



# ANNUAL REPORT 2014





## THE SAO IN 2014

**40**

audits

**269** audited  
entities

**504**

citizens'  
submissions

**7**

audit  
suggestions  
from  
government  
and  
parliament

**9** criminal  
complaints

**58**

notifications  
of breaches of  
budgetary  
discipline

**CZK 1 128 799 480**

finances affected by notifications about breaches  
of budgetary discipline

# KEY EVENTS IN 2014

## AMENDMENT OF THE CONSTITUTION

THE LEGISLATIVE PROCESS MODIFYING THE LEGAL FRAMEWORK OF THE SAO'S AUDIT POWERS CONTINUED IN 2014. THE CHAMBER OF DEPUTIES DEBATED A DRAFT AMENDMENT OF THE CONSTITUTION WIDENING THE SAO'S AUDIT POWERS TO COVER ALL PUBLIC FINANCES, INCLUDING AUDIT OF COMMERCIAL UNDERTAKINGS CONTROLLED BY THE STATE AND BY TERRITORIAL SELF-GOVERNING UNITS. THE AMENDMENT WAS PASSED BY 125 OF THE 136 ATTENDING DEPUTIES AND IS NOW DUE TO BE DEBATED IN THE SENATE.



## AMENDMENT OF ACT NO. 166/1993 COLL., ON THE SUPREME AUDIT OFFICE

IN JULY 2014, THE GOVERNMENT PUT BEFORE THE CHAMBER OF DEPUTIES AN AMENDMENT OF THE ACT ON THE SAO. THE AIM OF THIS AMENDMENT IS TO ADAPT THE LAW TO CURRENT TRENDS IN THE PROCESSING OF INFORMATION IN AUDITS, THE COMPUTERISATION OF THE AGENDAS OF PUBLIC ADMINISTRATION BODIES, THE POSSIBILITY OF REMOTE ACCESS TO THE RESULTS OF THE SAO'S WORK, ETC. ANOTHER REASON FOR THE AMENDMENT IS TO RESPOND TO CHANGES IN TERMINOLOGY RESULTING FROM AMENDMENTS OF OTHER LEGISLATION, E.G. THE AMENDMENT OF THE CIVIL CODE, THE LABOUR CODE, OR THE ACT ON THE PUBLIC PROSECUTOR'S OFFICE. THE DRAFT AMENDMENT OF THE ACT ON THE SAO WAS DEBATED BY THE CHAMBER OF DEPUTIES IN OCTOBER 2014.



## NEW ONLINE COMMUNICATION CHANNELS

TO SIMPLIFY COMMUNICATION WITH THE PUBLIC THE SAO LAUNCHED TWO NEW APPLICATIONS ON ITS WEB SITE: "CURRENT AUDITS" AND "WRITE TO US". THESE MAKE IT POSSIBLE TO SEND ANONYMOUS SUGGESTIONS AND INFORMATION LINKED TO ONGOING OR PLANNED AUDITS. THE INFORMATION CAN BE ENTERED ON A SIMPLE ONLINE FORM, TO WHICH RELATED DOCUMENTS MAY BE APPENDED.



## CLICKABLE BUDGET

THE SAO WANTS TO SET AN EXAMPLE TO OTHER PUBLIC INSTITUTIONS. ACCORDINGLY, AT MINIMAL COST IT CREATED AND POSTED ONLINE AN APPLICATION CALLED CLICKABLE BUDGET. THIS APPLICATION DISPLAYS THE SAO'S BUDGET HEADING AND CURRENT DRAWDOWN. THE DATA ARE UPDATED ON A WEEKLY BASIS. AT THE SAME TIME, THIS SECTION OF THE WEB SITE FEATURES LINKS TO AN OVERVIEW OF PUBLIC CONTRACTS AWARDED BY THE SAO AND TO THE CLOSING ACCOUNTS OF THE SAO BUDGET HEADING.



## KEY EVENTS IN 2014



### VISIT BY PRESIDENT OF THE CZECH REPUBLIC MILOŠ ZEMAN

In November 2014, the SAO was visited by the President of the Czech Republic Miloš Zeman. This was the first ever visit to the SAO by a Czech head of state. The president of the SAO presented the work of the Office and those who are responsible for it to Mr Zeman. After that, there was a discussion between Mr Zeman and SAO staff. During the visit, Mr Zeman expressed his appreciation of the work of the SAO and expressed his support. "The public has the right to know how their money is used. I support the widening of the SAO's audit powers to cover all public finances," Mr Zeman stressed.

### VISIT BY PRESIDENT OF THE CHAMBER OF DEPUTIES JAN HAMÁČEK

In 2014, the SAO was also visited by Jan Hamáček, President of the Chamber of Deputies. The visit was an opportunity to discuss cooperation between the two institutions, how the results of SAO audits are used in the work of the Chamber of Deputies and, last but not least, progress towards the completion of the legislative process to widen the scope of the SAO's audit powers.

Jan Hamáček expressed his appreciation of the current condition of the SAO. "In the SAO the Chamber of Deputies has a reliable and professional partner that provides relevant feedback," the President of the Chamber of Deputies said, adding, "I would like to promise the SAO that I will urge the government to swiftly put forward an implementing regulation linked to the amendment of the Constitution, so that the SAO can start to audit all public funds, including those of local governments."



### NEW UNITS CREATED

During 2014, preparations were made for setting up new units in the audit section. The new analysis unit and a new department focusing on performance audit and information systems audit were founded as of 1.1.2015. Previously, the information from the various public administration information systems used by specialised departments was not collated. The new analysis unit will coordinate the SAO's analytical work and will be tasked with continuously monitoring and assessing data on the management of public finances and also identifying strategic topics for planning audit work. Another benefit will be the gradual centralisation of the administration and use of access to public administration information systems and the associated creation of new analytical tools. The gradual defining of parameters for monitoring data from the databases will make it possible to compare the data and target audit work at the highest-risk areas.

The organisational change also allowed the SAO to put in place the right conditions for applying performance audit to a broader range of audited issues than hitherto was the case. The new department will strengthen the areas of performance audit focusing on achieving effectiveness, efficiency, and economy in the use of public funds. The department's capacity also makes it possible to expand the portfolio of performance audits dealing with public administration information systems.





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## Foreword of the President of the SAO

Dear readers,

The Supreme Audit Office audited funds and property worth CZK 156 billion in 2014. We summarised the identified shortcomings in 40 audit conclusions which we presented to the government, parliament, and the public. In nine cases where the discovered facts indicated that a crime had been committed we filed criminal complaints and cooperated with the criminal justice authorities.

We are well aware that finding and describing shortcomings is not the be-all and end-all of our work. The public rightly expects that the state of affairs we reveal will change for the better. The way we go about fulfilling this expectation is by presenting those who are responsible for resolving the identified problems, i.e. the government, with exactly the kind of information that will bring about improvements. And by presenting those responsible for scrutinising the government, i.e. parliament (above all the opposition) and the public (above all the media), with exactly the kind of information that enables them to execute their control function.

Last year, we concentrated on finding and developing ways of doing this. The outcome is the new design of our audit conclusions which will make it easier for the recipients of the information to do their jobs. A new analysis department that will collate and analyse information from public sources, state administration information systems and other databases will help us target our audits better. The aim is to detect the areas that display the highest risk and are thus in greatest need of audit.

We are working with the academic community to develop tools for processing and assessing the huge amount of data the SAO has access to. All these activities and many others not mentioned here pave the way to a completely new audit method. The auditor should detect irregularities from his work computer; the visit at the audited entity should only serve as the verification of the actual state of affairs.

I am pleased to say that 2014 was a year of savings. A rational approach to operating expenditure on services, foreign travel, training, and fuel, for example, allowed us to save almost CZK 65 million of the approved budget of half a billion crowns. At the same time, ours is the only parliamentary budget heading that did not request a financial injection from the General Treasury Administration when public sector employee pay, including our employees' pay, was increased by the government. We found the necessary money in our own resources.

2014 was also a successful year as regards international cooperation. One extremely valuable experience was our participation in the EUROSAI congress in The Hague, the Netherlands, where the central theme was innovation – both in audit work and in communicating the results to the public. The SAO also organised three important, internationally attended events in Prague, focusing on audit of state budget revenues, public procurement, and communication and PR.

Last but not least, 2014 was a year of great hope. The Chamber of Deputies of the Parliament of the Czech Republic passed an amendment of the Constitution intended to make it possible to extend the scope of the SAO's audit powers to absolutely all public funds. The legislative process is still far from over, but I am confident that it will be successfully completed this time and the SAO will be able to fulfil its role in the same way as most of our European colleagues.

Anyone who fears this should not ask what life with SAO audit will be like. They should ask what the world would look like without an audit.

**Miloslav Kala,**  
**President of the SAO**

## I. Status and powers of the SAO

### 1. General information about SAO's status and powers

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

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

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

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

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

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

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

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

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

## 2. The Board of the SAO

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



*Members of the SAO Board (from left): Mr Jiří Kalivoda, Mr Rudolf Kufa, Ms Hana Hykšová, Mr Pavel Hrnčíř, Ms Hana Pýchová, Mr Josef Kubíček, Mr Miloslav Kala, Mr Petr Neuvirt, Ms Zdeňka Horníková, Mr Daniel Reisiegel, Ms Zdeňka Profeldová, Mr Jan Vedral, Ms Eliška Kadaňová, Mr Karel Sehoř, Ms Jaromíra Steidlová, Mr Jiří Adámek, Mr Antonín Macháček.*

The SAO Members carry out audits and draw up audit conclusions. They manage the audit process from the warrant issue to the adoption of an audit conclusion. In the following overview there are presented finished audits (in blue) whose audit conclusions were published in 2014. The unfinished audits are marked in green<sup>1</sup>.

In 2014, Mr Rudolf Němeček and Mr Zdeněk Brandt ceased performing their office as they both reached the age limit stipulated by law. The Chamber of Deputies of the Parliament of the Czech Republic appointed Ms Hana Hykšová, Mr Josef Kubíček, and Ms Hana Pýchová the Members of the SAO.

<sup>1</sup> 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. It is possible to find the audit conclusions that were published in 2014 in the respective *SAO Bulletins* (in Czech language only).

**Table No 1: Overview of audits performed in 2014**

SAO Member	Member since	Number of audits managed by the Member till the end of 2014	Audit No. managed by the Member in 2014	
			Finished	Unfinished
Mr Jiří Adámek	25. 4. 2001	34	13/27 13/33 14/05	14/21 14/30
Mr Zdeněk Brandt <sup>2</sup>	3. 5. 2002	32	13/17 13/36 13/40	–
Mr Pavel Hrnčíř	11. 12. 2009	11	13/32 14/04* 14/07	14/36
Ms Hana Hykšová	13. 2. 2014	1	14/39*	14/40
Ms Eliška Kadaňová	4. 6. 1998	38	13/22 14/08*	–
Mr Jiří Kalivoda	17. 9. 1993	56	13/16 13/25	14/11 14/24 14/33
Mr Josef Kubiček	10. 6. 2014	0	–	14/41
Mr Rudolf Kufa	15. 9. 2009	10	13/26 14/02 14/10 14/13*	14/35
Mr Antonín Macháček	9. 12. 2005	22	13/20 13/31 14/01	14/22 14/28 14/31
Mr Petr Neuvirt	21. 12. 2010	13	13/21 13/30 13/37 14/06 14/09 14/16*	14/15 14/23
Mr Rudolf Němeček <sup>3</sup>	17. 9. 1993	48	13/13	–
Ms Zdeňka Profeldová	18. 4. 2002	37	13/23 13/35	14/14 14/17 14/34
Ms Hana Pýchová	24. 10. 2014	0	–	–
Mr Daniel Reisiegel, MPA	30. 4. 2010	11	13/18 13/19 13/39	14/20 14/25 14/26
Mr Karel Sehoř	15. 9. 2009	10	13/24 14/03	14/27 14/32
Mr Jaromíra Steidlová	16. 11. 2006	16	13/38	14/19 14/37
Mr Jan Vedral	25. 4. 2001	38	13/07 13/28 13/29 13/34	14/12 14/18 14/29 14/38

\* Audit conclusion will be published in *SAO Bulletin* No. 1/2015.

<sup>2</sup> Mr Zdeněk Brandt's term of office ended as of 6 August 2014 because Mr Brandt reached the age limit set by law.  
<sup>3</sup> Mr Rudolf Němeček's term of office ended as of 25 March 2014 because Mr Němeček reached the age limit set by law.

### 3. The management of the SAO

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



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



## II. Assessment of Audit Work Undertaken in 2014

### 1. Audit Plan for 2014

The basic document guiding the SAO's independent audit work is the audit plan which, in compliance with the law, is compiled and approved for every budgetary year.<sup>4</sup> The main goal when compiling the audit plan is exercising the SAO's statutory powers and also, to the greatest possible extent, delivering the expected benefits of the individual audits.

In 2014, a new **SAO strategy for 2014–2017** was approved. The fundamental strategic objectives the SAO set for this period are to help improve the state of public finances and the management of state property and to make audit work more effective. These objectives also underpinned the plan for 2014.

The Audit Plan for 2014 was adopted by the SAO Board at its 14 October 2013 session. A total of 38 audits were approved. During 2014, an additional three audits were added to the audit plan, creating a total of **41 audits**. In line with the strategy, the audit plan targeted problem areas that had been assessed as currently relevant and socially and financial important and as being areas of the management of state property and funds subject to significant risk.

The following are among the priority problem areas the plan targeted:

- **Implementation of state budget revenues and expenditure**

In this area, the plan focused mainly on the effectiveness of the management of selected types of state budget revenues and the impact of related legislation, i.e. areas that have for long been key for the SAO. These audits scrutinised the administration of value added tax (VAT) and the administration of excise duties on alcohol and tobacco and revenues from the sale of control strips on the labelling of alcohol and tobacco stickers. One audit targeted budgeting in the *General Treasury Administration* budget heading, and in particular the procedures for transferring finances to other state budget headings by means of budgetary measures, and the related issue of unconsumed expenditure reported by organisational units of the state.

- **Financial management of selected organisations**

The strategic goal in auditing the financial management of selected organisations was to target selected costs and scrutinise their efficiency and economy. The approved audits focused on the financial management of selected organisational units of the state, contributory organisations, state enterprises, and one state fund. The SAO concentrated on risk areas of financial management linked to the use of external services, property leasing and letting, and the disposal of surplus assets, for example. A separate audit was devoted to consultancy projects under the government's *Smart Administration* strategy and other activities designed to modernise public administration and make it more efficient and transparent.

- **Management of financial resources for ICT**

The results of audits dealing with information and communication technologies in previous years confirmed the high risk linked to the efficiency and economy of money spent. Scrutiny of ICT acquisition was consequently one of the priorities for 2014 as well. The audit plan included an audit of expenditure on building, operating, and using data centres, for example. Another audit focused on ICT in the Ministry of the Environment (MoE) budget heading and scrutiny of the Register of Territorial Identification, Addresses and Real Estate (RÚIAN), which followed up an audit of the basic registers.

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<sup>4</sup> In compliance with Sections 13 and 17 of Act No. 166/1993 Coll., on the Supreme Audit Office.

- **Management of funds collected by law**

One of the long-term focuses of the SAO's attention has been the management of finances collected by health insurance companies. In the Audit Plan for 2014, the SAO decided to target finances collected by law by the Health Insurance Company of the Ministry of the Interior of the Czech Republic, the second biggest health insurer in the CR.

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

The utilisation of EU resources was repeatedly assessed as an area with a high level of risk, as shown by some previous audits of programmes and projects co-financed out of EU resources, for example. Additionally, the transparency of the subsidies provision system and the projects' sustainability were assessed as high-risk. The audits examined the system for providing, drawing down, and using funds under the Operational Programmes *Prague – Competitiveness* and *Education for Competitiveness* and under the *Rural Development Programme*, for example. In the area of financing provided out of the *EU Solidarity Fund*, an audit of finances provided to the CR in connection with catastrophic floods was conducted.

- **Major state investment programmes and subsidy headings**

With regard to the funding of major state programmes and operations, a number of audits sought to scrutinise systemic support in the fields of transport infrastructure, research-related university teaching infrastructure, the renewal and development of the equipment of the Fire Rescue Service of the CR and selected programmes under the competence of the Ministry of Labour and Social Affairs (MoLSA). In the case of the funding of major transport infrastructure operations, the audit plan included audit of funds earmarked for the construction of line A of the Prague metro, modernisation of waterways and support for multimodal transport, and repair and maintenance of national and regional railways.

The state's subsidies policy was covered by audits focusing on government expenditure in support of energy generation from renewables, cultural activities, and general sports activities.

- **Notable changes in accounting and reporting**

In connection with the new accounting regulations implemented as part of government accounting reforms, audits aimed at checking the reliability selected auditees' financial statements and reports that underpin the closing accounts of the state budget were included in the audit plan. For the first time, one audit scrutinised the accounting of the Ministry of Finance (MoF) as a whole. Other audits targeted accounting for state budget finances, EU budget finances and other finances received from abroad, the reporting of pension insurance data, and the administration of funds in the special account of the pension reform reserve.

Most of the audits included in the audit plan were based on information obtained from the SAO's own monitoring and analysis work. However, suggestions the SAO obtained from parliament or the Czech government in previous years were also acted on. That was the case with audits targeting the use of funds for economic, technical, and legal consultancy or scrutinising the special account of the pension reform reserve.

During 2014, the SAO received seven suggestions from the audit committee of the Chamber of Deputies and from the Senate; it fully or partly acted on six of these when drawing up audit plans for the coming years. In cases where the audit suggestion, or part thereof, was not used, the area in question was already the subject of an investigation by the police or had already been audited by the SAO. However, the SAO was also restricted by its statutory competence: for example, it could not act on the suggestion for audit of the management of commercial companies part-owned by the state.

Appendix 1 contains an overview and timetable of the audits included in the Audit Plan for 2014. The audits were commenced during 2014 in line with the timetable. Depending on the start date

and the duration of the audits, the planned completion dates, i.e. when the audit conclusions are approved, fall in 2014 and 2015.

As mentioned above, when proposing audits and compiling and approving the audit plan emphasis is placed on the correct targeting and timing of audits and the high added value of the potential audit results. In line with the new strategy, at the end of 2014 the SAO approved measures and organisational changes designed to strengthen its analysis and audit work. Another goal was to strengthen performance audit, i.e. audit of effectiveness, efficiency, and economy. Consequently, new analysis, methodology, and performance audit and information systems audit units were set up at the start of 2015. In addition, a working group on the detection of risks of uneconomical spending in the public sector was established. The working group defines data sources to be used to identify risks and formulates requirements for the outputs of analytical work and their effective use in the preparation and execution of audit work. These measures will make the system of continuous monitoring and analysis more effective and will ensure the development of new tools to identify uneconomical use of public funds and state property in the coming period.

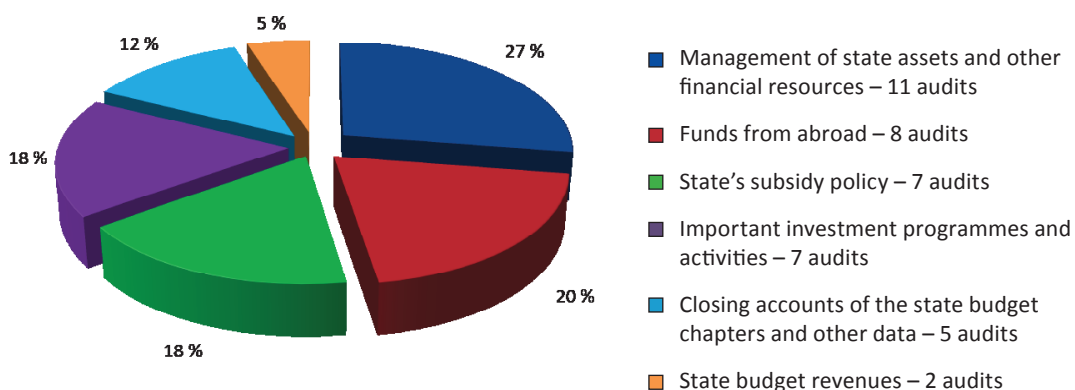
## 2. Results of Audits in 2014

The assessment of our audit work in this chapter is based on the results of 40 audits that were completed in 2014 with the SAO Board’s approval of the audit conclusion. In line with the audit plan, 27 of these audits were commenced in 2013 and 13 in 2014.

269 entities were scrutinised in the completed audits. That is one of the important indicators of the SAO’s performance. Comparison of the number of completed audits with previous years shows that there was no reduction in the high number conducted, despite the fact that the SAO’s audit management capacity in 2014 was influenced by the end of the term of office of SAO Members and the election of three new Members.

Appendix 2 provides an overview of the audits completed in 2014. The structure of the audits in terms of their principal focus is shown in Graph 1. The graph shows that the SAO paid greatest attention to the management of state property, followed by audit of funds provided to the CR from abroad, the state’s subsidies policy and major programmes and operations.

**Graph No 1: Focus of audits whose audit conclusions were approved in 2014**



What is most important, however, is the results of the audits and the impacts the audits have brought about or will bring in the future. The SAO again drew attention to the most serious problems in the state’s financial management, where the fundamental principles governing the obligations of the competent authorities and individuals, including their accountability for carrying out their entrusted duties effectively, efficiently, and economically, are not respected. The SAO also formulated a number of systemic recommendations. The SAO even judged some conduct to



comprise violations of the legal regulations. Some auditees, for example, did not carry out the set tasks in the most economical manner or did not use resources to cover essential requirements, thus breaching the budgetary rules. In a number of cases, they failed to safeguard property from loss or reduction in value.<sup>5</sup> In doing so, they violated the Act on State Property.<sup>6</sup> Furthermore, some auditees, in contravention of the Act on Financial Control<sup>7</sup>, they failed to ensure an internal control system, as a result of which property was lost or property was used in a way that was not in the state's best interest. A failure to comply with these fundamental rules and principles was identified in both the day-to-day work of a number of auditees and in their long-term work implementing certain government policies. A lack of a plan, changes in strategy, poor coordination of activities, or an insufficient overview of the actual state of affairs and future direction are long-term factors that render the state ineffective in certain areas.

However, the audit results indicate that many negative findings are repeated again and again; in some cases, the problems are made worse by the wrong course of action. It has become clear that the biggest problem is not that there is an absence of rules but the fact that these rules are not respected, there is a lack of personal accountability and management and control systems are ineffective. The large amount of finances covered by notifications of breaches of budgetary discipline the SAO sent to the appropriate tax administrators is evidence of that. In several cases, the conduct of certain individuals displayed signs of criminal activity and the SAO notified the criminal justice authorities.

**The following cases brought to light by audits in 2014 document the most serious shortcomings that had a significant impact on the state's finances:**

- **loss of public budget revenues in consequence of an ineffective system for the administration of payments on lotteries and non-functional state supervision;**
- **lack of a systematic approach and grave management and control errors in the provision of support in selected government policies;**
- **inefficient and uneconomical spending on materials and services;**
- **inefficient and uneconomical use of property;**
- **undermining the competitive environment in public procurement;**
- **failure to exploit the full potential of projects for the computerization of public administration;**
- **violations of the basic principles for financing major investment programmes and operations;**
- **ineffective system for use of funds provided to the CR from abroad and major financial losses;**
- **unreliable data reporting for the purposes of monitoring and managing public finances.**

Compared with the year before, the results of the audits completed in 2014 demonstrate that similar systemic shortcomings still exist in the state's management efforts. These shortcomings brought to light by the SAO, as an independent audit body, create a map of critical points in the working of the state as the custodian of public money and are noted by the public. They are an important source of information for the efforts by bodies of the government and Parliament to remedy the situation. It should be stressed that the effectiveness of public administration has a fundamental impact on the state economy. At stake is nothing less than the competitiveness of the Czech Republic and its standing in the world.

The audit results are summarised in greater detail in the following sections of the annual report.

<sup>5</sup> Act No. 218/2000 Coll., on budgetary rules and amending certain related acts (the Budgetary Rules).

<sup>6</sup> Act No. 219/2000 Coll., on the property of the Czech Republic and representation of the Czech Republic in legal relations.

<sup>7</sup> Act No. 320/2001 Coll., on financial control in public administration and amending certain acts (the Financial Control Act).

## 2.1 State Budget Revenues

State budget revenues have been a long-term priority of the SAO's audit work. 2014 brought the completion of two audits focusing on:

- the administration of levies imposed by the administrative authorities and transferred to the customs authorities for recovery within the framework of shared administration (audit no. **13/26**);
- state budget revenues linked to the operation of lotteries and similar gambling games (audit no. **13/35**).

**The main problem areas under the constant spotlight of the SAO's attention are primarily linked to questions whether the management system delivers economical and efficient collection of state budget revenues, what the impacts of the legislation in the relevant areas are and whether an effective control system is in place that would eliminate possible gaps and irregularities in the collection of revenues and would prevent fraud. The SAO's efforts are intended to draw attention to areas where the revenues management and collection system could be improved.**

**In 2014, the SAO again had to state that the success of the collection of state revenues was influenced by certain factors linked to the ineffective and non-functional administration and collection of revenues which resulted in uneconomical expenditure and the loss of a significant portion of revenues. The following are the key findings:**



### FINES UNDER SHARED ADMINISTRATION

- In audit no. **13/26** the SAO checked the procedure followed by the customs authorities in collecting and enforcing fines that are an income of the state budget and were imposed by other administrative authorities (Czech Trade Inspection Authority, the State Veterinary Administration, and municipalities) and also checked the procedure followed by selected administrative authorities in the context of shared administration. The overall effectiveness of shared administration was negatively influenced by the fact that the responsibility for enforcing fines was transferred after a considerable delay. The SAO found that in 73% of the audited sample of cases the responsibility for enforcing the fines was not transferred to the customs authorities by the bodies that imposed the fines within 30 days of their imposition. Moreover, delays of one or two years were no exception. In this context, the SAO flagged up the insufficiency of the legislation governing the conditions of the exercise of shared administration in the tax code.

The recovery of arrears was also problematic. After auditing 134 cases of the collection of arrears the SAO reached the conclusion that the customs authorities did not take all appropriate steps in 36% of the cases worth **CZK 5.1 million**. For example, one customs office found that one legal person owing almost **CZK 1 million** had real estate registered in the real estate register but only decided to establish a lien on the property two years later. The effective exercise of shared administration was significantly compromised by the transfer of fines by municipalities that often demanded that irrecoverable debts be enforced or shortfalls of negligible value, in the order of hundreds of Czech crowns, be recovered. The audited municipalities also failed to inform the customs authorities of the steps they themselves had taken to collect or enforce the payment of unpaid taxes. Another problem was unpaid amounts from foreign nationals, which were hard to collect. This fact already had been pointed out by audit no. **03/16**<sup>8</sup>. The General Directorate of Customs (GDC) did not draw up any rules or instructions for how customs authorities collecting unpaid amounts owed by foreign nationals should proceed. The GDC also failed to monitor and evaluate the costliness of the shared administration system.

<sup>8</sup> Audit no. 03/16 – *State budget incomes stemming from fines imposed, collected and enforced by administrative authorities*; audit conclusion published in *SAO Bulletin* issue 1/2004.



## REVENUES FROM LOTTERIES

- In audit no. **13/35** targeting government revenues from lotteries and similar games (hereinafter “lotteries”), the SAO concluded that the system for the administration and control of levies on lotteries is ineffective, inefficient, and excessively bureaucratic and displays a number of fundamental deficiencies. Above all, the MoF, which is by law responsible for this field, did not create a functioning system of state oversight and did not put in place for the financial administration authorities the conditions necessary for the correct, complete, and timely ascertainment and assessment of levies. The unsatisfactory legislation did not reflect the changes that had occurred in the lottery business. For example, the lack of legislation on online lotteries means that a number of online lottery operators do not pay any contributions or fees into the public budgets. In these cases the public budgets lose out on approx. **CZK 600 million** per year, according to the SAO’s calculations. Another fact demonstrating that the lottery levies management and control system is badly designed is the SAO’s finding that, even in a small audit sample, there were discrepancies worth the significant amount of **CZK 68 million** between the records of permitted gambling machines and the data contained in the operators’ returns for levy purposes.

Another loss of public revenues, which in the SAO’s audit sample alone amounted to a further **CZK 7.6 million**, was the result of the actions of the MoF, which, up to the end of 2013, awarded licences and charged fees on the operation of electro-mechanical roulette systems in a non-uniform manner. The MoF furthermore spent **CZK 29 million** on an information system that did not provide sufficient data for the state supervisory authorities’ control work or for tax administrators to check that the required levies were properly paid. The MoF was at fault for uneconomical expenditure amounting to **CZK 3.9 million** for the elaboration of various studies, analyses, and consultancy work by external contractors even though the MoF possessed sufficiently qualified employees and is the guarantor of the creation and implementation of the act on lotteries. By comparing how and what charges are levied on gambling games with certain EU Member States the SAO suggested possible changes in the CR.

**As the SAO already pointed out in audit conclusions from earlier audits<sup>9</sup>, in its previous Annual Reports or in its opinions on the state closing account, the ineffective collection and administration of certain government revenues is an enduring problem. In its *Opinion on the Report on the Implementation of the State Budget of the CR for the 1<sup>st</sup> Quarter of 2014* the SAO highlighted that VAT arrears had risen by a further CZK 2 billion and that the system in place for collecting income tax from the self-employed was not sufficiently effective. Unpaid tax amounted to a total of CZK 209 billion as at the end of June 2014. Compared to the end of 2013, unpaid tax was down by more than CZK 15 billion, but this fall was mainly caused by write-offs. Unpaid VAT accounts for the largest share of unpaid tax. It should be added that in VAT collection the CR also compares unfavourably to other EU countries. For example, the estimated shortfall in VAT<sup>10</sup> according to the European Commission was 28% in the CR in 2011, compared to the EU average of around 18%.**

The main reasons for this negative situation are the insufficient legislation and frequent changes to the legislation, the possibility of setting up fraudulent companies, the incompleteness or erroneous nature of the information necessary for control purposes, and the insufficient staffing of the revenues administration authorities. The effectiveness of the administration of revenues is fundamentally impaired by the inability to stick to a long-term taxation concept lasting more than one election term. The tax administration bureaucracy continues to grow.

<sup>9</sup> Audit no. 13/15 – *Administration of fines for breach of budgetary discipline*; audit conclusion published in SAO Bulletin issue 4/2013.

