

Czech Republic
Supreme Audit Office

Annual Report 2011

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February 2012

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The printed version contains also a CD with the SAO's *Annual Report* for the year 2011.

I. Status and Powers of the SAO

1. Basic information on SAO's status and powers

An independent audit is one of the fundamental prerequisites of stability and development of democratic and legal state. It is the Supreme Audit Office (SAO) that performs this audit in our country and the independence of which is guaranteed by the Constitution of the Czech Republic¹.

The independence of the SAO provides for the planning, preparation and execution of the auditing activity being free from the influence of the legislative, executive and judicial powers of the state. Apart from the institutional independence has the SAO also reasonable financial independence. The decisive body in this regard is the Chamber of Deputies of the Parliament of the Czech Republic ('Chamber of Deputies') which approves the State budget, part of which also forms a separate budget heading of *Supreme Audit Office*. The SAO's status, competencies, organisational structure and activity are set out in Act No. 166/1993 Coll., on the Supreme Audit Office.

Pursuant to this Act, the SAO in particular scrutinises the management of state assets and funds collected under law, the implementation of revenue and expenditure units of the State Budget and the management of funds provided to the Czech Republic from abroad. The statutory bodies of the SAO are the President, Vice-President, the Board, the Senates, and the Disciplinary Chamber. To ensure objectivity of scrutinising of the audited facts and the decision making of important matters regarding the audit of the SAO, the cooperative bodies of the SAO (the Board and Senates) are involved.

The fundamental document for the determination of material and time priorities of audit activity is the Audit Plan which is being prepared according to suggestions from audit work, from the Chamber of Deputies, the Senate, their bodies or the Government. After being approved by the SAO Board, the SAO President submits the Audit Plan for information to the Czech Parliament and Government and then it is published in the SAO Bulletin. Results of audits are audit conclusions that summarise and assess facts ascertained by audits. Audit conclusions are worked out from the audit protocols that are completed from the findings at the auditees. Audit conclusions are approved by the SAO Board or Senates.

The SAO performs audits within the defined area of competence and makes appropriate use of the *International Standards of Supreme Audit Institutions of INTOSAI*². To execute the audits the SAO utilises three main types of audit - audit of compliance with the legal regulations (legality audit), performance audit, and financial audit.

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

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

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

¹ Constitutional Act No. 1/1993 Coll., the Constitution of the Czech Republic, Chapter Five, Article 97.

² International Organisation of Supreme Audit Institutions.

2. Board of the SAO

The Board of the SAO consists of the President of the SAO, the Vice-President of the SAO and Members of the SAO. The Board of the SAO approves the Audit Plan, the draft budget of the SAO that is submitted to the Chamber of Deputies, and the closing account of the SAO's budget heading. The Board also approves the Annual Report, rules of procedure of the Board and Senates, disciplinary rules, and audit conclusions. The Board decides on appeals contesting rulings on objections filed against audit protocols and on objections to bias.

The Members of the SAO carry out audits and draw up audit conclusions. They manage audit activities from issuing a warrant to perform an audit to approving a resolution on an audit conclusion. In the following part, there are presented completed audits (in blue) whose audit conclusions were approved in 2011; incomplete audits are marked in green³.



Mr František Dohnal,
President of the SAO



Mr Miloslav Kala,
Vice-President of the SAO



SAO Member since 25.4.2001; he managed 28 audits until the end of 2011, five of which were performed in 2011.

Completed audits: **10/15; 10/24; 10/27**

Incomplete audits: **11/16; 11/31**

Mr Jiří Adámek,
Member of the SAO



SAO Member since 3.5.2002; he managed 27 audits until the end of 2011, four of which were performed in 2011.

Completed audits: **09/26; 10/12; 10/14; 11/06**

Incomplete audits: -

Mr Zdeněk Brandt,
Member of the SAO



SAO Member since 17.9.1993; she managed 52 audits until the end 2011, three of which were performed in 2011.

Completed audits: **10/23; 10/25**

Incomplete audits: **11/27**

Ms Marie Hošková,
Member of the SAO



SAO Member since 11.12.2009; he managed four audits until the end of 2011 (all in 2011).

Completed audits: **10/30; 11/01**

Incomplete audits: **11/05; 11/19**

Mr Pavel Hrnčíř,
Member of the SAO

³ Individual audits are marked by numbers in the Annual Report. These numbers are the same as in the SAO's Audit Plan for the respective year. Audit conclusions and detailed information on finished audits are available in *SAO Bulletins* (in the Czech language only).



SAO Member since 4.6.1998; she managed 32 audits until the end 2011, four of which were performed in 2011.

Completed audits: **09/29; 10/11**
 Incomplete audits: **11/09; 11/33**

Ms Eliška Kadaňová,
 Member of the SAO



SAO Member since 17.9.1993; he managed 51 audits until the end 2011, five of which were performed in 2011.

Completed audits: **10/28;**
 Incomplete audits: **10/26; 11/15; 11/20; 11/28**

Mr Jiří Kalivoda,
 Member of the SAO



SAO Member since 15.9.2009; he managed three audits until the end 2011 (all performed in 2011).

Completed audits: **10/13; 11/32**
 Incomplete audits: **11/25**

Mr Rudolf Kůfa
 Member of the SAO



SAO Member since 9.12.2005; he managed 16 audits until the end 2011, six of which were performed in 2011.

Completed audits: **10/09; 10/22; 11/02**
 Incomplete audits: **11/07; 11/10; 11/37**

Mr Antonín Macháček,
 Member of the SAO



SAO Member since 21.12.2010; he managed 2 audits until the end 2011 (both in 2011).

Completed audits: -
 Incomplete audits: **11/35; 11/38**

Mr Petr Neuvirt,
 Member of the SAO



SAO Member since 17.9.1993; he managed 43 audits until the end 2011, six of which were performed in 2011.

Completed audits: **10/10; 10/17; 10/18; 11/04**
 Incomplete audits: **11/12; 11/18**

Mr Rudolf Němeček,
 Member of the SAO



SAO Member since 18.4.2002; she managed 30 audits until the end 2011, seven of which were performed in 2011.

Completed audits: **10/08; 10/16; 10/21; 11/03**

Incomplete audits: **11/08; 11/24; 11/30**

Ms Zdeňka Profeldová,
Member of the SAO



SAO Member since 30.4.2010; he managed five audits until the end 2011 (all in 2011).

Completed audits: **10/32**

Incomplete audits: **11/11; 11/21; 11/23; 11/36**

Mr Daniel Reisiegel,
Member of the SAO



SAO Member since 15.9.2009; he managed four audits until the end 2011, three of which were performed in 2011.

Completed audits: **10/31**

Incomplete audits: **11/13; 11/14**

Mr Karel Sehoř,
Member of the SAO



SAO Member since 16.11.2006; she managed 12 audits until the end 2011, two of which were performed in 2011.

Completed audits: **10/20**

Incomplete audits: **11/29**

Ms Jaromíra Steidlová,
Member of the SAO



SAO Member since 25.4.2001; he managed 32 audits until the end 2011, six of which were performed in 2011.

Completed audits: **10/19; 10/29**

Incomplete audits: **11/17; 11/22; 11/26; 11/34**

Mr Jan Vedral,
Member of the SAO

II. Assessment of Audit Work Undertaken in 2011

1. Audit Plan for 2011

The Audit Plan, as the document forming the basis for the SAO's audit work, is drawn up each year and approved in a way that best fulfils the SAO's statutory responsibilities. These responsibilities also determined the basic framework for drawing up the Audit Plan for the 2011 financial year, i.e., for the audit work undertaken in such year. At the same time, the plan implements *The Audit Strategy of the Supreme Audit Office*⁴ and, in some of the audits, takes into account the input that the SAO received from the Parliament of the Czech Republic⁵.

The Audit Plan for 2011 contains 31 audits approved by the SAO Board at its meeting held on 3 November 2010. During 2011, the Audit Plan was expanded to include seven additional audits, bringing the total number to 38. The audits cover the following key areas of scrutiny by the SAO:

- state budget revenues and other state budget financial operations - e.g. value added tax administration related to imports from third countries; state budget resources provided by Česká exportní banka, a.s., and management of state-guaranteed funds;
- state subsidy policy - e.g. state funds allocated to support efforts in the field of youth and sport of handicapped citizens; funds for the protection and renewal of cultural monuments;
- management of state assets and funds - e.g. funds used to prepare and implement school-leaving examinations; management of certain state funds;
- management of resources provided to the Czech Republic from abroad - e.g. financial resources from the EU and the state budget (SB) as part of the *Education for Competitiveness* operational programme intended for the *Initial Education* priority axis; funds intended to fulfil the objectives of the common EU migration and asylum policy;
- important investment programmes and projects - e.g. funds earmarked for the material and technological resources of the Police of the Czech Republic; funds expended on purchasing and operating the toll collection system;
- closing accounts of the state budget - e.g. the closing accounts of the state budget heading *Ministry of Education, Youth and Sport* for 2011.

Appendix 1 gives a more detailed overview of the various audits undertaken, including the respective timetables. The individual audits were conducted progressively in compliance with their respective timetables over the course of 2011. Depending on the commencement dates and duration of the audits, the termination dates, i.e., approval of the conclusions of the audits, are planned for 2011 and 2012. For this reason, the results of certain audits were already used in this annual report.

A total 49 changes were implemented in the Audit Plan in 2011. The changes most often concerned the addition of new auditees (30 changes), the addition of new audits (7 changes), the objectives (4 changes) and timetable (4 changes).

In 2011, the SAO obtained five audit suggestions from the Parliament of the Czech Republic, of which one request was included in the Audit Plan for 2011 under Audit No. 11/24 and four will be included in the plans for audits in subsequent periods.

⁴ *The Audit Strategy of the Supreme Audit Office* defines the main focus of audit work in the period 2005-2012. This document is available on the SAO website.

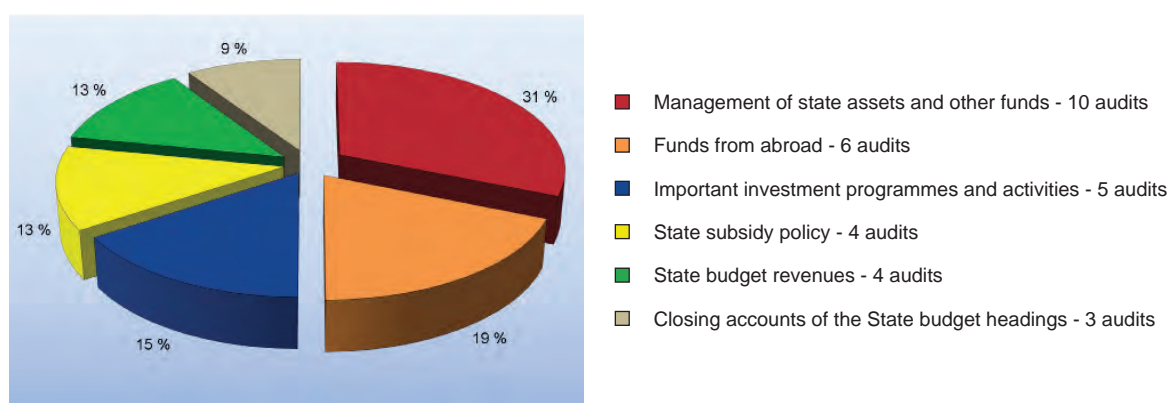
⁵ E.g., as part of Audit No. 11/06 – *State funds and assets that designated national park administrations are authorised to manage* and Audit No. 11/24 – *State funds earmarked from the State budget heading Ministry of Education, Youth and Sport for the support of activities in the field of youth and sport of handicapped citizens*.

2. Results of audits in 2011

The assessment of the results of the SAO's audit work in this section is based on the results of a total of 32 audits, whose audit conclusions were approved by the SAO Board or SAO Senates in 2011. Two of the audits were started in line with the Audit Plan for 2009, 24 in line with the Audit Plan for 2010, and six in line with the Audit Plan for 2011. Through these audits, the state resources and assets managed by 306 audited entities and structures were examined.

Appendix 2 provides an overview of the audits whose respective audit conclusions were approved in 2011. The texts of the approved audit conclusions were published in four issues of the SAO Bulletin and on the SAO website. Graph No. 1 shows the structure of the completed audits by their focus on areas of scrutiny.

Graph No. 1: Focus of audits with Audit Conclusions approved in 2011



The mentioned graph shows that the SAO focused mainly on scrutinising the management of state assets and the funds provided to the Czech Republic from abroad and scrutinising investment programmes and projects of significant scope. It also focused on other important areas of scrutiny.

As confirmed by the results of the conducted audits described in detail herein, the ascertained situations show a high prevalence of shortcomings in the work of the auditees. The way in which certain auditees manage state assets and funds testifies to a failure on the part of the auditees to respect their commitment to use public resources in an economical, effective and efficient manner.

The following are among the most serious findings in each area in 2011:

- inefficiency and lack of economy in the management of certain state receivables, failure to observe transparency of management and equal treatment of entities;
- repeated breach of the State Property Act and accounting regulations;
- non-standard purchases of assets and services;
- cases of non-standard use of state assets;
- absence of binding concepts in important areas;
- insufficient assessment of the fulfilment of programme objectives, expenditure of resources without regard for economy, efficiency and effectiveness;
- shortcomings in the implementation of EU programmes;
- violation of public procurement rules and procedures, uneconomical expenditure of resources;
- insufficient setup and effectiveness of internal monitoring systems;
- shortcomings in the implementation of new accounting regulations.

2.1 State budget revenues and other financial operations of the state budget

In 2011, four audits were conducted in this area: Audit No. **10/08** focused on the administration of fines and penalties for infringement of budgetary discipline; Audit No. **10/09** focused on state budget funds provided to the Guarantee Fund of Investment Firms and the contributions collected by investment firms; Audit No. **10/11** focused on financing operations and state budget funds included in the budget heading *National Debt* (ND); and Audit No. **10/17** focused on receivables managed by the Prison Service of the Czech Republic (PS CR).

The ability of the state to effectively collect state budget revenues is gaining in importance in connection with the ever increasing level of national debt. The efficient collection of revenues should be based on such revenue management that ensures in particular the timely, effective, due and transparent application of the rights of the state while concurrently fulfilling the cost adequacy requirement related to such management.

Based on the findings of the below-listed audits, there are substantial reserves in the efficiency of administration of the selected receivables. Furthermore, it was found that the system for the administration of fines for infringement of budgetary discipline does not ensure the transparency of management or the equal treatment of entities:

- In Audit No. **10/08**, the SAO found that the system of administration of fines and penalties for the infringement of budgetary discipline is inefficient, as it produces a great number of administrative steps, at the end of which the fines and penalties are waived. This state is documented by the fact that in the audited period of 2006-2009, the pertinent records showed that the appropriate tax offices assessed over **CZK 34.5 billion**⁶ and **CZK 33.1 billion**⁷, respectively, worth of fines and penalties, of which the Ministry of Finance (MoF) waived **CZK 31.1 billion**⁶ and **CZK 32 billion**⁷, respectively (i.e., 90% and 97%, respectively), with the costs of such administration amounting to over **CZK 1.2 billion**.

In the audited period as of 2006, the MoF waived fines and penalties first at its own discretion and later in line with an internal guideline depending on the type of infringement of budgetary discipline. Since March 2008, when the reasons for granting waivers were laid down in the Act on Budgetary Rules⁸ as *'reasons worthy of special consideration'*, the MoF has continued according to the internal guideline. It almost never took into account or elaborated the reasons required by the Act. The criteria for waiving fines laid down in the guideline were not available to applicants. The equality of each entity was also not ensured by the adoption of the guideline, as certain cases were documented where the decision-making did not adhere to the guideline. In order to ensure the equality of tax entities and transparency of management, a different form has to be chosen. It is also necessary for the MoF to consolidate the procedure for subsidy providers, so that truly material breaches of subsidy terms and conditions are penalised.

- Audit No. **10/17** also demonstrated the low level of efficiency of receivables management in the case of the receivables of the PS CR. At the end of 2009, PS CR reported receivables amounting to **CZK 1 billion**, of which 52% of the receivables were from prisoners and prisoners following release, with only 25% of the receivables from prisoners and 2.8% of the receivables from prisoners following release being enforced in the audited period. The low level of efficiency in the management of receivables is documented, for example, by the fact that in the case of receivables amounting to **CZK 18 million**, the PS CR undertook 1 173 separate efforts to ascertain the debtors' place of residence and assets and enforce the receivables, but were only success at enforcing **2.5%** of such receivables.

