior in relation to the project of the central purchase	Management of state property and funds	Mol	Ms Kadaňová	SAO Board	30. 9. 2013	4/2013		
12/30	Closing account of the state budget chapter <i>Ministry of Education, Youth and Sports</i> for the year 2012, their financial statements and financial records for 2012	Closing accounts of SB chapters and data for monitoring of public finances	MoEYS	Ms Steidlová	SAO Board	5. 8. 2013	3/2013		
12/31	State property and funds delegated to the state-funded organisation The Road and Motorway Directorate of the Czech Republic	Management of state property and funds	MoT	Mr Adámek	SAO Board	16. 9. 2013	3/2013		

Overview of audits whose audit conclusions were approved in 2013									
Audit No.	Subject of audit	Audited area	Chapter Administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by	Date of approval	Published in SAO Bulletin (Issue/year)		
12/32	Funds spent on the operational costs of selected ministries	Management of state property and funds	MoRD, MoIT, MoE	Mr Vedral	SAO Board	15. 7. 2013	3/2013		
12/33	Funds earmarked for the purchase of selected technical equipment and weaponry for land forces and specialized forces of the Armed Forces of the Czech Republic	Important investment programmes and activities	MoD	Mr Němeček	SAO Board	14. 10. 2013	4/2013		
12/35	Establishment of the Labour Office of the Czech Republic and management of state budget's and the EU's property and funds related to the establishment and activity of this office and to preparation and implementation of projects in the area of welfare disbursement information systems	Management of state property and funds	MoLSA	Ms Profeldová	SAO Board	26. 8. 2013	3/2013		
12/36	Funds spent on the purchase and operation of the system of data boxes	Management of state property and funds	MoI	Mr Brandt	SAO Board	26. 8. 2013	3/2013		
13/01	State property and funds allotted to the Office for the Protection of Competition	Management of state property and funds	OPC	Mr Hrnčíř	SAO Board	16. 9. 2013	4/2013		
13/02	Tax arrears administered by tax offices	State revenues and other financial operations	MoF	Ms Profeldová	SAO Board	16. 12. 2013	AC will be published in the SAO Bulletin issue 1/2014		
13/03	Funds earmarked for direct payments	Funds from abroad	MoA	Mr Kalivoda	SAO Board	14. 10. 2013	4/2013		
13/04	Funds earmarked for the funding of projects implemented within the Operational Programme Cross-Border Cooperation the Czech Republic - Poland 2007-2013	Funds from abroad	MoRD	Mr Kufa	SAO Board	4. 11. 2013	4/2013		
13/05	State property under the management of "Paličkov kombinát Ústí", state-owned enterprise	Management of state property and funds	MoIT	Mr Němeček	SAO Board	2. 12. 2013	4/2013		
13/06	Funds earmarked for the investments under the management of the Academy of Sciences of the Czech Republic and public research institutions founded by the Academy of Sciences	Important investment programmes and activities	AS CR	Mr Macháček	SAO Board	18. 11. 2013	4/2013		
13/08	Funds earmarked for the support of agricultural research, development and innovations within the budget chapter of the Ministry of Agriculture	State's subsidy policy	MoA	Mr Neuvirt	SAO Board	4. 11. 2013	4/2013		



Overview of audits whose audit conclusions were approved in 2013							
Audit No.	Subject of audit	Audited area	Chapter Administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by	Date of approval	Published in SAO Bulletin (Issue/year)
13/09	Selected public procurement contracted without award procedure	Management of state property and funds	MoD	Mr Sehoř	SAO Board	4. 11. 2013	4/2013
13/10	Foreign claims of the Czech Republic administered by the Ministry of Finance	State revenues and other financial operations	SFAO	Ms Kadaňová	SAO Board	16. 12. 2013	AC will be published in the SAO Bulletin issue 1/2014
13/11	Data for the monitoring and control of public finances provided by the Ministry of Industry and Trade as of 31. 12. 2012 in the form of Auxiliary Analytical Overview from the Central System of Accounting Information of the State	Closing accounts of SB chapters and data for monitoring of public finances	MoIT	Ms Steidlová	SAO Board	18. 11. 2013	4/2013
13/12	Funds spent on preparations, implementation and operating of information system of basic registers	Management of state property and funds	MoI	Mr Kufa	SAO Board	2. 12. 2013	4/2013
13/14	Funds earmarked for the modernisation of railway system	Important investment programmes and activities	MoT	Mr Sehoř	SAO Board	16. 12. 2013	AC will be published in the SAO Bulletin issue 1/2014
13/15	Administration of levies from the breach of budgetary discipline	State revenues and other financial operations	MoF	Ms Profeldová	SAO Board	14. 10. 2013	4/2013