<sup>10</sup> The VAT gap is the difference between VAT actually collected and the theoretical level of the tax on the assumption that all tax subjects discharged their tax obligations.

Numerous information systems were implemented to support the administration of revenues, and a lot of money has been spent on acquiring and operating these information systems. In many cases, these systems overlap and their functions are limited. The fragmented nature of the information systems, which do not even use a shared platform, makes them incompatible and impossible to interconnect and prevents the data being used by various tax administrators. Ultimately, this makes it impossible to amalgamate or coordinate the work of public administration.

**The monitoring and scrutiny of the state of public finances also includes long-term monitoring of the impacts of the results of the SAO's audit and other work. It is gratifying that in 2014 the SAO registered certain measures or objectives that could help improve the administration of public revenues. The outcome will only become clear in the longer term, however, and will depend on many factors. Here are some examples of positive steps:**

- The shortcomings and SAO recommendations from audit no. **13/35** were taken into account when new legislation governing the operation of gambling games and its taxation in the CR were drawn up by the MoF. As part of the consultation process on these acts the SAO observed that the MoF was preparing a technical solution for a central monitoring system that will be used for the remote, continuous, and secure exercise of state supervision and for the administration of payments to the state.
- In audit no. **12/01**<sup>11</sup>, concerning state budget revenues from fines imposed by territorial tax authorities under the Act on Accounting and from fines imposed by courts in connection with the maintenance of the Collection of Documents, the SAO recommended that the competence of the tax authorities and registry courts to perform regular and systematic checking of the publishing of financial statements or annual reports should be clearly defined. Following up the shortcomings identified in this audit, the act in question<sup>12</sup>, effective from 1 January 2014, defined penalties of CZK 100,000 for failures to submit documents to the Collection of Documents. In addition, under certain conditions the registry court can initiate proceedings to de-register a registered person, even without a petition to that effect.
- In audit no. **12/09**<sup>13</sup>, the SAO scrutinised money spent in connection with the development of the Treasury information system. Among other things, the SAO stated that the MoF contravened the Act on Public Procurement when concluding contractual addenda on the operation of the Treasury.<sup>14</sup> In connection with the results of this audit the SAO filed a notification to the tax administrator on the grounds of breach of budgetary discipline. According to information from public sources, the department was given a penalty of **CZK 227 million** for breach of budgetary discipline as a result of the conducted tax inspection.
- In audit no. **13/02**<sup>15</sup>, targeting unpaid tax under the administration of the tax authorities, the SAO stated that the enforced collection of these arrears was insufficiently effective. To make it more effective and improve the administration of unpaid tax the MoF set up specialised units tasked with preventing tax evasion and non-payment in collaboration with the Ministry of the Interior (MoI). This measure was also supported by the Committee on Budgetary Control of the Chamber of Deputies.

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**11** Audit no. 12/01 – *State income from the fines imposed by territorial financial authorities according to the Act on Accounting and by courts in relation to the management of the Collection of Documents*; audit conclusion published in *SAO Bulletin* issue 1/2013.

**12** Act No. 304/2013 Coll., on the public registers of legal and natural persons.

**13** Audit no. 12/09 – *Funds spent in connection with the construction of the information system of the Treasury*; audit conclusion published in *SAO Bulletin* issue 1/2013.

**14** Act No. 137/2006 Coll., on public procurement.

**15** Audit no. 13/02 – *Tax arrears administered by the tax offices*; audit conclusion published in *SAO Bulletin* issue 1/2014.

The endeavour to make audit work more effective in the area of state budget revenues led the SAO to organise an international conference in 2014, focusing on audit of state budget revenues and the issue of combating tax evasion and tax fraud. The seminar was attended by representatives of 22 foreign SAIs and the European Court of Auditors and made it possible to swap experiences, share good practice and identify opportunities for parallel audits by SAIs.

## 2.2 State Subsidies Policy

In 2014, the SAO completed three audits that examined the provision, drawdown, and utilisation of funds earmarked for the following:

- operation of export credit risk insurance (audit no. **13/18**);
- financing of ministerial sports centres (audit no. **13/23**);
- support for social services of a national and supra-regional nature (audit no. **13/25**);
- support for agricultural products and foodstuff on the Czech market (audit no. **13/36**);
- promotion of energy generation from renewables (audit no. **14/06**);
- support for sport (audit no. **14/04**);
- support for cultural activities (audit no. **14/10**).

Through its interventions the state seeks to shape and develop areas it deems socially important and necessary. Funds earmarked for state support impacting on enterprise – be that export support or energy generation from renewables etc. – play a significant role in this area of expenditure. It is important for the state that the responsible bodies of state administration ensure that this costly support is implemented according to a suitable strategy and with regard to effectiveness, efficiency, and economy, bringing a positive impact on the state budget.

**The results of the audits completed in 2014 show that the actual state of affairs in this area was the complete opposite. One alarming example of uneconomical and inefficient support is the operating aid provided to the generation of energy from renewable sources at the cost of a disproportionate burden on the entire economy – the total cost can be expected to exceed one trillion crowns by 2030. The SAO's audit conclusions draw attention to further billions of crowns that organisational units of the state and other state institutions spend without checking whether this support is necessary, meaningful, and able to deliver the required result. This situation is documented by the following cases:**



### COMMUNICATION CAMPAIGNS FOR AGRICULTURAL PRODUCTS AND FOODSTUFF

In audit no. **13/36**, targeting communication campaigns promoting the brands *Klasa*, *Regionální potravina* and *Vína z Moravy, vína z Čech* (all of which promote Czech food products and wines), the SAO found that from 2008 to 2013 the Ministry of Agriculture (MoA), the State Agricultural Intervention Fund (SAIF), and Viticulture Fund (VF) spent a total of **CZK 1.5 billion** on these campaigns, with the MoA providing **CZK 1.4 billion** in subsidies and the rest paid by the SAIF and VF out of their own resources. The SAO regards the fact that the MoA, SAIF, and VF set only general goals for the majority of the communication campaigns, with no initial or target values to be achieved through the promotion of these brands, as a fundamental shortcoming. Nor did these organisations even seek to ascertain how big and whether at all the communication campaigns had any impact on achieving the goals or what their benefit and impact was. That makes it impossible to judge whether there was any point promoting Czech food products through the brands under scrutiny. Despite that, **CZK 750 million** was spent on promoting these brands in the past three years (2011-2013); an average annual amount of **CZK 215 million** was paid by the MoA and SAIF in support of the brands *Klasa* and *Regionální potravina* alone. It is not clear whether the campaigns for any of these brands achieved the required goals.

**SUBSIDIES TO EGAP**

- In audit no. **13/18** the SAO scrutinised the procedures followed by EGAP (Exportní garanční a pojišťovací společnosti, a.s., or “Export Guarantee and Insurance Company”) when claiming and using state budget funds provided for the operation of credit export risk insurance. The SAO found that EGAP did not calculate the required insurance capacities for 2011, 2012, and 2013: it merely estimated them on the basis of outlooks for insurance participation and estimates based on total demand for insurance. In addition, EGAP overstated its calculation of the subsidy required to top up its insurance funds for 2012 worth **CZK 770 million** by **CZK 46 million** and overstated its calculation for 2013 worth **CZK 735 million** by **CZK 30 million**. In both years, EGAP rounded up its calculations to **CZK 1 billion**, thus over-claiming by **CZK 571 million** in the two years. As the MoF did not check the accuracy of EGAP’s claims, it included amounts approx. 40% higher in the draft state budgets for the years in question. The MoF completely failed to exercise its control powers vis-a-vis EGAP in the period under scrutiny.

In 2011 and 2012, EGAP requested a subsidy even though EGAP’s insurance funds and reserves in those years were respectively almost **CZK 2 billion** and **CZK 5 billion** higher than the minimum level necessary for safe operation of export insurance. EGAP therefore had sufficient resources of its own at the time and did not need to top up its insurance funds with money from the state budget. Even though EGAP’s applications did not state and document all the data required by the relevant decree<sup>16</sup>, the MoF did not demand additional data and documents and provided the required sums, always equalling **CZK 1 billion**, from the state budget. The audit of EGAP was significantly restricted by the scope of the SAO’s powers, which meant that the SAO could not check all the facts linked to the use of state budget funds, such as compliance with insurance terms in business cases.

**PROMOTING ENERGY GENERATION FROM RENEWABLES**

- Audit no. **14/06** focused on the provision of funding from 2011 to 2013 to promote the generation of energy from renewables. The SAO found that the promotion of energy generation from renewables was uneconomical and ineffective. Although the indicative goal was achieved, this was at the cost of a disproportionate burden on the economy, with the majority of the operating aid paid for by electricity consumers. The basic reason for the lack of economy was the application of the principle of blanket support<sup>17</sup> – even energy generation using the most expensive renewables, most notably photovoltaic power stations, received support. In 2013, for example, this support made up 66% of the cost of operating aid for the generation of energy from all renewables. Photovoltaic power stations produced only approx. 22% of the electricity generated from renewables in that year, however. This undesirable state of affairs was mainly caused by the inordinately high operating aid for photovoltaic power stations completed by 31 December 2010. The induced solar boom was not based on strategies, objectives, or plans underpinned by analyses – it was the result of ill-conceived conditions in the act on the promotion of electricity generation from renewables and the failure to amend the act in time. Regulated feed-in tariffs for electricity from renewables will thus be paid out at the same level for 20 or even 30 years irrespective of the fact that the actually achieved rate of return on investments is substantially lower than the 15-year limit specified by law. Investment aid was not provided efficiently in the Ministry of Industry and Trade (MoIT) department – investment

<sup>16</sup> Decree No. 278/1998 Coll., implementing Act No. 58/1995 Coll., on the insurance and financing of exports with state support and amending Act No. 166/1993 Coll., on the Supreme Audit Office, as amended by Act No. 60/1998 Coll.

<sup>17</sup> Blanket support for renewables had already been criticised in audit no. 08/38 – *Financial means allotted for support programmes for energy production from renewable energy resources and for energy savings support*; audit conclusion published in *SAO Bulletin* issue 3/2009.

aid was provided to photovoltaics even when attempts were being made to limit the growth in the photovoltaics segment.

In the 2007-2013 period, the MoIT, the MoE, and the MoA approved investment aid in the form of subsidies for renewables projects amounting to almost **CZK 8 billion**; in addition, investments were supported by loans (CZK 457 million) and guarantees (CZK 4.3 billion). The Energy Regulatory Authority put the cost of operating aid for the generation of electricity from renewables in 2013 at more than **CZK 44 billion**. The SAO has drawn attention to the fact that this sum will grow every year and will be paid out for 20 or 30 years, depending on the type of renewable. Consequently, the total cost of operating aid for renewables should be expected to exceed **one trillion** Czech crowns. The amount of tax support provided to renewables is not monitored; the total support for renewables can therefore be neither enumerated nor estimated, according to the MoIT.

**Many areas of our society could not function and develop without support from the state. In 2014, the SAO also audited subsidies in the fields of sport, culture, and the social sphere. For this support to be efficient and effective, it must be targeted precisely at the areas of need and distributed on the basis of clearly and correctly defined principles and conditions. It is also important that when deciding on and monitoring subsidies the central organs of state administration should have information about the actual costs and sources of financing for the supported areas and that measurable targets are set for the subsidy programmes and the effects of the support are evaluated. The results of the SAO's audit work show that some audited entities fell short of these requirements, however.**

**The systemic failings of ministries in the subsidy allocation process also remain a constant problem. These include a lack of transparency in decision-making on subsidies, the creation of unequal conditions for applicants, the provision of subsidies from the state budget in contravention of the approved documentation etc. The following examples illustrate these problems:**



#### SUBSIDIES FOR SOCIAL SERVICES

- In audit no. **13/25**, targeting social services of a national and supra-regional character, the SAO found that a full seven years after the Act on Social Services had come into effect the MoLSA had not drawn up a medium-term national plan for the development of the social services as this legislation requires.<sup>18</sup> One major deficiency of the subsidies proceedings system was that the MoLSA did not work with a budget of costs and sources of financing for the relevant social services in the phase of issuing decisions and providing subsidies. Nevertheless, it provided subsidies worth **CZK 518 million** for social services in 2011 and 2012. The MoLSA's subsidies system provided no feedback on the actual costs and sources of financing of the subsidised social services. This is an important element of the system, as it provides information about the reliability of data contained in the subsidy applications. This information is particularly necessary for assessing and approving these applications.



#### SUBSIDIES FOR MINISTERIAL SPORT CENTRES

- Audit no. **13/23** focused on state budget funds earmarked for financing departmental sports centres (DSCs), namely the University Sports Centre of the Ministry of Education, Youth and Sports (MoEYS), the Sports Centre of the MoI and the Army Sports Centre of the Ministry of Defence (MoD), which have for long trained sportsmen to represent the country. In 2011 and 2012, almost

<sup>18</sup> Act No. 313/2013 Coll., amending Act No. 108/2006 Coll., on social services, as amended, and other related acts.



**CZK 800 million** was spent from the MoEYS budget heading on the current and investment expenditure of all three DSCs. The funding of current expenditure was governed by *The Principles of the Activity of Departmental Sports Centres* drawn up by the MoEYS and approved by the MoD and MoI. The SAO found that the MoEYS formulated these principles unclearly and imprecisely, which enabled the MoD to finance its two contributory organisations, i.e. sports clubs that do not represent the state, out of the allocated funds. What is more, the MoEYS tolerated this practice. The SAO therefore recommended that the MoEYS update these principles and make them more precise.

The MoEYS reacted by, for example, adopting measures under which it will prepare an update of the principles governing the activity of DSCs, draw up a draft legislative intention of an act on the promotion of sport and update its methodological instructions for the declared “state promotion of sport” for the years 2015 to 2018.



#### SUBSIDIES FOR SPORT

- In audit no. **14/04** the SAO scrutinised the provision, drawdown, and use of state budget funds spent on the *General Sports Activity* expenditure area from which sport support programmes are financed. In the years 2011-2013 the MoEYS provided support totalling over **CZK 3 billion** in this area of expenditure. Yet the MoEYS, the authority that draws up and coordinates the government-approved policy on sport and also provides subsidies in the field of sport, did not know the total amount of money provided out of the state budget and from other sources. As the MoEYS did not possess basic data for assessing the funding of the promotion of sport, it could not properly fulfil the function of the coordinator of state support for sport in the CR; in effect, it only fulfilled this role on paper.

The MoEYS did not set any measurable targets for the audited programmes. Essentially, its role was limited to redistributing the money earmarked in the state budget without any form of evaluation of the effects achieved by the programmes. In many cases, the MoEYS committed systemic errors when deciding on the provision of subsidies, for example when deciding on the distribution of funds totalling **CZK 800 billion** in 2012 without any re-announcement of the programme or repeated submission of subsidy applications. In three cases it violated the Act on Budgetary Rules, as it decided to award **CZK 10 million** without any subsidy applications, which the SAO judged to be a breach of budgetary discipline. The MoEYS also provided a subsidy of **CZK 4.5 million** to one beneficiary that did not satisfy the defined conditions of the programme and did not carry on any sports activity. According to the SAO, there are grounds for suspicion that the entire subsidy was misused.



#### SUBSIDIES FOR CULTURE

- In audit no. **14/10** the SAO discovered that the Ministry of Culture (MoC) did not perform any assessment of funds provided in the context of cultural activities and in support of major and exceptional cultural events. In providing subsidies in this area in the years 2011 to 2013, the MoC gave its relevant departments no methodological guidance, so the provision of subsidies was neither systematic nor uniform. The MoC did not have central, clear, and correct information about the applicants for and beneficiaries of subsidies from its budget heading. In some cases the MoC did not define any criteria for the selection of projects for support; if it did, the criteria were generally impossible to measure and compare. Consequently, the selection process was not transparent and the MoC did not put in place equal conditions for applicants. In this way it provided a subsidy to two beneficiaries that did not deliver their subsidy application until after the set deadline, for example. Furthermore, in its subsidy provision decisions the MoC did not



set the same drawdown conditions for beneficiaries, so the same circumstance was sometimes classified as a breach of the conditions of the decision and at other times as conforming to the subsidy provision decision.

**In its audit work in the area of subsidies, the SAO also focused on the providers and beneficiaries of subsidies from the point of view of the fulfilment of the legal conditions under which state finances are provided and drawn. In particular, the audit results demonstrated that the defined purposes of subsidies were not respected, money was paid over and above the concluded contracts, and the procedures laid down by the Act on Public Procurement were not complied with. One equally important legal condition that has long been neglected is that the providers of subsidies check up on the beneficiaries. The lackadaisical approach to this administrative control function presents a risk that subsidies will be misused by beneficiaries which either violate the terms of the decision or do not comply with the law. For example, the audits completed in 2014 found the following:**



#### SUBSIDIES FOR SOCIAL SERVICES

- In audit no. **13/25** the SAO found that the MoLSA failed to perform proper checks of subsidy beneficiaries. In 2011 and 2012, it decided to provide subsidies to 184 beneficiaries. In the period under scrutiny, however, the MoLSA only inspected three subsidy beneficiaries. The SAO found, for example, that one of the beneficiaries paid costs defined by the MoLSA as ineligible out of the provided subsidy, thus committing a breach of budgetary discipline. The SAO reported this to the appropriate tax administrator, who imposed a penalty of **CZK 202,000** on this beneficiary to be paid into the state budget.



#### COMMUNICATION CAMPAIGNS FOR AGRICULTURAL PRODUCTS AND FOODSTUFF

- In audit no. **13/36** the SAO found that the SAIF and MoA did not proceed transparently when assessing offers and competition entries from applicants in the case of public contracts for communication campaigns for the *Klasa* brand in the years 2009-2011 (SAIF) and in the case of support for the *Regionální potravina* brand for 2010-2011 (MoA). For example, the MoA's assessment commission judged qualitative factors that were not specified in the tender documentation. In addition, the Viticulture Fund, even though it was acting as a public contract awarding body, ran a communication campaign in support of the *Vína z Moravy, vína z Čech* brand in the 2006-2009 period without any award procedure, thus violating the Act on Public Procurement. In these years, the VF spent almost **CZK 198 million** on the campaigns, **CZK 43 million** of that without concluding written contracts. The SAO also discovered that in the case of dozens of events to promote the *Klasa* brand in the years 2009-2013 the SAIF paid invoices worth more than **CZK 96 billion** for activities that were not completed, did not take place at all, went beyond the concluded contracts, or had nothing to do with the given public contract. In four cases, for example, the SAIF thus paid an agency commissions of **CZK 1.8 million** that were not part of either the price of the agency's winning competition entry or the contract. In one of these cases, the SAIF even paid a commission to the agency and also remuneration totalling **CZK 841,000** to a subcontractor, even though the contract did not provide for either the commission or the remuneration. In addition, the SAIF paid a total of **CZK 171,000** for three excursions of journalists even though the programme of these excursions was only partly related to the *Klasa* brand. The excursion to a dairy, for example, included a visit to a spa and an Indian massage. Based on the findings judged to be breaches of budgetary discipline, the SAO sent notifications concerning the significant sum of **CZK 565 million** to the appropriate tax administrators.



#### SUBSIDIES FOR SPORT

- In audit no. **14/04** the SAO judged the MoEYS's administrative inspection work in relation to subsidy beneficiaries to be insufficient. The SAO's scrutiny of 19 subsidy beneficiaries found that 11 of them had not respected the defined purpose of the subsidy, the conditions for its use or other obligations set out in the subsidy provision decision. In these cases, the SAO judged the expenditure of state budget funds to be a breach of budgetary discipline with a total value exceeding **CZK 15 million** and sent notifications to the appropriate tax administrators.



#### SUBSIDIES FOR CULTURE

- In audit no. **14/10** the SAO found when scrutinising beneficiaries that some of them violated the terms set out in the decisions and contravened the legal regulations linked to the provided subsidies. Two beneficiaries, for example, did not comply with the purpose of the provided subsidy: one paid VAT worth **CZK 12,000** out of the subsidy and the other financed the bestowal of financial and non-financial rewards worth **CZK 10,000**. Another beneficiary, in contravention of the subsidy provision decision, transferred subsidy finances worth **CZK 581,000** to the project co-organiser. In total, the SAO identified shortcomings in beneficiaries amounting to almost **CZK 16 million**. In connection with circumstances the SAO judged to be breaches of budgetary discipline it reported eight cases to the appropriate tax administrators.

## 2.3 Management of state assets and finances and other financial resources

### 2.3.1 Management of state assets and finances

The state's financial management is one of the priorities of the SAO's audit work. In 2014, ten audits were conducted in the area of the management of state assets and finances. These audits focused on the following:

- The financial management of selected organisational units of the state and contributory organisations (in audit no. **13/07** at the MoE; in audit no. **13/20** at contributory organisations of the MoEYS; in audit no. **13/31** at the Ministry of Health (MoH); in audit no. **13/33** at the Ministry of Transport (MoT) and its selected organisational units of the state; and in audit **14/01** at the MoC;
- The financial management of the state enterprise Air Traffic Control (audit no. **13/16**);
- Scrutiny of the payment of the costs related to work activity at the Czech Statistical Office (CSO), Czech Telecommunications Office (CTO) and General Directorate of Customs (GDC) (audit no. **13/34**) and the use of real estate at selected ministries (audit no. **13/40**);
- The implementation of selected projects designed to make public administration more efficient (in audit no. **13/24** the project entitled *National Infrastructure for the Electronic Awarding of Public Contracts* (NIPEZ) and purchases via e-marketplaces; in audit no. **14/02** the Basic Register of Territorial Identification, Addresses and Real Estate (RÚIAN).

**The central and enduring requirement is to make the functioning of the state more effective and generally to modernise public administration to make it perform better. For that reason the SAO systematically focuses on auditing projects meant to help make public administration more effective and transparent, including reducing expenditure on administration or achieving other financial and non-financial savings.**

In 2013, in the context of the project for the computerization of public administration, the SAO audited data mailbox projects, two basic registers and a central purchasing project. It followed this up in 2014 with audits of another basic register, the information system called the Central Register of Administrative Buildings (CRAB) and the part of the national infrastructure for the electronic awarding of public contracts comprising e-marketplaces. CZK 7.5 billion was spent on the audited projects in the audited period. The cross-cutting findings of the audits of these projects show that the expected potential improvement in effectiveness and expected savings were not achieved; questions also surround the achievement of the overall objectives of these projects. Although a higher level of computerization should help improve the quality of data and information, the audits detected shortcomings in the reliability of the data contained in a number of information systems, basic registers, and e-marketplaces. The following audit findings document the deficiencies in the work of the authorities responsible for these projects:



#### NIPEZ PROJECT AND PURCHASING VIA E-MARKETPLACES

- Audit no. **13/24**, focusing on the project called *National Infrastructure for the Electronic Award of Public Contracts* and on the purchasing of selected commodities via e-marketplaces, followed up audit no. **12/29** which examined the central purchasing project.<sup>19</sup> When auditing the NIPEZ project, the SAO found that although in government-approved rules drawn up by the Ministry of Regional Development (MoRD) made it obligatory to award selected public contracts via e-marketplaces in 100% of cases for central organs of state administration and in 50% of cases for their subordinated organisations, it did not define a control and penalties mechanism for ensuring that this obligation is complied with. Paradoxically, in contravention of this obligation the MoRD itself failed to use e-marketplaces for certain purchases. Additionally, to assess the project the MoRD opted for an unsuitable monitoring indicator which, in the SAO's opinion, provides minimal information about the effectiveness and efficiency of the money spent and is not tied to the project's principal goal, i.e. achieving savings. The MoRD failed to assess either the savings achieved or other objectives in the first year of operation of e-marketplaces. Moreover, the e-marketplaces system made it possible to enter erroneous values, which could affect both the accuracy of statistical evaluation and the transparency of the published information. The MoRD paid **CZK 37 million** for public contracts to develop e-marketplaces and over **CZK 22 million** for the first year of operation. The MoRD estimated that the launch of e-marketplaces would bring in annual savings of **CZK 1.2 billion** in the first phase. According to the SAO's calculations, however, only **CZK 320 million** was saved, i.e. 27% of the planned target. According to the SAO, the effectiveness of e-marketplaces and the impact on planned savings are negatively affected by the negligible use of online auctions, which were expected to deliver the biggest savings.

During the audit, the government issued resolution no. 981 of 18 December 2013 making it obligatory, from 1 January 2014, to award 100% of public contracts for obligatory commodities according to the rules in the case of organisations subordinated to central organs of state administration in place of the originally required 50% of contracts. However, in the SAO's opinion the MoRD's response to the SAO's other recommendations, concerning the unjustified increasing of prices by operators, the monitoring and evaluation of the savings achieved and other objectives or the missing penalties and control mechanisms, was inadequate.

<sup>19</sup> Audit no. 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*; audit conclusion published in SAO Bulletin issue 4/2013.

**REAL ESTATES AND CRAB PROJECT**

- In audit no. **13/40**, focusing on the implementation of the *Central Register of Administrative Buildings* project, the SAO discovered that the Office for Government Representation in Property Affairs (OGRPA) spent more than **CZK 254 million** on the implementation of the project and spent more than **CZK 62 million** on its operation in 2013, yet the principal aims of the CRAB project had not been achieved by the end of the audit and its working could not be deemed reliable. Not all the data had been entered in the CRAB system by the set deadline of 1 July 2013. According to the SAO, the state's money cannot be regarded as having been spent economically and effectively in this case. The expected reduction in the cost of managing and leasing state property has not yet been proved or quantified. The ORGPA did not even know the total number of buildings that are supposed to be registered in the system. In this audit, the SAO also highlighted a legislative shortcoming consisting in the fact that, by the time the SAO audit ended, no legislation had been passed governing the obligation of state institutions to add data to the CRAB system or governing the ORGPA's competence as the administrator of the system for registering administrative buildings owned by the CR.

In response to the identified shortcomings, the government issued resolution no. 435 of 9 June 2014 again instructing the members of government and the heads of other central organs of state administration to supply data to CRAB by 30 June 2014 at the latest.

**BASIC REGISTER OF TERRITORIAL IDENTIFICATION, ADDRESSES AND REAL ESTATE**

- In audit no. **14/02** the SAO drew attention to the fact that the State Administration of Land Surveying and Cadastre (SALSC) spent a total of **CZK 750 million** from 2001 to April 2014 in connection with the preparation and implementation of the RÚIAN. It also spent **CZK 75 million** on the register's operation. The SALSC obtained the money from both the state budget and the European Union. The SALSC started the operation of the RÚIAN at the same time as the other basic registers on 1 July 2012. At that time the other basic registers were still unable to deliver some of their expected functions. The SAO had pointed this out in 2013 in audit no. **13/12**<sup>20</sup>. The RÚIAN was only completed a year after it was launched. The SAO also flagged up errors in the source data that occurred when data was originally entered in the register by other editors. These errors present a risk to the accuracy and completeness of the data stored in the RÚIAN. The technological infrastructure that the RÚIAN shares with the information systems of related agendas is designed differently and located separately from the other basic registers. If, as expected, the technological infrastructure of the RÚIAN is unified with the other basic registers, there is a risk of additional expenditure linked to this change.

As stated in the Annual Report for 2013, from the point of view of the terms of funding from EU sources the basic registers projects must be sustainable for five years, i.e. up to 2018. In the case of the RÚIAN, the funding of its operation for the period of the project's sustainability had not been guaranteed at the time of the SAO audit. The SAO therefore draws attention to the enduring risk that the subsidy, or part thereof, will have to be returned.

<sup>20</sup> Audit no. 13/12 – *Funds spent on preparations, implementation and operation of information system of basic registers*; audit conclusion published in *SAO Bulletin* issue 4/2013.

Public procurement continues to be the highest-risk area of the state's financial management, despite all the state's efforts to make public procurement more transparent and better value-for-money through computerization. That is why roughly half of the SAO's audits are devoted to public procurement. Incorrect procedures and non-compliance with the public procurement rules, combined with the failure to respect economic principles that the SAO has been exposing for years, are a long-term burden on the state finances.

Similarly, in 2014 the identified shortcomings showed that some auditees awarded public contracts incorrectly either in the form of negotiated procedure without publication or, making use of an exemption from the law, by awarding them directly to a specific contractor. The SAO's other audit findings most frequently concerned the unjustified dividing of public contracts into lots or the incorrect award of small-scale public contracts, whereby state organisations obviated the set financial limits and failed to make use of the chance to achieve lower prices in a competitive environment. In the field of ICT, the auditees awarded contracts using procedures resulting in long-term dependence on a single supplier which can have a negative impact on the cost of related public contracts and creates a relationship of technological dependence on the selected contractor and its solution.



#### NIPEZ PROJECT AND PURCHASING VIA E-MARKETPLACES

- In audit no. **13/24** the SAO found that in several cases the MoRD, as the guarantor of the NIPEZ project, did not carry out its tasks in the most economical manner when preparing the e-marketplaces module. For example, it wrongfully divided a public contract into two small-scale public contracts whose total value was **CZK 2.2 million**. In addition, in licensing proceedings the MoRD, in contravention of the legal regulation, twice increased the unit prices for basic services it paid individual operators without any written request to that effect from the e-marketplaces' operators. The SAO calculated that the MoRD could have reduced the expenditure by **CZK 1.5 million** for the first year of operation. According to the SAO, the raising of the unit prices for services poses a risk of uneconomical conduct in the remaining period of the licence contracts.



#### MANAGEMENT IN THE TRANSPORT DEPARTMENT

- When examining the costs of miscellaneous services in the transport department in audit no. **13/33** the SAO found that the MoT had concluded with a single natural person five contracts for the same consultancy services in the field of space activities. The MoT awarded the first contract worth **CZK 1.7 million** in negotiated procedure without publication and the next four worth **CZK 4.2 million** as small-scale contracts. The Directorate of Waterways (DoW) followed a similarly improper procedure when it divided a contract for legal services worth **CZK 3.8 million** into two small-scale contracts it awarded to a single provider. In 2007 the Civil Aviation Authority also wrongfully awarded a public contract for a building reception and guard service with an expected value of **CZK 7 million** using the procedure for small-scale contracts; and in 2011 it used two public contracts in the field of ICT with expected values of **CZK 3.4 million** and **4.3 million**. The State Navigation Administration wrongfully divided a public contract for ICT supplies with an expected value of **CZK 3.4 million** into five public contracts that it awarded as small-scale public contracts.