The inadequacy of reimbursements of actual costs by convicted or the accused is another problem. The average monthly costs per prisoner amount to **CZK 27 342** in 2009, whereas under valid legal regulations the convicted persons are obliged to reimburse no more than **CZK 1 500** per month of the costs of the sentence and accused persons a maximum of **CZK 1 395**. Actually received reimbursements of the costs of a prison or other sentence in 2009 amounted to only **CZK 1.8%** of actually expended costs. This enormous difference was caused for the most part by the fact that a legally specified group of convicted persons are relieved of the obligation to reimburse the costs of a sentence and that not all convicted persons were assessed the maximum sentence costs.

⁶ According to data in IS CEDR II – *Central Evidence of Budget Subsidies*.

⁷ According to data in IS ADIS – *Automated Tax Information System*.

⁸ Act No. 218/2000 Coll., on budgetary rules and on amendments to certain related acts (the Budgetary Rules).

The SAO also found significant system shortcomings in its audits aimed at other state budget operations. Such shortcomings pertained to the provision of refundable financial assistance (RFA)⁹, assessment of the costs of servicing the national debt, public procurement procedures, and the setup of monitoring systems:

- Audit No. **10/09** discovered shortcomings in both the MoF and the Guarantee Fund of Investment Firms (the Fund). For example, the MoF, when providing refundable financial assistance to the Fund, failed to specify sufficiently the additional terms and conditions for the use of the funds and released the funds at a time when the beneficiary was not yet in need of them. The Fund then appreciated the value of the received funds in its favour in the form of deposits. The MoF then failed to sufficiently assess the information presented by the Fund about investment firm contributions which exceeded expectations manyfold and did not propose higher RFA repayments of instalments to the Fund. Conversely, the Fund breached budgetary discipline by using part of the budget resources of **CZK 5.9 million** to cover regular expenditure instead of dealing with cases of bankrupt investment firms.
- The SAO discovered a number of irregularities when conducting Audit No. **10/11**. The MoF, in connection with the management of the State Treasury, failed to include funds in foreign currency on the accounts of the National Fund in the *Summary Account of the State Treasury*, although such funds amounted to more than **CZK 40 billion** in 2010. The MoF did not sufficiently assess the impact of issuance of state bonds in foreign currencies and did not assess debt reserve costs at all although in 2008 the difference between the expected and actual balance of the debt reserve amounted to almost **CZK 61 billion**. It also failed to ensure to a sufficient degree the functioning of the internal control system in the area of management control or use its internal audit department to conduct audits of its national debt management efforts. Certain state bonds issues were approved by the buyer only after their closure. When reviewing public contracts, it was discovered in the case of contracts for legal services worth **CZK 8.2 million** that the MoF did not observe the procedure laid down in the Public Procurement Act. For example, when awarding a public contract worth **CZK 3.4 million**, it did not use any of the tendering procedures set out in the Public Procurement Act and assigned this contract directly to one bidder. In 2008 and 2009, the MoF, as the manager of the ND budget heading, breached budgetary discipline when it failed to include revenues of **CZK 4.7 million** in the state budget.

2.2 The state's subsidy policy, management of state assets and other funds

2.2.1 The state's subsidy policy

In 2011, the SAO completed four audits that scrutinised the provision, utilisation and application of funds intended for the following:

- Improving nature and the landscape (Audit No. **10/12**);
- Supporting agricultural operations from national sources (Audit No. **10/21**);
- *Support programme for the revitalisation of former military areas for public use* (Audit No. **10/25**);
- *Green Savings Programme* (Audit No. **10/31**).

In connection with its audit work, the SAO continues to ascertain shortcomings in the methodological, managerial and evaluation efforts of programme administrators and subsidy providers. The programmes created by these groups frequently lack specific objectives and clear indicators, which is the reason for their inability to determine the benefits of subsidy programmes. To a great degree, subsidies are provided without a relationship to the goals and objectives of the programmes and without an assessment of the suitability and effectiveness of expended funds. The obligations of certain programme administrators are thus fulfilled formally but not factually. In follow-up audits, the SAO often finds that shortcomings are not remedied to the necessary extent. This state is documented by the following examples as well:

- Audit No. **10/12** discovered that in the scrutinised programmes of the Ministry of Environment (MoE), almost **CZK 3.7 billion** was expended in the given period for the conservation of nature and landscape.

⁹ Refundable financial assistance means funds from the state budget or the National Fund that are provided free of interest to legal or natural persons for a specific purpose and that the beneficiaries are obliged to repay under specified terms and conditions.

This audit, just like Audit No. 04/01¹⁰ conducted six years earlier, revealed a high proportion of funds devoted to the construction and reconstruction of water reservoirs to the detriment of other nature conservation measures. It was discovered that the priority of the subsidy beneficiaries was the more extensive use of these reservoirs (fish management, recreation) compared to the original nature conservation plans. Assessment of the *Programme for the Revitalisation of River Systems* thus shows the fundamental differences between plans and reality; for example, still prior to the termination of the programme, the target parameter related to reservoir construction was exceeded tenfold; conversely, the parameters characterising different types of efforts (revitalisation of watercourses, marshlands, fish ladders) was not fulfilled to a substantial degree. It was further discovered that part of the *Landscape Conservation Programme* pertaining to the open landscape cannot be assessed because the MoE did not specify any objectives or indicators. Furthermore, the MoE, in respect of the operational programme *Environment* (OPE) or, more precisely, the part aimed at supporting nature and landscape conservation, set target indicators so low that their values have already been fulfilled at this time or have been exceeded many times over and are thus not fully usable for the purpose of evaluating the success of the programme. For example, the number of projects focusing on the water regime is almost four times above the target value.

- As stated by the SAO in its audit conclusion to Audit No. **10/25**, the Ministry of Regional Development (MoRD) did not create the conditions that would allow for an objective final assessment of the *Support Programme for the Revitalisation of Former Military Areas for Public Use*. The reason for this was the fact that the MoRD, in connection with the extension of the deadline for implementing non-updated parameters and in the decision on the provision of subsidies, set parameters in certain cases that were different from the documentation.
- When conducting Audit No. **10/31**, the SAO also discovered that the *Green Savings Programme* had been affected by an absence of complete and reliable information about its material and financial development, which had a negative impact on the quality of the management of programme administration. By selling AAU¹¹, the MoE secured about **CZK 19.5 billion** for the purposes of the programme, although the sum of subsidy requests in the received applications ended up exceeding available resources by approx. **CZK 10.5 billion**. Ongoing monitoring of the achievement of programme objectives, i.e., the reduction in CO₂ emissions, should have been provided via GIS, which, however, was unable to provide this service. Due to the absence of this information, it was not possible to assess the degree to which CO₂ emissions were reduced in the audited period. In its decrees, the MoE did not even set the evaluation of applications according to the criteria of effectiveness, i.e., in terms of the ratio of the subsidy amount to the expected reduction in CO₂ emissions. Maximum effectiveness in the fulfilment of the primary programme objective was thus not ensured. The SAO demonstrated that upon expending the same volume of resources, greater reductions in CO₂ emissions could have been achieved.

In its audits, the SAO focused on subsidy providers and beneficiaries also in terms of the fulfilment of the terms and conditions under which funds from the state budget are drawn. It is shown that in particular the non-observance of rules and procedures stipulated by the Public Procurement Act¹², where contracts are divided up purposefully or economic criteria are suppressed, does not provide guarantees of the economical use of the funds provided. The setup and effectiveness of the monitoring systems of certain programme administrators, as shown in the following cases, were also found to be questionable:

- Audit No. **10/25** revealed, for example, that two subsidy beneficiaries during procurement procedures divided up below-threshold public contracts worth **CZK 53 million**. Furthermore, the SAO discovered that two beneficiaries breached budgetary discipline by approx. **CZK 14 million** when utilising subsidies.
- When conducting Audit No. **10/21**, the SAO discovered that the Ministry of Agriculture (the MoA), with respect to certain subsidy programmes for the support of agricultural operations, failed to perform any audits in accordance with the Act on Financial Control¹³. Agencies for agriculture and the countryside,

¹⁰ Audit conclusion to Audit No. 04/01 – *Funds expended on the Programme for the Revitalisation of River Systems* was published in volume 4/2004 of the *SAO Bulletin*.

¹¹ AAU (*Assigned Amount Units*) – a tradable emission unit allocated to a state based on the Kyoto Protocol. One AAU authorises the holder to release one tonne of CO_{2e} in the period 2008-2012, where CO_{2e} is the carbon equivalent of CO₂ (carbon dioxide), i.e., an expression of the effect of various greenhouse gases on climate change only by the effect of CO₂.

¹² Act No. 137/2006 Coll., on public procurement.

¹³ Act No. 320/2001 Coll., on financial control in public administration and on amendments to certain acts (the Financial Control Act).

which are part of the MoA, failed to prove in certain cases that they conducted preliminary audits of subsidy applications or failed to conduct such audits sufficiently. Testifying to the level of work and audits in the field of subsidies is the fact that the MoA neither recorded nor transferred data about paid out subsidies for the period 2007-2009 totalling **CZK 1.2 billion** into the CEDR information system, thereby violating the provisions of the Act on Budgetary Rules.

- Audit No. **10/31** found that the funds expended to ensure administration and promotion of the *Green Savings Programme* were not always used in an economical manner. In the case of public contracts for the administration of requests by the selected banks, the State Environmental Fund (SEF) set out the evaluation criteria in a different way, so that it could involve all of the five banks with which it had concluded frame agreements in the administration. In doing so, it overrode the economic benefit of these contracts. In the case of the public contract for the purchase of an information system, the SEF divided up the contract into three subcontracts to keep the project from being awarded as a whole within an open tendering procedure. The SEF expended the funds earmarked for this public contract in an uneconomical manner, as the contractual price was paid in full although the supplier did not supply the full scope of the deliverables under the contract. In the case of the contract for the creation of an audiovisual work, the SEF did not take the opportunity to verify the economic benefit of the tenderer's bid and, in doing so, did not ensure that the funds were expended in an economical manner.

2.2.2 Management of state assets

In 2011, nine audits aimed at reviewing the management of state assets and funds by the departments of public establishments, allowance organisations and one state enterprise were completed. Audit No. **10/13** was performed at selected archives, Audit No. **10/16** at selected museums, Audit No. **10/18** at the state enterprise DIAMO, Audit No. **10/22** at the MoRD, Audit No. **11/01** at selected hygienic stations, Audit No. **11/02** at the Ministry of Industry and Trade (MoIT), Audit No. **11/06** at selected national parks, and Audit No. **11/32** at the Czech Trade Inspection (CTI). Audit No. **11/03** conducted at the Ministry of Justice (MoJ), in turn, scrutinised the funds designated for indemnification under the Act on Liability for Damages Caused by Execution of Public Authority¹⁴.

Already in previous annual reports, the SAO stated a host of serious shortcomings in connection with acquiring and disposing of state assets, including cases where such assets were not used in a standard way. Certain auditees, in violation of the Act on Property of the Czech Republic¹⁵, are failing to use the assets in an efficient or effective manner to implement state operations or discharge their responsibilities or are curtailing the revenues from such assets irresponsibly. The unsatisfactory state in this area is also demonstrated by the findings from the audits concluded in 2011:

- For example, Audit No. **10/13**, which focused on auditing tangible fixed assets at state archives, found that the Ministry of the Interior (MoI), as asset replacement manager, approved the investment plan for the project *Purchase of the Former Augustinian Cloister in Třeboň* in 2008 and released **CZK 47 million** from the state budget despite knowing that 32 rental housing units are located in this building. The purchased real estate does not serve the state archive, and without the buildings being vacated and extensive reconstruction being undertaken, it cannot be used by the state archive.
- In connection with Audit No. **10/22**, which focused mainly on managing fixed assets that the MoRD is in charge of managing, the SAO found serious shortcomings in the conclusion of certain lease agreements. For example, in the case of five agreements on the lease of non-residential premises where the annual lease amount totalled **CZK 3.7 million**, the MoRD did not arrange the possibility to withdraw from the contractual relationships should the tenants not fulfil their obligations duly on time or cease to fulfil the stipulated contractual terms and conditions. Furthermore, in 2010, the MoRD reduced the monthly lease amount by more than **CZK 300 thousand** without stating the reason for doing so, thereby reducing revenues from the leased property baselessly although the lessee owed more the **CZK 4 million** to the MoRD in the period concerned.
- Another example of the inefficient use of assets was revealed by Audit No. **11/01**, when the Regional Hygienic Station (RHS) of the Moravskoslezský Region concluded an agreement on the lease of outside means of transport although it had its own means of transport at its disposal. It thus expended

¹⁴ Act No. 82/1998 Coll., on liability for damage caused by the execution of public authority by a decision or incorrect official procedure and on amendments to Czech National Council Act No. 358/1992 Coll., on notaries and their activities (the Code of Notarial Practice).

¹⁵ Act No. 219/2000 Coll., on the property of the Czech Republic and the representation of the Czech Republic in legal relations.

uneconomically almost **CZK 376 thousand**. Other shortcomings in the conclusion of lease agreements were discovered at six RHS.

- Audit No. **11/02** also found that the MoIT had not proceed in compliance with the Act on Property of the Czech Republic. The MoIT baselessly curtailed revenue from the assets which it is authorised to manage by almost **CZK 1.4 million**, when it permitting a company to use non-residential premises for 5 years without legal justification and without requiring this company to provide deliverables (payment) in exchange for the use of the leased non-residential premises.
- Audit No. **11/06** revealed that no conceptual document had been approved for the development of national parks (NPs); for this reason, the development of NPs in the audited period was chiefly governed by the current opinions of the representatives of the MoE, which did not tie onto each other. It is clear from the example of NP Šumava that a long-term binding environmental protection strategy defining the target state for the NP concerned and the gradual and term-related steps for achieving this state is missing. The view on nature conservation, especially the management of forest ecosystems, was then subject to changes. An unclear and changing concept can lead to the inefficient use of state funds.

The efforts of certain auditees in connection with defending the legitimate interests of the state in connection with the management of receivables were also inefficient. Substantial gaps exist in the managing and monitoring systems, making it possible to not observe the respective legal regulations or good practice in the management of state assets. The following are examples of some of the findings from the audits:

- Audit No. **11/03** found that the MoJ, in the period 2007-2010, did not act in compliance with the Act on the Property of the Czech Republic when, in a number of cases, it did not process indemnification applications within the six-month deadline for recognising or rejecting claims, nor did it file appeals in time against payments orders where it did not recognise the reason for or amount of the requested indemnity, nor did it attend courts hearings without giving an excuse for its absence. The MoJ thus baselessly reduced state assets and did not use all legal resources available to it when exercising and defending the rights of the state. The SAO found that the inflexible organisation of the MoJ and the lack of use of its competencies to file proposals for disciplinary measures also contributed to the very low percentage of enforced regressive payments. The SAO stated that, in the area of indemnification, the MoE has an entirely non-functional internal control system.
- The SAO found other irregularities related to the defence of state rights when auditing the CTI in Audit No. **11/32**. It ensued from a comparison of the receivables subject to divided administration that differences existed between the value of the receivables handed over by the Czech Trade Inspection and the value of receivables received by the customs administrations and tax offices. For example, certain receivables arising from penalties imposed by the CTI were not recorded by the CTI or any of the respective customs offices after a period of 9-22 months, and so no efforts to enforce them were undertaken. This raises doubts about the functioning of the system of divided administration in terms of effectively exercising and enforcing the rights of the state.

In its audit conclusions and annual reports, the SAO repeatedly calls attention to shortcomings in accounting, reporting, recordkeeping, and, last but not least, stocktaking and reconciliation of assets and liabilities. The situation in this area is not improving, however. For this reason, the SAO is again forced to state in its audit conclusions approved in 2011 that most auditees violated accounting regulations. For this reason, the examples below are only illustrative:

- Audit No. **11/01** revealed shortcomings in stocktaking at the regional hygienic stations. For example, the RHS for the Středočeský Region did not ascertain the current state of its assets and did not perform stocktaking of immovable assets valued by an expert opinion at almost **CZK 53 million** and moveable assets with an accounting value of **CZK 1.4 million**. Nine out of ten audited RHSs did not account for leased and borrowed assets in the off-balance sheet accounts and four RHSs did not monitor fine ledgers (pokutové bloky) on the off-balance sheet accounts.
- The MoIT's accounting, which was scrutinised by Audit No. **11/02**, was found to be incomplete, incorrect or inconclusive in 2009 and 2010. In certain cases, the MoIT did not ascertain the current state of its long-term financial assets when performing stocktaking. The audit found that shortcomings persisted

in legal regulations on valuating capital participations of the state in companies, as had been stated in Audit No. 05/35 and Audit No. 6/20¹⁶. Shortcomings in accounting were already ascertained by Audit No. 06/20; however, the MoIT has failed to set up a system that would put an end to the repeated violation of accounting regulations.