Appendix No. 3 to the SAO's Annual Report for 2013

Overview of audits whose approved audit conclusions were discussed by the Committee on Budgetary Control of the Chamber of Deputies of the Parliament of the Czech Republic in 2013						
CBC resolution	Date of session	Audit No.	Government document No.	Government resolution (No./Year)	Summary of CBC's resolution	
184	11. 4. 2013	09/29	220/11	306/11	CBC I. acknowledges: a) AC, b) the opinion of MoH on the AC mentioned in the Government material 125/13; II. requests the Minister of Health to submit an interim report on the implementation of reform steps in the psychiatric clinic by 31. 12. 2013.	
183	11. 4. 2013	10/21	936/11	211/12	CBC I. acknowledges: a) AC, b) the opinion of MoA on the AC mentioned in the Government material 936/11, c) the information of the Minister of Agriculture on the implementation of measures adopted to findings mentioned in the AC, mentioned in the Government material 326/12.	
177	6. 3. 2013	11/32	69/12	227/12	CBC I. acknowledges: a) AC, b) the opinion of CTIA and MoIT on the AC mentioned in the Government material 69/12, c) the adopted remedial measures of the MoIT to correct the shortcomings mentioned in the Government material 796/12.	
176	6. 3. 2013	11/01	20/12	231/12	CBC I. acknowledges: a) AC, b) the adopted remedial measures to correct the shortcomings mentioned in the Government material 20/12, c) Governments decision 231/12.	
172	6. 3. 2013	11/05	177/12	232/12	CBC I. acknowledges: a) AC, b) the opinion of MoC on the AC mentioned in the Government 177/12.	
171	6. 3. 2013	11/38	1024/12	829/13	CBC I. interrupts deliberations of the item; II. demands the Minister of Culture to submit, by 24. 5. 2013 an overview of unfulfilled applications of the Programme Regeneration within 2008-2010; III. Demands the Minister of Culture to submit detailed information about the project Palm Garden No. 275 in Hradec Králové.	





Appendix No. 4 to the SAO's Annual Report for 2013

Overview of audits whose approved audit conclusions were discussed by the Government of the Czech Republic in 2013				
Government resolution No.	Date of session	Government document No.	Audit No.	Measures imposed by the Government
772/13	16. 10. 2013	968/13	12/23	The Government instructs: 1. To implement the measures mentioned in the opinion on the AC and included in the part IV. of Government material 968/13 and inform the Government by 30. 9. 2014; 2. To assess all mechanisms influencing the price setting of drugs and health tools, and adopt relevant measures, to deal with causes of insufficient utilization of processes pursuant to law on public procurement, and to resolve the way of recording the disposal and liquidation of health waste with stress on monitoring of state and development of disposal of medical Material and adopt legislative measures in this area.
771/13	16. 10. 2013	1002/13	12/18	The Government instructs the Minister of Transport to implement measures mentioned in the opinion on the AC and included in IV. Government material 1002/13 and inform the Government about the implementation by 30. 9. 2014.
770/13	16. 10. 2013	1078/13	12/26	The Government instructs the Minister of Defence to implement measures mentioned in the opinion on the AC and included in IV. Government material 1078/13, to assess the fulfilment of these measures and inform the Government about the results by 30. 6. 2014.
769/13	16. 10. 2013	1113/13	12/27	The Government instructs the Minister of Agriculture to implement measures mentioned in the opinion on the AC and included in IV. Government material 1113/13 and inform the Government about the implementation by 31. 12. 2015.
768/13	16. 10. 2013	950/13	12/21	The Government instructs the Minister of Education, Youth and Sports to implement measures mentioned in the opinion on the AC and included in III. Government material 950/13 and inform the Government about the implementation by 30. 11. 2013.
767/13	16. 10. 2013	1080/13	12/30	The Government instructs the Minister of Education, Youth and Sports to implement measures mentioned in the opinion on the AC and included in IV. Government material 1080/13 and inform the Government about the implementation by 31. 10. 2013.
766/13	16. 10. 2013	1123/13	12/35	The Government instructs the Minister of Labour and Social Affairs to implement measures mentioned in the opinion on the AC and included in IV. Government material 1123/13 and inform the Government about the implementation by 31. 3. 2014.
765/13	16. 10. 2013	1049/13	12/28	The Government instructs the Minister of Labour and Social Affairs to implement measures mentioned in the opinion on the AC and inform the Government about the implementation by 31. 3. 2014.
764/13	16. 10. 2013	1103/13	12/32	The Government instructs the Ministers of Industry and Trade, and for Regional Development to implement measures mentioned in the opinion on the AC and included in Government material 1103/13 and inform the Government about the implementation by 31. 3. 2014.
655/13	21. 8. 2013	832/13	12/25	The Government instructs 1. The President of the Government Board for coordination of anti-drugs policy, Ministers of Education, Youth and Sports to implement subsidy proceedings within their competence in compliance with effective regulations and measures adopted according to the AC; 2. The President of the Government Board for coordination of anti-drugs policy to suggest measures to streamline inter-resort coordination of subsidy proceedings and deliberate it within the Government Board for coordination of anti-drugs policy.
654/13	21. 8. 2013	838/13	12/24	The Government instructs the Minister of Agriculture: 1. To implement measures mentioned in the opinion on the AC mentioned in IV. Government material 838/13; 2. To inform the Government about the implementation by 31. 12. 2013