#### OPERATIONAL COSTS OF SELECTED OFFICES

- In audit no. **13/34** the SAO found that in 2010 and 2011 the GDC awarded public contracts for supplies of office paper as small-scale contracts even though the value of the purchased

material – **CZK 6.4 million** – exceeded the financial limit laid down by law. This could have significantly influenced the selection of the most advantageous offer.



#### REAL ESTATES AND CRAB PROJECT

- In audit no. **13/40** the SAO found that when acquiring the CRAB information system the ORGPA did not assess other ways of creating it (e.g. the option of creating an entirely new system) than as an add-on to the existing *State Property Information System*. The ORGPA must have known that under the terms of copyright only the original supplier of the *State Property Information System* had the right to implement the CRAB. Nor did the ORGPA check whether the implemented solution was the most economical in terms of the use of public money. Based on three public contracts awarded in negotiated procedure without publication, the ORGPA paid the supplier of this system a total of **CZK 181 million** under the contracts concluded. In this context, the SAO pointed out that this procedure could lead to long-term dependence on a single supplier and could thus have a negative impact on the economy of expenditure in the event of equivalent or related public contracts.



#### BASIC REGISTER OF TERRITORIAL IDENTIFICATION, ADDRESSES AND REAL ESTATE

- In audit no. **14/02** the SAO found that the SALSC awarded a public contract for the RÚIAN information systems, the agenda information system, and the implementation of new and altered functionalities of the existing real estate register information system (RÚIAN implementation) with total costs exceeding **CZK 420 million**. It did not break down the price in the contract according to the individual information systems and did not specify the specific adjustments related to the new and altered functionalities. By awarding the RÚIAN and its agenda-related information systems to the same contractor that was already the provider of the real estate register information system for the SALSC, the dependence on the selected contractor and its technologies was increased, which constitutes a serious operational risk for the RÚIAN. In certain cases, the SALSC also contravened the Act on Public Procurement, e.g. by advantaging the existing provider of data centre services over other candidates.

**One long-term risk area is that of legal, consultancy, and advice services, and for that reason scrutiny of this area is one of the SAO's priorities. Considerable sums are involved: in 2013, for example, over CZK 20 billion of the state budget went on this kind of expenditure. In this area, the SAO identifies uneconomical use of funds by auditees every year. This persistent state of affairs is demonstrated by audit findings from both this year's and earlier annual reports. The SAO's Annual Report for 2013, for example, mentioned the sharp rise in spending on these services in the order of tens of millions of crowns in the audited period by the General Directorate of the Road and Motorway Directorate (RMD)<sup>21</sup> and by the MoE, MoIT, and MoRD.<sup>22</sup>**

**In 2014, the SAO again discovered that certain auditees paid for work that ought to be done by their specialist departments or, in some cases, failed to pay for the services transparently. In addition, they spent large sums, millions even, on projects that they never implemented. The following findings demonstrate that the situation in this area is largely unchanged:**

<sup>21</sup> Audit no. 12/31 – *State property and funds delegated to the state-funded organisation Road and Motorway Directorate of the Czech Republic*; audit conclusion published in *SAO Bulletin* issue 3/2013.

<sup>22</sup> Audit no. 12/32 – *Funds spent on the operational costs of selected ministries*; audit conclusion published in *SAO Bulletin* issue 3/2013.

**MANAGEMENT BY THE MOE**

- In audit no. **13/07** the SAO found that the MoE's spending on consultancy, advisory, and legal services amounted to a total of **CZK 106 million** in the years 2001-2012 and had grown significantly year-on-year. In 2012, the amount was the equivalent of **CZK 83,447** per employee. The MoE paid external firms for services its own employees could have performed; in some cases, it made payments for services for which it could not provide any documents confirming the orders had been carried out. In 2011 and 2012, for example, it paid two external advisors **CZK 848,000** for media services, even though these services could have been performed by 25 of its own employees, and paid **CZK 240,000** for legal services that came at hourly rates ranging from **CZK 5,879** to **CZK 12,747** but could not present any documents proving that the ordered service had been provided.

**OPERATIONAL COSTS OF SELECTED OFFICES**

- In audit no. **13/34** the SAO found that in 2012 the CTO spent almost **CZK 35 million** more on consultancy, advisory, and legal services than in 2010, an increase of 471%. This growth was mainly driven by payments for consultancy services linked to projects co-funded by the EU. Conversely, the CSO spent **CZK 2.8 million** less on these services in 2012 than in 2010 (a fall of 57%), mainly because it had set up a public procurement department. Previously, public procurement had always been outsourced to external firms.

**MANAGEMENT BY THE MOH**

- In audit no. **13/31** the SAO found that the MoH paid a commercial company more than **CZK 2.1 million** for managing a healthcare ICT project that was never implemented and in this context paid a law firm over **CZK 1.1 million** for services consisting in legal analysis and severing the contract with the contractor.

**MANAGEMENT BY THE MOC**

- In audit no. **14/01** the SAO found that the MoC had proceeded uneconomically by paying at least **CZK 2 million** for services it could have performed through its own employees or, in some cases, made payments for services it could not provide any relevant documentation for. For example, external firms performed administrative work for **CZK 120,000**, inventorised tangible assets for **CZK 274,000**, and even drew up a proposal for the implementation of state culture policy (including information about the implementation of this policy) for **CZK 362,000** or a draft legislative intention concerning an Act on Heritage Sites for **CZK 497,000**.

The SAO also focused on assessing the utilisation of funds in the case of selected cost items where it sees room for savings. Costs arising from the activities of the administrators of state budget headings amounted to CZK 207 billion in 2013.<sup>23</sup> Here the SAO sees considerable potential for significant savings of state budget funds and also room for improving the effectiveness, efficiency, and economy of spending. That is why the SAO has for long paid attention to selected costs related to organisations' work activities. The audit results in 2014 showed that some auditees needlessly spent disproportionately high sums on various social events or rented passenger cars on disadvantageous terms. In addition, there was an increase in the number of agreements with auditees' own employees for work that came under their job description.

<sup>23</sup> With the exception of the heading of the Security Information Service, whose financial statements are classified, so the data therein are not included in the total amount.

**MANAGEMENT BY THE MOE**

- In audit no. **13/07** the SAO found that the MoE had not behaved economically as it did not use the money available to it to cover essential requirements. It bought 73 photograph frames for a total of **CZK 113,000**, for example, where the price per frame ranged from **CZK 592** to **CZK 14,760**. What is more, the MoE hardly used this property. Additionally, in 2010 it paid for two social events (*Concert for the Floods* and Christmas shows for children) at a cost of almost **CZK 4 million**. The first event seemed to bear no relation to the MoE's functions and tasks; and in the case of the second event neither the contracts nor the invoices contained an itemised breakdown of costs.

In contrast to the reduction in the number of employees, in the years 2010 to 2012 the number of agreements on work done without an employment relationship increased from 64 to 177, with the MoE carrying out a considerable proportion of its activities on this basis. In some cases, this involved ordinary administrative work of standard difficulty that the MoE could have done through its own employees. The cost of work done in this way almost doubled from 2011 to 2012, reaching a sum of **CZK 9.3 million** in 2012, an increase of over 90%.

**MANAGEMENT IN THE TRANSPORT DEPARTMENT**

- In audit no. **13/33**, focusing on costs related to work activities in the transport department, the SAO found high costs of acquiring promotional and gift items and for entertaining or payments for poorly defined services. A financial evaluation of the identified shortcomings indicated that there was the potential for achieving savings in the audited cost items of at least 6%, not including wage costs. Expressed in figures, that comprised approx. **CZK 88 million** for the audited period. The SAO found the biggest shortcomings, affecting almost all the audited costs, in the Directorate of Waterways (DoW), particularly in the pay-out of exceptional rewards and organising work on the basis of non-employment work agreements. For example, in 2012 six of the DoW's 13 employees received an annual bonus amounting to 104% of their basic wage entitlement. Furthermore, for the period from 15 November to 30 November 2012 the DoW signed a work agreement with remuneration of **CZK 27,000** for work that was the same as the job description of the employee whose employment was terminated by agreement on the same day the work agreement was signed. The hourly remuneration based on the work agreement was 214% greater than this employee's hourly wage before her employment was terminated. The DoW signed another work agreement with the same person for the period from 5 December to 31 December 2012 with remuneration of **CZK 70,000**. The financial evaluation of the identified shortcomings found the potential to achieve savings of at least 13%.

After the audit was completed, information from public sources revealed that the new management of the DoW had terminated its contracts with a number of external contractors and was seeking to achieve significant savings that should amount to 17% of the organisation's annual budget.

**OPERATIONAL COSTS OF SELECTED OFFICES**

- In audit no. **13/34**, targeting the payment of costs related to work activity in the CSO, CTO, and GDC, the SAO detected increased drawdown of finances mainly in the fourth quarter of the years under scrutiny; this money was used to buy office stationery and to pay for vehicle repair and maintenance and other services. For example, in the CSO and GDC expenditure in the fourth quarter accounted for 77% and 79% respectively of the money spent on office stationery



in the audited years. Another aspect of this practice is that the GDC committed a breach of budgetary discipline in the period under scrutiny as it wrongfully used **CZK 4.9 million** to pay for office stationery that was only supplied in the following years.

The SAO also found that the CSO and GDC used passenger cars on the basis of rental contracts in their activities. The CSO spent **CZK 19 million** on hiring 50 passenger cars, with the cost per kilometre ranging from **CZK 5.91/km** to **CZK 10.76/km**. The GDC paid **CZK 32 million** on hiring 113 passenger cars, with the cost per kilometre working out as **CZK 9.05/km**. According to the SAO's calculations, the hiring of passenger cars was uneconomical, as the cost per kilometre of a car owned by the CSO and GDC was **CZK 3.48/km**.

**As regards the management of state property, the SAO's audit results demonstrate persistent serious deficiencies in the conduct of the audited state organisations which do not use the property entrusted to them efficiently and economically to fulfil the functions of the state or fail to make rigorous use of all the available legal resources to exercise and safeguard the rights of the state as the owner and to protect the property. The SAO's audits of real estate leasing and letting revealed substantial differences in the levels of rent paid by state institutions or, conversely, received for letting state-owned properties. The audit results confirmed that some state organisations wasted government money by letting state property uneconomically or acquiring real estate and movable property they did not use. That points to considerable potential for savings in this segment of public expenditure.**



#### MANAGEMENT BY SELECTED CONTRIBUTORY ORGANISATIONS OF THE MOEYS

- In audit no. **13/20**, focusing on the management of state property by selected contributory organisations of the MoEYS, the SAO found that two contributory organisations contravened the Act on State Property in that in lease contracts they did not specify use for a fixed period of at most eight years or, in some cases, contracts on the transfer of surplus property did not contain the basic requisites.



#### MANAGEMENT IN THE TRANSPORT DEPARTMENT

- In audit no. **13/33** the SAO found that the most significant shortcomings in the management of fixed assets in the transport department were evident in the MoT which, for example, could not document the purpose for which in 2006 it requested from the MoEYS the transfer, free of charge, of a building in Prague 4, including land, worth **CZK 16 million**. The MoT subsequently let the transferred real estate to a state enterprise. Further to a decision by the administrative authority the MoT got rid of the building in 2011 at a cost of **CZK 1.8 million**. However, it has not used the land since then and could not document any possible future use either. In addition, after acquiring the Sázava recreation and training centre in 1995 the MoT did not make sufficient use of it and consequently let it to a private company in 1996. The lease ended in March 2013 and since then the MoT has made no use of the centre; part of the building is currently in danger of collapsing.

Shortcomings were detected in other organisations in the department as well. In 2011, for example, the Air Accidents Investigation Institute (AAIL) bought an exercise treadmill for **CZK 27,000**, which in no way serves the function the AAIL is supposed to fulfil. In some cases the State Navigation Administration bought property of the same kind as it had previously discarded before that property had reached the end of its lifespan. The discarded property with a total book value of **CZK 275,000** was not damaged and was functional.

**REAL ESTATES AND CRAB PROJECT**

- In audit no. **13/40** the SAO's scrutiny of the use of real estate by selected organisational units of the state revealed that ministries leased over 31,000 m<sup>2</sup> of office space in 2013. The rents for office space in Prague differed considerably. The unit prices of rent according to contracts signed with private entities ranged from **CZK 1,700/m<sup>2</sup>/year**, which the MoF paid for spaces in Prague's central New Town district, to **CZK 6,600/m<sup>2</sup>/year**, which the MoEYS paid for offices in Prague's Karlín district. The effect of exchange rate fluctuations meant that in 2013 the MoEYS paid almost **CZK 39 million** in this rent (the highest agreed) for spaces measuring approx. 5,500 m<sup>2</sup>; what is more, the lease was agreed to last until 2016. By contrast, as a lessor the MoEYS let office space in Prague's Malá Strana district in Prague 1 to a private entity for just **CZK 276/m<sup>2</sup>/year**. It later let the same spaces for a price based on an expert opinion – this price was almost ten times higher. The MoEYS therefore did not use this property economically and efficiently to fulfil the function of the state and to perform the defined activities, as it let the spaces for a sum that could have been as much as **CZK 130,000** per year greater.

Further to the SAO audit, the new leadership of the MoEYS commissioned an assessment of the lease contract for the offices in Karlín and declared that it was disadvantageous for the MoEYS with a potential risk of causing a loss of **CZK 180 million**.

**MANAGEMENT BY THE MOC**

- In audit no. **14/01** the SAO found grave shortcomings in the MoC's transfer of property to the State Cinematography Fund: the MoC failed to safeguard the property being transferred, resulting in the loss of seven property items with a purchase price of almost **CZK 41,000** and an original painting by Jan Zrzavý, *Karlachovy sady (The Karlach Orchards)*, with an estimated market value of **CZK 2-2.5 million**. The MoC did not report the loss to the Police until seven months later and only reported the loss of the painting. No explanation of the reason for the delay was provided. In addition, the MoC failed to ensure the most economical letting of state property. In two cases out of seven it did not make use of the contractual provision for adjusting the price of rent or did not increase the rent in the context of rent deregulation, thus reducing the possible yield from the let property by at least **CZK 463,000**. In the years 2011 to 2013, the MoC uneconomically spent **CZK 5.9 million** on leasing and operating copiers without assessing whether the lease terms were advantageous before signing the contract. For example, in 2013 the MoC's average annual costs per leased copier were almost **CZK 33,000**, which was 109% more than the average annual cost of operating an equivalent copier in the MoC.

**MANAGEMENT BY THE AIR TRAFFIC CONTROL OF THE CR**

Management of state property was also covered by the audit of the state enterprise Air Traffic Control of the Czech Republic (audit no. **13/16**). This audit scrutinised the MoT's exercise of its rights and discharge of its obligations as the founder of the state enterprise. The audit found that the MoT had not drawn up an air traffic policy even though the competences act required that of it.<sup>24</sup>

<sup>24</sup> Act No. 2/1969 Coll., on the establishment of ministries and other central organs of the state administration of the Czech Republic.

In the past year, the SAO once again found that numerous state organisations were not discharging their statutory obligations and detected a number of shortcomings in the reporting of property, records of property, accounting for property, and in the inventorying of assets and liabilities. In a number of cases the SAO had no option but to state that the organisations' accounts were incorrect, incomplete, and unclear. These deficiencies in property inventorying meant that some audited entities were unable to track down the state property placed in their care. At the same time, they were in breach of their statutory duty to care for and preserve the property and safeguard it against loss or theft. They were consequently responsible for the loss of property worth thousands of crowns, as the following examples show:



#### MANAGEMENT IN THE TRANSPORT DEPARTMENT

- Audit no. **13/33** found that the MoT discarded three paintings (originals) with a book value of **CZK 24,000**. The ministry was unable to track down these items during inventorying. Its unsatisfactory justification for discarding this property was that it was not known how the items were removed from the building, when this happened, and who was responsible.



#### MANAGEMENT BY THE MOC

- In audit no. **14/01** the SAO found that when performing physical inventorying the MoC discovered inventory discrepancies totalling **CZK 1 million** in terms of purchase prices in the years 2011 to 2013. For example, four LCD monitors, one computer, 9 mobile phones, and a painting were not found. 21 notebooks, 16 of which had a total purchase price of **CZK 467,000**, could not be tracked during stocktaking in 2013. With regard to the loss of the 16 notebooks, the damages commission declared that the MoC did not have a proper warehousing system in place and had not appointed an employee to be responsible for information technology items transferred to the warehouse. The damages commission did not hold any specific person to account for the damages caused, either in this case or in any of the other cases. In this way the MoC was in breach of its duties as laid down by the Act on State Property and its duties under the Act on Financial Control, as it had not put in place a control system that would effectively minimise risks. The SAO had no option but to declare that the MoC's control system is in many areas not fit for purpose, particularly as it did not detect systemic errors in the management of property or accounting error.

**Given the shortcomings listed above, the SAO will continue to scrutinise systematically all the risk areas in the state's financial management in 2015 as well. At the same time the SAO monitors how the government and audited entities treat the results of its audit work and whether they take corrective measures bringing positive changes in the state's financial management. The following examples indicate that there have been positive changes:**

- In its last Annual Report the SAO declared that the MoA did not subsequently take a constructive approach to remedying systemic shortcomings concerning ICT and involving a sum of over **CZK 1 billion**, which the SAO had identified in audit no. **12/04**<sup>25</sup>. The shortcomings mainly comprised violations of the Act on Public Procurement, specifically awarding public contracts by negotiated procedure without publication, setting discriminatory selection criteria and splitting contracts. The appropriate tax office responded to these violations by imposing a penalty for breach of budgetary discipline exceeding **half a billion crowns**. In 2014, public

<sup>25</sup> Audit no. 12/04 – Management of state property and funds allotted to projects concerning IT and communication technology at the Ministry of Agriculture; audit conclusion published in SAO Bulletin issue 1/2013.

sources of information revealed that the MoA had managed to make significant savings in the area of information technologies further to the audit results. By holding a new, open tender for information technology services in 2014 it achieved prices that were a quarter of those charged for the same services in the past, bringing an expected saving of **CZK 300 million** per year.

- The audit conclusion from audit no. **12/20**<sup>26</sup>, concerning funds raised from the disposal of hazardous waste, was approved in 2013. In 2014, the MoE submitted the legislative intention of an Act on Waste for interdepartmental consultation: the legislative intention reflects the changes to the current act recommended by the SAO. Fees for the dumping of hazardous waste will be paid even if the waste is to be used as technological material for the dump site; furthermore, the State Environmental Fund (SEF) should carry out control duties in the area of fees in addition to the regional authorities and the Czech Environmental Inspectorate.
- Based on its audits of state enterprises, the SAO proposed changing the rules governing the management of state enterprises, procedure when merging (horizontally or vertically) or dividing a state enterprise and the increasing and decreasing of core stock, and making it obligatory to keep separate accounts for the designated property. In this context, the Czech government's legislative council prepared an amendment of the Act on State Enterprises in 2014.

### 2.3.2 Management of other financial resources



#### FUNDS COLLECTED IN FAVOUR OF THE CIHIC

Regarding the management of other financial resources, audit no. **13/22**, targeting funds collected by law in favour of the Czech Industrial Health Insurance Company (CIHIC) and the impact of the process of merging employee insurance companies, was completed in 2014.<sup>27</sup>

**The SAO's audit at the CIHIC found the same shortcomings in the activities linked to the collection of insurance premiums as in the health insurance companies audited previously.<sup>27</sup> These included performing checks of payments of insurance premiums covering a fairly long period, which reduces the success of collecting premiums in arrears, in the SAO's opinion. What is more, when collecting and enforcing the payment of premiums the CIHIC did not make full use of the mechanisms and authorisations legally available to health insurance companies. The SAO identified another problem in the utilisation of finances from the basic fund for various projects that did not have sufficient grounding in the law and were not always closely linked to healthcare provision: these included paying for electronic health records in the case of the General Health Insurance Company audited earlier or the *Integrated Care System* project in the case of the CIHIC:**

- Under this project, the CIHIC broke the law by increasing by almost **CZK 37 million** capitation payments to general practitioners for administrative actions and not for health services covered by insurance and defined by law. The SAO also perceives considerable risks in health insurance companies' option of concluding any price arrangements in the context of public health insurance without specifying certain limits or restrictions or special conditions. This option, which the legislation in force permits, has no transparent rules and enables subjective and unequal treatment of healthcare services providers by health insurance companies. The CIHIC's arrangements with medical equipment suppliers were very vague. For example, contracts did

<sup>26</sup> Audit no. 12/20 – *Funds collected in accordance with the Act on Hazardous Waste Management*; audit conclusion published in *SAO Bulletin* issue 2/2013.

<sup>27</sup> Audit no. 08/36 – *Financial means collected in compliance with the law by the Military Health Insurance Company of the Czech Republic*; audit conclusion published in *SAO Bulletin* issue 3/2009; Audit no. 09/29 – *Funds collected upon the act in favour of the General Health Insurance Company of the Czech Republic*; audit conclusion published in *SAO Bulletin* issue 1/2011.

not define the supplied items in detail; they did not contain a price list of the individual medical items; and they did not specify repair and refurbishment terms in any detail. The SAO also found that the CIHIC repeatedly paid medical actions which, as regards the requirements placed on them, were not recognised by the MoH at that time and had not been added to the list of medical operations with points values issued by decree.

Another audit finding flagged up shortcomings consisting in the absence of legislation governing mergers of health insurance companies: no criteria are defined for judging whether and when such a move is expedient for the purpose of public health insurance and when it is not. There is also no binding legislation on the duty to compile financial statements for the health insurance company continuing to operate where these financial statements document the financial state of the accounting unit prior to the merger. Yet substantial sums of money are involved. In the years under scrutiny, when the Metallurgical Employees' Health Insurance Company, or CIHIC, merged with three other employee insurance companies, CIHIC's assets were worth approx. **CZK 5 billion**.

## 2.4 Important programmes and operations

The SAO devotes systematic attention to important investment programmes and operations. In 2014, the SAO conducted a total of seven audits, in which it scrutinised financial resources earmarked for transport infrastructure:

- road repairs and maintenance (audit no. **13/27**);
- development and modernisation of waterways and ports and support for multimodal goods transport (audit no. **14/03**)
- and other areas in which it looked at:
  - the renewal and material and technical development of regional healthcare (audit no. **13/13**);
  - selected programmes of the Ministry of Defence and of organisations founded by the ministry and the sale of surplus real estate (audit no. **13/30**);
  - tourism development (audit no. **13/32**);
  - the financing of selected programmes under the authority of the MoLSA (audit no. **14/05**);
  - the implementation of a project to renew Jordán fishpond in Tábor (audit no. **14/13**).

In its completed audits the SAO dealt with critical areas of state policy in the implementation of major, mainly investment programmes and operations. The principal issues were compliance with the rules and principles of programme funding; the preparation, implementation, and results of selected operations; compliance with the law in public procurement; and the effectiveness of measures to remedy shortcomings detected by previous audits. The question of the economy, efficiency, and effectiveness of public spending was another important area. It is these areas that have displayed the gravest long-term shortcomings.

### 2.4.1 Renewal and development of transport infrastructure

On both the national and supranational scale, the renewal and development of transport infrastructure is without doubt one of the most important factors affecting the CR's growth and competitiveness. In previous years, the SAO repeatedly drew attention to the absence of binding conceptual and strategic materials that would lay clear foundations for decision-making on the selection, preparation, and implementation of major transport construction projects. These long-term strategies, combined with stable financing and functional and professional management and control mechanisms in the responsible authorities whose proper working would not be disrupted by frequent staffing changes should put in place the conditions necessary for the execution of these and other construction projects that will address social needs and deliver the required value for money.

Some positive trends were registered in 2013 in response to the SAO's repeated findings and recommendations from previous years. Government resolution no. 850 of 13 November 2013 approved transport sector strategies that should help improve the state of affairs in transport infrastructure. It is certain that the SAO will perform a comprehensive assessment of these strategies in the future, based on the results of further audits. When scrutinising the modernisation of waterways, however, the SAO already found that the strategy is not sufficient for this area as it does not deal with the entire length of waterways.



#### MODERNISATION OF WATERWAYS AND PORTS

The results of audit no. **14/03** showed that in its current form the transport strategy from 2013 is not a sufficient basis for defining further action in the preparation and implementation of waterways development and modernisation projects and multimodal transport projects. The MoT is currently finalising its conceptual material on the development of the entire river Labe (Elbe) waterway. The audit identified uncertainties mainly in the classification of investment projects and the links between them, sources of funding and decision-making on how projects are to be prepared and implemented. The absence of a monitoring system enabling objective assessment of the progress made is another deficiency. For example, it is expected that the project entitled *Děčín Navigation Step*, which is named in the MoT's conceptual materials as the most urgently needed waterways construction project from the point of view of the CR's transport requirements, will take place in the 2018-2021 period, i.e. after other ("dependent") construction projects have been completed. Two projects of key importance for making the Labe waterway navigable, *Děčín Navigation Reach* and *Přelouč II Navigation Reach*, were placed in two separate clusters in the transport strategies without any attempt to address the links between them. The SAO assessed that water transport's share of total goods transport has remained negligible: in the past five years it accounted for at most 0.4% of the volume of the transported goods in terms of tonnage.

**Another fundamental problem in transport infrastructure is stable financing. That is reflected both in delays and increasing costs of new construction projects and in the cost of repair and maintenance of existing transport infrastructure. The lack of funding causes the alarming condition of roads to deteriorate further. In addition to the growing cost of eliminating serious deficiencies in the future and the uneconomical nature of proceeding in this way, the situation has a negative impact on both the economy and citizens' quality of life. The insufficient funding for transport construction projects is not the only adverse factor, however. Other significant deficiencies can be found in the way existing resources are managed. The SAO identified considerable room for improvement in the economy, efficiency, and effectiveness of spending on both construction and maintenance operations. There were serious errors in the preparation and execution of operations and in public procurement. The following are examples:**



#### ROAD AND HIGHWAY REPAIRS AND MAINTENANCE

In audit no. **13/27** the SAO found that the money spent on road repairs and maintenance in the years 2010 to 2013 were a third less than the amount needed and was not enough to prevent the condition of motorways and, above all, 1<sup>st</sup> class roads and bridges worsening in the longer term. In addition to insufficient budgeting, the funding shortfall was also caused by deficiencies in the work of the RMD – these deficiencies were identified in 42% of the audited operations. The deficiencies included extending the deadlines for preparing and executing operations; starting construction work at unsuitable times in terms of the climatic conditions; non-transparent payments for work done etc.

The SAO also detected fundamental shortcomings in over a third of the audited contract award procedures. For example, non-compliance with the Act on Public Procurement was found in contracts worth a total of **CZK 1.1 billion** out of a total value of **CZK 4.5 billion** for the audited contracts. The RMD used various methods to limit the number of candidates for public contracts in the award process, thus contravening the Act on Public Procurement. These included using negotiated procedure without publication to award contracts worth **CZK 811 million**, even though the statutory conditions justifying the use of this procedure were not satisfied, or in cases where the RMD could award contracts in lots and thus achieve better prices. In one contract, for example, which it awarded as a large-scale contract worth **CZK 420 million**, the SAO calculated that around **CZK 38 million** could have been saved. The large difference in the unit prices for maintenance work between contracts concluded for winter and summer maintenance points to the potential for achieving savings in the repair and maintenance of 1<sup>st</sup> class roads and motorways. The SAO could not but state that since the previous audit no. **08/27**<sup>28</sup> there had been no significant change in the issue of eliminating faults discovered on 1<sup>st</sup> class roads and motorways in good time and that the award of public contracts linked to repairs and maintenance of these roads had actually got worse.

Based on that audit, the RMD had already taken measures related to road and bridge repairs and maintenance work planning for the 2015 construction season and to public procurement, whereby it will assess the possibility of awarding public contracts in lots where it is appropriate for the contract in question and will lead to greater efficiency. In addition, the RMD will conduct a detailed analysis of the SAO's findings linked to the increase in costs from deferring repair work.



#### MODERNISATION OF WATERWAYS AND PORTS

- In audit no. **14/03** the SAO found that in the case of the project entitled *Reconstruction of Kolín Railway Bridge* the MoT assented to an increase in the project's total investment costs from the original **CZK 800 million** to **CZK 1.2 billion**, i.e. by 50%. It did not define any indicators that would make it possible to monitor and evaluate the project's results and impacts. Even though the project was declared as a waterways development project, it actually involved the reconstruction and modernisation of rail infrastructure. Similarly, in December 2008, in the case of the project entitled *Completion of the Vltava Waterway in the České Budějovice – Hluboká nad Vltavou Section* the MoT approved a threefold increase in the total investment costs to **CZK 880 million** without any significant change to the scale and substance of the project it approved in August 2007. Before making the decision the MoT did not even request any additional documents, so it was not able to look into the actual reasons for the increase or to verify whether the DoW's actions were necessary and economical. In both cases, the actions of the DoW, which implemented the projects, caused a significant devaluation of property without adequate property settlement for the state.

**Transport infrastructure construction should be positively affected by the passing of an Act on Linear Transport Construction Works. The MoT has already drawn up the legislative intention of the act, which references the SAO's findings from previous audits on several occasions. This act should have a fundamental and beneficial impact primarily on the stability of the funding of transport infrastructure construction; it should also make the authorisation process more efficient and cut costs. The government had not debated the legislative intention by the end of 2014.**

<sup>28</sup> Audit no. 08/27 – *Financial means allotted for mending and maintaining of roads*; audit conclusion published in *SAO Bulletin* issue 2/2009.

### 2.4.2 Funding of major asset replacement programmes and of policies in other areas

The violation of the basic principles and rules of programme funding is a long-term problem negatively affecting the efficiency of spending on major state programmes and operations. The SAO has repeatedly pointed out the harm that comes from the absence of binding concepts and the failure to define strategic requirements and measurable goals and outcomes. Fundamental changes to programmes' parameters, ineffective coordination, and inadequate systems for checking expenditure result in uneconomical, inefficient, and ineffective conduct and significant losses for the state. The situation with programme financing, where in a number of cases the state fails in its role and is not able to satisfy these basic requirements is the main reason for the SAO conducting audits in this field. The SAO appeals in the strongest terms to the responsible authorities to comply with the rules and make the funding of asset replacement programmes more efficient.