Audit of public contracts is part of most audits aimed at the area of management of state assets. Not even in 2011 did certain auditees proceed in a way that would create the conditions in the public procurement process for the efficient utilisation of funds from the state budget. Breach of the public procurement rules and procedures are demonstrated by the following findings:

- Audit No. **11/01** discovered that the RHS of the Pardubický Region had not call a tender for the purchase of automobiles worth **CZK 500 thousand** in compliance with the rules of transparency and equality and non-discrimination, as it did not retain documentation, did not choose the lowest bid, and inquired after a specific model of vehicle. The RHS of the Olomoucký Region had not conduct the selection of a supplier for the reconstruction of an immovable asset, a contract worth **CZK 1.7 million**, in a transparent manner.
- Audit No. **11/02** found that the MoIT had divided up the public contract for the acquisition of passenger cars worth **CZK 3.6 million** in a way that reduced the amount of the contracts to below the financial threshold stipulated by the law. Audit No. **10/16** called attention to a similar approach taken by the Moravian Museum and the Wallachian Open-Air Museum.
- Audit No. **11/32** discovered that the Czech Trade Inspection had not observed the rules of transparency, equality and non-discrimination when awarding certain public contracts. The CTI also failed to justify the hiring of external providers of legal services to enforce receivables in 2008-2010 when it was in possession of a legal department that was responsible for enforcing receivables at such time. At the same time, it did not duly justify its approach when hiring external legal services for seven agreements with costs of **CZK 5.2 million**. Shortcomings were also discovered in the case of training and consulting costs.

2.2.3 Management of other funds

One audit in the area of management of other financial resources was completed in 2011. Audit No. **09/29** focused on funds collected pursuant to the Act on the General Health Insurance Company of the Czech Republic (GHIC CR).

The SAO found that the GHIC CR in 2007 and 2008 failed to show that it had undertaken stocktaking and reconciliation of receivables from public health insurance and did not account for the depreciation of receivables worth **CZK 118 million** in the period to which these facts related in terms of substance and time. It was found that the GHIC CR collects certain receivables from payers only after a long period of time, which greatly reduces the success of enforcement. In the scrutinised cases, this concerned receivables totalling **CZK 51 million**, which existed continually for more than five years. The GHIC CR collected only **0.2%** of such receivables in 2007 and 2008. For the period of 2000-2009, the GHIC CR wrote off receivables from payers of insurance premiums totalling **CZK 19.6 billion**, of which **CZK 5.8 billion** (i.e., 29.5%) comprised insurance write-offs.

The audit further discovered that valid legal regulations on obligations related to payments for rendered health care are in many cases ambiguous, do not tie onto each other as required, or have already been refuted in practice or are applicable only in part.

At variance with the basic principle of public health insurance (i.e., to pay for provided health care from collected insurance premiums), the GHIC CR paid for the *Electronic Health Card* project from the primary fund of the GHIC CR, which reduced the amount of funds available for health care services. The SAO stated that the project was outside the framework of the obligations imposed on the GHIC CR in connection with the provision of health care.

¹⁶ Audit conclusion to Audit No. 05/35 – *Capital participation of the state in companies with their seat in the Czech Republic* was published in volume 3/2006 of the *SAO Bulletin*; audit conclusion to Audit No. 06/20 – *Closing account of the state budget heading Ministry of Industry and Trade* was published in volume 1/2007 of the *SAO Bulletin*.

2.3 Important investment programmes and projects

In 2011, five audits aimed at the most important expenditure were completed in the following areas:

- Transport infrastructure (Audit No. **10/15** – construction of the D3 motorway; Audit No. **10/24** – renovation of railway rolling stock);
- Financially significant programmes and projects (Audit No. **10/10** – Acquisition of selected technology for the Armed Forces of the Czech Republic (AFCR); Audit No. **10/27** – Public private partnership project *Accommodation for Central Military Hospital Staff, Hotel-Type Accommodation and Parking Lot*; Audit No. **10/30** – Construction of the new National Technical Library in Prague 6 - Dejvice).

The SAO's long-term objective is to ascertain the reason why auditees do not do their utmost to use state funds in the most economical and effective manner. The basic reason for the current state of affairs is the absence or insufficient elaboration of long-term conceptual and strategic documents. If conceptual and strategic documents do exist, they are not sufficiently specific and binding and their observance is not enforceable. This makes it possible for ministers and subordinate organisations to fundamentally change priorities and technical and financial parameters of projects according to who is in charge of decision-making at a given time. It should also be emphasised that hundreds of billions of Czech crowns are expended on public procurement in this area¹⁷. Here the SAO finds especially little transparency in public procurement procedures, an absence of an economic assessment, and shortcomings in defining deliverables and setting evaluation criteria. Such shortcomings also increase this risk of opportunities for corrupt behaviour. The fact that the SAO's findings repeatedly indicate insufficient volition or ability on the part of certain auditees to address the situation is alarming.

The above situation is demonstrated by the following examples:

- Audit No. **10/10** found that the AFCR does not have a clear concept for the purchase of technology which would stipulate the amount of technical equipment required and define the financial framework and timing for the acquisition of such equipment. This makes it possible for the Ministry of Defence (MoD) to purchase military technology without sufficiently substantiating the need for it in terms of timing of the purchase, amount and even type of equipment. For example, when purchasing mid-size terrain vehicles, 976 vehicles proved sufficient after a reduction in the source framework, compared to the originally substantiated requirement for 2 485 automobiles. The request to purchase ARTHUR radio-locators was substantiated by their need in foreign missions; however, since their purchase in 2004, these devices have not been deployed in such missions. Highly disadvantageous was the replacement of tactical transport aircraft, which took place two to five years earlier than originally approved by the government. The reason for the replacement should have been a suitable exchange of 12 unnecessary L-159 aircraft for 4 CASA aircraft, although the Chief of the General Staff of the Czech Armed Forces called attention to the disadvantageousness of the exchange, especially with regard to the insufficient range and capacity of such aircraft. In the end, however, five L-159 aircraft were exchanged for only one CASA aircraft, which, however, had to be repaired at great cost. The remaining three CASA planes were purchased. The purchase of the four CASA planes ended up costing **CZK 4.8 billion**, with the MoD circumventing the government financing restrictions on the programme under which the purchase was executed and paying almost **CZK 1 billion** from other non-investment sources of its budget heading. Although the absence of conceptual material for the development of the AFCR was already mentioned by the SAO in Audit No. 06/19 and Audit No. 07/21¹⁸, the MoD did not adopt any measures that would remedy the ascertained state of affairs.

The MoD purchased technology predominantly without applying selection procedures. Instead, it used intermediaries, which substantially limited the amount of information disclosed about the adequacy of the price. In lieu of a transparent selection process, it tried to have the technology classified as military material, thus making use of an exemption in the Public Procurement Act allowing it to not conduct a tender. In this way, for example, the MoD, in the purchase of Tatra terrain vehicles, subsequently added a parameter that the vehicles had to be armoured. Thus, the subject of the contract was classified as

¹⁷ For example, as at 17 January 2012, the information system on public contracts (IS VZ) indicates that the value of public contracts in 2010 amounted to CZK 197 billion (excluding VAT).

¹⁸ Audit conclusion from Audit No. 06/19 – *Aircraft for the tactical air force of the Armed Forces of the Czech Republic* was published in volume 2/2007 of the *SAO Bulletin*; Audit conclusion from Audit No. 07/21 – *State assets and funds from the state budget designated for air defence of the state* was published in volume 2/2008 of the *SAO Bulletin*.

military material, although the price of the contract, in light of the armouring requirement, was increased by **CZK 294 million**. The MoD joined forces with the MoD of the Slovak Republic to purchase IVECO light armoured vehicles, which allowed them to circumvent EU rules on public procurement, as an exemption to these rules applies to the purchase of military technology by two or more Member States. EC regulations on awarding public contracts do not apply in the above case as well.

- Similarly, in Audit No. **10/15**, the SAO stated that the Ministry of Transport (MoT) did not have a binding concept for the construction of the road and motorway network and that the frequency with which the concept was changed was disproportionate. In the case of the D3 motorway, design work was suspended at the time when construction documentation for a land-use planning decision was drawn up for almost the entire route. The dates for completing the D3 motorway were moved back a number of times, the last to 2020. Preparations for the construction of the D3 motorway have been underway for almost 20 years; nevertheless, its route across the Středočeský Region has still not been resolved. The Road and Motorways Directorate (RMD) has already expended **CZK 47 million** since 2002 on elaborating studies and evaluating various options for the route across this territory. The sources of financing of the D3 motorway construction have not been clarified nor have the funds needed for it been specified. The SAO has called attention to the absence of a binding concept a number of times, the last time in Audit No. 09/16 and in Audit No.09/27¹⁹. The ascertained state of affairs has not changed at the MoT either.

There were shortcomings also with respect to public procurement procedures, especially in terms of creating a sufficiently competitive environment and ensuring transparency of the entire process. For example, the RMD had awarded a public contract for six structures worth **CZK 10.4 billion**, with the construction of the *Bridge Across Koberný Lake* being executed for the highest price ranging from **CZK 1 078 million** to **CZK 1 246 million** based on the valuations provided by four tenderers. The MoT also did not proceed in an entirely transparent way in the case of contracts for the provision of legal services. It did not choose the tenderer who should have provided services under the public contract based on evaluation criteria; instead it made use of an exemption under the law that in special, substantiated cases allows it to conclude a contract with any tenderer at its discretion. The MoT did not duly substantiate its actions and awarded the contract to the tenderer with the highest bid price. The difference between the higher price offered by this tenderer and the other tenderer was **CZK 56 million**.

The SAO also calls attention to fundamental system shortcomings where state funds do not have the obligation to observe rules for financing programmes in accordance with the Act on Budgetary Rules, as was discovered in Audit No. 10/15, which scrutinised the funding of the D3 motorway from the State Fund for Transport Infrastructure (SFTI). On the other hand, even though the ministries, as the programme administrators, have the obligation to observe these rules, the SAO, in certain cases, has found that through the programmes they do not ensure targeted and effective allocation of funds from the state budget. The following audit found examples of such shortcomings:

- Audit No. **10/24** called attention to the fact that in programmes for the acquisition and renovation of rolling stock, the MoT had set up a non-transparent system of targets, indicators and parameters, making it impossible to assess the programmes. The Ministry of Transport did not carry out an assessment of the effectiveness of the resources expended on implementing the programmes and, in the case of completed programmes, did not perform a proper assessment of the fulfilment of set targets, indicators and parameters. Their fulfilment, however, could not be effectively and demonstrably achieved, especially with regard to the anticipated financing sources for the programmes. Czech Railways (CzR) obtained finances in the amount of **CZK 11.8 billion** from the sale of assets – these finances were designated for the renovation of rolling stock. CzR, however, used only **CZK 8 billion** for this purpose, with the remaining **CZK 3.8 billion** being used to settle other payables, including salaries and wages. In 2003 to 2007, state-guaranteed loans were provided to CzR. In this connection, the SAO recommends that the bodies of CzR in which the state has its representatives monitor the financial situation at CzR with the aim of assuring themselves that CzR has the ability to duly pay off the state-guaranteed loans in the period 2013-2017.

During the implementation of important investment programmes and projects, construction costs, compared to expectations, continuously increased and the deadlines for their completion

¹⁹ Audit conclusion from Audit No. 09/16 – *Funds intended for the construction of the D47 motorway from Lipník nad Bečvou to the Polish border* was published in volume 2/2010 of the *SAO Bulletin*; Audit conclusion from Audit No. 09/27 – *Funds designated for road construction* was published in volume 4/2010 of the *SAO Bulletin*.

continuously moved forward. The most marked increase in construction costs can be seen in transport infrastructure construction. The primary causes of this state of affairs include insufficient motivation to assess construction project costs, the absence of effective instruments to optimise the construction project costs, problems with obtaining the appropriate land-use planning decisions and construction permits and, at this time, economic problems and the related financing restrictions.

- An example of this is Audit No. **10/15**, which found that in the period from 2006 to 2010, planned costs increased by **52%** in 23 construction projects related to the D3 motorway, and the risk is real that costs will rise even further. Greatly influencing the rising costs is chiefly the fact that the RMD failed to put in place effective price optimisation rules during the project preparatory phases, did not assess the technical design of bridges in terms of investment and operating costs and did not even evaluate the distance between interchanges (elevated junctions), which is less than in other European countries. The uneconomical manner in which the investor arranged for technical supervision was also contributing to costs. During the preparatory phase of the operations, local authorities and special-interest groups requested additional structures, which increased the planned costs of the number of construction projects significantly, even by billions of crowns. Based on these findings, a reasonable solution would be to propose such legislative measures that would make it impossible to add structures not directly related to infrastructure projects.

A current issue in this period of reduced expenditure from the state budget is the selection of the method used to finance the state's investment projects. It is becoming apparent that financing projects in the form of PPP projects²⁰ or supplier loans²¹, which have been prepared or implemented in specific cases, has brought substantial risk and disadvantages in the form of substantial increases in mandatory expenditure for the state. Not a single project examined by the SAO on the state level had been implemented, although costs of up to CZK 390 million have been or will be spent on their preparation (especially advisory services and other costs). In the past year, the SAO completed two audits, the subjects of which were also PPP projects (Audit No. 10/15 and Audit No. 10/27). Audit No. 10/30 focused on the financing of a project in the form of a supplier loan. The results of the audit show that the contracting authorities for these projects did not have the subject of the project sufficiently developed or substantiated and were not able to demonstrate in a credible manner the economic benefit of the project. At the same time, the contracting authorities failed to secure financing for these projects. When a project was executed, instruments that would ensure the fulfilment of the declared benefits for the state were not put in place. Similar shortcomings were ascertained by the SAO in 2008 through Audit No. 08/16, which scrutinised the PPP project *Construction of a Court Complex in Ústí nad Labem*²².

- Audit No. **10/15** found that the MoT had planned the construction of the D3 motorway in the Jihočeský Region in the form of a PPP project without even being clear about the subject of the project and without demonstrating the appropriateness of implementing the project in the form of a PPP. It did, however, change the content of the PPP project proposal, often even changing the managing and advisory bodies, and in the end did not even implement the option approved by the government in 2008. Preparation for the PPP project began in 2003 without substantial results and at least **CZK 120 million** has been expended thereon.
- As shown by the results of Audit No. **10/27** in the case of the PPP project *Accommodation for CMH Staff, Hotel-Type Accommodation and Parking Lot*, the MoD and the Central Military Hospital (CMH) had not based the subject of the PPP project proposal on clear and properly demonstrated needs or on the financial possibilities of the CMH and the state budget. During preparations, the CMH, with the MoD's consent, expanded the original project (accommodation with a capacity of 240 beds and parking lot with a capacity of 200 cars) to include a swimming pool, which should also have been used by the private partner for commercial purposes. After concluding the contract for the PPP project, it designated this plan as non-essential and above its financial resources. The MoD and the CMH took

²⁰ A PPP (*Public-Private Partnership*) is a project where the construction and operation of an investment is carried out by the private partner to whom costs and profit are reimbursed and paid by the state (the public sector or users of the services) over a stipulated period of time.

²¹ Supplier loan is a form of financing an investment by a strategic partner, who implements and finances the project through his own resources. The loan provided by a strategic partner is paid back by the state over a stipulated period of time.

²² Audit conclusion from Audit No. 08/16 – *Public private partnership project Construction of a Court Complex in Ústí nad Labem* was published in volume 4/2008 of the *SAO Bulletin*.

steps to approve the PPP project regardless of it becoming apparent after receiving bids during the private partner selection procedure that the costs of the plan would increase fivefold compared to the original costs, i.e., from **CZK 1.3 billion to CZK 6.4 billion**, and did not undertake an assessment of whether the increased costs corresponded to their financial possibilities. The CMH did not demonstrate objectively the merit of implementing the project in the form of a PPP. Despite all of the above facts, the CMH did not make use of the contractual possibility to withdraw from the agreement and concluded an addendum in which it undertook to reimburse the private partner for costs of up to **CZK 175 million** in case of termination of the agreement. The SAO did not find any relevant reasons for undertaking to reimburse such costs. In connection with the preparation of the PPP project, the MoD and CMH expended an additional **CZK 42 million** on advisory services.