Overview of audits whose approved audit conclusions were discussed by the Government of the Czech Republic in 2013				
Government resolution No.	Date of session	Government document No.	Audit No.	Measures imposed by the Government
653/13	21. 8. 2013	759/13	12/19	The Government instructs the Minister of Labour and Social Affairs 1. To implement measures mentioned in the opinion on the AC; 2. To inform the Government about the implementation by 31. 12. 2013.
652/13	21. 8. 2013	741/13	12/12	The Government instructs the Minister of Transport to submit suggestion and economic assessment of systemic measures which will significantly reduce operational costs of arrears collection, and based on the assessment to prepare amendments of relevant legal provisions.
651/13	21. 8. 2013	661/13	12/17	The Government instructs the Minister of Finance: 1. To implement measures No 1 and 2 mentioned in the opinion on the AC mentioned in IV. Government material 661/13; 2. To inform the Government about the implementation of measure No 1 by 31. 10. 2013 and measure No 2 by 31. 12. 2013.
650/13	21. 8. 2013	579/13	12/22	The Government instructs the Minister of the Interior: 1. To implement measures mentioned in the opinion on the AC mentioned in IV. Government material 579/13; 2. To inform the Government about the implementation by 31. 12. 2013.
649/13	21. 8. 2013	606/13	12/16	The Government instructs the Minister of the Environment: 1. To implement measures mentioned in the opinion on the AC mentioned in IV. Government material 606/13; 2. To inform the Government about the implementation by 31. 3. 2014.
416/13	5. 6. 2013	467/13	12/08	The Government instructs the Ministers of Industry and Trade, Defence, the Interior and Finance to use the knowledge from the AC within the implementation of current programmes of industrial cooperation.
415/13	5. 6. 2013	447/13	12/11	The Government instructs the Minister of Transport to ensure the implementation of remedial measures mentioned in the opinion on the AC mentioned in IV. Government material 447/13.
414/13	5. 6. 2013	488/13	12/03	The Government instructs the Minister of Health to implement measures mentioned in the opinion on the AC mentioned in III. Government material 488/13; 2. To inform the Government about the implementation by 31. 12. 2013.
413/13	5. 6. 2013	521/13	12/15	The Government instructs the Minister of Agriculture: 1. To implement measures mentioned in the opinion on the AC mentioned in IV. Government material 521/13; 2. To inform the Government about the implementation by 31. 3. 2014.
316/13	2. 5. 2013	269/13	12/01	The Government instructs: 1. The Minister of Finance to ensure the fulfilment and compliance with legal provisions regulating imposition of fines pursuant to the Act No 563/1991 Coll., on accounting; 2. The Minister of Justice to ensure the fulfilment and compliance with legal provisions regulating imposition of fines pursuant to the Act No 99/1963 Coll., Civil Court Code; 3. The Minister of Finance to process in cooperation with the Minister of Justice an analysis of the most suitable legislative solution of a) the possibility of the Financial administration of CR to provide registry courts information acquired during the collection of taxes in case that the data are necessary for the administration of the Collection of documents at the Business register; b) the setup of suitable control mechanism of completeness of the Collection of documents at the Registry courts; c) efficient and unified setup of sanctioning for non-complying with the duty to publish data according to point 3a.
315/13	2. 5. 2013	332/13	12/09	Not imposed
314/13	2. 5. 2013	300/13	12/14	Not imposed