**Many of the stated shortcomings were again detected in 2014. The MoH, MoLSA, and MoD's asset replacement programme financing was scrutinised. These ministries are the administrators of the selected programmes, which primarily deal with the financing of the construction, renovation, or purchasing of buildings. Serious deficiencies were found in the way these central authorities defined strategic requirements, made fundamental changes to programmes or took different approaches when drawing up programme documentation, mainly concerning the setting of objectives and assessment of the benefits the programmes are meant to deliver. While the MoD has improved its programme documentation over the years, the MoLSA repeated the shortcomings detected by audit no. 09/02.<sup>29</sup> The audits threw up the following key findings:**



#### FINANCES EARMARKED FOR REGIONAL HEALTHCARE

- Serious deviations from the principles of state budget participation in the funding of asset replacement programmes and shortcomings in conceptual management and control were reported by the SAO in audit no. **13/13**, for example. In the MoH programme to support regional healthcare, approved in 2004 with a total budget of **CZK 2.5 billion**, there were fundamental changes that gradually pushed up the total budget by 52% to **CZK 3.9 billion** and extended the implementation period from the original four years to 13 years (up to 2016). The main reason for this was the adding of actions that were classified under the *General Treasury Administration* budget heading in the form of change proposals approved by the Chamber of Deputies when approving the state budget. The MoH had not drawn up any conceptual material on regional healthcare. The programme documentation made no allowance for the changes that took place in regional healthcare after 2005 and the MoH has not even partially evaluated the programme during its existence. The MoH provided subsidies in complete contravention of the rules of the programme documentation. For example, it provided subsidies to ineligible beneficiaries or it provided subsidies for medical facilities' equipment going beyond what was absolutely necessary. It even provided subsidies in cases where the support exceeded the defined 80% limit for the state budget's share of total costs or when the applicants had already concluded contracts with selected suppliers or when building work was already underway. The SAO identified shortcomings with a total value of **CZK 69 million** in almost half the audited operations.



#### INVESTMENT AND SALE OF REAL ESTATES OF THE MOD

- In audit no. **13/30** the SAO found that in a programme launched in 2009 the MoD only set general goals without quantifying impacts, which ultimately led to inefficient and uneconomical

<sup>29</sup> Audit no. 09/02 – Funds earmarked for financing selected programmes that are in the competence of the Ministry of Labour and Social Affairs; audit conclusion published in SAO Bulletin issue 4/2009.



expenditure when certain construction operations were carried out. Two new programmes commenced in 2013-2014 after the strategy called *White Paper on Defence* was adopted had better programme documentation, particularly as regards goals and parameters. However, the MoD lacks **CZK 2.9 billion** for the full implementation of the programmes, so just 20% of their implementation is financially covered. The ministry plans to obtain the missing funds by selling off surplus real estate, among other things. There was not much demand for the audited sample of the real estate offered for sale, however. The real estate included apartment blocks, an airport, barracks, a recreational cottage and a mansion. The estimated total price of this real estate (not including the apartment blocks) was almost **CZK 390 million**. In the end the ministry only received **CZK 218 million** for the properties in tenders held over several rounds, i.e. just 56% of the estimated price.



#### PROGRAMMES OF THE MOLSA CONCERNING REAL ESTATES

- Audit no. **14/05**, targeting the MoLSA's procedures as the administrator of five programmes with expenditure of **CZK 3.6 billion** in the years 2009-2013, also detected significant systemic shortcomings. The frequency and gravity of the identified deficiencies led the SAO to conclude that the MoLSA programmes were not a transparent set of technical, temporal, and financial conditions for implementing the operations and for objective assessing the achievement of goals, as the basic legislation demands.<sup>30</sup> The effectiveness of the programme funding system was compromised by a large number of fundamental changes made by the MoLSA during implementation. What is more, these changes were not underpinned by appropriate technical and economic justifications of the goals or by assessments of the efficiency of the expenditure. The absence of binding concepts addressing the need to acquire and renovate real estate from the long-term perspective was a fundamental problem. As a result, unnecessary real estate and real estate with inappropriate capacity were acquired under programmes concerning the MoLSA and the Labour Office of the Czech Republic (LO); in some cases, the risk of such acquisitions was disproportionately increased.

**The impractical and uneconomical operations carried out under a number of the audited programmes are testimony to the serious negative consequences the errors described above can lead to. The following are examples of this:**



#### INVESTMENT AND SALE OF REAL ESTATES OF THE MOD

- In audit no. **13/30** the SAO exposed fundamental shortcomings in some operations to renovate hostels and implement energy-related measures that were carried out in 2009 and 2010 through the Army Service contributory organisation (AS) founded to manage housing stock, hostels, and other designated real estate and movable property of the state. At the start of the programme, the MoD gave this organisation sweeping powers to select and implement operations and underestimated the need for control. In three audited operations (hostels in Tábor and Chotusice, apartment building in Kozlov) commercial companies with insufficient experience were selected in tenders; moreover, these companies merely acted as intermediaries, using subcontractors to actually carry out the operations. The operations were not carried out economically, they fell behind schedule, and one operation was not completed at all. The SAO calculated that AS spent almost **CZK 46 million** uneconomically. The most striking example of incorrect procedure both when selecting an operation and when implementing it was the renovation of the Chotusice hostel at a cost of **CZK 17 million**, which was not completed. As the SAO discovered on-site,

<sup>30</sup> Act No. 218/2000 Coll., on the budgetary rules and amending certain related acts (the Budgetary Rules), and Decree No. 560/2006 Coll., on state budget participation in the financing of asset replacement programmes.

the hostel is unused and will remain surplus to the MoD's requirements. State budget funds of **CZK 14 million** were wasted on this operation.

After the Czech government discussed the results of this audit, the MoD took the necessary methodological measures regarding programme funding. In connection with organisational changes in the MoD department, a new structure was adopted that should simplify asset replacement programmes related to real estate infrastructure.



#### PROGRAMMES OF THE MOLSA CONCERNING REAL ESTATES

- The SAO also found numerous serious errors in the execution of operations in audit no. **14/05**. For example, it found that in the case of the Labour Office building in Pardubice the new building alternative was chosen, which was approx. **CZK 130 million** more expensive than the alternative of renovating and completing an existing building. In connection with the construction of the Pardubice building, the LO stopped work on a building in Rokytno costing **CZK 60 million** and was unable to document the further use of the half-built structure. In 2012, the LO acquired an insufficiently large building in Karlovy Vary for 75 employees, but at the time of the audit there were 107 employees working there, with nine remaining in the original, unsuitable building. Additionally, the acquisition of a building in Prague 7 for **CZK 329 million** in 2013 was a considerable risk in terms of inappropriate use and fulfilment of the conditions for funding out of the *Integrated Operational Programme*. The LO was unable to provide credible data about the numbers of employees who were meant to work in the building or to document that it had conducted a proper selection of real estate before buying the building. It is worth noting that in 2011 the MoLSA had declared that the establishment of the LO did not necessitate buying any new buildings.

**In 2014, the SAO also focused on the implementation of government policy on tourism. In the audited period, state budget and EU funding was provided via the *Tourism National Support Programme*, the *Integrated Operational Programme (IOP)* and four regional operational programmes. The results of audit no. **13/32** concerned shortcomings in the coordination and monitoring of the provision of support and in the assessment of the policy's effect. The following are some of the audit's findings:**

- Although the MoRD, which is by law responsible for tourism, set strategic goals in the approved tourism concept for the years 2007-2013, consisting in boosting tourism in the national economy, it did not define an expected achievement level. Although the MoRD reported that at least **CZK 49 billion** was spent in support of tourism from the end of 2007 to June 2013, the performance of the tourism industry stagnated or declined. The SAO judged that the system for providing and assessing support did not ensure that tourism support was transparent and effectively coordinated and monitored or that the focus and level of tourism support were defined on the basis of an evaluation of the support already provided in previous years. The MoRD did not even have sufficient tools to perform such monitoring and assessment. However, the benefits of the support for tourism development were not monitored sufficiently by the audited support providers either, i.e. by the MoRD in the case of the *Tourism National Support Programme* and the IOP and by four regional councils in the case of the regional operational programmes.

The MoRD committed errors when providing support out of the *National Tourism Support Programme* when it failed to define conclusive indicators for assessing progress towards the programme's goals and performed merely a formal assessment of the programme. The assessment of applications was highly subjective. The programme was meant to make tourism accessible to disadvantaged population groups (families with children, young people, seniors, the disabled etc.), but the MoRD did not check whether the projects were actually helping

achieve the said objective. In this way, for example, the MoRD supported projects worth a total of **CZK 4.4 million** intended to build an electric bicycles rental facility, a facility renting Segways to tourists, or to purchase an automobile for transporting hotel guests. The MoRD also committed errors in the IOP, for which it is the managing authority. Six out of the seven audited projects were insufficiently prepared, which led to three of them being terminated prematurely. The money spent on them was therefore ineffective.

**In line with the *Public Strategies Preparation Methodology*, in 2013 the MoRD drew up a new *Concept of the State Policy on Tourism 2014-2020*, which was approved by government resolution no. 220 of 27 March 2013 and proposes measures and new coordination mechanisms. In response to the results of the SAO's audit work, the MoRD committed itself to improving the way implementation of the policy is assessed using a methodology for assessing returns on investments and the social impacts of tourism.**

## 2.5 Financial resources from abroad

In 2014, the SAO completed eight audits prioritising scrutiny of the management of funds provided to the CR from abroad and the system by which these funds were used under selected programmes.<sup>31</sup> These funds were most commonly provided by the EU. In terms of quantity, the EU budget is the most important source of financing for the Czech Republic, covering Economic and Social Cohesion Policy and the Common Agricultural Policy (and Fisheries).

The audit work targeted programmes and projects financed out of the Structural Funds and *Cohesion Fund* and finances earmarked for the implementation of selected measures of the following operational programmes (OPs):

- *Enterprise and Innovation* (audit no. **13/17**),
- *Environment* (audit no. **13/21**),
- *Prague – Competitiveness* (audit no. **14/09**),
- *Regional Operational Programme of Cohesion Region Southwest* (audit no. **14/16**),
- *Research and Development for Innovation* (audit no. **14/39**).

Audit of selected measures under the following programmes scrutinised support channelled into agriculture and fisheries:

- *Rural Development Programme* (audit no. **14/07**),
- *OP Fisheries 2007-2013* (audit no. **13/28**).

Outside the EU budget, the SAO's audit work targeted:

- the *Swiss-Czech Cooperation Programme*, a programme focused on reducing economic and social differences within the enlarged European Union (audit no. **13/37**).

Four other audits (audits nos. **13/32**, **14/03**, **14/06**, and **14/13**) scrutinised, among other things, projects co-financed by the EU under selected regional operational programmes, the *Integrated Operational Programme*, *OP Transport*, and *OP Environment*. Given these audits' primary focus on major investment programmes and projects, the main findings from these audits are presented in the related section of the Annual Report (section 2.4). Audit no. **14/03** also examined the reliability of the *OP Transport* management and control system.

**In the light of the results of its audit, monitoring and analytical work linked to finances provided to the CR from abroad, and principally from the EU budget, the SAO has for long drawn attention to fundamental systemic deficiencies that cause the CR to fall behind in its utilisation of funding.**

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<sup>31</sup> During these audits the SAO scrutinised the EU finances implementation system in the given programme, axis, or measure, i.e. the correctness of individual transactions, including the design and reliability of the management and control system in the programme in question.



In the *EU Report 2014*<sup>32</sup>, for example, the SAO stated that the CR is a net beneficiary with its net position for the years 2004-2013 exceeding €13 billion.<sup>33</sup> At the same time, however, the SAO had to point out that despite this fact the CR ranked among the four least successful EU Member States in terms of the attained level of utilisation of finances allocated from the Structural Funds and Cohesion Fund.

In 2014, it was confirmed that the measures intended to prevent the irrevocable loss of a considerable proportion of the finances earmarked for the CR in the EU budget were not entirely effective. The MoRD's monitoring report for the third quarter of 2014 reveals that a sum of approx. CZK 12 billion was de-committed under five OPs in 2013.<sup>34</sup> The MoRD's failure to fulfil the compulsory utilisation of the allocation under the n+2 rule was again confirmed in 2014, with a further CZK 9 billion being de-committed.<sup>35</sup> The Czech Republic has thus lost tens of billions of crowns in funding for the 2007-2013 programming period, according to the SAO. That money could have been used for the country's development.

As the pressure to resolve the problem of the non-use of a considerable portion of funding grows, so does the risk of the implementation of projects that will not lead to rational use of EU finances in line with the programmes' principal objectives and goals. The SAO again emphasises that the money should not be used at any cost and that the drive to make use of this funding should only be directed at projects that will make effective, efficient, and economical use of the money throughout the projects' entire life cycle. The implemented projects must not only satisfy the condition of sustainability throughout the defined period: they should ensure sustainable sources of funding for future expenditure on operations as well.

The SAO has repeatedly flagged up the reasons for the unsatisfactory utilisation of support. These are caused by fundamental systemic errors and by the individual failings of the implementation authorities of certain operational programmes. The most serious reasons why the CR lags behind the majority of EU Member States include the complicated nature of the support implementation system; unsystematic changes in the focus of individual measures; errors in way conditions and rules are defined; delayed programme implementation; insufficient preparedness and errors in the implementation of projects; the low quality of programme management and control; the limited independence of control functions; and, last but not least, the considerable bureaucracy and frequent personnel changes in executive and management positions. The unreliability of management and control systems that are unable to detect violations of conditions and regulations results in punitive measures being imposed by the European Commission and the further reduction of funds already paid.

<sup>32</sup> *EU Report 2014*, Report on EU Financial Management in the CR; published by the SAO in June 2014.

<sup>33</sup> Incomes from the EU budget exceed the amount the CR pays into this budget.

<sup>34</sup> According to the Quarterly Monitoring Report on Drawdown from the Structural Funds and Cohesion Fund in the 2007-2013 Programming Period, 3<sup>rd</sup> quarter of 2014, MoRD, 31 October 2014, EUR 411.4 million was de-committed in 2013 under OP *Environment*, OP *Education for Competitiveness*, OP *Human Resources and Employment* (objective 2 only), OP *Technical Assistance* and the *Integrated Operational Programme* (objective 2 only).

<sup>35</sup> According to an MoRD press release dated 2 January 2015.

**In 2014, the SAO again drew attention to a number of systemic shortcomings that had a profound effect on the overall functioning of programmes in terms of achieving their financial and material objectives. The following are some examples:**



#### ENTERPRISE AND INNOVATION OP

- In audit no. **13/17**, scrutinising finances earmarked for OP *Enterprise and Innovation* (OPEI), the SAO assessed the management and control system as merely partially effective. Most notably, it found fundamental deficiencies in the way the control system was designed and functioned, as the control systems of the MoIT and CzechInvest failed to detect irregularities among support beneficiaries, either because these systems were insufficiently effective or because of individual failings. The principal deficiencies in the implementation of the audited projects included non-compliance with the rules for selecting contractors and eligible expenditure to pay for supplies that did not materialise or supplies of equipment other than what was specified. Some of the money was paid out to cover expenditure that could not be deemed eligible because the expenditure was not consistent with the terms of the support, could not be proven or was uneconomical, inefficient, and ineffective. In seven out of the sample of 22 audited projects the SAO qualified shortcomings with a total financial value of **CZK 105 million** as breaches of budgetary discipline; that represented 10% of the money paid out under the audited projects. The European Commission also has reservations about the proper implementation of the OPEI. As the European Commission's doubts had not been dispelled by the end of the SAO's audit, the SAO expressed warranted concern that the Czech Republic would not manage to fully utilise the funding allocated under this programme.



#### SUBSIDY FROM THE MOE FOR WASTEWATER TREATMENT

- In audit no. **13/21** the SAO focused on one of the highest-risk operational programmes in terms of funding utilisation. That is the Operational Programme *Environment* (OPE), and specifically finances earmarked for wastewater treatment and the work of the MoE as the Managing Authority and the SAIF as the Intermediate Body. The SAO identified serious shortcomings in the way the project assessment and selection system was designed. Up to December 2011, the OPE monitoring committee had neither assessed nor approved the project selection criteria, and the Managing Authority thus approved projects for financing to the tune of almost **CZK 26 billion** without having ensured that projects were selected in compliance with the EU regulations. The processing of subsidy applications took a long time, with the entire process lasting 28 months on average. In response to the detected errors the European Commission suspended the payment of subsidies under the OPE and applied an across-the-board 5% correction of all expenditure paid out to beneficiaries up to August 2012. In 2012, the OPE was placed in the high-risk programmes category and subjected to enhanced risk management. Even so, the OPE is still at risk of falling short of the funding utilisation limit. According to the MoRD, expenditure amounting to 65% of the programme allocation should be utilised by the end of 2013, but just 44% of the allocation has been paid out under the OPE as a whole. In the case of the OPE there is the risk of the automatic de-committing of a significant portion of the allocation amounting to almost **CZK 5.3 billion**.

**POPULARISATION OF SCIENCE AND DEVELOPMENT UNDER OPRDI**

- In audit no. **14/39**, targeting finances under the operational programme *Research and Development for Innovation* (OPRDI) earmarked for priority axis 3 – *Commercialisation and Popularisation of Research and Development*, the SAO found that during implementation the MoEYS as the Managing Authority had gradually made significant changes to the amount of funding to support the promotion and popularisation of the results of Research and Development (R&D) to the detriment of the commercialisation of the results of R&D. The MoEYS approved **CZK 5.6 billion** in funding for projects, but projects designed to commercialise the results of R&D received just **CZK 1.4 billion** of that amount. The MoEYS also failed to prioritise the selection of projects supporting areas that are key to the successful implementation of projects that were financed under the two principal priority axes of OPRDI. Synergies featured as a selection criterion in just one of the calls for applications. The insufficient support for projects displaying synergies with projects supported in priority axes 1 and 2 of the OPRDI and the lower level of funding for the commercialisation of the results of R&D brings a risk that priority axis 3 will not sufficiently support the achievement of the global objective of the OPRDI. The MoEYS provided almost half the funding for the construction of science and research popularisation centres. As the SAO judged, with these centres there is a long-term risk that without further subsidies, financial contributions, and in-kind donations they will lack sufficient funding to cover the expected losses.

**As the results of the SAO audits completed in 2014 revealed, the nature and frequency of the identified errors have for long remained unchanged. There were still considerable shortcomings on the part of certain Managing Authorities and Intermediate Bodies and the way they designed and performed management and control and in their project assessment and selection systems. As a result, projects whose funding violated the principles of effective, efficient, and economical spending, i.e. the principles of sound financial management, were supported. Errors in the setting of goals and indicators for measuring progress and results were also assessed as significant because these goals and indicators were non-specific and immeasurable and offered no conclusive information. Consequently, in some cases it is impossible to assess the benefit the implemented projects delivered in terms of the strategic goals of the programmes or whether the programme finances were ultimately spent in an effective, efficient, and economical manner. The following are some examples of this:**

**OP FISHERIES 2007–2013**

- In audit no. **13/28** the SAO audited support provided under OP *Fisheries 2007-2013* (OPF) and found that the MoA, as the OPF Managing Authority, contravened the principles of sound financial management by not breaking down the programme's overall general objective into specific targets at the level of its priority axes and measures, which makes it very difficult to assess this objective. The MoA did not put in place a reliable system for monitoring material progress in the implementation of the programme; it either applied inappropriate monitoring indicators or did not define an indicator at all. According to the SAO, for two of the three overall objectives of the OPF it is a reasonable assumption that they will not be achieved even by the end of 2015, even though the entire allocation of the audited OPF priority axes totalling approx. **CZK 1 billion** will probably be drawn down. The MoA was also guilty of serious errors in the selection and checking of projects. The assessment criteria it defined took no account of the quality, economy, and efficiency of projects. In 25 cases, for example, the MoA provided subsidies totalling **CZK 3.5 million** for projects that failed to score even a single point during

assessment. Although the SAO exposed similar shortcomings in audit no. **09/12**<sup>36</sup> with regard to the operational programme *Rural Development and Multifunctional Agriculture*, which was used to support Czech fisheries in the 2004-2006 programming period, the MoA had failed to take appropriate corrective measures.



#### MODERNISATION OF WATERWAYS AND PORTS

- The SAO came to grave conclusions about the overall ineffectiveness of the management and control system in audit no. **14/03** when examining the implementation system of the OP *Transport (OPT)* with regard to support for waterways and ports and multimodal transport (see also section 2.4.1). The MoT defined vague and hard-to-measure goals for achieving the global objective of the OPT, without allocating any corresponding indicators to these goals to enable progress to be measured. The MoT and State Fund for Transport Infrastructure did not perform rigorous checking of projects and their expenditure in terms of eligibility. That mainly applied to the economy, efficiency, and effectiveness of expenditure and assessment of the actual benefits and effects of the supported water transport projects. As a result of the poor implementation of the OPT in this area, the European Commission applied a correction of expenditure, and there is a risk that these transport construction projects will no longer receive EU funding in the next programming period.



#### SUPPORT FOR REGIONAL HEALTHCARE FACILITIES UNDER ROP SW

- The SAO also found significant shortcomings in audit no. **14/16**, focusing on finances earmarked for the development and renewal of regional healthcare facilities in one priority axis of the *Regional Operational Programme of Cohesion Region Southwest (ROP SW)*. The SAO came to the conclusion that the indicators applying to funding directed towards healthcare development and defined by the Regional Council of Cohesion Region Southwest (RC SW) provided no relevant feedback regarding progress in the implementation of ROP SW, optimal budgeting and evaluation of cost levels or the efficiency of spending. The RC SW did not compare and did not evaluate the costs of building construction or the costs of acquiring medical equipment. The audited projects featured outcome indicators defined as “*number of pieces of medical equipment acquired*”, “*number of healthcare facilities – apparatus*” and “*area of newly built buildings – healthcare*”. To assess projects, including determining their optimal budgets, the RC SW defined so-called unit prices of indicators. The fact that the defined price values of these indicators were completely at odds with reality was discovered by the SAO by comparing prices defined according to the unit prices of indicators and the prices at which the medical equipment was actually acquired. One hospital in an audited project, for example, purchased equipment for **CZK 22 million**, but the optimal budget value for this equipment defined using the indicator was CZK 260 million, i.e. 1,082% greater. The SAO also compared the purchase prices of equivalent types of apparatus acquired by individual beneficiaries and found that there were substantial differences in the prices of the apparatus. For example, one equivalent anaesthetic machine, including ventilator and monitoring unit, was bought by one hospital for **CZK 758,000** and by another for **CZK 1,163,000**, i.e. a price 53% higher.

<sup>36</sup> Audit no. 09/12 – Support for fisheries in the Czech Republic in accordance with Operational Programmes in 2004–2008; audit conclusion published in SAO Bulletin issue 1/2010.



The most common shortcomings on the part of funding beneficiaries are violations of the rules for selecting contractors. This mainly involves violations of the Act on Public Procurement consisting in failures to comply with the principles of transparency, equal treatment, and non-discrimination. Claiming ineligible expenditure and failing to ensure certain projects are implemented economically and effectively constitute another category of errors. This involved spending on supplies and services that were not delivered in sufficient quantity or quality or, in some cases, were not delivered at all. Errors occur most frequently where the control work of the Managing Authority and Intermediate Bodies is inadequate. An insufficiently effective management and control system and an increased incidence of shortcomings were also found in cases where ministries were both funding beneficiaries and providers. The key findings in 2014 included:



#### ENTERPRISE AND INNOVATION OP

- In audit no. **13/17** the SAO's scrutiny of specific projects implemented under the OPEI identified shortcomings among beneficiaries mainly in tenders and in ineligible expenditure. The most common transgressions were non-compliance with the rules for selecting contractors linked to the overrunning of time limits, failure to respect the requirements for assessment transparency, erroneous assessment of qualification requirements, and failure to hold tenders. For example, one beneficiary that received reimbursement for expenditure worth **CZK 50 million** did not draw up sufficiently extensive tender documentation and, in contravention of the law, did not exclude candidates that did not satisfy the basic qualification requirements. Ineligible expenditure consisted in the use of the support to pay for supplies that were not realized or supplies of equipment other than that specified. Some of the money was paid out to cover expenditure that could not be deemed eligible because the expenditure was not consistent with the terms of the support, could not be proven, or was uneconomical, inefficient, and ineffective. For example, one support beneficiary with a project where **CZK 41 million** was paid out requested reimbursement for expenditure on the purchase of land that was completely unrelated to the project in question.



#### OP FISHERIES 2007–2013

- In audit no. **13/28** dealing with OPF finances the SAO identified serious errors in the project called Domestic Fish, in which the MoA was simultaneously the support beneficiary and provider. Total paid expenditure on the project, which was intended to boost consumption of freshwater fish, reached almost **CZK 150 million**, yet the available sources of information did not make it possible to assess whether the project's goals were achieved. According to the Czech Statistical Office, however, consumption of fish has been in decline in the CR since 2009. The MoA executed the project through a sole contractor, which it wrongfully reimbursed for ineligible expenditure totalling **CZK 1.8 million** for work without any demonstrable content, which the SAO judged to be a breach of budgetary discipline. For example, the MoA paid the contractor **CZK 1.5 million** for "care for the brand" based on nothing more than a written declaration that it had performed this service. The MoA also accepted and reimbursed ineligible expenditure of **CZK 277,000** that went beyond the scope of the contract. It also financed an information telephone line intended for emergency communication in the event of false alarms about unsafe fish meat. The line was hardly ever used, however. When calculating the cost of operating the line the SAO found that the average cost per call in 2008 was almost **CZK 9,000**.





#### RURAL DEVELOPMENT PROGRAMME

- In audit no. **14/07** the SAO focused on finances earmarked for technical assistance under the *Rural Development Programme (RDP)*, which sought to raise public awareness and improve programme management and control, among other things. The SAO concluded that the MoA, as the Managing Authority, issued rules that impacted negatively on the administration and implementation of projects and on the assessment of the effectiveness, efficiency, and economy of spending. In the rules applicable to just two beneficiaries, the MoA and SAIF, for example, the MoA did not deal with the question of personal and ownership links when awarding public contracts, so there was a risk of conflicts of interests. The rules did not comprise a corrective and punitive system and did not define how eligible expenditure was to be documented, so a sworn statement and a list of items sufficed. Both the MoA and SAIF thus treated themselves as beneficiaries far more leniently than they treated other beneficiaries in other axes of the RDP. As beneficiaries, both the MoA and SAIF repeatedly violated the principles of transparency, equal treatment, and non-discrimination when awarding contracts and claimed ineligible expenditure. Shortcomings were found in 16% of projects worth a total of almost **CZK 8 million**. The MoA wastefully bought promotional items worth a total of **CZK 1 million**, for example. In the case of one project comprising consultation services for **CZK 600,000**, the MoA was completely unable to show what the money was used for. Another example is a subsidy exceeding **CZK 1.2 million** which the SAIF paid even though the MoA filed the application for reimbursement of costs more than two years after the set deadline.



#### OP PRAGUE – COMPETITIVENESS

- Additionally, in audit no. **14/09**, scrutinising the operational programme *Prague – Competitiveness (OPPC)*, the SAO identified shortcomings in the design and effectiveness of the management and control system and in ineffective use of OPPC resources. The beneficiaries' errors when implementing the audited projects were significant. For example, in the case of one project entitled *Revitalisation of Inappropriately Used Spaces in Prague 11*, which was intended to re-cultivate and renovate children's playgrounds and other areas, the SAO came across an undocumented quantity of building work, with resulting ineligible expenditure totalling **CZK 10 million**. The beneficiary wrongfully claimed this sum from OPPC finances. The SAO found, for example, that the contractor invoiced ten times more demolition material than it actually dumped at the tip. In another project called *Automatic System for Providing Information and Security Warning Announcements for the Purposes of the City of Prague*, with a subsidy of **CZK 8.6 million**, the SAO found shortcomings in the achievement of the project's purpose. The SAO calculated that the cost per user was almost **CZK 21,000**, as just 444 citizens, institutions and firms expressed an interest in using this system, i.e. just 5-10% of planned number of users.

**The only audit dealing with funds provided from abroad but not from the EU was audit no. 13/37, in which the SAO scrutinised funds earmarked for the implementation of the *Swiss-Czech Cooperation Programme*. This audit was coordinated with the Swiss Federal Audit Office. The SAO identified systemic shortcomings in programme administration and control, the assessment of applications and the setting of binding indicators for projects.**

- The SAO concluded that the design of the system does not contribute to effective and problem-free administration of the programme. At national level that applied mainly to the complicated multi-tier organisational structure comprising intermediary bodies, which makes administration slower and requires extra staffing. The agreement with the Swiss side did not make this structure compulsory. Combined with the two-round project assessment method

and the need to translate documents, this had a fundamental impact on the long duration of project approval, which in one case lasted three years.

The SAO also found systemic shortcomings in the audited projects. When assessing project applications for the *Partnership Fund* (one of the programme's funds), the MoF as the intermediary did not define sufficiently clearly how the assessors were meant to award points and did not define binding indicators that could be used to judge the projects' benefits. In four of the five audited projects under this fund the MoF's pre-payment checks were found to have failed, with subsequent disbursement of ineligible expenditure worth **CZK 524,000**. In the case of the *Projects Preparation Fund*, the MoF did not put in place an objective and measurable method of assessing the need for and the appropriateness of the amount of the subsidy. As the intermediary, the MoF committed errors in all 11 audited projects by failing to specify indicators in contravention of the law and, in the case of some projects, not defining even the goal or parameters of the operation. That posed a risk that the MoF would not be able to verify whether and how the defined conditions were fulfilled in the affected projects.

Based on the results of this audit, the MoF proposed modifying the *Partnership Fund* methodology to bring it fully into line with the legal regulations. The SAO recommended that the MoF consider whether this methodology should not also apply to other financial instruments (e.g. the financial mechanisms of the EEA and Norway 2009-2014) and should not there be more systemic rules on procedures in general for all types of provided subsidies.