- Audit No. **10/30** demonstrated the inappropriateness and disadvantageousness of the method chosen by the Ministry of Education, Youth and Sport (MoEYS) to finance the construction of the National Technical Library in Prague 6 – Dejvice, i.e., with the involvement of a strategic partner, who co-financed the project in the form of a supplier loan. The total planned costs of the construction amounted to **CZK 1.6 billion**; upon the involvement of a strategic partner, the costs should have risen to **CZK 1.8 billion**. The government took note of this approach; nevertheless, the National Technical Library (NTL) and the MoEYS accepted the bid price of **CZK 2.1 billion**, which was far from final, however. The total costs of the building increased during the construction to **CZK 2.4 billion**, i.e., by **CZK 786 million**, with regard to the expected total costs of the building. At the same time, the economic parameter of the construction “*price per unit of measure of built up area*” was increased by **38%** compared to the parameter that the MoEYS indicated in the programme documentation. Other parameters were also not observed: the building was completed two years later than planned and the deadline for repayment of the loan was extended by three years. The increase in costs occurred not only for the reason of greater expenditure by the strategic partner, but also for the reason of payment of other supplies and services, which even included unusually expensive fittings. A negative effect on the amount of costs was also the fact that the strategic partner was not contractually bound to document actual work and supplies. The MoEYS did not inform the government of the Czech Republic about the increase in the project costs or of the extension of the deadline for its completion until fifteen months after the changes were made.

2.4 Funds from abroad

In compliance with one of its fundamental strategic objectives, i.e., auditing the management of funds provided to the Czech Republic from abroad, the SAO conducted six audits in 2011 that focused, as a priority, on these funds. From the mentioned number, only one audit did not pertain to the EU budget, which represents the most important foreign source in terms of financial flows.

The audits focused on funds provided to the Czech Republic through the following means:

- regional operational programmes for transport infrastructure projects (Audit No. **09/26**);
- operational programme *Environment* in the area of waste disposal (Audit No. **10/14**) and on air quality and emission reduction (Audit No. **11/04**);
- *Rural Development Programme* (RDP) in the area of improvement of competitiveness in agriculture and forestry (Audit No. **10/28**) and improving the environment and landscape (Audit No. **10/29**). Audit No. 10/29 was conducted as a pilot project for audits coordinated by the SAO and the European Court of Auditors (ECA);
- financial mechanisms of the European Economic Area and Norway (Audit No. **10/23**).

The results of the conducted audits indicate again and again an increased degree of shortcomings that pertain in particular to reimbursement of non-eligible expenditure, including unexecuted work and supplies, public procurement, application administration, projects selection, and setup of monitoring mechanisms. Shortcomings were also identified in management, methodology and evaluation.

If we assess these shortcomings in terms of how the system of reviews and oversight functions and how the anticipated financial and substantive deliverables of each of the various programmes are achieved, then the irregularities in management, methodology and evaluation appear to be fundamental, as the following examples show:

- Audit No. **09/26** discovered shortcomings in the implementation systems of the various regional operational programmes. As a result of the inflexible system of decision-making on the granting of

subsidies, in 2007 and 2008, funds from the state budget provided via the MoRD for financing regional operational programmes were, for almost the entire budget period, substantially higher than actually required in terms of purpose and time. The MoRD did not stipulate in its decision that interest income stemming from advances provided from the state budget for pre-financing and co-financing regional operational programmes should be used by the various regional councils of cohesion regions as part of the share of co-financing by the state. The MoRD also did not stipulate which methodological documents issued by the appropriate bodies of the MoRD – the Audit Authority and the Payment and Certification Authority – are binding for the regional councils, making coordination of regional operations programmes more difficult on the national level. The SAO also calls attention to insufficient legislation on the forms of granting subsidies. The regional councils thus made use of contracts concluded under the Commercial Code for the purpose of granting subsidies. This leads to situations where clearly public law relationships are governed by private law agreements.

- Audit No. **10/14** discovered that in 2003-2007, the MoE and SEFCR had expended almost **CZK 3.4 billion** from the state budget and the EU funds on improving waste management although they did not assess the benefits of the improvements or the effect of this support on fulfilment of the objectives of the *Waste Management Plan of the Czech Republic*²³. A total of **CZK 15 billion** is earmarked in the OPE for improving waste management in the period 2007-2013; nevertheless, the MoE did not create a sufficient system of indicators for assessing the benefits of assistance from this programme. Further, neither the MoE nor the SEFCR monitored the actual use of the waste management facilities acquired from OPE funds. The MoE did not update the *Waste Management Plan of the Czech Republic*, nor did it adjust its objective to be in line with valid legislation. One of the most problematic objectives of this plan is the reduction of the amount of biologically degradable communal waste taken to dumps, which objective should have been attained as early as 2010. Developments and the current state in this area indicate that not even the target laid down in EU legislation for 2013 will be achieved. The Czech Republic thereby is exposing itself to the risk of penalties from the European Commission.
- Audit No. **11/04** also discovered that the MoE, at the time when the audit was concluded, failed to assess the environmental impact of the assistance on the overall improvement of air quality in the Czech Republic, despite the fact that funds in the amount of **CZK 5.5 billion** from public sources and the EU budget (excluding OPE funds) had been utilised for this area in the period 2003-2010. Another area of financing is priority axis 2 of the OPE, for which a total of **CZK 18.1 billion** has been earmarked for the 2007-2013 period. After almost four years from the start of the implementation of the OPE, the percentage of assistance for financially completed (paid out) projects amounted to only **0.3%**. Because of this, there is a real threat that the amounts allocated in this programme will not be utilised. The reason for the low utilisation of funds is also the absence of effective instruments that would motivate polluters to make the necessary investments into improving air quality. A basic measure in this direction should have been an amendment to, or a completely new, Air Protection Act, which the MoE presented after a delay of almost two years and had still not been adopted by the end of the audit. The situation where the Czech Republic does not fulfil the majority of emission limits stipulated by the EU could even lead to the imposition of penalties by the European Commission (EC). The audit conclusion of Audit No. 07/02²⁴ had already called attention to the non-fulfilment of requirements under EU law and to the possible imposition of penalties by the EC.

When auditing the application administration and project selection system, the SAO has found again and again that project evaluations are not always performed in a way that would support projects that would fulfil the set programme objectives in an economical, effective and efficient manner. Shortcomings in this connection are also found in the way monitoring indicators are set up: these are often rather just statistical values than ones that would allow verification of the relationship between projects and the fulfilment of programme objectives. The following audits illustrate this:

- Audit No. **09/26** found substantial shortcomings in the evaluation system of two regional councils of cohesion regions (RC). The RC for Střední Čechy, for example, had not ensured observance of the principle of sound financial management, i.e., that projects are chosen based on economy,

²³ The *Waste Management Plan of the Czech Republic* is drawn up by the MoE in compliance with its responsibilities under Act No. 185/2001 Coll., on waste and on amendment to certain other acts. It forms the effectual basis for drawing up regional waste management plans and for decision-making and other efforts of the appropriate administrative authorities, regions and municipalities in the area of waste management.

²⁴ Audit conclusion from Audit No. 07/02 – *Funds in the area of air quality protection* was published in volume 4/2007 of the *SAO Bulletin*.

effectiveness and efficiency. The RC Střední Čechy had not set up the corresponding indicators in the monitoring system for certain activities that would allow such activities to be monitored. As part of the *Regional Operational Programme North-East*, the tenderers had declared certain objectives in the project applications whose fulfilment did not have to be demonstrated through monitoring indicators.

- Similarly, Audit No. **10/28** indicated that the MoA, as the managing authority of the RDP, had set up project selection criteria that were too general and with no relationship to the specific projects and with almost no connection to the project results. The monitoring indicators chosen by the MoA did not allow the quality and result of implemented projects to be assessed, thereby also preventing assessment of the fulfilment of the objectives of the entire programme. The output and result indicators were set up rather as economic or statistical indicators and did not allow verification of the effectiveness and efficiency of the expended resources.
- An illustrative example of shortcomings in terms of programme administration and setup of the target values of indicators can also be found in Audit No. **10/12**, which focused primarily on state subsidy policy in the area of improving nature and the landscape. With regard to their prevailing focus, the findings from this audit are set out in part 2.2.1. Not only do the shortcomings pertain to funds allocated from the SB to financing investment programmes, they also pertain to funds from the EU (operational programmes *Infrastructure* and *Environment*).

The greatest number of shortcomings found in 2011 pertained to reimbursements of non-eligible costs and public procurement. These facts pertain to the insufficient setup and execution of audits by providers and intermediaries, which should work to effectively prevent, reveal and remedy errors in all phases and levels of financial management of programmes. The following audits provide examples of such shortcomings:

- Audit No. **09/26** discovered failures of audits conducted by certain regional councils in the area of public procurement and in the area of substantive project implementation. Thus, expenditure amounting to **CZK 22 million** had been reimbursed illegitimately in three cases in the Středočeský Region and in one case in the Vysočina Region. Budgetary discipline had been thereby also breached by both the final beneficiaries and the appropriate regional councils.
- Audit No. **10/23** revealed errors in how public administration reviews had been set up. The Ministry of Finance did not require rigorous fulfilment of obligations by the contact points involved in the process of selecting recommended projects. The general setup of public administration reviews by the MoF also showed shortcomings. For example, in one project, which was recommended for implementation, the MoF did not discover a conflict of interest of the evaluation committee members when it conducted a preliminary public administration review prior to the establishment of a commitment. By releasing funds as a result of such error, the MoF breached budgetary discipline by almost **CZK 16 million**. The Ministry of Culture, as the intermediary, approved the reimbursement of expenditure to one beneficiary based on agreements, despite having recommended that such agreement be terminated for the reason of doubts in the selection of suppliers. By doing so, it also breached budgetary discipline in the amount of **CZK 6.2 million**. As a result of the absence of legal regulations on the enforcement of funds, the MoF committed unauthorised enforcement of funds in a number of cases which concerned a discrepancy but not a breach of budgetary discipline. The SAO called attention to insufficient legislation in this area.

Shortcomings were also ascertained with respect to fund beneficiaries, most often in the area of public procurement. A breach that appeared again and again was the division of below-threshold public contracts into separate minor contracts, e.g., the Wallachian Open Air Museum in Rožnov pod Radhoštěm thus violated the Public Procurement Act in the case of contacts worth a total of **CZK 73 million**.

- The audit conclusion from Audit No. **10/28** stated that the MoA had not dealt with the shortcomings of the internal control system for an extended period of time, namely methodological findings and preliminary audits, nor did it conduct public administration reviews at the State Agricultural Intervention Fund (SAIF). The shortcomings that the SAO discovered with respect to the SAIF or at the MoA consisted in the incorrect setup of project selection criteria, insufficiently conducted administrative reviews of projects especially in the area of public procurement audits and eligible expenditure audits. As a result, the SAIF illegitimately paid out **CZK 7.4 million** to three beneficiaries. The SAIF also incorrectly assessed the admissibility of seven projects purposively divided up by three applicants in order to obtain higher subsidies, did not terminate their administration and paid out almost **CZK 59 million** to these projects illegitimately, thereby breaching budgetary discipline.

- Audit No. **10/29** also found a number of system-related shortcomings at the MoA and SAIF that had had or could have had an influence on the correctness of payments provided to beneficiaries. This concerned in particular the incorrect setup of penalties in the area of eligibility and conditionality, which were not in compliance with EU Regulations. As a rule, lower penalties were imposed on beneficiaries than should have been. The SAO verified on a selected sample of imposed penalties that the imposed penalties for breach of rules amounted to approx. one-third of the penalties that could have been calculated in line with EU regulations. The calculation of eligible expenditure for the renewal of forest potential after disasters was also incorrectly set up, which led to the uneconomical management of public funds, as the same objective could have been achieved using fewer funds. Another system shortcoming was the incorrect approach to calculating the area of land blocks and the incorrect determination of the amount of the subsidies to be provided for certain land blocks.

2.5 Audit of closing accounts of state budget headings

Every year, the SAO financial audits seek to verify the reliability of the data of financial statements and financial reporting submitted as the basis for the closing accounts of the most significant state budget headings. At the same time, it verifies whether the auditees proceeded in line with the relevant legal regulations when compiling the closing accounts for the headings. The situation with the audits concluded in 2011 was different from previous years as a result of the public finance accounting reforms that took effect on 1 January 2010.

In 2011, three audits were conducted in this area:

- Audit No. **10/19** – annual accounting data and financial statements of the Czech Social Security Administration (CSSA) for 2010;
- Audit No. **10/20** – closing account of the state budget heading MoEYS for 2010;
- Audit No. **10/32** – closing account of the state budget heading *Czech Statistical Office (CSO)* for 2009.

These audits verified the data included in the financial statements of the auditees for the mentioned periods. According to the data in the financial statements, assets amounted to **CZK 520 billion**, expenditure totalled **CZK 509 billion** and revenues totalled **CZK 348 billion**. According to the data in the auditees' statements on budget implementation, revenue amounted to **CZK 348 billion** and expenditure totalled **CZK 495 billion**.

The SAO, when conducting audits, runs across facts again and again that indicate serious shortcomings in documentation serving to process the closing accounts of the state budget headings. The auditees did not maintain their books in a correct, complete and conclusive manner in accordance with the Accounting Act and other regulations, when, for example:

- the MoEYS, in its financial statements, recorded long-term contingent payables in relation to EU resources in an amount that is **CZK 3.6 billion** higher than in actuality (Audit No. **10/20**);
- the CSSA, as a result of the incorrectly chosen method of portraying written-off receivables in the financial statements, undervalued expenditures and revenues from social security contributions by **CZK 3.5 billion** in the profit and loss account (Audit No. **10/19**);
- the MoEYS, in its financial statements, did not record receivables from refundable financial assistance provided to Masaryk University in Brno in the amount of **CZK 1.8 billion** (Audit No. **10/20**);
- the CSSA accounted for sickness insurance premiums of **CZK 559 billion** on an incorrect income account (Audit No. **10/19**);
- the CSSA, as a result of failing to account for unpaid enforcement deductions from pensions of liable persons in the balance sheet, undervalued payables from social security allowances by **CZK 142 million** and, at the same time, overvalued by the same amount the reported profit/loss of the current accounting period (Audit No. **10/19**);
- the CSO recorded on an incorrect account payable the amount of **CZK 40 million** representing net December salaries allocated to employees via their bank accounts at various banking institutions (Audit No. **10/32**);
- the CSO incorrectly, without any substantiation, debited the final balance of account no. 902 – Current Asset Fund, i.e., **CZK 25 million**, to various cost accounts, thereby entirely eliminating the current asset fund (Audit No. **10/32**);

- the CSSA incorrectly accounted for unutilised December advances on pensions in the amount of **CZK 22 million**, thereby overvaluing costs from social security and other revenues from activities by this amount in the profit and loss account (Audit No. 10/19).

A violation of legal regulations by the auditees in the area of financial management was also discovered:

- The CSSA acted at variance with budgetary rules when it did not transfer unpaid enforcement deductions from the pensions of liable persons in the amount of **CZK 142 million** to the deposit account. Furthermore, the CSSA used funds amounting to **CZK 614 thousand** illegitimately when, prior to implementing budgetary measures, it implemented expenditures above the budgeted amount according to the provisions on items of budgetary composition (Audit No. 10/19).

As the audit findings show, accounting and reporting rules for organisational units of the state for 2010 were not clear, comprehensible or complete in their entirety to allow in all cases an assessment of the correctness or incorrectness of their application in the accounting and reporting in 2010. Certain provisions of new accounting regulations, especially in the area of disposal of fixed assets, estimated payables to transfers, valuation differences of assets intended for sale, minor fixed assets and accumulated depreciation related to these assets, and the pre-financing of expenditures co-financed from the resources of the European Union was in 2010 unclearly applicable to some selected accounting entities²⁵. For this reason, the SAO could not provide a statement on either the balance statements of certain accounts (Audit No. 10/19) or even on the reliability of the financial statements as a whole (Audit No. 10/20).

- With regard to the date on which new accounting regulations were issued and the extent of the changes that these regulations represented for accounting entities, selected accounting entities had only limited time to acquaint themselves with the new regulations and implement them in a way that would allow them to apply new accounting methods to their accounting systems, make changes to the newly defined synthetic accounts and fulfil the other obligations stipulated by the new accounting regulations by 1 January 2010. The same situation repeated itself in 2011. Table No. 1 provides an overview of accounting regulations and their changes in connection with the accounting reform.

²⁵ Selected accounting entities are branches of the state, state funds under budgetary rules: the Land Fund of the Czech Republic, local governments, voluntary municipal associations, regional councils of cohesion regions, allowance organisations and health insurance companies.