Overview of audits whose approved audit conclusions were discussed by the Government of the Czech Republic in 2013				
Government resolution No.	Date of session	Government document No.	Audit No.	Measures imposed by the Government
313/13	2. 5. 2013	370/13	12/13	The Government recommends the Minister for Regional Development: 1. To take into account the outcomes from the AC within the preparation of unified methodological environment for next programming period 2014-2020; 2. To continue in the implementation of measures mentioned in the opinion on the AC mentioned in III. Government material 370/13.
183/13	13. 3. 2013	103/13	12/05	Not imposed
182/13	13. 3. 2013	211/13	12/04	The Government instructs the Minister of Agriculture to implement measures mentioned in the opinion on the AC mentioned in IV. Government material 211/13 and to inform the Government about the implementation by 31. 12. 2013
181/13	13. 3. 2013	125/13	12/07	The Government instructs the Minister of Health: 1. To implement measures mentioned in the opinion on the AC mentioned in IV. Government material 125/13; 2. To inform the Government about the implementation by 30. 6. 2013.
180/13	13. 3. 2013	120/13	12/10	The Government instructs the Minister of the Environment: 1. To implement measures mentioned in the opinion on the AC mentioned in III. Government material 120/13; 2. To inform the Government about the implementation by 31. 12. 2013
179/13	13. 3. 2013	126/13	12/02	The Government recommends the Minister for Regional Development: 1. To take into account the outcomes from the AC within the preparation of unified methodological environment for next programming period 2014-2020; 2. To continue in the implementation of measures mentioned in the opinion on the AC mentioned in III. Government material 126/13.
56/13	23. 1. 2013	1238/12	11/37	The Government instructs the Minister of Education, Youth and Sports to ensure: 1. To finish the implementation of Programmes No 233 310 – Development and revitalization of technical base of the Charles University in Prague and No 233 340 – Development and revitalization of technical base of public universities, and this in compliance with approved documentation of the programmes; 2. The implementation of suggested measures in compliance with principles of following programmes of public universities.
55/13	23. 1. 2013	1235/12	11/31	The Government instructs the Minister of Transport to ensure the implementation of measures of state organisation Administration of Rail and Transport Routes mentioned in the opinion on the AC in IV. Government material 1235/12.
54/13	23. 1. 2013	1324/12	12/06	The Government instructs: 1. The Minister for Regional Development to take into account the outcomes of the AC within the preparation of unified methodological environment for next programming period 2014-2020; 2. The Minister of Finance to take into account the outcomes of the AC within his activities and mandates in the area of structural funds and EU Cohesion Fund. The Government recommends to the president of Regional Board of the Region of Central Bohemia to get acquainted with the material 1324/12 and comply with processes and deadlines set at the implementation of the Regional Operational Programme NUTS II Central Bohemia and to inform the Minister for Regional Development about the results of implementation of adopted measures by 31. 5. 2013.

Appendix No. 5 to the SAO's Annual Report for 2013

List of abbreviations used

AAO	Auxiliary analytical overview
AC	Audit conclusion
AS CR	Academy of Sciences of the Czech Republic
ATIS	Automated Tax Information System
Audit No.	Audit number
BRH	Federal Court of Auditors of Germany (Bundesrechnungshof)
CBC	Control Committee of the Chamber of Deputies of the Parliament of the Czech Republic
CD PCR	Chamber of Deputies of the Parliament of the Czech Republic
CHMI	Czech Hydrometeorological Institute
COSMC	Czech Office for Surveying, Mapping and Cadastre
CP	Česká pošta, s .p.
CR	Czech Republic
CSO	Czech Statistical Office
CTIA	Czech Trade Inspection Authority
CTO	Czech Telecommunications Office
CZK	Czech crown
EC	European Commission
ECA	European Court of Auditors
EU	European Union
EUROSAI	European Organisation of Supreme Audit Institutions
GD RMD	General Directorate of the Road and Motorways Directorate
GFD	General Financial Directorate
GTM	General Treasury Management
GTR	General Treasury Report
HGP	Housing Guaranty Programme
HREOP	Human Resources and Employment Operational Programme
ICT	Information and communication technology
INTOSAI	International Organisation of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions
ITIS	Integrated Treasury Information System
LO	Labour Office (labour offices)
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
MoH	Ministry of Health
MoI	Ministry of the Interior
MoIT	Ministry of Industry and Trade
MoLSA	Ministry of Labour and Social Affairs
MoRD	Ministry of Regional Development
MoT	Ministry of Transport
MUFIS	Municipální finanční společnost a.s.
NATO	North Atlantic Treaty Organization
NPS	National Professions System
NPWOP	Negotiated procedure without publication of a contract notice
NRA	National Registers Authority
OG CR	Office of the Government of the Czech Republic
OP CBC CR-POL	Operational Programme Czech Republic-Poland Cross Border Cooperation
OP R&DI	Operational Programme Research and Development for Innovations
OP TA	Operational Programme Technical Assistance
OPC	Office for the Protection of Competition
OUS	Organisational unit of the state
RIA	Railway Infrastructure Administration, state enterprise
RMD	Road and Motorway Directorate
RRR	Registry of Rights and Responsibilities
SAI	Supreme Audit Institution
SAO	Supreme Audit Office
SB	State budget
SCA	State closing account
SEF	State Environmental Fund
SFAO	State Financial Assets Operations
SFTI	State Fund for Transport Infrastructure
SRS/ASOA	Subsidy Record System/Administration of State-owned Assets
TCS	Toll Collection System
TH	Teaching hospital
USD	American dollar
VAT	Value added tax