**Analysis of audit findings in recent years reveals the constant repetition of significant and frequent errors in the selection of suitable projects for funding, in monitoring project implementation and progress towards the declared goals, in control and audit work, in the selection of contractors, and in the claiming and reimbursement of ineligible expenditure. That is evidence of the regrettable fact that the responsible authorities have so far been unable to take effective measures in these areas to ensure effective and problem-free administration of funds provided out of the EU budget. Adequate measures are not demanded solely on the basis of the shortcomings found and recommendations issued in the SAO's audit conclusions but also on the basis of the findings of the EU's audit and executive bodies, such as the European Court of Auditors and the European Commission. For that reason, the SAO systematically monitors and assesses how the Czech government and responsible authorities respond to the identified shortcomings by adopting suitable corrective measures. Scrutiny of the effectiveness of these measures will be covered by subsequent audits. In 2014, numerous measures were taken in response to shortcomings and recommendations from completed audits. The following are examples of this:**

#### ENTERPRISE AND INNOVATION OP

- Based on the results of audit no. **13/17**, the Czech government instructed the minister for industry and trade to remedy the errors detected by the SAO in line with the applicable legislation of the CR and in line with the measures adopted on the basis of the audit conclusion. The MoE also adopted suitable measures based on the results of audit no. **13/21**.

Another important response was that of the Committee on Budgetary Control of the Chamber of Deputies, which noted the **EU Report 2014** and adopted a resolution asking the Prime Minister to submit to the committee information about the measures adopted to remedy the shortcomings referred to in the report.

## 2.6 Audit of the closing accounts of state budget headings and other data for monitoring and managing public finances

The purpose of the SOA's audits of the closing accounts of state budget headings was to examine whether the auditees acted in compliance with legal regulations when compiling the closing accounts of their respective headings and whether the data in the financial statements and financial reporting underpinning the closing accounting were reliable. Four financial audits were completed in 2014:



### CLOSING ACCOUNTS OF AUDITED MINISTRIES

- Audit no. **13/19** – Closing account of the Ministry of Regional Development state budget heading for 2012, financial statements and financial reporting of the Ministry of Regional Development for 2012;
- Audit no. **13/29** – Closing account of the Ministry of Defence state budget heading for 2012, financial statements and financial reporting of the Ministry of Defence for 2012;
- Audit no. **13/38** – Closing account of the Ministry of Agriculture state budget heading for 2013, financial statements and financial reporting of the Ministry of Agriculture for 2013;
- Audit no. **13/39** – Closing account of the Ministry of Transport state budget heading for 2013, financial statements and financial reporting of the Ministry of Transport for 2013.

In these financial audits, data from the auditees' financial statements were audited. According to the financial statements, the total value of assets was net **CZK 226 billion**; total costs amounted to **CZK 144 billion**; and total yields were **CZK 62 billion**. In addition, data from the auditees' financial reporting for budget purposes were scrutinised: total incomes were put at **CZK 95 billion** and total expenditure was **CZK 145 billion**.

**As far as compliance with the law when compiling closing accounts is concerned, the SAO regards the fact that under the effective legislation summaries of the closing accounts for state budget headings stopped being a required annex to the closing account in 2012 as a serious matter. This deprives users of an important source of information about the management of state budget headings as a whole.**

**The primary focus of the financial audits was bookkeeping. The SAO examined whether the auditees kept their accounts in a way that enabled the closing accounts to provide a true and fair view of the accounting. In the aforementioned audits, however, the SAO again discovered serious shortcomings in the fulfilment of the following basic requirements:**



### CLOSING ACCOUNT OF THE MORD FOR 2012 CLOSING ACCOUNT OF THE MOT FOR 2013

### CLOSING ACCOUNT OF THE MOD FOR 2013 CLOSING ACCOUNT OF THE MOA FOR 2013

- The audited accounting units did not keep their accounts correctly. For example, the MoRD entered in the accounts advance payments on transfers of resources co-financed from abroad amounting to almost **CZK 15 billion** on the basis of documents that did not show conclusively what the account entries referred to; it wrongly accounted for lien rights on the basis of provided investment subsidies, thus distorting the balances of off-balance-sheet accounts by **CZK 9.5 billion** (audit no. **13/19**). Another example is the Ministry of Defence, which incorrectly entered payments for the NATO programme amounting to **CZK 87 million** as a cost of the year 2012, even though this was an advance payment for 2013; and it entered pay-outs of social security benefits amounting to **CZK 6.8 billion** on the wrong cost account (audit no. **13/29**). In addition, the MoD reported off-balance-sheet liabilities totalling almost **CZK 11 billion** on the wrong off-balance-sheet accounts (audit no. **13/39**).



- The auditees' accounts were incomplete. For example, the MoRD left out long-term advance payments provided under the *Integrated Operational Programme* and totalling **CZK 610 million** and it did not enter long-term qualified liabilities worth **CZK 144 million** and long-term qualified liabilities worth **CZK 189 million** stemming from concluded contracts in its off-balance-sheet accounts (audit no. **13/19**). In addition, the MoD included in its closing account land worth **CZK 14 million** that did not fall under its competence; and in its off-balance-sheet accounts it failed to report the amount of payment instalments on leased property as per the payments timetable totalling **CZK 1.7 billion** (audit no. **13/29**).
- During inventorying, the MoT repeatedly failed to locate property (especially information technologies) worth **CZK 8.5 million** in 2013 (audit no. **13/39**).
- The SAO drew attention to the unsuitably designed procedures for applying certain accounting methods, e.g. the MoT defined a materiality threshold for the creation of reserves in excess of **CZK 1.8 billion**. The SAO regards this threshold as inappropriately high (audit no. **13/39**).
- The SAO also found errors in financial reports for the assessment of budget implementation. The MoRD, for example, wrongly classified expenditure on transfers co-funded by the EU and provided in the form of subsidies amounting to almost **CZK 17 billion** (audit no. **13/19**). The MoA classified expenditure on services linked to information systems and exceeding **CZK 61 million** under the wrong budget item (audit no. **13/38**), while the MoT also wrongly classified expenditure on ensuring traffic access amounting to **CZK 3.9 billion** (audit no. **13/39**).

**In its audits of accounting the SAO found other errors as well and drew attention to the non-standard procedures that led the MoRD and MoA to commit breaches of budgetary discipline or significantly influenced both the MoT's financial data and the overall picture of state budget management:**



#### CLOSING ACCOUNT OF THE MORD FOR 2012

- In the case of the MoRD and the MoA the SAO judged certain shortcomings to be breaches of budgetary discipline. The MoRD, for example, provided funds worth **CZK 3.2 million** under the auspices of the minister in a manner that is not permitted by Czech law for organisational units of the state (audit no. **13/19**).



#### CLOSING ACCOUNT OF THE MOT FOR 2013

- The SAO also highlighted the non-standard purpose and timing of a subsidy provided to the State Fund for Transport Infrastructure by the MoT. The subsidy was provided at the request of the MoF and was meant to be used for "*optimisation of state budget financial operations and management of the state's liquidity*". In 2012, the State Fund for Transport Infrastructure could not use the **CZK 5 billion** subsidy it received on 31 December 2012, so it returned it to the MoT as part of financial settlement in 2013. The operations carried out in connection with this tranche and the returning of the tranche influenced both the MoT's financial data and the overall picture of state budget management (audit no. **13/39**).

**As in previous years, the SAO's ability to express its opinion on the reliability of the data in the closing accounts audited in 2014 was constrained by the state of the accounting legislation.**

**In connection with the reliability of the published data the SAO highlights the differences between the data contained in financial statements and the figures presented by the Ministry of**

Finance on the MONITOR information web site.<sup>37</sup> In accordance with the applicable legislation accounting units send accounting records to CSÚIS<sup>38</sup>; these data are taken from there as at a particular date for publishing on MONITOR. The SAO points to the risk that the data of organisational units of the state presented on this web site as at 31 December 2013 do not necessarily tally with the data in the financial statements the organisational units compiled. In the case of the MoT, the difference between the data on qualified liabilities presented in the financial report annex as at 31 December on MONITOR and the figures contained in the MoT's financial statements was more than CZK 470 million. It was also found that MoA data the ministry subsequently corrected and re-sent to CSÚIS were not posted on the MONITOR web site. The MoF states on the MONITOR web site that this information server publishes the financial statements of organisational units of the state, creating the impression that the presented data are data from the financial statements they compiled.

An audit intended to check data related to the collection of pension insurance premiums and pay-out of pension insurance benefits and to scrutinise the administration of funds collected in the special pension reform reserve account was also completed in 2014. This was audit no. 14/08 – *State Funds in the Area of Pension Insurance*. The audit scrutinised the MoLSA (Czech Social Security Administration (CSSA)), the MoF (GDC) and the MoD and covered the 2009–2013 period (a comprehensive examination of the pension insurance premiums collection system and of the establishment of pension entitlement and calculation of pensions at the MoLSA, or CSSA, was performed in previous SAO audits<sup>39</sup>).



#### PENSION INSURANCE PREMIUMS

- In audit no. 14/08 the SAO checked the accuracy of incomes from pension insurance premiums at the aforementioned ministries and found no irregularities with a significant impact on the area under scrutiny. On the basis of a sample, the SAO also checked whether pension insurance benefit recipients under the MoD and MoI were awarded the correct pension amount.

In 1995, a special account was established for the state's financial assets: now called the *Special Pension Reform Reserve Account (SPRRA)*, it is used to hold surpluses of the state's pension insurance system. The last time a surplus (i.e. a positive difference between pension insurance incomes and expenditure) was achieved was in 2008. These funds have only been used for pension insurance benefits twice, in 2001 and 2006. In the audited period, the MoF managed the funds in the SPRRA in compliance with the law. The SPRRA contained almost **CZK 23 billion** as at year end 2013. In the audited period there was also a sharp increase in spending on pension insurance benefits compared to incomes from premiums, and the deficit in 2013 stood at over **CZK 50 billion**.

Among other things, part of the dividends from the state's holdings in regional electricity distribution companies under the management of the MoLSA and MoIT were transferred to the SPRRA. The SAO perceives shortcomings in the legislation on ownership interests in that it does not specify how to account for dividend revenues if the holder of the shares and the beneficiary of the dividends are different organisational unit of the state.

**37** MONITOR – specialised information web site of the Ministry of Finance allowing the public free access to budgetary and accounting information from all levels of state administration and local government. The presented information comes from the Treasury system (IISSP – “*Integrated Information System of the Treasury*”) and is regularly updated. Data are updated on a quarterly basis from the *Central System of Accounting Information of the State* and once a month from the Budgetary Information System. MONITOR also publishes the financial statements of organisational units of the state under the terms of Section 21a of Act No. 563/1991 Coll., on accounting, as amended.

**38** *Central System of Accounting Information of the State*

**39** Audit no. 09/30 – *Expenditures of the Czech Social Security Administration (under the state budget heading “Ministry of Labour and Social Affairs”) on pension insurance benefits for 2009*; audit conclusion published in *SAO Bulletin* issue 2/2010; audit no. 10/19 – *Annual accounts and financial statements of the Czech Social Security Administration for the year 2010*; audit conclusion published in *SAO Bulletin* issue 3/2011; audit no. 11/26 – *Financial statements and reports of the Czech Social Security Administration for the year 2011*; audit conclusion published in *SAO Bulletin* issue 3/2012.



### 2.6.1 Promoting good accounting practice

Ever since 1 January 2010, public sector accounting and reporting has been undergoing reform. Throughout this period, further alterations and additions have been made to legal and other regulations. A situation where amendments to regulations are issued shortly in advance of their effective date has been recurring, 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 dogged by ambiguities as to their correct application. The following areas are some significant examples of this confusion:

- state budget funds for pre-financing expenditure that is subsequently supposed to be covered by EU budget funds (audits nos. **13/19**, **13/38**, **13/39**);
- valuation and reporting of the state's capital interests in commercial companies (audit no. **13/38**);
- compiling certain parts of overviews of changes in equity (audits nos. **13/19**, **13/38**, **13/39**).

In practice this results in situations where accounting entities are forced to adopt accounting procedures based on their own interpretations and application of regulations. For this reason, the SAO recommends that procedures for accounting and reporting be defined 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 would serve as a basis for the structuring of financial reporting, would define key terms and so on. This would be a major contribution to ensuring bookkeeping is done correctly, thus making the reported data reliable and comparable.

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

The SAO also draws attention to the reporting of operations entered in off-balance-sheet accounts; since 2010 these accounts have mainly been used to report "qualified" data (audit no. **13/39**). In general terms, the detected problems signal a risk that data presented by accounting entities proceeding according to Decree No. 410/2009 Coll. will be inconsistent, as a result of which there is a risk that the data reported in off-balance-accounts will not be comparable and easy to use.<sup>40</sup> The greater the external need to use data reported in off-balance-sheet accounts, the greater the need will be to regulate and manage this area in a way ensuring the data is understandable and comparable.

<sup>40</sup> Decree No. 410/2009 Coll., implementing certain provisions of Act No. 563/1991 Coll., on accounting, as amended, for certain selected accounting entities.

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

In 2014, 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 2013* and its *Opinion on the Report on Implementation of the State Budget for the First Half of 2014*.<sup>41</sup> When drawing up these opinions, the SAO partly based its opinions on audit conclusions and other findings from its audit and analysis work.

In its *Opinion on the Draft State Closing Account of the Czech Republic for 2013* the SAO drew attention to the absence of a methodology for assessing the economy, efficiency, and effectiveness of state budget expenditure and to the fact that the evaluation presented in the closing accounts of state budget headings cannot be used to compare the standard of financial management by organisational units of the state or for managing public expenditure. In the context of tax revenues, the SAO stated that numerous measures adopted to prevent tax evasion and to make recovery more effective have failed to deliver a better balance of tax arrears or an improved recovery rate.

The administration of penalties paid for breaches of budgetary discipline is also highly bureaucratic and a burden on both the state administration and the subsidy beneficiaries. This administration therefore cannot be rated economical and efficient. This negative assessment applied to the low implementation of the expenditures budget in programme financing, which is linked to serious problems in this area (the extending of construction deadlines, increased construction costs, the absence of sound assessment of investment objectives and the absence of calculations of economic efficiency). The SAO pointed out that the utilisation of capital expenditure both in absolute terms and as a share of total state budget expenditure has been in decline since 2010. This is linked to the constantly rising number of claims from unrealised expenditure from previous years, which poses a risk for the implementation of the state budget in coming years.

Another significant risk is the possibility of automatic de-committing by the EU and the subsequent increased requirement for additional financing for projects, potentially with a profound impact on the state budget in the years to come as well. With regard to the claim in the draft state closing account that the debt growth trend can only be slowed by a further reduction in the rate of growth of the public budgets deficit, the SAO responded that the decisive factor for sustainable fiscal development will be what economy and pro-growth measures are adopted in this area. The SAO also criticised the fact that there are recurring shortcomings in the materials underpinning the closing accounts of state budget headings, both in accounting and in financial reporting.

In its *Opinion on the Report on Implementation of the State Budget for the First Half of 2014* the SAO again drew attention to the growing magnitude of claims from unrealised expenditure (between the start of 2010 and 2014 the claims increased by CZK 56.8 billion). In this context, the SAO stated that if the inclusion of claims in current-year expenditure is not accompanied by equivalent savings in expenditure budgeted for the current year or state budget incomes are not increased, this would jeopardise the implementation of the state budget as a whole, and thus also compliance with the defined ratio between the deficit and gross domestic product.

Another matter described as problematic by the SAO is the budgeting of incomes from the privatisation account to compensate the pension system deficit, given the limited extent of privatisation resources and the high requirements for future payments out of these resources. The SAO flagged up the low efficiency of the self-employed natural persons' income tax collection system, the further increase in unpaid VAT and the insufficient conditions for the efficient and effective exercise of the administration of payments levied on lotteries and similar gambling games and for the exercise of state supervision in this area.

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<sup>41</sup> The SAO presents these opinions in compliance with Section 5 of Act No. 166/1993 Coll., on the Supreme Audit Office.

## 2.8 Discussion of audit conclusions by the parliament and government of the Czech Republic and impacts of the SAO's audit work

### 2.8.1 Discussion about audit conclusions by the parliament and government of the Czech Republic

The discussion of the SAO's outputs by the Czech parliament and government plays an indispensable role in promoting the results of audit work. 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's financial management and with regard to the impact of the SAO's work.

Every audit conclusion is sent to the presidents of both chambers of the Czech parliament and to the Czech prime minister 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. This committee discusses the SAO's audit conclusions, its Annual Report, the draft budget of the SAO budget heading, its closing account, the SAO opinion on the draft state closing account and other materials. The committee discussed 13 SAO audit conclusions in 2014. Appendix 3 of this Annual Report gives an overview of the audit conclusions discussed by the Committee in 2014 and a summary of the resolutions adopted.

In addition, two audit conclusions were discussed by the Committee on Defence of the Chamber of Deputies in 2014<sup>42</sup>.

The government discusses all audit conclusions in the presence of the President of the SAO. It adopts a resolution on each one. More than eighty per cent of these resolutions have an "instruction" part in which the government imposes an obligation on the relevant minister to adopt and implement specific corrective measures. The government discussed 42 audit conclusions in 2014. Appendix 4 of this Annual Report provides an overview of audit conclusions discussed by the government in 2014 and a summary of the measures imposed.

### 2.8.2 Impacts of the SAO's audit work

The SAO's mission is to provide the parliament, the government and the public with reliable and objective information about the management of public money and state property and to help ensure this management is done properly. There is therefore more to the SAO's work than just audit results in the form of identified shortcomings set down in audit protocols or assessed and published in audit conclusions. The SAO also pays attention to whether appropriate use is made of its findings and what impact the findings have on improving the state's financial management. In this regard it actively promotes good practice.

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<sup>42</sup> These were the audit conclusion of audit no. 12/26 – *State property and funds provided to the state enterprise VOP-026 Šternberk* (audit conclusion published in *SAO Bulletin* issue 3/2013) and the audit conclusion of audit no. 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* (audit conclusion published in *SAO Bulletin* issue 4/2013).



**In general terms, the direct effects of audits include their impact on the elimination of identified shortcomings and on improving the working of specific auditees' management and control systems. That can be demonstrated by the numerous measures adopted on the basis of identified shortcomings linked to non-compliance with the legal regulations and rules, for example, or to failure to respect the principles of economy, efficiency, and effectiveness. The effects of audit results are also indirect, however. Examples of these indirect effects are the impact on making auditees more responsible and improving the enforceability of the law and exerting pressure for economical management of public money.**

Another clear benefit is therefore the preventive effect of audits on potential auditees falling within the SAO's scope. It is also evident that the reach and impact of audit is one of the reasons why in the long term the state is a more efficient and transparent owner and manager in areas where it comes under public scrutiny than in areas where it does not. As the Security Information Service (SIS) points out in its 2013 Annual Report, for example, the state can assert its interests in state enterprises more effectively than in joint-stock companies, where both the SAO's audit options and public control are limited. Widening the scope of the SAO's audit powers to cover all public money is one of the SAO's strategic goals. The SAO hopes the Czech Republic will soon join the ranks of a number of advanced democracies that entrust the exercise of independent control to institutions in the position of independent external auditor.

To make audit work as effective as possible, the SAO focuses primarily on a systemic and risk-oriented approach. That is why it presents systemic findings and recommendations, which the SAO formulates with the aim of helping to resolve the biggest problems and promoting good practice in the management of state resources and assets. In 40 audits last year, the SAO made 43 recommendations of a systemic nature, e.g. in the area of the design of management and control systems, concepts and rules, assessing the goals of interventions etc.

**Cooperation with the Czech government was particularly successful in 2014. The amendment of the government's rules of business enabled the SAO to play a more active role in the process of discussing the opinions of the central authorities on audit conclusions and adopting measures to remedy the shortcomings identified. It also guaranteed the SAO President the chance to attend sessions of government at which audit conclusions are discussed and to give his opinion on the proposed corrective measures. These changes have made it easier to enforce measures arising from the results of the SAO's audit work. One figure tells the story: in the case of 86% of the audit conclusions discussed in 2014 the government instructed the relevant ministries to take measures to remedy the identified shortcomings. Cooperation with the Committee on Budgetary Control of the Chamber of Deputies was also very important. In a number of cases the Committee demanded that the relevant authorities take corrective measures or requested additional information on the measures taken. The SAO regards the fact that growing attention is paid to the results of its work as a positive development for the future.**

The SAO appreciates the fact that the government and audited entities are adopting so many measures. This is the first necessary step towards improving the unsatisfactory state of affairs. Of much greater importance, however, is the period coming after the end of an audit and the after adoption of the appropriate measures. As part of its audit and monitoring work the SAO continues to monitor and assess whether the implemented measures actually remedy the situation. In many cases the solutions are not systemic, so their actual effect is only evident on a longer time scale,

in some cases after follow-up audit has been conducted. The SAO particularly welcomes the many positive changes and objectives based on the results of its work. That is an important signal that the SAO is helping to remedy negative phenomena in the state's financial management. The scope of this annual report only makes it possible to list some examples (for more examples see sections 2.1 to 2.5):

- Audit no. **12/04**<sup>43</sup>, which detected violations of the Act on Public Procurement in the award of ICT contracts in the MoA, had a significant impact from the long-term perspective. In the context of this audit, the SAO filed a notification regarding a breach of budgetary discipline and the tax administrator subsequently imposed a penalty in excess of half a billion Czech crowns. As regards the economy of its conduct, the MoA stated that by holding a new, open tender for ICT services it had achieved prices a quarter of those it was paying previously, delivering expected savings of **CZK 300 million** a year.
- In audit no. **12/09**<sup>44</sup> the SAO audited spending on the development of a State Treasury information system. One of its stated findings was that the MoF had contravened the Act on Public Procurement when concluding contractual addenda regarding the operation of the State Treasury. Based on the results of this audit, the SAO notified the tax office of a breach of budgetary discipline. Following the conducted tax inspection, the ministry received a penalty of **CZK 227 million** for breach of budgetary discipline.
- In the light of its audits of the management of state enterprises, the SAO proposed that rules should be issued on the management of state enterprises, the procedure for merging, amalgamating, or dividing state enterprises and the increasing or decreasing of ordinary capital, and making it obligatory to keep separate accounts for designated assets. In this context, the Czech government's legislative council prepared an amendment of the Act on State Enterprises in 2014.
- The shortcomings and SAO recommendations from audit no. **13/35** were taken into account by the MoF when it drew up new draft legislation governing the operation of gambling games and its taxation in the CR. The SAO also noted that the MoF was preparing a technical solution for a central monitoring system that will be used for the remote, continuous and secure exercise of state supervision and for the administration of payments to the state.

**However, the SAO cannot always say that the results of its audit work had a positive impact. The audit results indicate that many negative findings are repeated again and again; in some cases, the problems are made worse by the wrong course of action taken by those responsible. It has become clear that it is not the existing rules that are the biggest problem, but rather the benevolent attitude towards violations of the rules. The absence of functional management and control systems and the failure to hold specific individuals to account are evidenced by the many examples presented in the previous sections of this Annual Report. The following are examples of recurring shortcomings:**

- In audit no. **09/12**<sup>45</sup> focusing on support for Czech fisheries co-funded by the EU through operational programmes the SAO found serious errors in the subsidies provision system under OP *Fisheries 2007–2013*. The MoA did not operate its projects selection system in line with the principles of sound financial management. The ministry did not take appropriate corrective

<sup>43</sup> Audit no. 12/04 – *Management of the state property and state funds allotted to the projects concerning IT and communication technology at the Ministry of Agriculture*; audit conclusion published in *SAO Bulletin* issue 1/2013.

<sup>44</sup> Audit no. 12/09 – *Funds spent on the construction of the information system of the Treasury*; audit conclusion published in *SAO Bulletin* issue 1/2013.

<sup>45</sup> Audit no. 09/12 – *Support for fisheries in the Czech Republic in accordance with Operational Programmes in 2004–2008*; audit conclusion published in *SAO Bulletin* issue 1/2010.

measures, however, as the SAO stated in audit no. **13/28**. The selection process did not deliver projects that would make the maximum contribution towards fulfilling the set goals at minimum cost.

- In addition, in audit no. **13/27**, which addressed the issue of road repairs and maintenance, the SAO was compelled to state that since the previous audit no. **08/27**<sup>46</sup> there had been no significant improvement in the question of whether defects identified in 1<sup>st</sup> class roads and motorways were eliminated in good time. In terms of economy there was no satisfactory shift in the performance of winter and summer maintenance on 1<sup>st</sup> class roads. Public procurement linked to repairs and maintenance of 1<sup>st</sup> class roads and motorways had actually got worse.

**The SAO would not be a modern and effective authority if it did not constantly strive to improve the way it promotes the results of its work and ways to fulfil its mission. That is why its audit work does not end with posting the results online or sending them to the government and parliament. The SAO seeks to promote actively good practice in its other activities. This includes the presentation of its audit results and recommendations to both experts and the general public at various conferences and seminars, some of which it organises; recommendations lodged in the consultation process on draft legislation; and other activities to publicise its audit results.**

- In 2014, the SAO held the second year of its *Public Procurement – Value for Money* conference. The conference focused on the efficiency of public procurement and related issues like the computerization or centralisation of award procedure, identifying weak points in the public procurement system and sharing good practice. The SAO presented its findings from audits nos. **12/29**<sup>47</sup> and **13/24**, which confirmed that advocating a centralised and electronic award system is a step in the right direction. The SAO also flagged up a whole series of factors that impair efforts to make public procurement more efficient and thus also to exploit the potential of these projects.
- The SAO also staged an international seminar under the title *Audit of Public Revenues - Exchange of Experience, Problems and Best Practice*. The fight against tax evasion and fraud was one of the items on the agenda. The SAO presented its findings from areas such as the efficiency of the administration and collection of tax revenues and the recovery of sums owed. The international nature of tax revenues and also the growing volume of intra-Community transactions in EU countries have presented a suitable opportunity for the exchange of information and good practice and for identifying ways to conduct parallel audits between supreme audit institutions.

**Other factors contribute to the unquestionable benefits of the SAO's work. These include the SAO's reporting duty to the tax authorities in cases where audit findings are linked to auditees' tax obligations. Last but not least, the SAO also discharged its reporting duty to the criminal justice authorities in cases where the circumstances indicated that a crime had been committed. The next section discusses this in more detail.**

## 2.9 Cooperation with the criminal justice authorities

**In 2014 the SAO filed nine criminal complaints, based on its audit findings and in accordance with Section 8(1) of the Criminal Code.**

In response to the shortcomings detected by audit no. **13/10**, a complaint was filed that concerned damages to state property in consequence of a debt being forfeited when the auditee failed to attempt to recover it through legal action.

<sup>46</sup> Audit no. 08/27 – *Funds allotted for mending and maintaining of roads*; audit conclusion published in *SAO Bulletin* issue 2/2009.

<sup>47</sup> Audit no. 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*; audit conclusion published in *SAO Bulletin* issue 4/2013.

 ENTERPRISE AND INNOVATION OP

Other reported circumstances were detected by audit no. **13/17** and concerned four auditees. These were cases where contractors were selected in a discriminatory and non-transparent manner that put one candidate at an advantage over the others. The audit also found cases where false documents had been produced and presented in order to obtain funds from the EU budget and state budget.

 REVENUES FROM LOTTERIES

A criminal notification was also submitted on the basis of audit no. **13/35** in connection with the conclusion of disadvantageous contracts on the provision of advisory and consultancy services with external entities instead of using the employees of the auditee's own specialist units. In other detected cases, the output of the external entities' work was information in the public domain obtained from publicly available sources or directly from the commissioning entity; in some cases it was not possible to verify either the scope or the quality of the provided services from the presented documents.

 MANAGEMENT IN THE TRANSPORT DEPARTMENT

Audit no. **13/33** found that an expert drawing up expert opinions on the condition of motor vehicles based his work on an incorrect understanding of the state of affairs and concealed fundamental facts affecting the further use of vehicles.

 MODERNISATION OF WATERWAYS AND PORTS

Cases of uneconomical spending of public money in consequence of the valuation of third-party assets in the context of "induced investments" were exposed by audit no. **14/03**.

 MANAGEMENT BY THE MOC

Another notification was submitted on the basis of the findings of audit no. **14/01**, which revealed the lax use of legal means to exercise and defend the rights of the state as the owner of property; failure to assert the right to compensation for damages; lessening of the proceeds from the letting of state property; uneconomical expenditure; and failure to safeguard property against unauthorised use.

**In its complaints, the SAO stated that the aforementioned actions could have resulted in the following crimes having been committed: breach of trust, breach of trust due to negligence, machinations to distort public competition and public tender, damaging the financial interests of the European Union, subsidy fraud, credit fraud, false testimony, and false expert opinion.**

The criminal justice authorities requested the SAO's cooperation in a total of 16 cases in 2014. Based on these requests, the SAO provided audit materials from 23 audits and the President of the SAO relieved 19 employees from their confidentiality duty pursuant to Section 23 of the Act on the SAO on the grounds of important state interests.

### III. Financial Evaluation of Audit Work

#### 1. Summary financial evaluation of audits

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

**The audits whose conclusions were approved in 2014 scrutinised funds and assets totalling CZK 156 billion.**

Data from audits reviewing the closing accounts of the state budget headings are not included in that total (see section 2.6). Furthermore, financial resources assessed only on the system level, e.g. during audit of strategic and conceptual materials and scrutiny of programmes as part the audit of the activities of their administrators or intermediate bodies, are not included either. The value of funds audited at system level in 2014 was **CZK 201 billion**.

The audited volume of finances, assets, and liabilities was significantly influenced primarily by the volume of finances and assets scrutinised in audit of pension insurance, state budget revenues linked to the operation of lotteries, and funds collected by law in favour of the Czech Industrial Health Insurance Company.

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

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

**In 2014, 58 notifications were sent to the appropriate tax administrators. These notifications were linked to the expenditure side of the state or territorial budgets, and the total amount of funds involved in these notifications was CZK 1.129 billion. The biggest aggregate amount of CZK 565 million was the subject of a notification based on the results of an audit concerning communication campaigns to promote agricultural produce and food products on the Czech market (audit no. 13/36).**

## IV. Evaluation of Other Activities

### 1. Opinions on draft legislation

In the interdepartmental consultation process conducted pursuant to the *Government's Legislative Rules*, the SAO gave its opinion on draft legislation that concerned it as an organisational unit of the state or fell within its competence. The SAO obtained a total 179 legislative drafts in 2014. The SAO made specific comments, stemming primarily from its audit findings, on 73 drafts.