Table No. 1: Overview of changes to accounting regulations

Regulation	Distributed/Force	Effective date
Act No. 563/1991 Coll., on accounting (amended by Act No. 304/2008 Coll. – part)	17 July 2008	1 January 2010
Act No. 563/1991 Coll., on accounting (amended by Act No. 410/2010 Coll.)	29 December 2010	1 January 2011
Decree No. 383/2009 Coll., on technical requirements	10 November 2009	1 January 2010
Decree No. 383/2009 Coll., on technical requirements (amended by Decree No. 434/2010 Coll.)	31 December 2010	31 December 2010
Decree No. 383/2009 Coll., on technical requirements (amended by Decree No. 437/2011 Coll.)	28 December 2011	1 January 2012
Decree No. 410/2009 Coll.	25 November 2009	1 January 2010
Decree No. 410/2009 Coll. (amended by Decree No. 435/2010 Coll. – part)	31 December 2010	31 December 2010
Decree No. 410/2009 Coll. (amended by Decree No. 435/2010 Coll. – part)	31 December 2010	1 January 2011
Decree No. 410/2009 Coll. (amended by Decree No. 403/2011 Coll.)	19 December 2011	1 January 2012
Decree No. 410/2009 Coll. (amended by Decree No. 436/2011 Coll.)	28 December 2011	1 January 2012
Decree No. 270/2010 Coll., on stocktaking of assets and liabilities	20 September 2010	5 October 2010, according to previous statute 2011
Czech Accounting Standard for Selected Accounting Entities No. 701 – <i>Accounts and accounting principles in the accounts</i>	31 December 2009	1 January 2010
Czech Accounting Standard for Selected Accounting Entities No. 701 – <i>Accounts and accounting principles in the accounts</i> – novella	20 December 2011	1 January 2012
Czech Accounting Standard for Selected Accounting Entities No. 702 – <i>Opening and closing of accounting books</i>	31 December 2009	1 January 2010
Czech Accounting Standard for Selected Accounting Entities No. 702 – <i>Opening and closing of accounting books</i> – amendment	31 December 2010	31 December 2010
Czech Accounting Standard for Selected Accounting Entities No. 703 – <i>Transfers</i>	31 December 2009	1 January 2010
Czech Accounting Standard for Selected Accounting Entities No. 703 – <i>Transfers</i> – new wording of standard	31 December 2010	1 January 2011
Czech Accounting Standard for Selected Accounting Entities No. 703 – <i>Transfers</i> – amendment	20 December 2011	1 January 2012
Czech Accounting Standard for Selected Accounting Entities No. 704 – <i>Funds of the entity</i>	31 December 2009	1 January 2010
Czech Accounting Standard for Selected Accounting Entities No. 705 – <i>Reserves</i>	31 December 2010	1 January 2011
Czech Accounting Standard for Selected Accounting Entities No. 706 – <i>Impairment and disposal of claims</i>	31 December 2010	1 January 2011
Czech Accounting Standard for Selected Accounting Entities No. 706 – <i>Impairment and disposal of claims</i> – amendment	20 December 2011	1 January 2012
Czech Accounting Standard for Selected Accounting Entities No. 707 – <i>Stocks</i>	31 December 2010	1 January 2011
Czech Accounting Standard for Selected Accounting Entities No. 707 – <i>Stocks</i> – amendment	20 December 2011	1 January 2012
Czech Accounting Standard for Selected Accounting Entities No. 708 – <i>Depreciation of fixed assets</i>	30 March 2011	31 December 2011
Czech Accounting Standard for Selected Accounting Entities No. 708 – <i>Depreciation of fixed assets</i> – amendment	20 October 2011	31 December 2011

Note: Amendments pertaining to the same regulation are marked with the same colour.

With regard to the fact that new regulations are usually issued immediately prior to the effective date (see Table No. 1), they contain a number of interim provisions. As a result of the frequent amendment to regulations, it can occur in certain cases that the interim provisions (which are not amended) cease to be valid after a new amendment is adopted; thus the regulations are confusing. Attention should be called to the fact that Czech Accounting Standards for Selected Accounting Entities are not submitted for standard external contradictory process, which also results in their failure to address in a clear way the entire scope of the regulated issue.

The auditees cannot, however, be reproached for the ambiguity and vagueness of application of accounting regulations. Selected accounting entities are obliged in compliance with the Accounting Act to account for the state and movement of assets and other assets, liabilities and other liabilities, for expenditure and revenues, and for profit/loss. One of the conditions for fulfilment of these statutory requirements is that the rules set out for bookkeeping and reporting are comprehensible, clear and complete. Czech accounting, however, lacks a comprehensively formulated basis for structuring financial reporting, i.e., a conceptual framework. It can only be derived indirectly from the numerous provisions of accounting regulations. At the same time, the conceptual framework should, in addition to providing definitions and key terms, declare what the purpose and objective of financial reporting is, how this objective is to be achieved and who the financial statements are intended for. The absence of a conceptual framework and clear definition of terms thus leads to the non-uniform application of accounting regulations and, in the end, to the reporting of incomparable information and to the impossibility to assess the reported balances of certain accounts or even the reliability of the financial statements as a whole. The central public administration authority for the area of accounting is the Ministry of Finance. Drawing up such concept is its responsibility as is giving due attention to the legal regulations pertaining to matters in its purview.

The above illustrated situation, i.e., a lack of time and capacity that the selected accounting entities have to acquaint themselves with the new regulations and implement them, repeated itself again in 2011. New accounting regulations, which in certain cases increase substantially the scope of work and obligations for the selected accounting entities, came into force in 2011 and then became effective on 1 January 2012. This concerns, for example, the extensive amendment of Decree No. 410/2009 Coll.²⁶, which brings certain important changes to reporting, and the amendment to Decree No. 383/2009 Coll.²⁷, which imposes the obligation on selected accounting entities to draw up new information for the needs of government statistics, i.e., the auxiliary analytical overview.

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

The SAO submitted to the Chamber of Deputies of the Parliament of the Czech Republic its *Opinion on the Draft State Closing Account of the Czech Republic for 2010* and its *Opinion on the Report on Implementation of the State Budget Process for the First Half of 2011*²⁸. The SAO based its opinions on the state closing account on the audit conclusions and other findings from its audit and analytical activities.

In its *Opinion on the Draft State Closing Account of the Czech Republic for 2010*, the SAO calls attention to negative developments in connection with the public budget, where the deficit management of public budgets and especially the state budget leads to a further increase in national debt. It repeatedly calls attention to the fact that the draft state closing account does not contain an assessment of the costs associated with the debt financing reserve and points out certain problems tied to the management of the state budget and the provision of state guarantees. In its assessment of the closing accounts of the various state budget headings, the SAO summarises shortcomings in the scope and quality of the processed closing accounts of the state budget headings and the assessment reports. In the opinion, it also lists the findings from the audits focused on the effective and efficient disposal of state funds and assets, as well as specific violations of the appropriate regulations. Findings from the conducted financial audits of the state budget headings and from audits of the utilisation of funds from the European budget are also listed separately.

²⁶ Decree No. 410/2009 Coll., implementing certain provisions of Act No. 563/1991 Coll., on accounting, as amended, for selected accounting entities.

²⁷ Decree No. 383/2009 Coll., on accounting records in the technical form of selected accounting entities and their transfer to the state's central system of accounting and on the requirements for technical and composite forms of accounting records (technical decree on accounting records).

²⁸ The SAO submits this opinion based on Section 5 of Act No. 166/1993 Coll., on the Supreme Audit Office.

In its *Opinion on the Report on Implementation of the State Budget Process for the First Half of 2011*, the SAO assesses the ongoing implementation of the state budget, warns of the negative impact and possible problems tied to sourcing of utilised entitlements from unused expenditures, and calls attention to the lack of transparency in reporting in the area of development of state financial assets and liabilities and the national debt. Furthermore, the SAO warns of continuing negative tendencies in the development of state budgets deficits and to the deteriorating results of management of state funds as a result of shortages of own revenues and the resulting dependence on subsidisation from the state budget. The SAO states, as one of the shortcomings, the absence of numerical data in the part of the material focused on the condition for implementation of the state budget by the end of 2011.

2.7 Discussion of audit conclusions in bodies of the Czech Parliament and Government

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

The discussion of audit conclusions is the most fundamental aspect of cooperation between the Czech Parliament and the Czech Government on the one hand and the SAO on the other. The SAO's key partner in the Parliament is the Committee on Budgetary Control of the Chamber of Deputies (the CBC). The CBC discusses the SAO's audit conclusions, its Annual Report, the draft budget heading of the SAO, its closing account, the SAO's opinion on the state closing account, and other materials.

In 2011, the CBC discussed a total of six of the SAO's audit conclusions. Audit conclusions are usually discussed by the CBC in the presence of SAO representatives and representatives of the auditees. For every audit conclusion, the CBC adopts a resolution acknowledging the audit conclusion in question. If an audit conclusion has already been discussed by the Czech Government, the CBC acknowledges both the audit conclusion in question and the opinion of the concerned Government department on the audit conclusion. Resolutions often state the identified shortcomings and, at the same time, instruct the Government, or the Ministry or Minister in question, to remedy the state of affairs or (if appropriate) to submit additional materials (concepts, reports, a list of remedial measures, etc.). Appendix 3 hereto gives an overview of audit conclusions discussed by the CBC in 2011 and a summary of the resolutions adopted.

The Czech Government also discussed all audit conclusions in 2011. Audit conclusions are sent to the Prime Minister, who passes them on to the relevant Ministry for an opinion. The audit conclusion and the Ministry's opinion are then discussed at a session of the Government. In 2011, the Government discussed 17 of the SAO's audit conclusions in this way. It adopted a resolution acknowledging each audit conclusion as well as the opinion or information provided by the Ministry concerned. In most cases, these resolutions had a section issuing instructions; there was often also a deadline by which the Minister concerned had to inform the Government about the implementation of remedial measures. Appendix 4 hereto gives an overview of audit conclusions discussed by the Government in 2011 and a summary of the measures imposed.

2.8 Cooperation with law enforcement authorities

In 2011, the SAO, based on the findings from the audits, filed, in accordance with Section 81 of the Criminal Code²⁹, four notifications suggesting the fact that a crime could have been committed:

- Based on serious shortcomings ascertained by Audit **09/26** in connection with the examination of utilisation of funds from the regional operational programmes for transport infrastructure, a criminal complaint was lodged for the reason of suspicion of a crime.
- Another criminal complaint was lodged in connection with a finding from Audit No. **10/27**, which was aimed at the implementation of the public private partnership project *Accommodation for CMH Staff, Hotel-Type Accommodation and Parking Lot*.

²⁹ Act No. 141/1961 Coll., on criminal judicial proceedings (Code of Criminal Procedure).

III. Financial Evaluation of Audit Work

1. Summary financial evaluation of audits

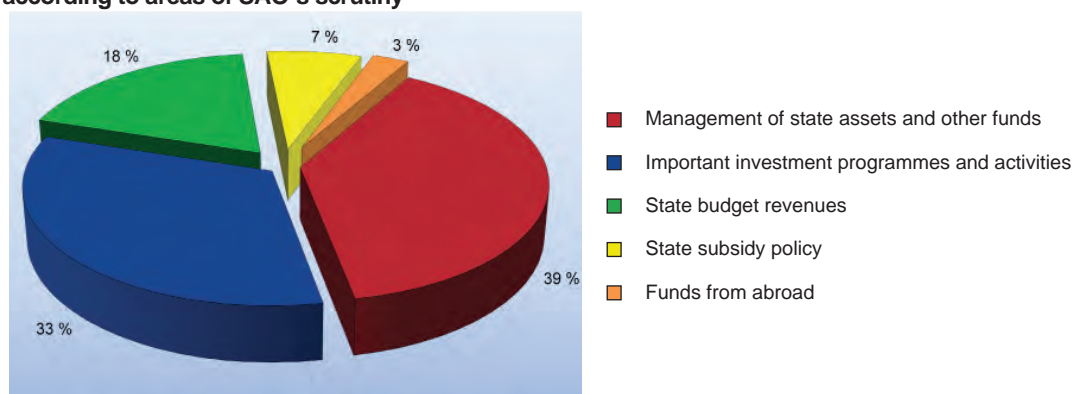
As part of audit evaluation for the previous year, the SAO also monitors the summary financial evaluation of audits by means of an indicator of the total volume of audited state funds and assets.

The audits whose audit conclusions were approved in 2011 scrutinised funds and assets in a total volume of **CZK 150 billion**³⁰.

This mainly provides information about the total extent of audited state budget revenue and expenditure items, EU funds provided to the Czech Republic, state assets and other funds (e.g., extra-budgetary finances of state funds). The total volume of funds and assets under scrutiny is affected primarily by the number of audits as well as the subject and objective of the audits performed.

Graph No. 2 shows the structure of the total volume of finances and assets scrutinised in 2011. The funds and assets examined in individual audits were expressed according to the different areas of focus of the SAO's audits, which have been set out in the previous sections of this Annual Report.

Graph No. 2: Structure of the audited volume of funds and assets according to areas of SAO's scrutiny



The biggest share of audited funds and assets from the mentioned areas comprised audits focussing on management of state assets and other funds, on important investment programmes and operations and on state budget revenues and other operations. The greatest volume of scrutinised funds and assets were contained in audits focussing on management of state assets by the MoIT, management of fines for breaches of budgetary discipline and funds expended on purchasing certain armaments for the Czech Armed Forces.

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

Particular audit findings that relate to the auditees' tax obligations and in respect of which a loss can demonstrably be expressed may be used by the relevant financial authorities in collection of funds or when adopting measures to prevent unauthorised management of state assets. Based on these audit findings, the SAO, where justified, discharged its notification duty in respect of the territorial financial authorities pursuant to Act No. 280/2009 Coll., the Tax Code, as amended.

Under its duty to notify the relevant financial authorities, a total of **26** notifications concerning state budget expenditure were sent out in 2011 based on the results of 17 audits. These notifications (including financial audits) related to funds totalling **CZK 404 million**.

³⁰ Data from audits focussing on scrutinising the closing accounts of the state budget are not included in the total volume (see part 2.5 hereof), nor are funds assessed in connection with the auditing the strategic and conceptual materials and, similarly, not even the total volumes of funds of the programmes in connection with audits of the activities of their administrators or intermediating entities. In the area of other SB operations, the value of financing operations tied to the issuance of state bonds are not included in the volume of audited funds in the *National Debt* heading.

IV. Evaluation of Other Activities

1. Other SAO activities related to audit work

In May 2011, a proposed government amendment to Article 97 of the Constitution of the Czech Republic was presented to the Chamber of Deputies of the Parliament of the Czech Republic. The amendment aims to expand the remit of the SAO, especially with regard to the possibility to scrutinise the management of the assets of local governments. Submitted along with the government amendment was the related draft amendment to Act No. 166/1993 Coll., on the Supreme Audit Office (Parliamentary Journal Nos. 351 and 352). Certain comments that the SAO made to the government proposals were presented during the meetings of the committees of the Chamber of Deputies that were responsible for dealing with these proposals.

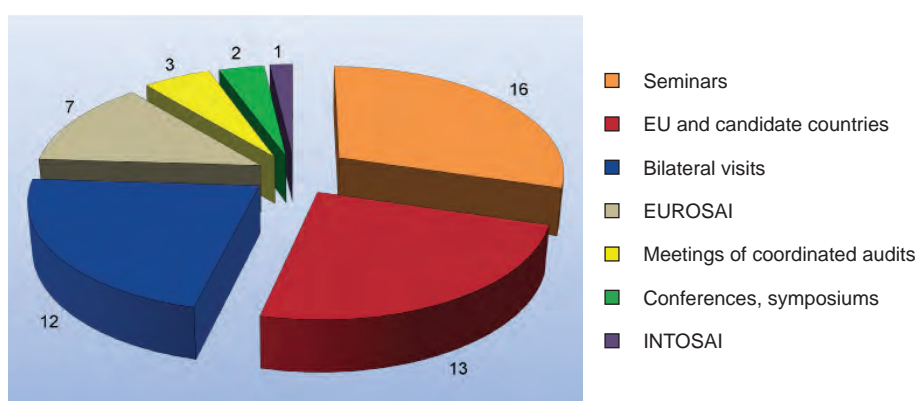
In an inter-departmental contradictory procedure conducted pursuant to the *Government's Legislative Rules*, the SAO gave its opinion on draft legislation that concerned it as an organisational unit of the state or fell within its competence. In 2011, the SAO obtained a total 158 legislative drafts. The SAO presented specific comments, stemming primarily from audit findings, on 44 drafts. Particular attention was paid to the draft amendment to the Act on Budgetary Rules and the draft amendment to the Accounting Act as well as the drafts of the related implementing regulations.

2. International cooperation

International cooperation in 2011 concentrated mainly on exchanging the experience of SAO staff at international seminars, at events organised by the SAIs³¹ of the various EU Member States and candidate countries, and on bilateral cooperation. Bilateral cooperation primarily took place with the Supreme Audit Institutions of Germany, Slovakia, and Georgia and the European Court of Auditors.

SAO representatives attended a total of 54 events abroad. The purpose of most of the trips was attendance at seminars aimed at exchanging experience and increasing the participants' knowledge of the various audit areas and involvement in the negotiations and efforts of the SAIs of the EU Member States and candidate countries. Bilateral visits were a significant component of the total number of events. The main topics of discussion included auditing of public contracts and transport networks, performance audit, anti-corruption efforts, and environmental and agricultural audits. Graph No. 3 shows the structure of trips abroad made by SAO representatives.