**The drafts of some legal regulations sent out in 2014 for external consultation were responses to the SAO's audit findings.**

In July 2014, the Ministry of Finance presented a draft act amending Act No. 58/1995 Coll., on the insurance and financing of exports with state support, Act No. 166/1993 Coll., on the Supreme Audit Office, as amended, and Act No. 21/1992 Coll., on banks, as amended. The MoF had been tasked to submit the draft amendment by the government in response to the Supreme Audit Office's audit conclusion from audit no. 11/11 – *Funds provided to the Czech Export Bank from the state budget; Bank's management of those funds for which the state gives a guarantee; exercise of shareholder rights in the Czech Export Bank by the state*. The task was to submit a draft amendment of the act that would prevent obviation of the purpose of the act and enable the Ministry of Finance to scrutinise credit provided under the supported financing of exports.

In response to the conclusions of audit no. 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*, the Ministry of Finance proposed an amendment of Decree No. 278/1998 Coll. implementing Act No. 58/1995 Coll. in order to concretise the obligatory data to be presented by the exports insurer when applying for subsidies from the state budget and when approved subsidies are provided.

In October 2014, the Ministry of Finance sent a draft new act on the operation of gambling games for consultation. The draft act is partly a response to the SAO's findings from audit no. 13/35 – *State budget revenues from lottery and other similar games*, where the SAO stated that the inappropriate legislation and technical standards of the Ministry of Finance for the operation of online lotteries was one of the causes of the drop in state budget revenues; shortcomings were also detected in state supervision of lotteries, which is ineffective and inefficient.

In August 2014, the Ministry of Transport submitted a draft government resolution amending government resolution no. 484/2006 Coll., on time coupons, toll tariffs, toll discounts and on the procedure for applying toll discounts, as amended. The draft is partly a response to the SAO's criticism in the audit conclusion of audit no. 12/12 – *Incomes from the motorway toll and from time coupons (time framed charge for using roads) including related expenditures*.

The legislative intention of an act on linear transport construction works submitted by the Ministry of Transport was a response to conceptual shortcomings that were detected by the SAO's audits and cause instability in planning and determining preferential transport projects.

In addition, in 2014 the SAO paid particularly close attention in the interdepartmental consultation process to the draft of the technical amendment of the Act on the Supreme Audit Office and legislative proposals under the authority of the Ministry of Finance; to the draft constitutional act on fiscal responsibility and draft act on the rules of fiscal responsibility; to the draft act on internal management and control in public administration; to draft amendments of the acts on the budgetary rules and amending certain related acts and on the budgetary rules for territorial budgets; and to the draft amendment of the act on the property of the Czech Republic and representation of the Czech Republic in legal relations.

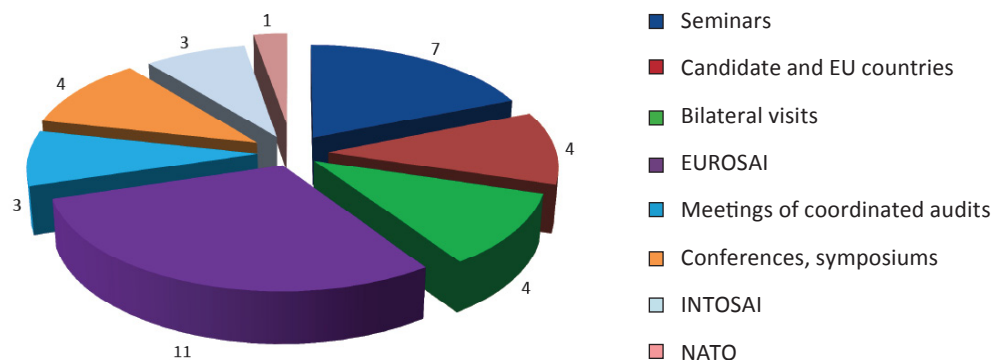
## 2. International cooperation

The SAO's international cooperation in 2014 mainly focused on activities within the European Organisation of Supreme Audit Institutions (EUROSAI) and on the work of European Union Member States' SAIs. Bilateral cooperation primarily took place with the supreme audit institutions of Slovakia and Germany. Coordinated audits were conducted with the SAIs of Poland and Switzerland.

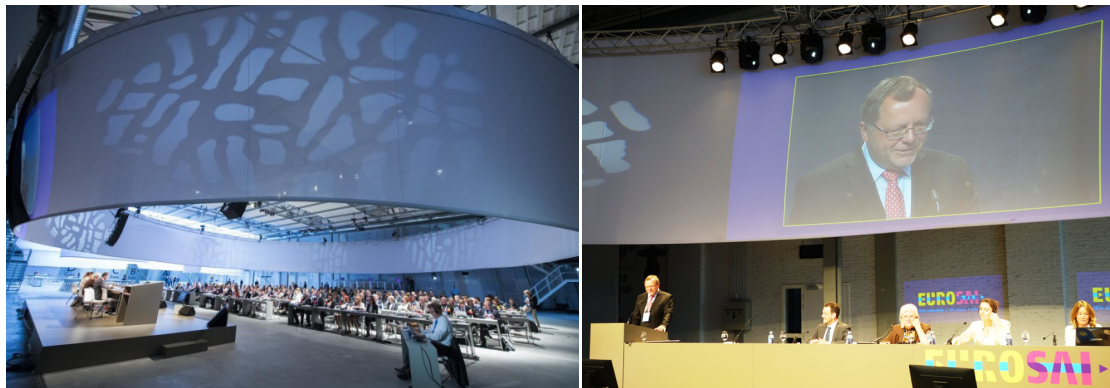
At its 69<sup>th</sup> session the General Assembly of the UN approved an important document for the SAO's international and domestic cooperation. This is the UN resolution with the title *Promoting and Fostering the Efficiency, Accountability, Effectiveness and Transparency of Public Administration by Strengthening Supreme Audit Institutions (A/C.2/69/L.25/Rev.1)*. The SAO informed the chief representatives of the state, headed by the president of the republic, about the adoption of the resolution and asked them for the necessary support for implementing its principles at national level and for support for the efforts to ensure external audit is properly organised, functional, and financially independent in public administration.

Representatives of the SAO took part in 37 events abroad. Most of these were EUROSAI activities and participation in expert seminars, consistent with the fact that the SAO heads the EUROSAI working group for knowledge sharing. The most frequent topics of discussion and at seminars included accounting standards, the fight against corruption and fraud, tax issues, and the audit of European Union funds. Graph 2 shows the structure of foreign trips made by SAO representatives.

**Graph No. 2: Number and focus of foreign trips taken by SAO representatives in 2014**



The 9<sup>th</sup> EUROSAI Congress held in The Hague, the Netherlands, in June was a very important event in 2014. The central theme of the Congress was innovation. Its motto was: "When was the last time you did something for the first time?" The organisers arranged a large number of interactive meetings and workshops on subjects like ethics, open data, new media, integrity, new audit procedures and innovative capacity-building approaches, innovation in SAI's external and internal communication, the risk of corruption, measuring the performance of SAIs, and good practice handbooks. The SAO also helped run a workshop presenting examples of good practice by SAIs illustrating innovative approaches to external communication. Here, SAO representatives presented the results and outputs of a seminar on the subject of communication, public relations, and the use of new media (*SAIs' Communication Challenges*), which was held in Prague at the start of June. The SAO also played an active role in sessions of the EUROSAI Governing Board.



*Photo from the EUROSAI Congress*

Another important event was the meeting of representatives of the supreme audit institutions of V4+2 countries held in Austria in September. On the agenda there were items linked to cooperation between V4+2 countries, the planning of audit work, and the implementation of international accounting standards for the public sector as a means of ensuring transparency and comparability of the performance of national economies. Other topics of discussion were the potential for cooperation between SAIs and the European Court of Auditors (ECA) and, last but not least, the planning of audit work in terms of the demands placed on the performance of audit and the possibilities for using modern technologies to collect and analyse data with a view to facilitating the preparation of audits.



*V4+2 Meeting*

In September, a seminar organised by the Italian SAI on the occasion of Italy's presidency of the Council of the EU took place. The seminar dealt with the prevention of and fight against fraud, corruption, and irregularities in the EU.

The annual meeting of the Contact Committee comprising the leading representatives of the SAIs of the European Union and the ECA was held in the seat of the ECA in Luxembourg. The main



topics were examples of good practice in audit of EU finances and the sharing of experiences in this area. One of the Contact Committee’s constant priorities is looking for effective ways of passing on information about the status and work of SAI’s in the EU. The agenda of this year’s meeting focused on discussion of new forms of cooperation between SAIs and the ECA. Committee representatives also examined ways to improve audit work in areas directly linked to the measures adopted in response to the deteriorating economic situation in the EU, such as the possibility of scrutinising national policies related to the *Europe 2020* strategy, measures adopted with regard to unified banking supervision in the EU, and the introduction of uniform accounting standards for the purposes of the EU, known as EPSAS.

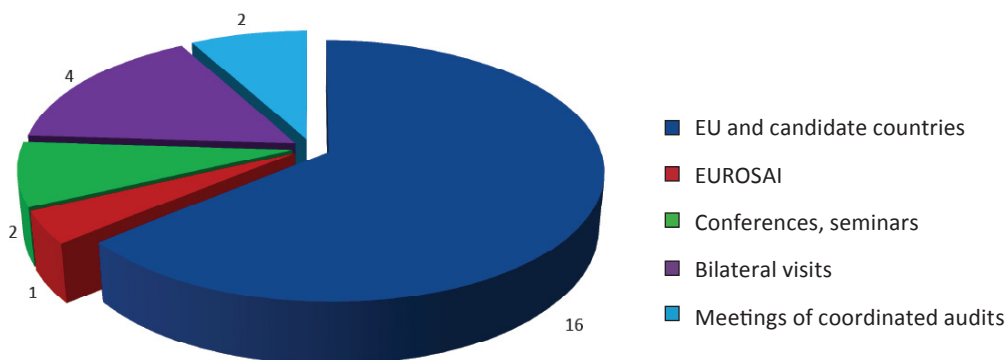


*Meeting of the Contact Committee*

In November, senior representatives of the SAO visited the Slovak supreme audit institution to discuss possible cooperation, the setting of priorities when planning audit work, reducing bureaucracy, and the possibility of publishing audit protocols. At the meeting, there was also a session of the EUROSAI working group on knowledge sharing, which is chaired by the SAO and was hosted by the SAO of the Slovak Republic.

The SAO staged 23 international events in the Czech Republic in 2014. Graph 3 shows the structure of the international events.

**Graph No. 3: Number and focus of international events organised by the SAO in 2014**



A significant number of the events took place within the framework of the European Union, including audit missions by the ECA, and under bilateral cooperation.

In June, the SAO organised a seminar on communication, public relations, and the use of new media. The event was attended by representatives of ten European SAIs, including the ECA, who are either these institutions’ press spokespersons or communication department heads or are involved in creating the content of their institutions’ web sites. The participants had a unique

opportunity to discuss matters such as experiences related to the creation and publishing of audit conclusions, external and internal communication, the creation of press statements, SAIs' use of social networks in communication etc.



*Seminar on communication*

In September, the SAO hosted a conference with the title *Public Procurement – Value for Money*. The conference focused on the computerization of public procurement and was attended by representatives of the central organs of state administration, state enterprises, academia and the non-profit sector. Besides the Czech participants, representatives of the Slovak SAO and a Norwegian representative of the agency for the computerization of public administration delivered speeches at the conference.

In October, the SAO organised a EUROSAI seminar with the title *Audit of Public Revenues - Exchange of Experience, Problems and Best Practice*. The seminar was attended by 66 people from 22 countries and the ECA. The agenda focused on scrutiny of the system for fighting tax evasion and tax fraud, audit of the state closing account, the exchange of best practice in audit and the most problematic areas confronting supreme audit institutions in their audit work.



*Seminar on the audit of state budget revenue*

In 2014, the traditional meeting with the ambassadors of EU countries in the CR, a representative of the Ministry of Foreign Affairs, and the head of the Representation of the European Commission in the Czech Republic was held again.

In December, the SAO was visited by the Member of the ECA for the Czech Republic, who acquainted SAO representatives with the *ECA Annual Report on the Implementation of the EU Budget for 2013* and gave a presentation dealing with irregularities in public procurement, including ECA case studies.

Other events included 10 audit missions of the ECA, 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 ECA based on five questionnaires.

In 2014, the SAO and the SAI of Poland signed a joint report on the completed coordinated audit of resources earmarked for financing projects under the *Operational Programme Cross-Border Cooperation Czech Republic-Poland 2007-2013*. A coordinated audit of the *Swiss-Czech Cooperation Programme*, a programme focusing on reducing economic and social differences within the enlarged European Union, was conducted with the SAI of Switzerland. The SAO is preparing an audit of taxation-related issues with the SAO of Slovakia.

### 3. SAO activities in respect of the public

#### 3.1 Publishing activities

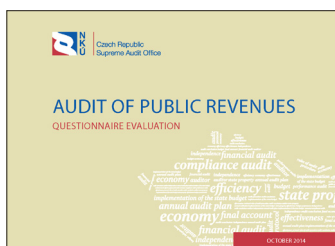
The *SAO Bulletin* (Volume XXII) was published in four quarterly issues appearing at the end of each calendar quarter. Approved audit conclusions, the Annual Report for 2013, amendments and changes to the Audit Plan, and the Audit Plan for 2015 were published in these issues. The outputs of individual audits were also regularly posted on the SAO web site.



At the end of June 2014, the SAO published the **2014 EU Report – Report on EU Financial Management in the Czech Republic**. The primary intention of the periodic Report (this was the seventh edition) is to provide comprehensive information about the SAO's audit findings related to revenues and expenditure of the European Union budget in the Czech Republic and place them in the context of the issue of financial relations within the EU. The data and information contained in the Report pertain mainly the 2013 calendar year, or to the 2012 calendar year in cases where more current data has not been officially made available yet. The *EU Report 2014* is based primarily on the findings set out in the approved audit conclusions of the SAO published in 2013 in the various issues of the *SAO Bulletin*. At the same time, it deals with numerical information and comments 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 2012 and information from the Financial Report of the European Commission on the EU budget for 2012. The *EU Report 2014* is intended for both the institutions responsible for financial management of funds from the EU budget and interested experts from the Czech Republic and abroad.

In March 2014, a joint report was issued on a parallel audit conducted by the Supreme Audit Office of the Czech Republic and the Supreme Audit Office of Poland. Its title was ***Coordinated Audit of the Funds Earmarked for the Funding of Projects Implemented within the OP Cross-border Cooperation Czech Republic-Poland 2007-2013.***



During the preparations for the international seminar on the audit of public revenues, the state budget revenues department conducted a questionnaire-based survey on this topic among EUROSAI members. 20 countries took part in the survey, and their answers served as the basis for a publication containing an assessment of the work of the supreme audit institutions in the audit of public revenues. The publication presented valuable information about best practice in the public revenues audit work

done by the supreme audit institutions of EU countries, such as information about the organisation of public revenues audit, audit procedures and methods, and examples of successful audits and information about their outputs and how they were published. The SAO issued this publication in English in October 2014.

In 2014, the SAO also issued its *Opinion on the Draft State Closing Account of the Czech Republic for 2013* and *Opinion on the Implementation of the State Budget of the Czech Republic for the First Half of 2014.*

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

In 2014, the SAO received 20 written requests for information under Act No. 106/1999 Coll., on free access to information, as amended.

The SAO responded to 12 of the requests by providing the requested information in full (e.g. information about the SAO's vehicle fleet, ICT management, Code of Ethics, and fulfilment of obligations under the Act on Conflicts of Interests). The SAO responded to one request by providing most of the requested information but refused to provide information relating exclusively to the SAO's internal instructions with no link to external entities (information about the assessment of the risk level of the SAO's information systems), issuing a decision on the rejected part of the request. One request was dealt with by the provision of information concerning the competence of the SAO; the part of this request demanding information about the obligations of the organs of a municipality was rejected on the grounds that the SAO was not the appropriate authority to provide this information. Six applicants requested information about the course of audits. In these six cases the SAO issued a decision rejecting the requests with reference to Section 11(4)(d) of Act No. 106/1999 Coll., which states that information on the preparation, course and discussion of the SAO's audit results is not to be provided.

No appeals were lodged against the issued decisions rejecting requests in 2014 and no complaints were submitted under Section 16a of Act No. 106/1999 Coll. regarding the SAO's procedure in dealing with requests for information. All requests for information were dealt with within the statutory time limits.

### 3.3 Submissions from citizens

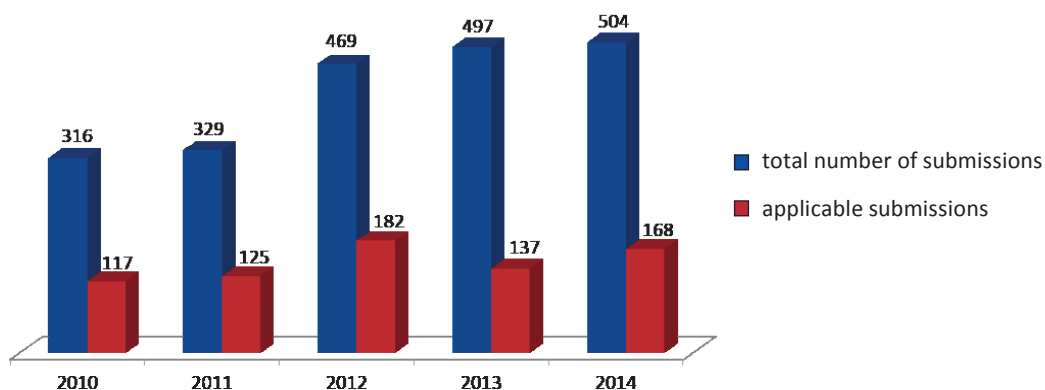
In 2014, the Communications Department of the SAO registered 504 written submissions (suggestions for audits, requests, complaints, enquiries) from citizens and legal persons. Submissions containing information falling under the SAO's competence are an important source of information for the SAO and are used when drawing up suggestions for the audit plan or directly during relevant ongoing audits. There were 168 such submissions in 2014, i.e. 33% of the total number of registered submissions. The most interesting suggestions relating to the focus of the SAO's audit work concerned the award of public contracts in the field of information technologies, investments in environmental protection, the funding of road building, and the provision and use of subsidies from European funds and from national sources in support of regional development, industry, and research.

Of course, the extent to which the SAO can act on the information contained in external suggestions is limited by the scope of its powers. If the SAO's powers were extended to audit of all public money, submissions focusing on the financial management of territorial self-governing units in 2014 alone would increase the proportion of external suggestions that can be acted on by 12%.

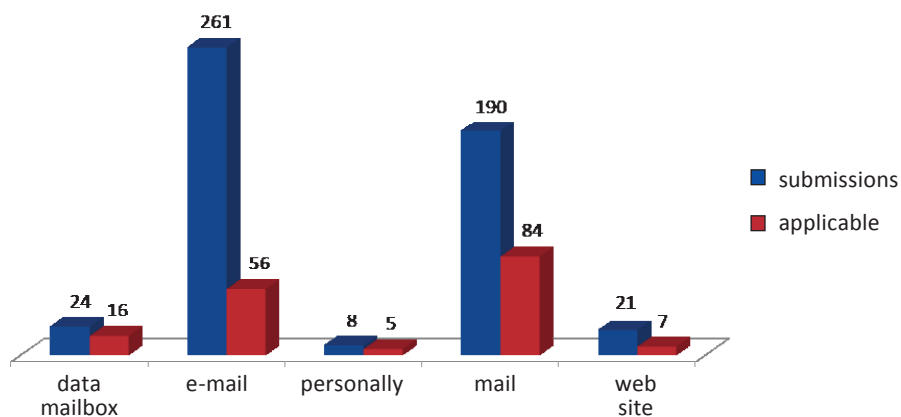
As part of its efforts to open new channels of communication with the public, in July the SAO launched new sections of its web site called "*Aktuální kontroly*" ("current audits") and "*Napište nám*" ("write to us"), which make it possible to send the SAO suggestions and information relating to ongoing and planned audits. The information may be entered on a simple online form to which various related documents may be attached. Information may be submitted anonymously as well. If the writer signs the submission, he will receive an answer stating how the submission was dealt with.



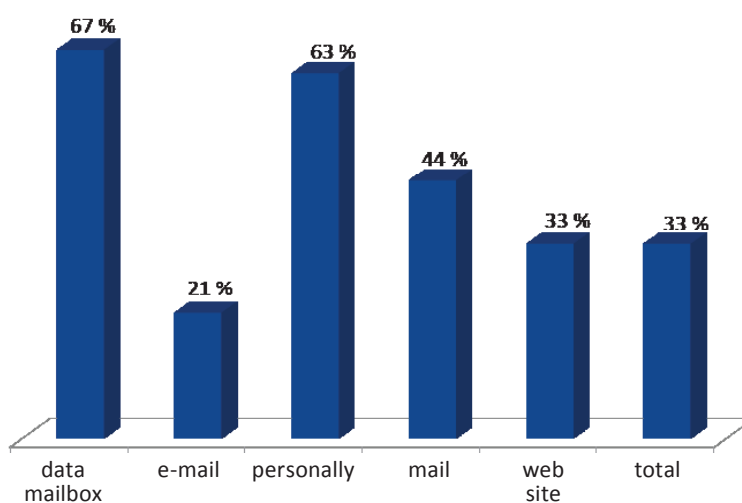
**Graph No. 4: Overview of the total number of submissions and their usability for audit work for 2010 to 2014**



**Graph No. 5: Overview of the number of submissions by the means of delivery in 2014**



**Graph No. 6: Overview of submissions applicability by the means of delivery in 2014 (in %)**



## 4. Management of finances allocated to the SAO budget chapter in 2014

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

The budget of the chapter 381 – *Supreme Audit Office* was approved by Act No. 504/2013 Coll., on state budget of the CR for 2014 and on amendments of Act No. 504/2012 Coll., on state budget of the CR for 2013, as amended by Act No. 258/2013 Coll.

**Table No. 2: Overview of the implementation of mandatory indicators in 2014 (CZK thousand)**

Indicator	Approved budget	Budget after changes	Actual state	Implementation in %
<b>Aggregate Indicators:</b>				
Total revenue	339,00		1 247,68	368,05
Total expenditure	500 393,18	500 393,18	435 440,95	87,02
<b>Specific Indicators:</b>				
Revenue	339,00		1 247,68	368,05
Expenditure covering performance of SAO's tasks	500 393,18	500 393,18	435 440,95	87,02
<b>Cross-sectional Indicators:</b>				
Employees' pay and other payments for work performance	243 412,80	244 714,07	241 839,56	98,83
Mandatory insurance premiums paid by the employer	82 760,99	83 203,42	81 871,42	98,40
Transfer of Cultural and Societal Needs Fund	2 230,74	2 243,75	2 243,35	99,98
Pay of employees with employment contract	223 074,00	224 375,27	224 334,95	99,98
Expenditure kept in the information system of programmed financing EDS/SMVS in total	59 496,00	59 496,00	31 481,43	52,91

#### Revenue

Revenue amounted to CZK 1,247.68 thousand, i.e. 368,05% compared to the approved budget and the budget after changes.

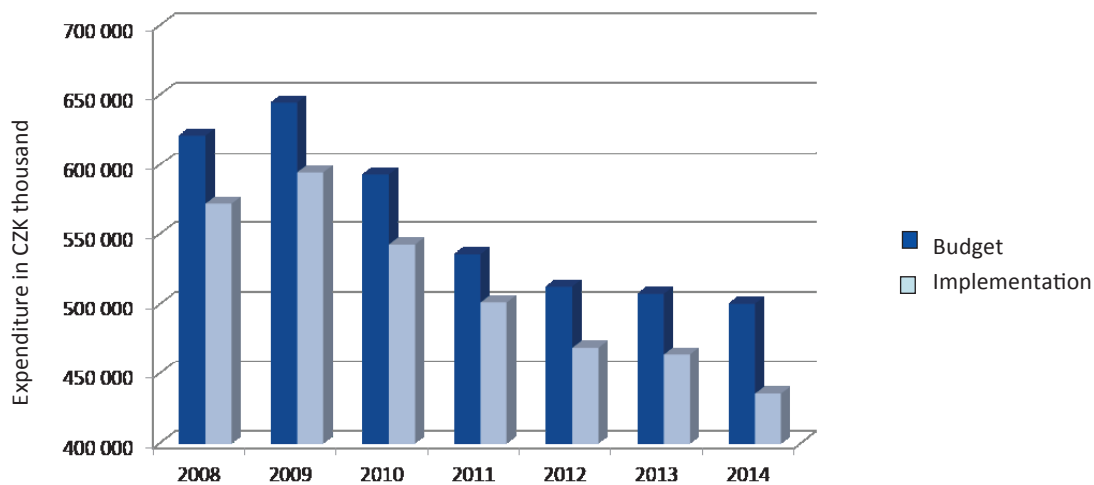
#### Expenditure

Total expenditure were drawn down in the amount of CZK 435,440.95 thousand, i.e. 87,02% of the approved budget and budget after changes. The biggest share comprises expenditure on salaries and related expenses CZK 323,710.98 thousand (74,34%).

All binding indicators of the SAO budget chapter were observed in 2014.

Graph No. 7 gives an overview of expenditure of the chapter 381 – *Supreme Audit Office* for the years 2008-2014. From 2008 to 2014, the approved budget fell by CZK 120,411.82 thousand on a year-on-year basis.

**Graph No. 7: Overview of expenditure under the chapter 381 – Supreme Audit Office according to the budget after changes and budget implementation for 2008 to 2014**



#### 4.2 Claims from unused expenditure

As of 31 December 2014, the balance of claims from unused expenditure totalled CZK 201,296.79 thousand. The claims were not included in the budget in 2014.

#### 4.3 Expenditure on financing assets replacement programmes

Budget funds were spent on implementation of the Programme 18101 – *Development and Renewal of Material and Technological Resources of the Supreme Audit Office as of 2011*, namely on ICT and assets replacement. A total of CZK 31,481.43 thousand was spent.

#### 4.4 Information on external audits of the SAO

There was no external audit performed in the SAO in 2014.

#### 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 opinion, *"the financial statements and financial reports give a true and fair view of the assets and liabilities of the Supreme Audit Office as of 31 December 2014 and costs and incomes and its economic results, and revenue and expenditure for the period from 1 January 2014 to 31 December 2014, 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 amendments to certain acts (the Financial Control Act), Decree No. 416/2004 Coll. implementing Act No. 320/2001 Coll., and the *International Professional Practices Framework for Internal Auditors*.



The annual internal audit plan for 2014 was approved by the SAO President on 9 January 2014. It was drawn up primarily on the basis of the SAO's aggregate risk analysis including risks identified during the execution of the internal audit and an audit universe<sup>48</sup>. Furthermore, the annual plan was based on the medium-term internal audit plan for 2013 to 2015.

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

The internal audits focused on:

- the standard of the internal audit work of the Supreme Audit Office in the form of self-assessment,
- costs associated with the international activities of the Supreme Audit Office,
- the efficiency of the use of information systems,
- the filing service,
- the functioning and effectiveness of the Supreme Audit Office's internal control system,
- utilisation of finances from selected budget items.

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

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

Throughout the year, the internal audit department also performed consultancy work and methodological work and organised training for internal auditors.

## 5.1. External assessment of the SAO's internal audit

In 2014, under an agreement between the President of the Supreme Audit Office and the chairman of the Committee on Budgetary Control of the Chamber of Deputies of the Parliament of the Czech Republic, an expert assessment team was set up to ensure that the external assessment of the standard of the Supreme Audit Office's internal audit was sufficiently expert and independent. The external assessment team was established by resolution of the Committee on Budgetary Control no. 78 and is composed of members of the Committee on Budgetary Control and a member of the Czech Institute of Internal Auditors with the relevant expertise. The external assessment of the standard of the Supreme Audit Office's internal audit was performed in the period from 4 December to 31 December 2014. The output of the assessment is the conclusion that the work of the internal audit department's conforms to the *International Standards for the Professional Practice of Internal Auditing*.

## 6. SAO staffing

The SAO had 466 employees<sup>49</sup> in 2014. 333 of them worked in the audit section, i.e. 71.46% of the total average registered number of SAO employees in 2014. 31 new employees were taken on in 2014 and a further 11 returned to work after parental leave. 44 employees ended their employment, three to go into retirement and three for health reasons. In four cases, the employees' employment was terminated in consequence of organisational changes. The fluctuation rate in 2014 was 8.15%.

The average number of full time equivalent SAO employees was 462 for 2014; the average number of full time equivalent employees in the audit section was 330 in 2014. The Graph No. 8 shows

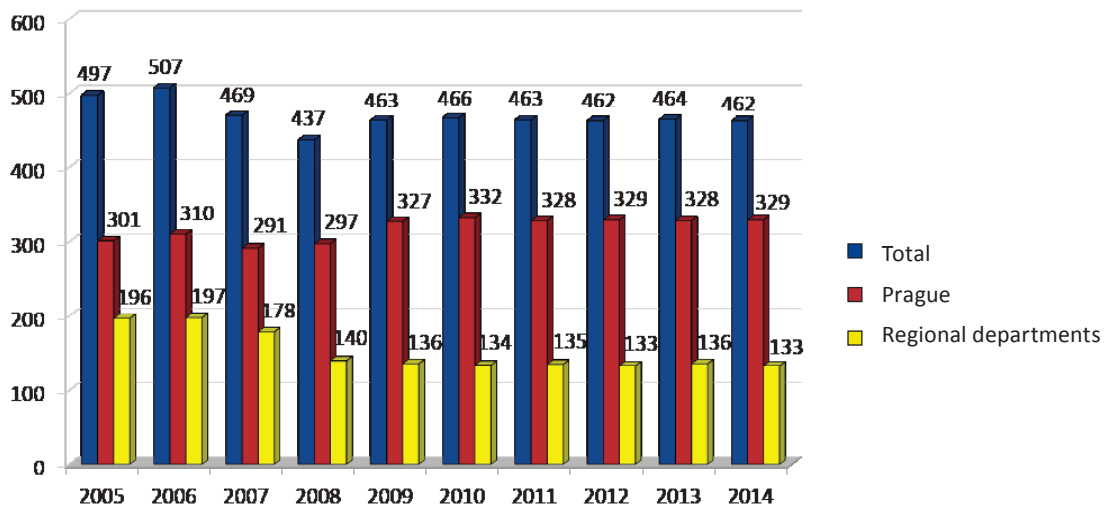
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<sup>48</sup> According to the international standard on professional practice of internal audit, an audit universe represents the potential range of all audit activities that might be performed at the SAO.

<sup>49</sup> Registered average number of employees in 2014.

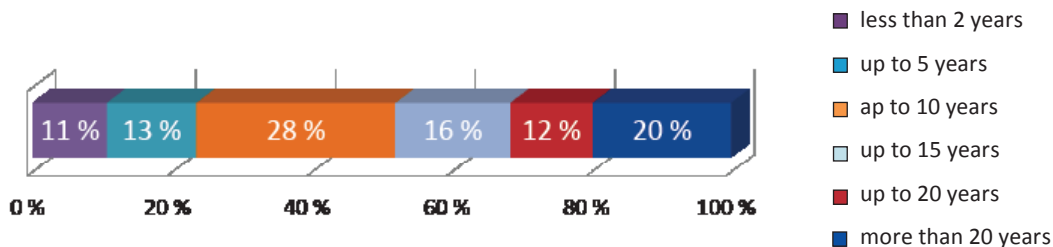
development of the average number of SAO employees and employees of Prague and regional departments in 2005-2014.

**Graph No. 8: Development of the staff number of the SAO in 2005–2014**



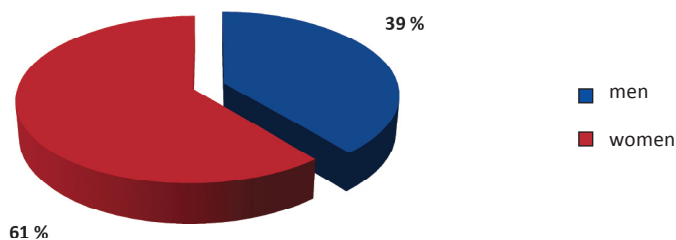
The average duration of employment in the SAO was 10 years as at 31 December 2014. As at the same date, 10.61% of the total workforce of the SAO had been employed for less than two years. 19.84% of the workforce had been with the SAO for 20 years or more. Graph 9 shows the duration of employment with the SAO as at 31 December 2014.

**Graph No. 9: Overview of the duration of employment in the SAO as of 31 December 2014 (in %)**



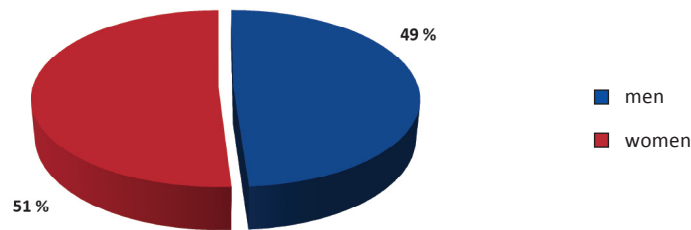
The SAO provides its employees with equal work conditions and job opportunities. Graph No. 10 shows the proportion of men and women employed at the SAO in 2014.

**Graph No. 10: Proportion of men and women employed at the SAO in 2014 (in %)**



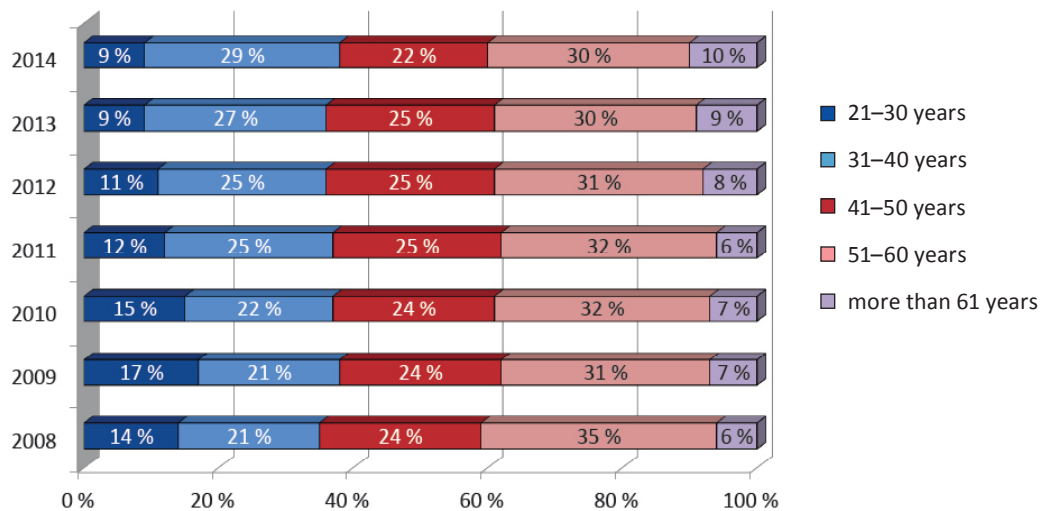
Graph No. 11 shows the proportion of men and women in the SAO’s management as of 31 December 2014.

**Graph No. 11: The proportion of men and women in the SAO's management as of 31 December 2014 (in %)**



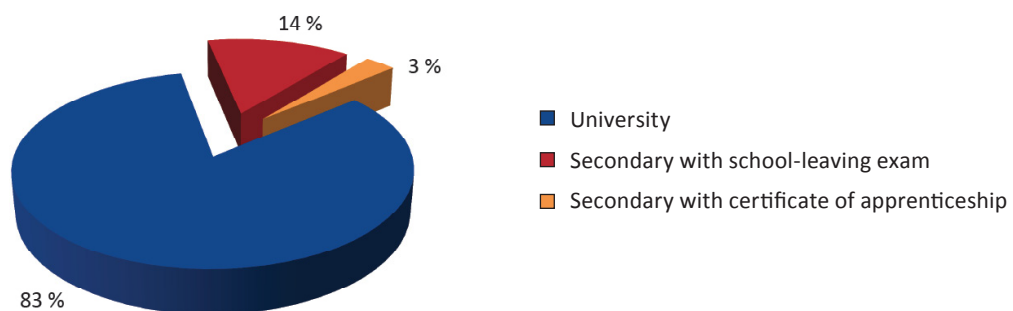
The average age of SAO employees was 47 in 2014. Graph No. 12 shows the age structure of SAO employees as of 31 December 2014, including a comparison with the years 2008-2013.

**Graph No. 12: Overview of the total age structure of SAO employees in 2008–2014 (comparison as of 31 December of the respective year)**



As of 31 December 2014, 83% of the total SAO workforce was university educated. Graph No. 13 gives an overview of the educational structure of SAO employees as of 31 December 2014.

**Graph No. 13: Qualification structure of SAO employees according to the level of education reached; as of 31 December 2014**



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

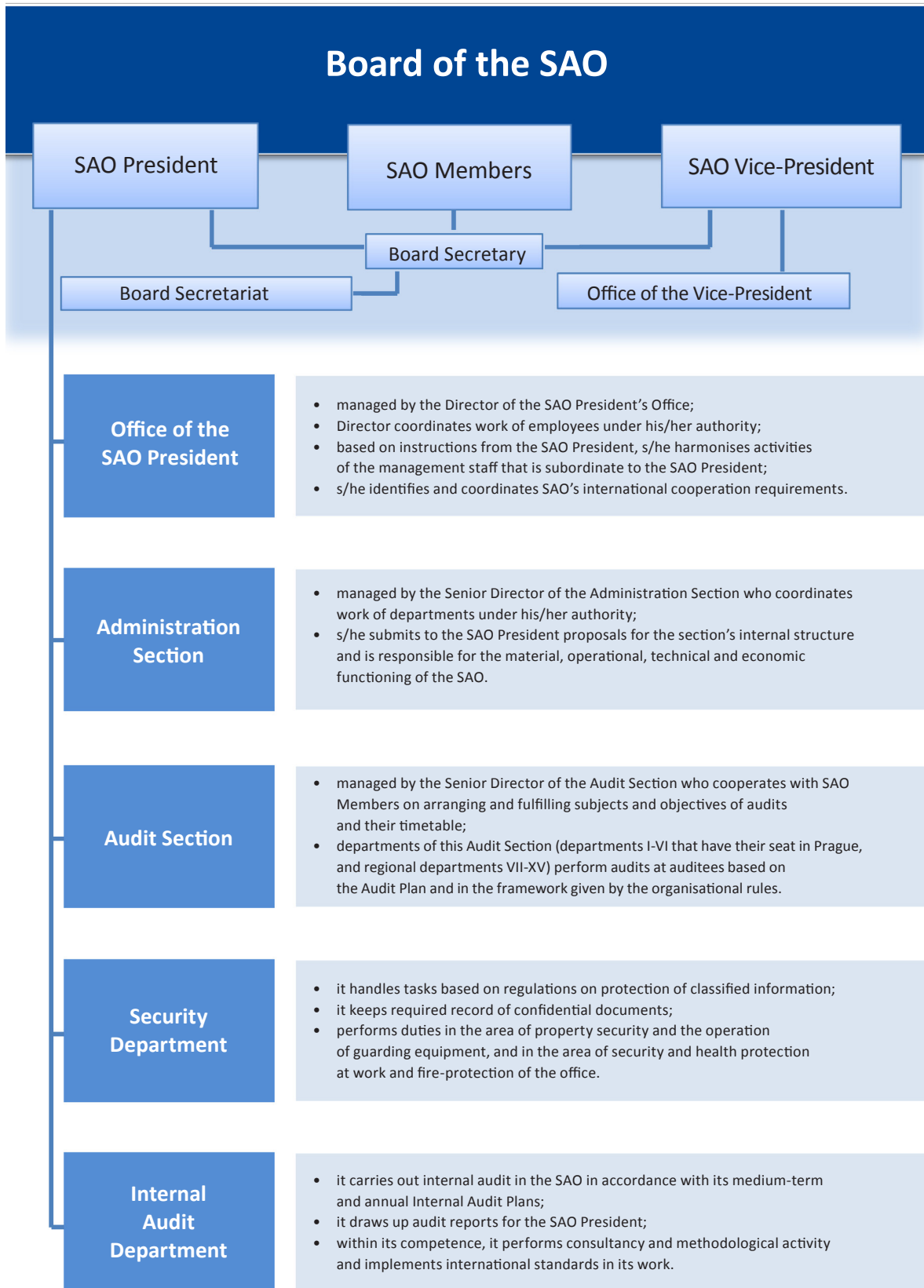
### **Training and development**

Training and development activities at the SAO in 2014 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 for prospective change of their competences.

## 7. SAO organisational structure



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

## Conclusion

The past year opened up another phase in the evolution of the SAO as a modern, dynamic, and effective institution. The SAO faced new challenges and tasks whose common denominator was even more intense pressure for improving the state's financial management. The SAO's fundamental objectives, which it also incorporated into its new strategy for the years 2014 to 2017, are to help improve the state of public finances and management of state property, improve the effectiveness of audit work, and set a good example in its own management of the allocated funds.

To achieve these objectives, the SAO adopted a number of concrete measures and implemented some of them during the past year. These included enhancing its analytical work which the SAO achieved by means of organisational changes approved at the end of 2014. The core measure is the formation of new units that will significantly strengthen performance audit and information systems audit. The SAO also dealt with a reduction in its workforce intended to deliver savings and make its operation more efficient. The savings resulting from lowering the rent for the SAO's premises are also significant. Among other things, the working group set up to detect risks of economical spending in the public sector started work. All these measures seek to make the SAO's working even more efficient and to ensure audits are targeted better on the basis of identified risks of uneconomical use of public funds and state property.

Widening the scope of the SAO's audit powers to cover all public money remained a fundamental requirement in 2014. The SAO actively promoted the idea that the Czech Republic should join those advanced democracies that entrust independent audit of all their public monies to institutions fulfilling the function of independent external auditor. In the long term, management of public funds and state property can only be made more efficient and transparent when these funds and property are subject to public scrutiny to the greatest possible extent. The SAO is an indispensable part of this.

The results of the SAO's audit work in 2014 can be summed up in several key indicators:

- **40 audits were completed.**
- **269 entities were audited.**
- **43 systemic recommendations were formulated in the context of the results of audit work.**
- **58 notifications, involving a total amount of CZK 1.129 billion, were sent to the appropriate tax administrators in relation to circumstances the SAO qualified as breaches of budgetary discipline.**
- **9 notifications concerning suspicion of the commission of a crime were sent to the criminal justice authorities.**
- **In 16 cases, cooperation was provided to the criminal justice authorities.**
- **The Czech government discussed 42 audit conclusions.**
- **The Czech government adopted corrective measures in response to 86% of the discussed audit conclusions.**
- **The Committee on Budgetary Control of the Chamber of Deputies discussed 13 audit conclusions and two audit conclusions were discussed by the chamber's Committee on Defence.**

These figures are just one way of looking at how the SAO fulfilled its mission in 2014, however. That this year was a successful one in terms of the SAO's performance and the effects of its work is borne out by the large number of completed audits, the extraordinary amounts of money referenced by the notifications to the appropriate tax administrators for breaches of budgetary discipline and the number of criminal complaints. The key outcome is the findings presented in audits. In 2014 the SAO continued to focus its audit work on the highest-risk areas of the state's financial management. It exposed serious deficiencies and pointed both to the reasons for the unsatisfactory state of affairs and to the potential for improvement.

In 2014, the SAO was compelled to state that the success of the collection of state revenues was influenced by factors related to the inefficient and non-functional administration and recovery of revenues. These led to uneconomical expenditure and the loss of a significant portion of revenues. The most serious shortcomings identified in the area of state budget revenues include the inefficiency of the system for the administration of payments levied on lotteries and the ineffective state supervision. The lack of suitable legislation on online lotteries has caused the state to lose at least CZK 600 million a year. The shortcomings reported by the SAO in the area of lotteries were taken into account by the MoF when it drew up new draft legislation governing the operation of gambling games and its taxation in the CR.

The findings relating to the state's subsidies policy were dominated by the lack of a conceptual approach, the provision of support without respecting the principles of economy, efficiency and effectiveness and errors in management and control of the provision of subsidies. This includes the provision of operating aid for energy generated from renewables, in particular photovoltaic power plants, at the cost of an inordinate burden on consumers and the economy as a whole, as the total costs can be expected to exceed a trillion Czech crowns by 2030.

The SAO also continued to scrutinise key projects seeking to make the working of the state more efficient and to modernise public administration as a whole, including improving its performance. Notwithstanding the positive benefits some projects delivered, the SAO's cross-cutting findings demonstrated that the expected potential for greater efficiency and savings was not achieved and that there were shortcomings in the reliability of the data contained in a number of information systems. One example is the information system called *Central Register of Administrative Buildings*, whose principal goal had not been achieved by the end of the audit, so the state's expenditure on the system could not be deemed economical and efficient. The launch of e-marketplaces as part of the national infrastructure for electronic public procurement is an example of the planned savings not being achieved. Only 27% of the planned target was achieved under this project.

In its audit of financial management the SAO again identified a number of cases ineffective and uneconomical use of state funds and property. These included spending on materials and services, where the purchasing of legal, advisory, and consultancy services continued to be one of the highest-risk areas. The audit findings demonstrated that certain audited entities spent millions of crowns on activities that should have been carried out by their specialist units or paid for projects whose outputs they did not use.

Regarding selected costs of work activities, the SAO detected significant room for achieving savings. For example, there are considerable differences in the rents paid by state institutions or charged when letting state-owned buildings; passenger cars are leased on disadvantageous terms; and agreements were signed with institutions' own employees for the performance of work that matched their job description. Some state organisations wasted state finances by acquiring real estate and movable property they then did not use. The evaluation of shortcomings in the transport department is testimony to the potential for savings: the SAO put the possible savings attainable in the audited period at CZK 88 million at least. A number of auditees used these SAO findings to remedy the situation. The Directorate of Waterways, for example, reviewed and terminated relations with a number of external contractors, which ultimately led to significant savings amounting to almost a fifth of this organisation's budget.

Public procurement continued to be one of the highest-risk areas of the state's financial management, despite all the state's efforts to make public procurement more transparent and better value-for-money through computerization. In 2014, the SAO again found that some auditees awarded public contracts incorrectly either in the form of negotiated procedure without publication or, making use of an exemption from the law, by awarding them directly to a specific contractor. The SAO's other findings most frequently concerned the unjustified dividing up of public contracts, the incorrect award of small-scale public contracts and the failure to take the opportunity to achieve lower prices through competition. In the field of ICT, the audited organisations awarded contracts in ways that led to long-term dependence on a single contractor.

Violations of the fundamental principles and rules of financing major investment programmes and operations constituted another serious, long-term problem with a negative impact on the economy, efficiency, and effectiveness of government expenditure. The SAO appeals in the strongest terms to the responsible authorities to comply with the rules and make the funding of asset replacement programmes more efficient. There were many cases in which the SAO showed the harmful influence that results from the absence of binding concepts, the failure to define strategic needs and the lack of assessable goals. Fundamental changes to programmes' parameters, ineffective coordination and inadequate systems for checking expenditure result in uneconomical, inefficient, and ineffective conduct and significant losses for the state. Programmes linked to the Ministry of Labour and Social Affairs and the Labour Office are examples of this: unneeded real estate and real estate with insufficient capacity were acquired, or the risk of such acquisitions increased disproportionately.

In the past year, the SAO paid heightened attention to the scrutiny of funds provided to the CR from abroad, and in particular EU funds. The SAO repeatedly drew attention to the ineffective system for the implementation of EU subsidies and to major financial losses. This confirms the reality that the CR was among the four least successful EU Member States in terms of the utilisation of allocations from the structural funds and *Cohesion Fund* (along with Romania, Bulgaria, and Malta). In 2014, it was also confirmed that the measures intended to prevent the irrevocable loss of a considerable proportion of the finances earmarked for the CR in the EU budget were not entirely effective. The CR will thus lose out on tens of billions of crowns in funding for the 2007-2013 programming period. That money could have been used for the country's development.

There is a whole series of reasons why the CR is lagging behind most EU Member States. The principal reasons are the complicated nature of the support implementation system, the lack of a conceptual approach and changes in the focus of certain measures, and errors in the way conditions and rules are defined. Also worth mentioning are the poor standard of management and control, the limited independence of control work, and, last but not least, the considerable bureaucracy involved and frequent personnel changes in executive and management positions. The SAO stresses that suitable measures must be taken to prevent a repeat of the same situation in the new programming period 2014-2020.

In the conclusions of its audits scrutinising the state's reporting of data that is supposed to be used for the monitoring and management of public finances, the SAO repeatedly drew attention to the unreliability of the reported data. As in previous years, the SAO's ability to give its opinion on the reliability of certain data in financial statements representing a value of tens of billions of Czech crowns was restricted by the state of the accounting regulations. In connection with the reliability of the published data, the SAO also highlighted the differences between the data contained in financial statements and the figures presented by the Ministry of Finance on the MONITOR information web site. These differences amounted to hundreds of millions of crowns in the audited cases alone.

The results of the SAO's audit work confirm that the state's functioning as the custodian of public money continues to be dogged by the same long-term systemic shortcomings as in previous years. The relevant authorities and individuals do not respect the basic principles and rules governing their duties, including their responsibility for the economical, efficient and effective performance of the tasks assigned to them. The SAO stresses that the effectiveness of public administration has a fundamental impact on the country's economy, competitiveness, and standing in the world. Striving to make compliance with these principles and rules more enforceable while promoting good practice is therefore the SAO's principal concern. The systemic shortcomings identified by the SAO and its recommendations as an independent audit body are important feedback enabling the organs of government and parliament to take decisions and remedy the situation.



The SAO is particularly positive in its assessment of its cooperation with the government last year when discussing the results of audits. Since 2014, this cooperation has improved the application and enforcement of corrective measures. That is borne out by the fact that the government adopted measures to remedy the identified shortcomings in response to 86% of the discussed audit conclusions.

The qualitative change in the way the results of audits are discussed is more important, however. The SAO was able to play a more active role in the process of discussing the opinions of the central organs of state administration on its audit conclusions and in the process of adopting corrective measures. The SAO President is also guaranteed the chance to attend sessions of government at which audit conclusions are discussed and to give his opinion on the proposed corrective measures. The SAO will closely monitor whether the measures taken by the audited organisations are effective and whether the situation is genuinely put right. In this context, in several audits in 2014 the SAO again examined the impacts of corrective measures adopted in the past and declared that in some cases the SAO's audit work and the corrective measures based on its work had indeed delivered the desired improvements.

The results of the SAO's work for 2014 show that, as it stands on the threshold of a new phase of development, the SAO is in a good position – the position of an independent auditor that is able to deliver valuable outcomes for society. It is fulfilling its principal mission in the performance of independent audit and in giving opinions on the state closing account and implementation of the state budget. That also applies to its other work in the sphere of international cooperation, cooperation during the drafting of legislation, communication with the public, its development of human resources and its management of the resources entrusted to it. At the same time, the results of its work and the measures undertaken in 2014 are a guarantee that it will continue to deliver the necessary feedback and good value for money in the future as well.



## Appendix No. 1 to the SAO Annual Report for 2014

Audits included in the Audit Plan for 2014								
Audit No. <sup>50</sup>	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	
14/01	State property and funds allotted to the Ministry of Culture	01/14	09/14	Management of state property and funds	MoC	Mr Macháček	SAO Board	
14/02	Funds spent on preparation, implementation, and operation of the Register of territorial identification, addresses and real estates	01/14	10/14	Management of state property and funds	COSMC	Mr Kufa	SAO Board	
14/03	Funds earmarked for development and modernisation of waterways and harbours, and for the support of multimodal cargo transportation	1/2014	9/2014	Important investment programmes and activities	MoT	Mr Sehoř	SAO Board	
14/04	State funds provided for selected programmes of state budget indicator - <i>General Sport Activity</i>	1/2014	10/2014	State's subsidy policy	MoEYS	Mr Hrnčíř	SAO Board	
14/05	Funds earmarked for financing of selected programmes that are in the competence of the Ministry of Labour and Social Affairs	1/2014	10/2014	Important investment programmes and activities	MoLSA	Mr Adámek	SAO Board	
14/06	Management of funds earmarked for the support of energy production from the renewable energy resources	2/2014	11/2014	State's subsidy policy	MoIT, MoE	Mr Neuvirt	SAO Board	
14/07	EU and state budget funds earmarked for the implementation of the axis V of the <i>Rural Development Programme</i>	3/2014	10/2014	Funds from abroad	MoA	Mr Hrnčíř	SAO Board	
14/08	State funds in the area of pension insurance	3/2014	11/2014	Closing accounts of state budget chapters and other data for monitoring and managing of public funds	MoF, MoD, MoLSA, MoI	Ms Kadaňová	SAO Board	
14/09	EU and state budget funds earmarked for the implementation of the Operational Programme <i>Prague – Competitiveness</i>	3/2014	12/2014	Funds from abroad	-	Mr Neuvirt	SAO Board	

<sup>50</sup> It is possible to find audit conclusions published in 2014 in individual SAO Bulletins or in the electronic version of the Annual Report after clicking at the blue numbers.



Audits included in the Audit Plan for 2014									
Audit No. <sup>50</sup>	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		
14/10	State budget funds earmarked for the support of cultural activities from the state budget chapter <i>Ministry of Culture</i>	3/2014	11/2014	State's subsidy policy	MoC	Mr Kufa	SAO Board		
14/11	Property under the management of selected state-owned enterprises (basin administrators) that are under the authority of the Ministry of Environment	3/2014	1/2015	Management of state property and funds	MoA	Mr Kalivoda	SAO Board		
14/12	Management of the state property and state funds allotted to the projects concerning IT and communication technology at the Ministry of Environment	3/2014	11/2014	Management of state property and funds	MoE	Mr Vedral	SAO Board		
14/13	EU and state budget funds earmarked for the implementation of the project „ <i>Revitalisation of the pond Jordan in Tabor</i> “	3/2014	12/2014	Important investment programmes and activities	MoE	Mr Kufa	SAO Board		
14/14	State budget funds under the state budget chapter <i>General Treasury Administration</i>	4/2014	1/2015	State revenues and other financial operations	MoF	Ms Profeldová	SAO Board		
14/15	Funds spent on the projects and measures for support and fulfilment of efficient public administration including savings of expenditures implementation	4/2014	2/2015	Management of state property and funds	MoT, MoI, MoJ, OG CR	Mr Neuvirt	SAO Board		
14/16	Funds earmarked for the development and reconstruction of regional health-care facilities within the Regional Operational Programme - <i>South-East for the period 2007-2013</i>	4/2014	12/2014	Funds from abroad	-	Mr Neuvirt	SAO Board		
14/17	Value added tax administration and the impacts of legislative amendments for the state budget revenues	5/2014	3/2015	State revenues and other financial operations	MoF	Ms Profeldová	SAO Board		
14/18	Financial statements and financial records of the Labour Office of the Czech Republic for the year 2013 which are submitted as a supporting document for the closing account of the state budget chapter <i>Ministry of Labour and Social Affairs</i>	5/2014	1/2015	Closing accounts of state budget chapters and other data for monitoring and managing of public funds	MoLSA	Mr Vedral	SAO Board		

Audits included in the Audit Plan for 2014									
Audit No. <sup>50</sup>	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		
14/19	Closing account of the state budget chapter <i>Ministry of the Environment</i> for the year 2013, their financial statements and financial records for 2013	5/2014	1/2015	Closing accounts of state budget chapters and other data for monitoring and managing of public funds	MoE	Ms Steidlová	SAO Board		
14/20	State funds spent on development, operation and using of data-centres services	6/2014	3/2015	Management of state property and funds	MoF, MoI	Mr Reisiegel	SAO Board		
14/21	Funds earmarked for repair and maintenance of state and regional railways	6/2014	3/2015	Important investment programmes and activities	MoT	Mr Adámek	SAO Board		
14/22	Funds earmarked for the infrastructure of university education	7/2014	4/2015	Important investment programmes and activities	MoEYS	Mr Macháček	SAO Board		
14/23	Funds earmarked for development and renewal of the material-technical base of the Fire Rescue Service of the Czech Republic	8/2014	4/2015	Important investment programmes and activities	Mol	Mr Neuvirt	SAO Board		
14/24	EU and state budget funds provided for settlement of expenditures of national projects within the Operational Programme <i>Education for Competitiveness</i>	8/2014	4/2015	Funds from abroad	MoLSA, MoEYS	Mr Kalivoda	SAO Board		
14/25	Accounting of the Ministry of Finance as the administrator of the state budget chapters <i>Ministry of Finance, State Debt, State financial assets operations, and General Treasury Administration</i>	8/2014	7/2015	Closing accounts of State budget chapters and other data for monitoring and managing of public funds	MoF	Mr Reisiegel	SAO Board		
14/26	Funds spent on the projects of the <i>Rural Development Programme</i>	9/2014	5/2015	Funds from abroad	MoA	Mr Reisiegel	SAO Board		
14/27	Funds of the <i>EU Solidarity Fund</i> provided for the Czech Republic in relation to catastrophic floods	9/2014	4/2015	Funds from abroad	MoF	Mr Sehoř	SAO Board		
14/28	Spirit and tobacco excise tax administration and administration of revenues from the sales of tobacco duty stamps, including the management of these duty stamps	9/2014	7/2015	State revenues and other financial operations	MoF	Mr Macháček	SAO Board		



Audits included in the Audit Plan for 2014								
Audit No. <sup>50</sup>	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	
14/29	Funds spent on settlement of expenses related to operation and management of state property within selected state-funded organisations	10/2014	6/2015	Management of state property and funds	MoC, MoEYS	Ms Pýchová	SAO Board	
14/30	State property and funds allotted to the State Fund for Transport Infrastructure	10/2014	6/2015	Management of state property and funds	MoT	Mr Adámek	SAO Board	
14/31	State property and funds allotted to selected state-funded organisations of the Ministry of Regional Development	10/2014	6/2015	Management of state property and funds	MoRD	Mr Macháček	SAO Board	
14/32	Funds earmarked for the construction of line A of the Prague underground	10/2014	7/2015	Important investment programmes and activities	MoT	Mr Sehoř	SAO Board	
14/33	Funds collected in accordance with law in favour of the Health Insurance Company of the Ministry of the Interior of the Czech Republic	10/2014	9/2015	Management of state property and funds	-	Mr Kalivoda	SAO Board	
14/34	Establishment of the State Land Office according to the Act No. 503/2012 Coll. on State Land Office and its management of state property and funds	10/2014	7/2015	Management of state property and funds	MoA	Ms Profelđová	SAO Board	
14/35	State property and funds allotted to selected regional directorates of the Police of the Czech Republic	11/2014	7/2015	Management of state property and funds	Mol	Mr Kufa	SAO Board	
14/36	Funds spent on purchase of boarding, facility management, and facility security services within the Ministry of Defence	11/2014	7/2015	Management of state property and funds	MoD	Mr Hrnčíř	SAO Board	

Audits included in the Audit Plan for 2014							
Audit No. <sup>50</sup>	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
<b>14/37</b>	State budget, EU budget funds and other funds acquired from abroad	11/2014	7/2015	Closing accounts of state budget chapters and other data for monitoring and managing of public funds	MoA, MoEYS	Ms Steidlová	SAO Board
<b>14/38</b>	Financial statements of the Czech Social Security Administration for the year 2014 and the data submitted by the Czech Social Security Administration for the assessment of the state budget fulfilment	11/2014	7/2015	Closing accounts of state budget chapters and other data for monitoring and managing of public funds	MoLSA	Mr Vedral	SAO Board
<b>14/39</b>	EU and state budget funds earmarked for financing of projects of regional and supra regional centres for popularisation of science and development within priority axis 3 - <i>Commercialisation and Popularisation of R&amp;D of the Operational Programme Research and Development for Innovation</i>	4/2014	12/2014	Funds from abroad	MoEYS	Ms Hykšová	SAO Board
<b>14/40</b>	Funds earmarked for remittance of costs for land area amendments	8/2014	5/2015	State's subsidy policy	MoA	Ms Hykšová	SAO Board
<b>14/41</b>	Funds spent by the Ministry of Defence on tasks related to biological protection	11/2014	8/2015	Management of state property and funds	MoD	Mr Kubiček	SAO Board