Graph No. 3: Number and focus of business trips abroad by SAO's representatives in 2011



A pivotal international cooperation event was the 8th EUROSAI³² congress, which was held in Lisbon in late May and early June. The two main themes of the congress focussed on the challenges, requirements and obligations of public sector managers and the role of the supreme audit institutions and on the audit of independent regulatory agencies. The creation of the *EUROSAI Strategic Plan for 2011-2017* was a first in the history of EUROSAI. This plan defines four strategic goals: *Capacity Building* – facilitating

³¹ SAI – Supreme Audit Institution.

³² EUROSAI – European Organisation of Supreme Audit Institutions.

the development and strengthening the institutional capacity of EUROSAI members (Chairman: the SAI of France); *Professional Standards* – Promoting and facilitating the implementation of the International Standards of Supreme Audit Institutions (ISSAI) and contributing to their further development (Chairman: the SAI of Germany); *Knowledge Sharing* – Encouraging cooperation and exchanging of experience among EUROSAI members, within INTOSAI and with external partners (Chairman: SAO); *Governance and Communication* – Managing EUROSAI in accordance with the principles of good governance and effective communication (Chairman: the SAI of Portugal). The third objective, which is chaired by the SAO, contains a number of basic areas focussing in particular on improving the application of the results of the work of the various SAIs and the working groups and committees of EUROSAI and INTOSAI, improving cooperation in auditing in the framework of both EUROSAI and INTOSAI, encouraging cooperation with INTOSAI and its regional groups, and strengthening cooperation with external partners.

The joint final report from parallel audits aimed at the professional inclusion of disabled individuals was signed at the congress. This audit was conducted by SAO and another 11 SAIs.

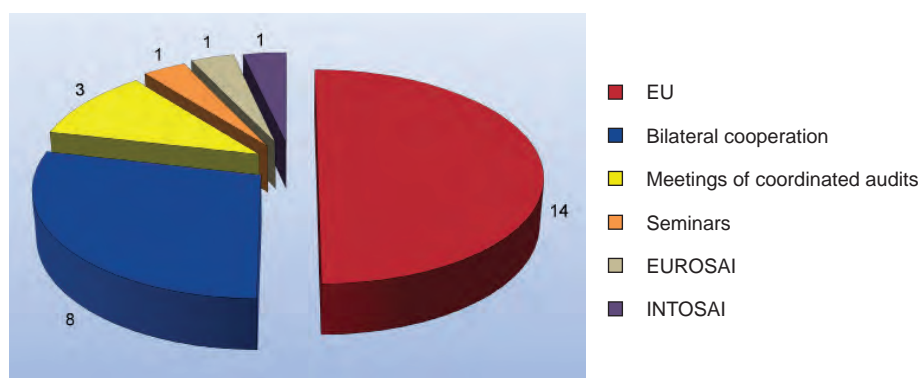


Participants of the 8th EUROSAI congress

A no less important event was the coordination meeting of the Contact Committee of the Supreme Audit Institutions of the European Union and the ECA, which was held in Luxembourg in October. The basic topic of the meeting was the impact of the European semester and other measures adopted by the European Union in connection with the financial and economic crisis on the work of the SAI and the ECA. Other topics included the external audit of the European Stability Mechanism, experience of audit offices with auditing measures related to the European semester, review of the financial management of the EU and the possibility of cooperation of the SAIs with the national statistical offices and Eurostat.

In 2011, the SAO organised 28 international events in the Czech Republic. Graph No. 4 shows the structure of the international events organised by the SAO.

Graph No. 4: Number and focus of international events organised by the SAO in 2011



A notable event was the international seminar aimed at the fight against corruption, which the meeting of the INTOSAI Working Group on the Fight against Corruption and Money Laundering then built on. The organiser of both events, which were held in September, was the SAO, which has been a member of the above working group since 2010. Representatives of important institutions engaged in the fight against corruption, such as the representatives of the International Anti-Corruption Academy headquartered in Austria, the European Commission, the European Anti-Fraud Office (OLAF), Transparency International, the Supreme Public Prosecutor's Office of the Czech Republic, the Institution of Internal Auditors, the University of Economics, Prague, and the representatives of the SAIs of Germany, Hungary and Norway all gave lectures at the seminar. Various parts of the seminar were focussed on the approaches and successes of public administration institutions in the fight against corruption, their responsibility, position and powers, and proposed measures on how to fight against corruption through audits. The working group is in the process of preparing guidance for the SAI aimed at uncovering corruption and fighting against it, compiling databases with the best approaches and experiences of the SAI on this topic, and planning the organisation of educational events and seminars.



Fight against Corruption Seminar

Another important event was the meeting of the Presidents of the SAIs of the Visegrad Four countries, Austria and Slovenia (V4+2), which was organised by the SAO and held in Luhačovice in September. The main topic was the use of audit software in each audit phase. Presentations were also given on issuing SAI reports on EU financial management and on operational programmes of cross-border cooperation, including the possibility to conduct joint or coordinated audits. The experience of the SAI and cooperation on the V4+2 level are usual topics at these meetings, as is the programme of the next meeting of the Contact Committee, e.g., the development of EU financial governance, the European semester and national declarations of the EU Member States. At the meeting, the highest representatives agreed to create a manual for auditors on the issue of fraud and corruption.



Meeting V4+2

In 2011, the SAO prepared a presentation on its activities for the ambassadors of the EU Member States to the Czech Republic. As part of the bilateral cooperation, the SAO was visited by the general auditor of the SAI of Lithuania and the vice-president of the SAI of Slovakia. A meeting of experts from the SAIs of Germany, Slovakia and Georgia and the Ukraine audit office took place. The SAO, together with the SAI of Germany, prepared a presentation on the results of a VAT audit. Other 2011 events included nine audit missions of the European Court of Auditors and two audit missions of the European Commission.

A parallel audit of public contracts and the related issue of prevention of corruptive conduct, with a particular focus on transport infrastructure and structural engineering, continued in cooperation with the SAI of Germany.

A number of international activities came to a close in 2011. One of these was a pilot project between the SAO and the ECA - the coordinated audit of the legality and regularity of expenditure and evaluation of the main supervisory and monitoring systems in the area of rural development – which ran from April 2010 to November 2011. This new form of cooperation is being assessed at this time. As at 31 December 2011, the four-year term of office of the SAO representatives in the Audit Council of the European Aviation Safety Agency EUROCONTROL came to an end. Within the Council, the SAO representatives in 2011 were members of the sub-groups on account certification and for the audit programme of the early termination of employment agreements.

In 2011, the cooperation project between the SAO and the SAI of Georgia, aimed at sharing the SAO's experience with human resources management, came to a conclusion. The project was sponsored by the *United Nations Development Programme* (UNDP) and its objective was primarily the development of a human resources management strategy.

3. SAO activities in respect of the public

3.1 Publishing activities

In compliance with its publishing plan, the SAO issued the following publications in 2011:



The SAO Bulletin (Volume XIX) was published in four quarterly issues appearing at the end of each calendar quarter. A total of 32 audit conclusions, the Annual Report for 2010, amendments and changes to the Audit Plan, and the Audit Plan for 2012 were published in these issues. The outputs of individual audits were also regularly placed on the SAO web site.



In February 2011, the **Report on the Results of the Follow-up Audit – Value Added Tax Administration in the Czech Republic and the Federal Republic of Germany**, which the SAO drew up in cooperation with the auditors of the German Federal Court of Auditors, was published. The report contains an assessment of the fulfilment of recommendations formulated in the joint international report published in 2008. It further contains an assessment of VAT administration in both countries in the area of international assistance with the enforcement of receivables and an assessment of VAT administration by major tax entities.



The guidance entitled **Auditing in the Field of Sustainable Energy**, published in February 2011, was drawn up as part of the international project Sustainable Energy, in which the SAO acts as beneficiary, a role it accepted in June 2007 at the eleventh meeting of the INTOSAI Working Group on Environment Auditing. The publication was developed with the aim of expanding the number of methodological materials that auditing institutions could use when conducting audits in the field of renewable energy resources. Its main task is to provide basic information about the issue of energy, help auditors choose auditing topics in the field sustainable energy and provide examples of selection of audit criteria and audit procedures.



In June 2011, the SAO issued a publication entitled **EU Report 2011 – Report on EU Financial Management in the Czech Republic**. The primary intent of the report is to provide comprehensive information about the SAO's audit findings related exclusively to revenues and expenditures of the European Union budget in the Czech Republic and place them in the context of the issue of financial relations as part of implementation of the priorities of the various EU policies. The data and information contained in the report pertain in particular to the 2010 calendar year, or the 2009 calendar year in those cases where more current data has not been officially made available. *EU Report 2011* is based in particular on the findings set out in the approved audit conclusions of the SAO published in 2010 and early 2010 in the various parts of the *SAO Bulletin*. At the same time, it works with numerical information and commentary obtained from the various departments of the Ministry of Finance and the Ministry of

Regional Development or information from the annual reports of the European Court of Auditors for 2009 and information from the financial report of the European Commission on the EU budget for 2009.

EU Report 2011 is intended not only for institutions responsible for financial management of funds from the EU budget, but also for professionals from the Czech Republic and abroad.

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

Pursuant to Section 18(2) of Act No. 106/1999 Coll., on free access to information, as amended, the SAO published data on its activities in the area of provision of information under this Act.

In 2011, the SAO received a total of 18 requests for information. All of these requests were handled within the statutory deadlines. Table No. 2 provides information about the requests and the way they were handled.

Table No. 2: Overview of requests for information and their handling in 2011

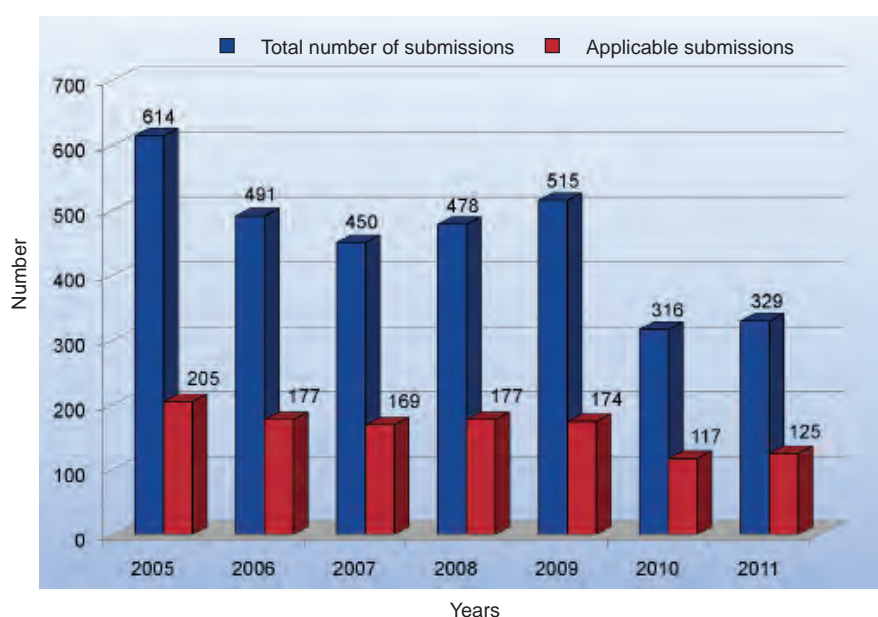
Indicator	Number	Note
Number of requests for information filed	18	The requested information pertained in particular to SAO headquarters, public contracts, employee remuneration, documents from audit work and the internal regulations of the SAO.
Number of decisions rejecting the request	11	Of which 3 constituted decisions rejecting part of the requests. The reasons for the rejections included: protection of personality, questions about opinions, creation of new information, requests on matters outside the purview of the SAO, request for information about audit activities and about the SAO's internal guidelines
Number of appeals against decisions	2	In both cases, the SAO President rejected the appeal and confirmed the original decisions.
Number of complaints lodged pursuant to Section 16a of Act No. 106/1999, Coll.	1	A complaint was lodged pursuant to Section 16a(1)(b) of Act No. 106/1999 Coll. (failure to provide information by the deadline). A review of the procedure used to handle the request did not reveal any violation of the law. The notification about the provision of information was sent by the statutory deadline via the data box; for technical reasons out of the SAO's control, the document was not delivered. The complaint was thus not warranted.

In 2011, one administrative action was lodged against a decision on an appeal at the Municipal Court in Prague. A decision thereon had not been reached by the end of 2011.

3.3 Submissions from citizens

In 2011, the SAO Communication department registered 329 written submissions (complaints, audit suggestions, requests, enquiries, etc.) from citizens and institutions. The number of written submissions was comparable to that of 2010. In addition to written submissions, the Communication department dealt with numerous queries and complaints made by citizens by telephone and in person.

The content of all submissions is considered with respect to the powers of the SAO and from the perspective of the usefulness of information for the audit activities. The submissions with content related to the audit field of activity of the SAO, i.e. applicable submissions, assist as a complementary information material in the preparation of the suggestions for the Audit Plan within the scope of substantively related audits. In 2011, the SAO received 125 of such initiatives, i.e. 38% of the total number of registered submissions. Used as stated above were mainly the submissions concerning the management of the state funds provided to municipalities and other bodies from the state budget or from the EU funds, and the submissions related to the management of budgetary and state-allowance organisations and state funds.

Graph No. 5: Overview of the total number of submissions and their practical use for audits

4. Management of finances allocated to the SAO budget heading in 2011

4.1 Implementation of the mandatory indicators of the SAO budget heading

The budget of heading 381 - *Supreme Audit Office* was approved by Act No. 487/2009, Coll., on the state budget of the Czech Republic for 2011.

Table No. 3: Implementation of mandatory indicators of the budget in 2011 (CZK thousand)

Indicator	Approved Budget (a)	Budget after changes (b)	Implementation % (d/b)	Final budget (c)	Actual state (d)	Implementation % (d/c)
Aggregate Indicators:						
Total income	564	564	166.63	564	939.77	166.63
Total expenditure	535 640	535 640	93.60	535 947	501 356.23	93.55
Specific indicators:						
Incomes	564	564	166.63	564	939.77	166.63
Expenditure covering performance of the SAO's tasks	535 640	535 640	93.60	535 947	501 356.23	93.55
Cross-sectional indicators:						
Employee's pay and other payments for work performance	239 004	239 004	98.83	239 140	236 196.25	98.77
Mandatory insurance premiums paid by the employer	81 262	81 262	99.92	81 308	81 200.05	99.87
Transfer of the Cultural and Societal Needs Fund	2 187	2 187	99.93	2 187	2 185.42	99.93
Pay of employees with a fixed duration or temporary employment contract	218 700	218 700	99.93	218 836	218 542.42	99.87
Expenditure kept in the information system of programmed financing EDS/SMVS in total	43 791	43 791	73.84	43 791	32 336.47	73.84

Income

Income amounted to CZK 939.77 thousand, i.e., 166.63% of the approved budget and the budget following amendment. Excluding received non-investment transfers from international organisations, income amounted to CZK 632.44 thousand, i.e., 112.14% of the approved budget and even the budget following amendment.

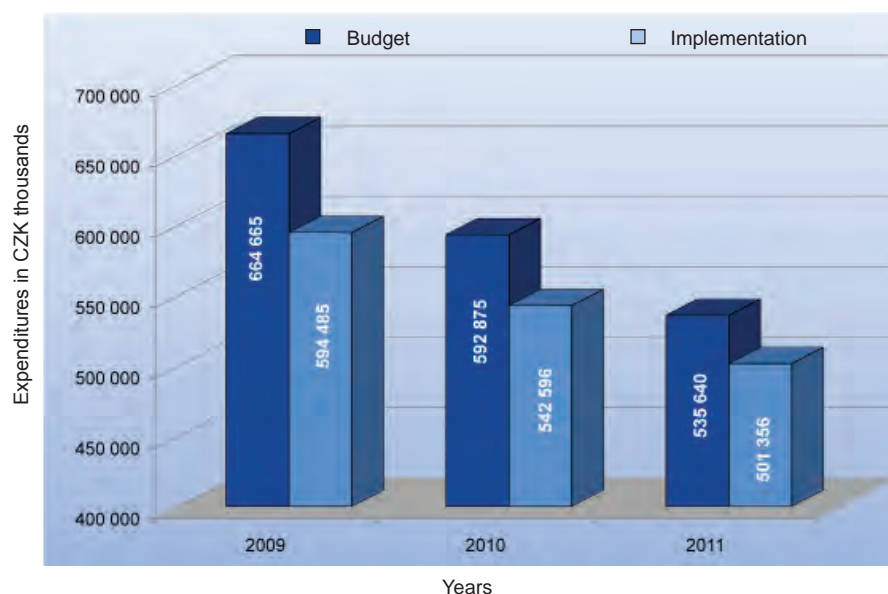
Expenditure

Total expenditure amounted to CKZ 501 356.23 thousand, i.e., 93.60% of the approved budget and the budget following amendment. Wages and related expenditure (63.31%) accounted for the largest proportion. Extra-budgetary funds received from a non-investment transfer from international institutions of CZK 312.54 thousand were used during the year. 93.55% of the final budget of CZK 535 947 thousand was implemented.

All the mandatory indicators of the SAO budget heading were complied with in 2011.

Graph No. 6 provides an overview of the expenditure of heading 381 – *Supreme Audit Office* for 2009 to 2011. Due to the reduction in the state budget deficit, the SAO's budget is also being reduced. From 2009 to 2011, the year-on-year approved budget fell by 8.03% and 9.65%, respectively. In 2010, two bindings of expenditures to funds totalling CZK 29 710 thousand took place.

Graph No. 6: Expenditure under the heading 381 - The Supreme Audit Office and its implementation for 2009-2011



4.2 Claims from unused expenditure

As at 31 December 2011, the balance of claims from unused expenditure totalled 86 715.57 thousand.

4.3 Expenditure on assets replacement programmes

Budget funds were allocated to the implementation of Programme 18101 – *Development and Renewal of Material and Technological Resources of the Supreme Audit Office as of 2011*, namely to information and communication technology and asset replacement. A total of CZK 32 336.47 thousand was spent.

4.4 Information about external audits of the SAO

In 2011, two external audits were conducted at the SAO. The General Health Insurance Company of the Czech Republic (Všeobecná zdravotní pojišťovna ČR) conducted an audit in the field of payments and observance of other obligations of public health insurance payers. The Regional Hygienic Office for the Středočeský Region, Benešov Office, conducted an audit aimed in particular at the operation of kitchens and canteens at the training centre in Přestavky. The results of the audit were without reservations.

4.5 Mandatory audit

The annual financial statements of the SAO were, in accordance with Section 33(3) of Act No. 166/1993 Coll., on the Supreme Audit Office, as amended, audited by an auditor. According to the auditor's statement "*the financial statements and financial reports give a true and fair view of the assets and liabilities of the Supreme Audit Office as at 31 December 2011, the costs and revenues and its economic result, and the income and expenditure for the year ending 31 December 2011, in accordance with the Czech accounting regulations*".

4.6 Audit of the SAO's business management

In December 2010, the Chairman of the Audit Committee of the Chamber of Deputies of the Parliament of the Czech Republic requested the submission of documents required for the commencement of an audit of the SAO's business management. Due to the ambiguity of the interpretation of the procedural rules for the possible audit of the SAO, the SAO turned to the administrative court in January 2011 to consider the dispute between the constitutional institutions. The court did not manage to decide on the dispute during the course of 2011.

5. Internal audit

The work of the Internal Audit Department was based on Act No. 320/2001, Coll., on financial control in public administration and on amendments to some acts (Financial Control Act), and Decree No. 416/2004, Coll., which implements Act No. 320/2001, Coll.

The internal audit department's activities were carried out based on the Internal Audit Plan for 2011, which was approved by the SAO President and included a total of five internal audits.

The internal audits focused on:

- utilisation of operating expenses of the SAO for 2010;
- anti-corruption and fraud prevention system, including the way complaints were handled;
- assessment of the concept for the development of information and communication technologies and use of software and software resources;
- SAO's training system;
- implementation of measures specified for the correction of ascertained shortcomings.

The results of the audits completed in 2011 were discussed with the senior staff of the departments audited. Direct, specific and deadline-linked measures were adopted in respect of all the shortcomings found during the audits. The implementation of the adopted measures is monitored and assessed regularly by the internal audit department.

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

6. SAO headquarters

As the current lease agreement is set to expire in September 2013, the President of the Supreme Audit Office exercised the right to extend the lease of the office space in the building located at Jankovcova 2, Prague 7, in early 2011. The lease period was extended by 1.5 years. During the first and second quarter, the buildings offered by the Ministry of Defence were assessed by the SAO as unnecessary for its purposes.

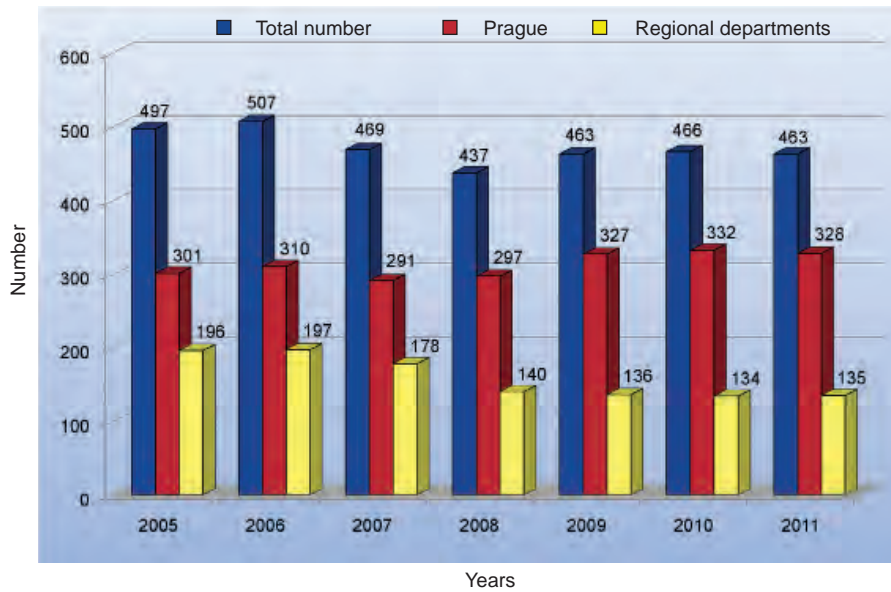
Following negotiations with the MoF in autumn 2011, the funds for preparatory work related to the purchase of the SAO's own headquarters were included in the SAO's budget for 2012.

7. SAO staffing

In 2011 the total SAO workforce was 463³³, of which 328 staff members were employed in the Audit Section (70.8%). Graph No. 7 shows the average number of SAO employees and employees of the Prague and regional departments in 2005–2011.

³³ Average converted state of workforce in 2011.

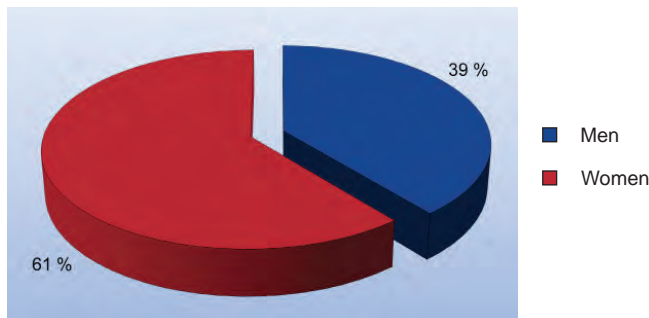
Graph No. 7: Number of SAO's employees in 2005-2011 (Prague and regional departments)



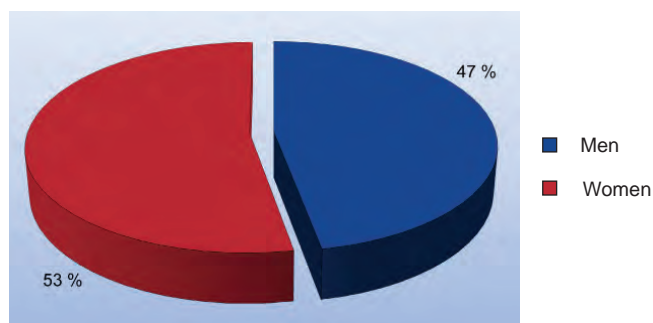
During 2011, 34 new employees were taken on and 36 ended their employment. Of the total number of employees who ended their employment in 2011, eight of them went into retirement. The fluctuation rate was 7.8%.

The SAO provided its employees with equal work conditions and job opportunities. Graph No. 8 and Graph No. 9 show, respectively, the proportion of men and women employed at the SAO and in the SAO's management in 2011.

Graph No. 8: The ratio of men and women employed in the SAO as of 31.12.2011

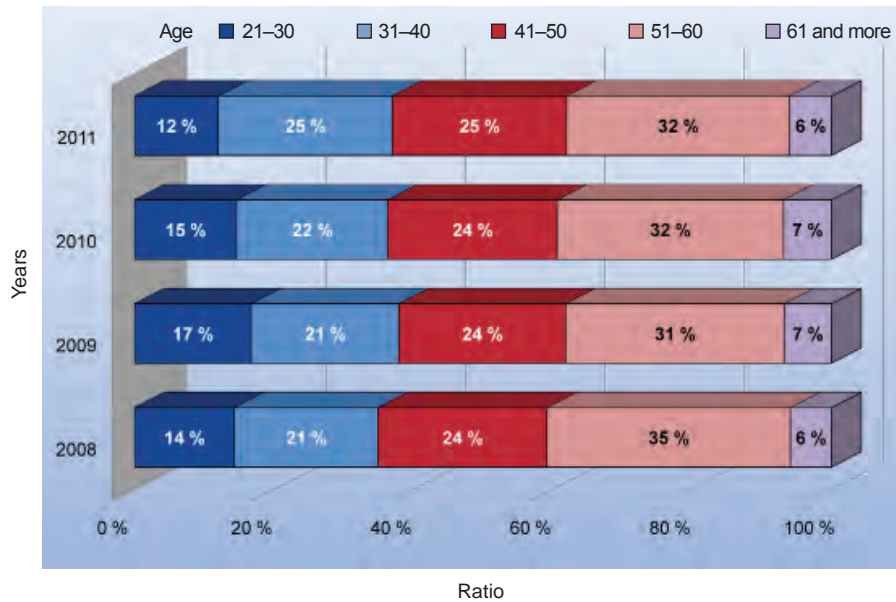


Graph No. 9: The ratio of men and women in managerial positions in the SAO as of 31.12.2011



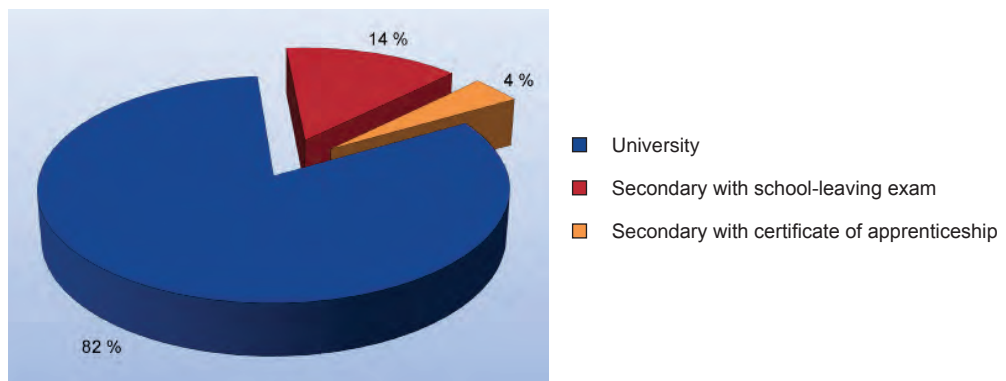
Graph No. 10 shows the age structure of SAO employees as at 31 December 2011, including a comparison with the years 2008 and 2010. The average age of SAO employees in 2011 was 45.8 years.

Graph No. 10: The structure of SAO's employees according to age in 2008–2011 as of 31.12. of the given year



As at 31 December 2011, 375 university-educated staff worked at the SAO, i.e., 82% of the total SAO workforce. Graph No.11 provides an overview of the educational structure of SAO employees as at 31 December 2011.

Graph No. 11: The structure of SAO's employees according to educational attainment as of 31.12.2011



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

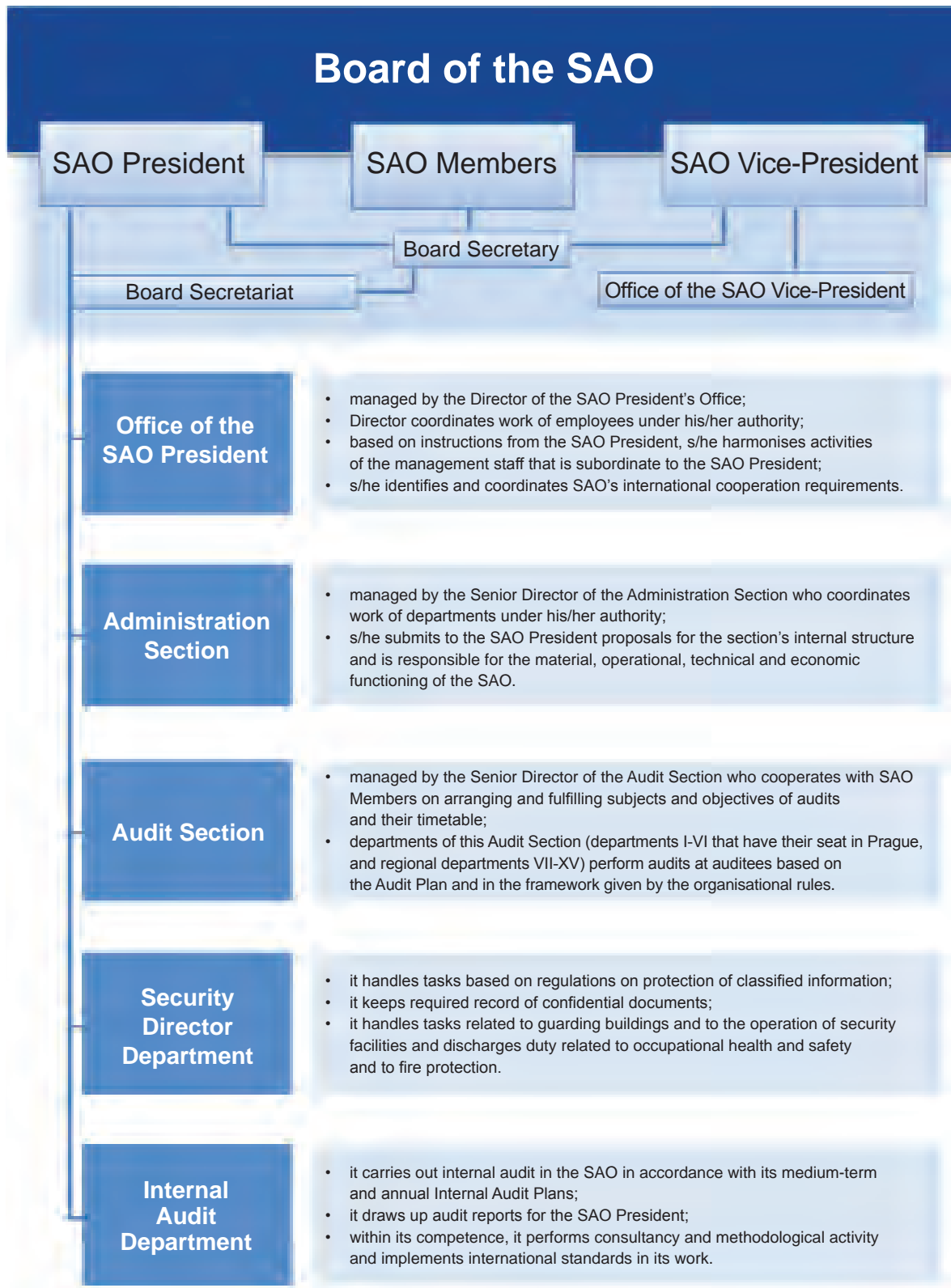
Training and development

In 2011, professional training focused mainly on deepening and improving the professional skills of SAO employees.

As in previous years, attention was paid to the induction training of new employees. Induction training is divided into three separate levels and adapted to the needs of different areas of work. The first and second levels of this induction training end with a test; the third ends with a final examination in front of a commission.

The *Kontrolor II* training programme was included in the training system for the first time. The aim of this programme is to expand the knowledge acquired during induction training, especially to acquaint employees who carry out audit work with the basic methodological procedures of all kinds of audits and with practical examples and experience from preparations and execution of audit work. As part of SAO employee training and development, other specialised programmes were underway in 2011, such as *Performance Audit*, *Review of Utilisation of Foreign Resources (Audit výkonnosti, Kontrola čerpání zahraničních prostředků)* and the *Trainer Skills (Lektorské dovednosti)* programme. These programmes are concluded with a final exam or certificate.