## Appendix No. 2 to the SAO Annual Report for 2014

Overview of audits whose audit conclusions were approved in 2014							
Audit No. <sup>50</sup>	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)
13/07	State property and funds allotted to the Ministry of Environment	Management of state property and funds	MoE	Mr Vedral	SAO Board	13.1.2014	1/2014
13/13	State funds allotted to regional healthcare institutions	Important investment programmes and activities	MoH	Mr Němeček	SAO Board	10.2.2014	1/2014
13/16	State property under the management of state-owned enterprise Air Navigation Services	Management of state property and funds	MoT	Mr Kalivoda	SAO Board	27.1.2014	1/2014
13/17	EU and state budget funds earmarked for the implementation of the Operational Programme <i>Enterprise and Innovation</i>	Funds from abroad	MoIT	Mr Brandt	SAO Board	17.3.2014	2/2014
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	State's subsidy policy	MoF	Mr Reisiegel	SAO Board	17.3.2014	2/2014
13/19	Closing account of the state budget chapter <i>Ministry of Regional Development</i> for the year 2012, the financial statements and financial records of the Ministry of Regional Development for 2012	Closing accounts of state budget chapters and other data for monitoring and managing of public funds	MoRD	Mr Reisiegel	SAO Board	31.3.2014	2/2014



Overview of audits whose audit conclusions were approved in 2014								
Audit No. <sup>50</sup>	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)	
13/20	State property and funds allotted to selected state-funded organisations of the Ministry of Education, Youth and Sport	Management of state property and funds	MoEYS	Mr Macháček	SAO Board	27.1.2014	1/2014	
13/21	Funds of the Operational Programme <i>Environment</i> earmarked for wastewater treatment	Funds from abroad	MoE	Mr Neuvirt	SAO Board	31.3.2014	2/2014	
13/22	Funds collected in accordance with law in favour of the Czech Industrial Health Insurance Company	Management of state property and funds	-	Ms Kadaňová	SAO Board	26.5.2014	2/2014	
13/23	State budget funds earmarked for the funding of sport centres supporting sports and fitness in the government departments of the Czech Republic	State's subsidy policy	MoD, Mol, MoEYS	Ms Profeldová	SAO Board	10.2.2014	1/2014	
13/24	Funds spent on the project <i>National Infrastructure for the Electronic Awarding of Public Contracts (NIPEZ)</i> and purchase of selected commodities via e-market	Management of state property and funds	MoRD	Mr Sehoř	SAO Board	31.3.2014	2/2014	
13/25	State funds spent on social care of national or supra-regional extent	State's subsidy policy	MoLSA	Mr Kalivoda	SAO Board	17.3.2014	2/2014	
13/26	Administration of levies imposed by administration authorities and transferred for recovery to customs authorities (so-called „shared administration“)	State revenues and other financial operations	MoF	Mr Kufa	SAO Board	31.3.2014	2/2014	
13/27	Funds earmarked for projects designated for repair and maintenance of roads	Important investment programmes and activities	MoT	Mr Adámek	SAO Board	28.4.2014	2/2014	



Overview of audits whose audit conclusions were approved in 2014								
Audit No. <sup>50</sup>	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)	
13/28	Support for fisheries in the Czech Republic in accordance with Operational Programme <i>Fisheries in 2007–2013</i>	Funds from abroad	MoA	Mr Vedral	SAO Board	28.4.2014	2/2014	
13/29	Closing account of the state budget chapter <i>Ministry of Defence</i> for the year 2012, the financial statements and financial records of the Ministry of Defence for 2012	Closing accounts of state budget chapters and other data for monitoring and managing of public funds	MoD	Mr Vedral	SAO Board	30.6.2014	3/2014	
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	Important investment programmes and activities	MoD	Mr Neuvirt	SAO Board	9.6.2014	3/2014	
13/31	State property and funds allotted to the Ministry of Health	Management of state property and funds	MoH	Mr Macháček	SAO Board	26.5.2014	2/2014	
13/32	Funds earmarked for the development of tourism	Important investment programmes and activities	MoRD	Mr Hrnčíř	SAO Board	30.6.2014	3/2014	
13/33	State property and funds allotted to the Ministry of Transport and its selected organisational units of the state	Management of state property and funds	MoT	Mr Adámek	SAO Board	30.6.2014	3/2014	
13/34	Funds spent on payments of costs related to working activity of selected organisational units of the state	Management of state property and funds	MoF, CSO, CTO	Mr Vedral	SAO Board	9.6.2014	2/2014	

Overview of audits whose audit conclusions were approved in 2014							
Audit No. <sup>50</sup>	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)
13/35	State budget revenues from lottery and other similar games	State revenues and other financial operations	MoF	Ms Profeldová	SAO Board	28.7.2014	3/2014
13/36	Funds spent on services aimed at the support of agricultural products and food on the local state market	State's subsidy policy	MoA	Mr Brandt	SAO Board	30.6.2014	3/2014
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	Funds from abroad	MoF, MoE	Mr Neuvirt	SAO Board	8.9.2014	3/2014
13/38	Closing account of the state budget chapter <i>Ministry of Agriculture</i> for the year 2013, their financial statements and financial records for 2013	Closing accounts of state budget chapters and other data for monitoring and managing of public funds	MoA	Ms Steidlová	SAO Board	28.7.2014	3/2014
13/39	Closing account of the state budget chapter <i>Ministry of Transport</i> for the year 2013, the financial statements and financial records of the Ministry of Transport for 2013	Closing accounts of state budget chapters and other data for monitoring and managing of public funds	MoT	Mr Reisiegel	SAO Board	8.9.2014	4/2014

Overview of audits whose audit conclusions were approved in 2014								
Audit No. <sup>50</sup>	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)	
13/40	Management of immovable property and state funds with regard to utilization of this property by selected organisational units of the state	Management of state property and funds	MoF, MoD, MoRD, MoLSA, MoI, MoEYS	Mr Brandt	SAO Board	9.6.2014	2/2014	
14/01	State property and funds allotted to the Ministry of Culture	Management of state property and funds	MoC	Mr Macháček	SAO Board	6.10.2014	4/2014	
14/02	Funds spent on preparation, implementation and operation of the Register of territorial identification, addresses and real estates	Management of state property and funds	COSMC	Mr Kufa	SAO Board	20.10.2014	4/2014	
14/03	Funds earmarked for development and modernisation of waterways and harbours, and for the support of multimodal cargo transportation	Important investment programmes and activities	MoT	Mr Sehoř	SAO Board	6.10.2014	4/2014	
14/04	State funds provided for selected programmes of state budget indicator - <i>General Sport Activity</i>	State's subsidy policy	MoEYS	Mr Hrnčíř	SAO Board	15.12.2014	1/2015	
14/05	Funds earmarked for financing of selected programmes that are in the competence of the Ministry of Labour and Social Affairs	Important investment programmes and activities	MoLSA	Mr Adámek	SAO Board	20.10.2014	4/2014	
14/06	Management of funds earmarked for the support of energy production from the renewable energy resources	State's subsidy policy	MoIT, MoE	Mr Neuvirt	SAO Board	10.11.2014	4/2014	
14/07	EU and state budget funds earmarked for the implementation of the axis V of the <i>Rural Development Programme</i>	Funds from abroad	MoA	Mr Hrnčíř	SAO Board	1.12.2014	4/2014	

Overview of audits whose audit conclusions were approved in 2014							
Audit No. <sup>50</sup>	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)
14/08	State funds in the area of pension insurance	Closing accounts of state budget chapters and other data for monitoring and managing of public funds	MoF, MoD, MoLSA, Mol	Ms Kadaňová	SAO Board	15.12.2014	1/2015
14/09	EU and state budget funds earmarked for the implementation of the Operational Programme Prague – Competitiveness	Funds from abroad	-	Mr Neuvirt	SAO Board	1.12.2014	4/2014
14/10	State budget funds earmarked for the support of cultural activities from the state budget chapter Ministry of Culture	State's subsidy policy	MoC	Mr Kufa	SAO Board	1.12.2014	4/2014
14/13	EU and state budget funds earmarked for the implementation of the project „Revitalisation of the pond Jordán in Tdobar“	Important investment programmes and activities	MoE	Mr Kufa	SAO Board	15.12.2014	1/2015
14/16	Funds earmarked for the development and reconstruction of regional health-care facilities within the Regional Operational Programme - South-East for the period 2007–2013	Funds from abroad	-	Mr Neuvirt	SAO Board	15.12.2014	1/2015
14/39	EU and state budget funds earmarked for financing of projects of regional and supra regional centres for popularisation of science and development within priority axis 3 - Commercialisation and Popularisation of R&D of the Operational Programme Research and Development for Innovation	Funds from abroad	MoEYS	Ms Hykšová	SAO Board	15.12.2014	1/2015



### Appendix 3 to the SAO Annual Report for 2014

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 2014						
Committee resolution no.	Session date	Audit no. <sup>50</sup>	Govt. material ref. no.	Govt. resolution (number/year)	Summary of Committee resolution	
76	12.11.2014	12/16	606/13; 237/14	649/13	<p>The Committee notes:</p> <p>a) the audit conclusion;</p> <p>b) the MoE's opinion on audit conclusion 12/16 as contained in Part III of govt. material ref. no. 606/13;</p> <p>c) the information of the environment minister on the implementation of measures adopted to eliminate the shortcomings referred to in audit conclusion 12/16 ref. no. 237/14.</p> <p>The Committee I. adjourns the discussion of this item;</p> <p>II. requests the transport minister to submit to the Committee by 30.11.2014 a detailed report on the preparation of the tender for a supplier of a toll system based on road usage;</p> <p>III. under Section 39(2) of Act No. 90/1995 Coll., on the rules of business of the Chamber of Deputies, requests the transport minister to attend in person a Committee session discussing the adjourned item.</p>	
74	12.11.2014	12/12	741/13	652/13	<p>The Committee I. adjourns the discussion of this item;</p> <p>II. requests the labour and social affairs minister to submit the following to the Committee by 31.12.2014:</p> <p>a) information about the enumeration of the costs (including related costs) of the transition to the central Labour Office of the CR;</p> <p>b) information about the implementation of corrective measures adopted by the Ministry of Labour and Social Affairs;</p> <p>III. under Section 39(2) of Act No. 90/1995 Coll., on the rules of business of the Chamber of Deputies, requests the labour and social affairs minister to attend in person a Committee session discussing the adjourned item.</p>	
73	12.11.2014	12/35	1123/13; 324/14	766/13	<p>The Committee I. adjourns the discussion of this item;</p> <p>II. requests the labour and social affairs minister to submit the following to the Committee by 31.12.2014:</p> <p>a) information about the enumeration of the costs (including related costs) of the transition to the central Labour Office of the CR;</p> <p>b) information about the implementation of corrective measures adopted by the Ministry of Labour and Social Affairs;</p> <p>III. under Section 39(2) of Act No. 90/1995 Coll., on the rules of business of the Chamber of Deputies, requests the labour and social affairs minister to attend in person a Committee session discussing the adjourned item.</p>	
70	9.10.2014	13/28	920/14	896/14	<p>The Committee I. notes: a) the audit conclusion;</p> <p>b) the opinion of the MoA and State Agricultural Intervention Fund on audit conclusion 13/28 as contained in Part IV of government material ref. no. 920/14;</p> <p>c) the draft government resolution on audit conclusion 13/28 as contained in Part I of government material ref. no. 920/14;</p> <p>II. requests the agriculture minister to adopt measures in the following programming period when designing the monitoring system, which primarily concerns the design of relevant monitoring indicators.</p>	
69	9.10.2014	13/32	1156/14	1022/14	<p>The Committee I. notes: a) the audit conclusion;</p> <p>b) the MoRD's opinion on audit conclusion 13/32 as contained in Part III of govt. material ref. no. 1156/14;</p> <p>c) the draft government resolution on audit conclusion 13/32 as contained in Part I of government material ref. no. 1156/14;</p> <p>d) the SAO's opinion on the MoRD's opinion on audit conclusion 13/32;</p> <p>e) the MoF's comments on the MoRD's opinion on audit conclusion 13/32; II. requests the regional development minister to pay heightened attention to improving the reporting system for finances earmarked for tourism.</p>	
68	9.10.2014	13/30	1088/14	899/14	<p>The Committee I. notes: a) the audit conclusion;</p> <p>b) the MoD's opinion on audit conclusion 13/30 as contained in Part IV of govt. material ref. no. 1088/14;</p> <p>c) the SAO's opinion on the MoD's opinion on audit conclusion 13/30.</p>	

Overview of audits whose approved audit conclusions were discussed by the Committee on Budgetary Control of the Chamber of Deputies of the Parliament of the Czech Republic in 2014						
Committee resolution no.	Session date	Audit no. <sup>50</sup>	Govt. material ref. no.	Govt. resolution (number/year)	Summary of Committee resolution	
67	9.10.2014	13/27	917/14	897/14	<p>The Committee I. notes:</p> <p>a) the audit conclusion;</p> <p>b) the MoD's opinion on audit conclusion 13/27 as contained in Part IV of government material ref. no. 917/14;</p> <p>c) the draft government resolution on audit conclusion 13/27 as contained in Part I of government material ref. no. 917/14; d) the SAO's opinion on the MoD's opinion on audit conclusion 13/27; e) the MoF's comments on the MoD's opinion on audit conclusion 13/27.</p> <p>The Committee notes: a) the audit conclusion; b) the MoF's opinion on audit conclusion 12/01 as contained in Part III of government material ref. no. 269/13.</p>	
65	9.10.2014	12/01	269/13	316/13	<p>The Committee I. adjourns the discussion of this item;</p> <p>II. requests the transport minister to submit the following to the Committee by 9.11.2014:</p> <p>a) information about the tolls collected, operating costs, investment costs and payments for Kapsch CarrierCom s.r.o. (formerly Kapsch s.r.o.);</p> <p>b) a report on the tender for a project manager and on the tender for an independent technical engineer;</p> <p>c) a report on the preparation of the tender for a supplier of the toll system based on road usage.</p>	
64	9.10.2014	12/12	741/13	652/13	<p>The Committee I. adjourns the discussion of this item;</p> <p>II. requests the transport minister to submit the following to the Committee by 31.12.2014:</p> <p>a) an abridged version of the sector strategy and information about the preparation of a binding transport concept; b) an overview of specific measures to improve the preparation and execution of construction works;</p> <p>c) information about negotiations with the MoRD regarding an amendment of the Construction Act;</p> <p>d) the current methodology governing the calculation of pricing standards; the opinion of the Office for the Protection of Competition on the interpretation that extra work and cancelled work cannot be offset when executing construction works, and order of the managing director of the RMD no. 16/2010 – Procedure when contracting for extra work on projects implemented by the Road and Motorway Directorate of the CR;</p> <p>e) directive of the managing director of the Road and Motorway Directorate of the CR no. 18.2013 – Changes to construction works.</p>	
63	9.10.2014	12/18	1002/13; 1134/13	771/13	<p>The Committee I. adjourns the discussion of this item;</p> <p>II. requests the transport minister to submit the following to the Committee by 31.12.2014:</p> <p>a) an abridged version of the sector strategy and information about the preparation of a binding transport concept; b) an overview of specific measures to improve the preparation and execution of construction works;</p> <p>c) information about negotiations with the MoRD regarding an amendment of the Construction Act;</p> <p>d) the current methodology governing the calculation of pricing standards; the opinion of the Office for the Protection of Competition on the interpretation that extra work and cancelled work cannot be offset when executing construction works, and order of the managing director of the RMD no. 16/2010 – Procedure when contracting for extra work on projects implemented by the Road and Motorway Directorate of the CR;</p> <p>e) directive of the managing director of the Road and Motorway Directorate of the CR no. 18.2013 – Changes to construction works.</p>	
51	29.5.2014	13/02	305/14	301/14	<p>The Committee I. notes: a) the audit conclusion;</p> <p>b) the MoF's opinion on audit conclusion 13/02 as contained in Part III of gov. material ref. no. 305/14;</p> <p>c) government resolution no. 301 of 28 April 2014;</p> <p>II. considers audit conclusion 13/02 alarming and supports the conclusion of the MoF opinion that specialised units set up under cooperation between the MoI and MoF must urgently participate in the recovery of unpaid tax.</p>	
48	29.5.2014	13/06	436/14	415/14	<p>The Committee notes: a) the audit conclusion;</p> <p>b) the opinion of the Academy of Sciences of the CR on audit conclusion 13/06 as contained in Part III of gov. material ref. no. 436/14;</p> <p>c) the SAO's opinion of 18 March 2014 on the opinion of the Academy of Sciences on audit conclusion 13/06 as contained in Part V of gov. material ref. no. 436/14.</p>	



Overview of audits whose approved audit conclusions were discussed by the Committee on Budgetary Control of the Chamber of Deputies of the Parliament of the Czech Republic in 2014						
Committee resolution no.	Session date	Audit no. <sup>50</sup>	Govt. material ref. no.	Govt. resolution (number/year)	Summary of Committee resolution	
34	10.4.2014	12/27	1113/13	769/13	<p>The Committee notes: a) the audit conclusion;</p> <p>b) the MoA's opinion on audit conclusion 12/27 as contained in Part IV of govt. material ref. no. 1113/13;</p> <p>c) the opinion of state enterprise River Elbe Administration on audit conclusion 12/27 as contained in Part IV of govt. material ref. no. 1113/13;</p> <p>d) the opinion of state enterprise River Odra Administration on audit conclusion 12/27 as contained in Part IV of govt. material ref. no. 1113/13;</p> <p>e) the opinion of state enterprise River Vltava Administration on audit conclusion 12/27 as contained in Part IV of govt. material ref. no. 1113/13.</p>	
27	10.4.2014	12/09	332/13	315/13	<p>The Committee notes: a) the audit conclusion; b) the MoF's opinion on audit conclusion 12/09 as contained in Part IV of government material ref. no. 332/13.</p>	



## Appendix 4 to the SAO Annual Report for 2014

Overview of audits whose approved audit conclusions were discussed by the government of the Czech Republic in 2014					
Govt. resolution no.	Session date	Govt. material ref. no.	Audit no. <sup>50</sup>	Measures imposed by the government	
1027/14	8.12.2014	1275/14	13/29	The government instructs the defence minister to take measures to eliminate the shortcomings referred to in the audit conclusion contained in Part IV of govt. material ref. no. 1275/14, to assess the implementation of these measures and to inform the government of the result of this assessment by 30 June 2015.	
1026/14	8.12.2014	1236/14	13/22	The government instructs the health minister to implement the measures referred to in the opinion on the audit conclusion contained in Part III of govt. material ref. no. 1236/14, and to inform the government of the implementation thereof by 30 June 2015.	
1025/14	8.12.2014	629/14	13/25	The government instructs the labour and social affairs minister to implement the measures adopted to remedy and eliminate the shortcomings referred to in the audit conclusion and to inform the government of the implementation thereof by 31 December 2014.	
1024/14	8.12.2014	1271/14	13/38	The government instructs the agriculture minister to implement the measures referred to in the opinion on the audit conclusion contained in Part III of govt. material ref. no. 1271/14, and to inform the government of the implementation thereof by 31 December 2015.	
1023/14	8.12.2014	1214/14	13/36	The government instructs the agriculture minister to implement the measures referred to in the opinions on the audit conclusion as contained in Parts IV/B.1. IV/B.2 and IV/B.3 of govt. material ref. no. 1214/14 and to inform the government of the implementation thereof by 31 December 2015.	
1022/14	8.12.2014	1156/14	13/32	The government instructs the regional development minister to implement the measures referred to in the opinion on the audit conclusion as contained in Part III of govt. material ref. no. 1156/14.	
1021/14	8.12.2014	771/14	13/24	The government instructs the regional development minister: 1. to prepare and implement measures responding to the SAO recommendations in the audit conclusion and to implement the measures referred to in the opinion on the audit conclusion as contained in Part III of govt. material ref. no. 771/14; 2. to inform the government of the implementation of measures by 31 March 2015.	
1020/14	8.12.2014	684/14	13/19	The government instructs the regional development minister to implement the measures referred to in the opinion on the audit conclusion as contained in Part III of govt. material ref. no. 684/14.	
1019/14	8.12.2014	1259/14	13/35	The government instructs the 1 <sup>st</sup> deputy prime minister for the economy and finance minister to ensure implementation of the measures referred to in the opinion on the audit conclusion that is contained in Part IV of govt. material ref. no. 1259/14.	
1018/14	8.12.2014	1162/14	13/40	No instruction.	
1017/14	8.12.2014	876/14	13/26	The government instructs: 1. the agriculture and interior ministers to implement measures to eliminate the shortcomings referred to in the audit conclusion as contained in Part IV of govt. material ref. no. 876/14; 2. the agriculture minister to assess the implementation of measures in respect of the audit conclusion and to inform the government of the result of this assessment by 30 June 2015; 3. the first deputy prime minister for the economy and finance minister to implement measures designed to prevent shortcomings in the process of recovering unpaid sums and in the process of implementing municipalities' requests for execution pursuant to the Administrative Code and to ensure better cooperation between the Customs Administration authorities and the imposers of financial penalties.	

Overview of audits whose approved audit conclusions were discussed by the government of the Czech Republic in 2014				
Govt. resolution no.	Session date	Govt. material ref. no.	Audit no. <sup>50</sup>	Measures imposed by the government
1016/14	8.12.2014	673/14	13/18	No instruction.
900/14	3.11.2014	1038/14	13/31	The government instructs the health minister to ensure implementation of the measures referred to in the opinion on the audit conclusion that is contained in Part IV of gov. material ref. no. 1038/14.
899/14	3.11.2014	1088/14	13/30	The government instructs the defence minister to take measures to eliminate the shortcomings referred to in the audit conclusion contained in Part IV of gov. material ref. no. 1088/14, to assess the implementation of these measures and to inform the government of the result of this assessment by 30 April 2015.
898/14	3.11.2014	1061/14	13/34	The government instructs the chairman of the Council of the Czech Telecommunication Office, the chairwoman of the Czech Statistical Office and the managing director of the General Directorate of Customs to implement the measures to eliminate the shortcomings referred to in the audit conclusion as contained in Part IV of gov. material ref. no. 1061/14.
897/14	3.11.2014	917/14	13/27	The government instructs the transport minister to adopt and implement the corrective measures contained in the opinion on the audit conclusion that is contained in Part IV of gov. material ref. no. 917/14 and to inform the government of the implementation of these measures by 31 December 2015.
896/14	3.11.2014	920/14	13/28	The government instructs the agriculture minister and the director of the State Agricultural Intervention Fund to implement the measures referred to in the opinion on the audit conclusion that is contained in Part IV of gov. material ref. no. 920/14, and to inform the government of the implementation thereof by 31 December 2015.
895/14	3.11.2014	906/14	13/21	The government instructs the environment minister: 1. to implement the measures and recommendations referred to in the opinion on the audit conclusion that is contained in Part III of gov. material ref. no. 906/14; 2. to inform the government of progress in the implementation of these measures and recommendations by 30 June 2015.
894/14	3.11.2014	637/14	13/17	No instruction.
416/14	4.6.2014	560/14	13/09	The government instructs the defence minister to take measures to eliminate the shortcomings referred to in the opinion on the audit conclusion that is contained in Part IV of gov. material ref. no. 560/14, to assess the implementation of these measures and to inform the government of the result of this assessment by 31 January 2015.
415/14	4.6.2014	436/14	13/06	The government instructs the president of the Academy of Sciences of the Czech Republic to implement the measures referred to in the opinion on the audit conclusion that is contained in Part III of gov. material ref. no. 436/14.
414/14	4.6.2014	507/14	13/13	The government instructs the health minister to implement the measures referred to in the opinion on the audit conclusion that is contained in Part III of gov. material ref. no. 507/14.
413/14	4.6.2014	449/14	13/23	The government instructs the education, youth and sports minister to implement the measures referred to in Part III of gov. material ref. no. 449/14.
412/14	4.6.2014	420/14	13/20	The government instructs the education, youth and sports minister to implement the measures referred to in Part IV of gov. material ref. no. 420/14.
411/14	4.6.2014	445/14	13/16	The government instructs the transport minister to implement the measures referred to in the opinion on the audit conclusion that is contained in Part IV of gov. material ref. no. 445/14.

Overview of audits whose approved audit conclusions were discussed by the government of the Czech Republic in 2014				
Govt. resolution no.	Session date	Govt. material ref. no.	Audit no. <sup>50</sup>	Measures imposed by the government
410/14	4.6.2014	444/14	13/14	The government instructs the transport minister to implement the measures referred to in the opinion on the audit conclusion that is contained in Part IV of govt. material ref. no. 444/14.
307/14	28.4.2014	356/14	13/07	The government instructs the environment minister: 1. to implement the measures referred to in the opinion on the audit conclusion that is contained in Part III of govt. material ref. no. 356/14; 2. to inform the government of progress in the implementation of these measures by 31 December 2014.
306/14	28.4.2014	100/14	13/08	The government instructs the agriculture minister to implement the measures referred to in the opinion on the audit conclusion that is contained in Part IV of govt. material ref. no. 100/14, and to inform the government of the implementation of these measures by 31 December 2015.
305/14	28.4.2014	359/14	13/04	The government instructs to regional development minister to take into account the outputs from the audit conclusion.
304/14	28.4.2014	291/14	13/12	The government instructs the interior minister to implement measures consistent with the opinion contained in Part IV of govt. material ref. no. 291/14, with the primary aim of optimising the exercise of the functions of administrator and operator of basic registers.
303/14	28.4.2014	363/14	13/11	The government instructs the trade and industry minister to implement the measures adopted to eliminate the shortcomings referred to in the audit conclusion.
302/14	28.4.2014	338/14	13/05	No instruction.
301/14	28.4.2014	305/14	13/02	No instruction.
300/14	28.4.2014	38/14	13/15	The government instructs the 1 <sup>st</sup> deputy prime minister for the economy and finance minister to continue with the commenced legislative initiatives concerning the issue of penalties for breaches of budgetary discipline pursuant to Act No. 218/2000 Coll., on the budgetary rules and amending certain related acts (the Budgetary Rules), as amended, so that the appropriate state of legislation is achieved.
299/14	28.4.2014	379/14	13/10	The government instructs the 1 <sup>st</sup> deputy prime minister for the economy and finance minister to implement the adopted and proposed measures referred to in the opinion on the audit conclusion that is contained in Part II of govt. material ref. no. 379/14.
16/14	2.1.2014	1458/13	13/03	The government instructs the agriculture minister to implement the measures referred to in the opinion on the audit conclusion contained in Part IV of govt. material ref. no. 1458/13, and to inform the government of the implementation thereof by 31 December 2014.
8/14	2.1.2014	1428/13	12/33	The government instructs the defence minister to take measures to eliminate the shortcomings referred to in the opinion on the audit conclusion that is contained in Part IV of govt. material ref. no. 1428/13, to assess the implementation of these measures and to inform the government of the result of this assessment by 30 November 2014.



Overview of audits whose approved audit conclusions were discussed by the government of the Czech Republic in 2014					
Govt. resolution no.	Session date	Govt. material ref. no.	Audit no. <sup>50</sup>	Measures imposed by the government	
7/14	2.1.2014	1371/13	13/01	The government instructs the president of the Office for the Protection of Competition to implement the measures referred to in Part IV of govt. material ref. no. 1371/13 and to inform the government of the implementation thereof by 30 June 2014.	
6/14	2.1.2014	1358/13	12/29	The government instructs the deputy prime minister and interior minister to implement the measures referred to in the opinions on the audit conclusion that are contained in Parts IV/1 and IV/2 of govt. material ref. no. 1358/13, and to inform the government of the implementation of these measures by 31 December 2014.	
5/14	2.1.2014	1200/13	12/20	The government instructs the environment minister to prepare a draft legislative intention for legislation on the disposal and dumping of waste, including hazardous waste, and to inform the government of progress in the performance of this task by 31 March 2014.	
4/14	2.1.2014	1193/13	12/31	The government instructs the transport minister to implement the measures to eliminate shortcomings referred to in the opinion on the audit conclusion that is contained in Part IV of govt. material ref. no. 1193/13, and to inform the government of the implementation thereof by 30 November 2014.	
3/14	2.1.2014	1179/13	12/36	No instruction.	

**Appendix No. 5 to the SAO Annual Report for 2014****List of acronyms**

AAll	Air Accidents Investigation Institute
AS	Army Service, contributory organisation
CIHIC	Czech Industrial Health Insurance Company
CR	Czech Republic
CRAB	Central Register of Administrative Buildings
CSO	Czech Statistical Office
CSSA	Czech Social Security Administration
CTU	Czech Telecommunication Office
CZK	Czech crown
DoW	Directorate of Waterways
DSC	Departmental sports centre
ECA	European Court of Auditors
EDS/SMVS	Information system of programmed financing
EEA	European Economic Area
EGAP	Exportní garanční a pojišťovací společnost, a. s. (Export Guarantee and Insurance Company)
EU	European Union
EUROSAI	European Organisation of Supreme Audit Institutions
GDC	General Directorate of Customs
ICT	Information and communication technologies
INTOSAI	International Organisation of Supreme Audit Institutions
IOP	<i>Integrated Operational Programme</i>
LO	Labour Office of the CR (or its regional offices)
MoA	Ministry of Agriculture
MoC	Ministry of Culture
MoE	Ministry of the Environment
MoF	Ministry of Finance
MoH	Ministry of Health
MoD	Ministry of Defence
MoEYS	Ministry of Education, Youth and Sports
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
NATO	North Atlantic Treaty Organization
NIPEZ	Národní infrastruktura pro elektronické zadávání veřejných zakázek (National Infrastructure for the Electronic Awarding of Public Contracts)
OGRPA	Office for Government Representation in Property Affairs
OG CR	Office of the Government of the Czech Republic
OP	Operation Programme
OPE	<i>OP Environment</i>
OPEI	<i>OP Enterprise and Innovation</i>
OPPC	<i>OP Prague – Competitiveness</i>
OPR	<i>OP Fisheries 2007–2013</i>
OPRDI	<i>Operational Programme Research and Development for Innovation</i>
OPT	<i>OP Transport</i>
PR	Public Relations
R&D	Research and Development
RDP	<i>Rural Development Programme</i>
RMD	Road and Motorway Directorate
ROP SW	<i>Regional Operational Programme of Cohesion Region Southwest</i>
RC SW	Regional Council of Cohesion Region Southwest
RÚIAN	Registr územní identifikace, adres a nemovitostí (Register of territorial identification, addresses and real estate)
SAI	Supreme Audit Institution
SAIF	State Agricultural Intervention Fund
SALSC	State Administration of Land Surveying and Cadastre
SAO	Supreme Audit Office
SEF	State Environmental Fund
SIS	Security Information Service
SPRRA	<i>Special Pension Reform Reserve Account</i>
UN	United Nations
V4+2	Visegrád Four, Austria, and Slovenia
VAT	Value Added Tax
VF	Viticulture Fund