8. Organisational structure of the SAO



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

Conclusion

The SAO's primary task is to fulfil its statutory responsibilities in accordance with its position as an independent auditing body in the Czech Republic. With regard to the overall economic development and situation in the management of state funds and assets, the SAO focused in the past year on fields where it saw substantial risks and, at the same time, potential of possible reserves in management, both in terms of revenue and expenditure and in terms of disposal of assets. The results of audit work in 2011, which are summarised in section two hereof, point to numerous serious shortcomings.

The SAO found irregularities not only when scrutinising adherence to the relevant legal and other regulations, but also when scrutinising the economy, efficiency and effectiveness of the audited activities. In terms of income, fundamental shortcomings were identified in the effective management of certain state receivables. In terms of expenditure, the SAO called attention to serious cases of uneconomical use of funds in the area of important state-funded investment projects. Another area where the aspects of efficiency and economy were not respected were legal and advisory services – their requirement, scope and terms and conditions were not sufficiently substantiated or set, nor were they even secured contractually. Hitherto attempts to implement PPP projects have also shown to be disadvantageous to the state. Also, when utilising funds provided to the Czech Republic from abroad, the SAO reported fundamental errors in management, methodology and evaluation efforts of the implementing bodies, which had a negative impact on the due utilisation of earmarked funds and achieving the substantive objectives of certain programmes and the fulfilment of the Czech Republic's commitments.

From this point of view, the SAO was able to fulfil the primary task, i.e., to verify and assess the state of the audited activities and through independent reports point to shortcomings in governance.

The SAO considers the absence of binding, long-term concepts in important areas of state expenditure to be one of the reasons for the ascertained state of affairs. The reasons behind the uneconomical use of funds in the area of public procurement include failure to observe public procurement rules and procedures, suppression of economic criteria, and the purposive use of exemptions in the law. This area bears the greatest risk also in terms of possible corrupt behaviour. The SAO also calls attention to the incorrect setup and functioning of internal control systems of certain auditees. Experience from repeated audits show that in certain cases, measures are adopted by auditees that are only formal and ineffective, or indicate a lack of volition or inability to adopt and implement them.

In connection with the findings, the SAO sees a fundamental problem in the discrepancy between the set rules and practice and in the ability to enforce their consistent and not only formal observance. It is also being shown that individuals who caused the negative state with their decisions or lack of action are not being held responsible to the required extent. This fact is also verified by the SAO's subsequent audits that identify similar shortcomings and the absence of necessary improvements in certain areas. It needs to be emphasised that ineffective, uneconomical and inefficient use of funds results in significant losses for the state that would otherwise not have to be settled at the expense of other expenditure or covered by additional revenue. Due to the difficult economic situation and increasing national debt, the need for proper management by the state is gaining in importance. The SAO will thus continue to pay greater attention to this.

Appendix No. 1 to the SAO's Annual Report for 2011

Audits included in the Audit Plan for 2011							
Audit No.	Subject of audit	Start (month/year)	Audit conclusion submitted for approval (month/year)	Audited area	Heading administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by
11/01	Funds and State property under the management of several Regional Public Health Authorities	01/11	09/11	State property management	MoH	Mr Hrnčíř	SAO Board
11/02	State property under the management of the Ministry of Industry and Trade	01/11	09/11	State property management	MoI	Mr Macháček	SAO Board
11/03	State funds earmarked for compensations under the Act on Liability for Damage Based Either on Maladministration or on Illegal Decisions	01/11	09/11	State property management	MoJ	Ms Profeldová	SAO Board
11/04	Funds earmarked for the air quality improvement and emissions reduction	02/11	12/11	Funds from abroad	MoE	Mr Němeček	SAO Board
11/05	Funds earmarked for the Programme for the care of the national cultural treasure in the State ownership	02/11	12/11	Important investment programmes and actions	MoC	Mr Hrnčíř	SAO Board
11/06	Funds and State property under the management of several national parks' administrations	03/11	12/11	State property management	MoE	Mr Brandt	SAO Board
11/07	Value Added Tax administration concerning the import of goods from third countries	04/11	02/12	Revenues and other financial operations of the SB	GTA	Mr Macháček	SAO Board

Audits included in the Audit Plan for 2011							
Audit No.	Subject of audit	Start (month/year)	Audit conclusion submitted for approval (month/year)	Audited area	Heading administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by
11/08	Funds spent on preparations and realization of State A-levels	05/11	02/12	State subsidy policy	MoEYS	Ms Profeldová	SAO Board
11/09	State financial assets, especially funds on the Nuclear Account	05/11	01/12	Revenues and other financial operations of the SB	SFAO	Ms Kadaňová	SAO Board
11/10	Funds and State property under the management of organisations co-financed by the State budget that are under the authority of the Ministry of Foreign Affairs	05/11	01/12	State property management	MoFA	Mr Macháček	SAO Board
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	05/11	05/12	Revenues and other financial operations of the SB	GTA	Mr Reiesiegel	SAO Board
11/12	Funds earmarked for the development and renewal of the material-technical base of the Police of the Czech Republic	05/11	03/12	Important investment programmes and actions	MoI	Mr Němeček	SAO Board
11/13	Funds spent on constructing and operating of the road toll collecting system in the Czech Republic	05/11	03/12	Important investment programmes and actions	MoT	Mr Sehoř	SAO Board

Audits included in the Audit Plan for 2011

Audit No.	Subject of audit	Start (month/year)	Audit conclusion submitted for approval (month/year)	Audited area	Heading administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by
11/14	Funds earmarked for the construction and maintenance of the cycling infrastructure	06/11	03/12	Important investment programmes and actions	MoRD	Mr Sehoř	SAO Senate
11/15	Funds earmarked for enhancing the quality of life in the rural areas under the <i>Rural Development Programme</i>	06/11	03/12	Funds from abroad	MoA	Mr Kalivoda	SAO Board
11/16	Funds earmarked for the construction of the ring road around the capital city of Prague	06/11	04/12	Important investment programmes and actions	MoT	Mr Adámek	SAO Board
11/17	EU and State funds earmarked for the priority axis Initial Education under the operational programme <i>Education for Competitiveness</i>	06/11	05/12	Funds from abroad	MEYS	Mr Vedral	SAO Board
11/18	Funds earmarked for the development of urban and rural areas under the regional operational programme "Northeast" for the period 2007-2013	06/11	04/12	Funds from abroad	-	Mr Němeček	SAO Board
11/19	Funds earmarked for the stabilization and development of towns and municipalities under the regional operational programme "Southwest" for the period 2007-2013	06/11	04/12	Funds from abroad	-	Mr Hrnčíř	SAO Board

Audits included in the Audit Plan for 2011							
Audit No.	Subject of audit	Start (month/year)	Audit conclusion submitted for approval (month/year)	Audited area	Heading administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by
11/20	Funds earmarked for the urban development under the regional operational programme "Moravia Silesia" for the period 2007-2013	06/11	04/12	Funds from abroad	-	Mr Kalivoda	SAO Board
11/21	Records and accounting for tax revenue and related costs and revenues, receivables and liabilities	07/11	04/12	Revenues and other financial operations of the SB	MoF	Mr Reisiegl	SAO Board
11/22	Closing account of the State budget heading "Ministry of Defense" for the year 2010	08/11	05/12	Closing accounts of SB headings	MoD	Mr Vedral	SAO Board
11/23	State property under the management of the Ministry of the Interior	09/11	05/12	State property management	MoI	Mr Reisiegl	SAO Senate
11/24	Funds from the State budget heading "Ministry of Education, Youth and Sports" that were provided for to support activities concerning youth	09/11	06/12	State subsidy policy	MoEYS	Ms Profeldová	SAO Senate
11/25	State funds spent on selected health programmes	09/11	06/12	State subsidy policy	MoH	Mr Kufa	SAO Board
11/26	Financial statements and reports of the Czech Social Security Administration for the year 2011	10/11	07/12	Closing accounts of SB headings	MoLSA	Mr Vedral	SAO Board
11/27	Funds earmarked for the fulfilment of aims of the EU's common migration and asylum policy	10/11	04/12	Funds from abroad	MoI	Ms Hošková	SAO Board

Audits included in the Audit Plan for 2011

Audit No.	Subject of audit	Start (month/year)	Audit conclusion submitted for approval (month/year)	Audited area	Heading administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by
11/28	State property and funds provided for the Military Forests and Farms of the Czech Republic	10/11	07/12	State property management	MoD	Mr Kalivoda	SAO Board
11/29	Closing account of the State budget heading "Ministry of Education, Youth and Sports" for the year 2011	11/11	07/12	Closing accounts of SB headings	MoEYS	Ms Steidlová	SAO Board
11/30	Funds spent on consultation, legal, and counselling services that were paid out from the State budget heading No. 312 - <i>Ministry of Finance</i>	11/11	08/12	State property management	MoF	Ms Profeldová	SAO Board
11/31	State property under the management of the Railway Infrastructure Administration	11/11	09/12	State property management	MoT	Mr Adámek	SAO Board
11/32	Funds and State property under the management of the Czech Trade Inspectorate	04/11	12/11	State property management	MoIT	Mr Kufa	SAO Board
11/33	Funds and State property under the management of several State Funds	09/11	06/12	State property management	MoC MoRD MoE	Ms Kadaňová	SAO Board
11/34	Funds spent to cover costs incurred by activities of several Ministries	11/11	06/12	State property management	MoC MoJ MoH	Mr Vedral	SAO Board
11/35	Funds from the European Social Fund pre-financed and co-financed by the State budget that were earmarked for projects carried out in the capital city of Prague	06/11	04/12	Funds from abroad	MoRD	Mr Neuvirt	SAO Board

Audits included in the Audit Plan for 2011							
Audit No.	Subject of audit	Start (month/year)	Audit conclusion submitted for approval (month/year)	Audited area	Heading administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by
11/36	Financial statements of the Ministry of Labour and Social Affairs as of 31. 12. 2010	06/11	01/12	Closing accounts of SB headings	MoLSA	Mr Reisiegel	SAO Board
11/37	Funds earmarked for the development and renewal of a material and technical background of public universities	11/11	09/12	Important investment programmes and actions	MoEYS	Mr Macháček	SAO Board
11/38	Funds from the State budget provided for preservation and renewal of cultural property	11/11	08/12	State subsidy policy	MoC	Mr Neuvirt	SAO Board

Overview of audits whose audit conclusions were approved in 2011							
Audit No.	Subject of audit	Audited area	Heading administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by	Date of approval	Published in SAO Bulletin (Issue/year)
09/26	Funds earmarked for transport infrastructure projects under the regional operational programmes	Funds from abroad	MoRD	Mr Brandt	SAO Board	31.12.2011	1/2011
09/29	Funds collected upon the act in favour of the General Health Insurance Company of the Czech Republic	Management of other funds	-	Ms Kadaňová	SAO Board	17.1.2011	1/2011
10/08	Administration of payments for the breach of budgetary discipline	State budget revenue	MoF	Ms Profeldová	SAO Board	31.1.2011	1/2011
10/09	State budget funds provided to the Securities Brokers Guarantee Fund and financial contributions collected from securities brokers	State budget revenue	GTA	Mr Macháček	SAO Board	7.3.2011	1/2011
10/10	Funds earmarked for acquisition of selected equipment of the Armed Forces of the Czech Republic	Important investment programmes	MoD	Mr Němeček	SAO Board	2.5.2011	2/2011
10/11	Financing operations and state budget funds under the budget heading "State debt"	State budget revenue	SD	Ms Kadaňová	SAO Board	28.3.2011	2/2011
10/12	Funds provided for the improvement of nature and landscape	State subsidy policy	MoE	Mr Brandt	SAO Board	28.3.2011	2/2011
10/13	State property under the management of selected organisational units of the state under the Ministry of Interior that focus on archival science	State property management	MoI	Mr Kufa	SAO Board	28.3.2011	2/2011
10/14	Funds earmarked for measures regarding the waste disposal	Funds from abroad	MoE	Mr Brandt	SAO Board	2.5.2011	2/2011

Overview of audits whose audit conclusions were approved in 2011							
Audit No.	Subject of audit	Audited area	Heading administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by	Date of approval	Published in SAO Bulletin (Issue/year)
10/15	Funds earmarked for the D3 motorway construction	Important investment programmes	MoT	Mr Adámek	SAO Board	23.5.2011	2/2011
10/16	State property under the management of selected museums	State property management	MoC	Ms Profeldová	SAO Senate	12.4.2011	2/2011
10/17	Receivables under the administration of the Prison service of the Czech Republic	State budget revenue	MoJ	Mr Němeček	SAO Board	20.6.2011	3/2011
10/18	State property under the management of DIAMO, state-owned enterprise	State property management	MoIT	Mr Němeček	SAO Board	20.6.2011	3/2011
10/19	Annual accounts and financial statements of the Czech Social Security Administration for the year 2010	Closing accounts of SB headings	MoLSA	Mr Vedral	SAO Board	20.7.2011	3/2011
10/20	Closing account of the state budget heading "Ministry of Education, Youth and Sports" for the year 2010	Closing accounts of SB headings	MoEYS	Ms Steidlová	SAO Board	5.9.2011	3/2011
10/21	Funds provided for support of agricultural activities in compliance with Act No. 252/1997 Coll., on Agriculture, by the Ministry of Agriculture from the national sources	State subsidy policy	MoA	Ms Profeldová	SAO Board	20.7.2011	3/2011
10/22	State property under the management of the Ministry of Regional Development	State property management	MoRD	Mr Macháček	SAO Board	20.7.2011	3/2011
10/23	Funds provided to the Czech Republic from the European Economic Area and Norway Grants	Funds from abroad	MoF	Ms Hošková	SAO Board	21.11.2011	4/2011
10/24	Funds earmarked for acquisition and restoration of rail track vehicles	Important investment programmes	MoT	Mr Adámek	SAO Senate	17.5.2011	2/2011

Overview of audits whose audit conclusions were approved in 2011

Audit No.	Subject of audit	Audited area	Heading administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by	Date of approval	Published in SAO Bulletin (Issue/year)
10/25	Management of the state budget funds allotted for the Programme to support alterations of ex-military premises into municipal areas	State subsidy policy	MoRD	Ms Hošková	SAO Senate	27.6.2011	3/2011
10/27	Public Private Partnership project "Lodging-house for CMH staff, a hotel-type lodging-house and a parking lot"	Important investment programmes	MoD	Mr Adámek	SAO Board	5.9.2011	3/2011
10/28	Funds earmarked for improved competitiveness of agriculture and forestry under the Rural Development Programme	Funds from abroad	MoA	Mr Kalivoda	SAO Board	18.10.2011	4/2011
10/29	Funds earmarked for improving the environment and landscape under the Rural Development Programme	Funds from abroad	MoA	Mr Vedral	SAO Board	18.10.2011	4/2011
10/30	Funds earmarked for construction of a new building of the National Technical Library in Prague 6 - Dejvice	Important investment programmes	MoEYS	Mr Hrnčič	SAO Board	16.2.2011	1/2011
10/31	Trading of surplus Assigned Amount Units and use of such funds received from the trading	State subsidy policy	-	Mr Sehoř	SAO Board	23.5.2011	2/2011
10/32	Closing account of the state budget heading "Czech Statistical Office" for the year 2009	Closing accounts of SB headings	CSO	Mr Reisiegel	SAO Board	23.5.2011	2/2011
11/01	Funds and State property under the management of several Regional Public Health Authorities	State property management	MoH	Mr Hrnčič	SAO Board	19.9.2011	4/2011
11/02	State property under the management of the Ministry of Industry and Trade	State property management	MoIT	Mr Macháček	SAO Board	19.9.2011	4/2011

Overview of audits whose audit conclusions were approved in 2011							
Audit No.	Subject of audit	Audited area	Heading administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by	Date of approval	Published in <i>SAO Bulletin</i> (Issue/year)
11/03	State funds earmarked for compensations under the Act on Liability for Damage Based Either on Maladministration or on Illegal Decisions	State property management	MoJ	Ms Profeldová	SAO Board	18.10.2011	4/2011
11/04	Funds earmarked for the air quality improvement and emissions reduction	Funds from abroad	MoE	Mr Němeček	SAO Board	5.12.2011	4/2011
11/06	Funds and State property under the management of several national parks' administrations	State property management	MoE	Mr Brandt	SAO Board	5.12.2011	4/2011
11/32	Funds and State property under the management of the Czech Trade Inspectorate	State property management	MoIT	Mr Kufa	SAO Board	5.12.2011	4/2011

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 2011					
CBC resolution	Date of session	Audit No.	Government document No.	Government resolution No./Year	Summary of CBC's resolution
105	24.11.2011	10/15	747/11	Not discussed yet	The CBC I. takes cognisance of a) AC 10/15 and b) the opinion of the MoT to AC 10/15 contained in Government Document No. 747/11; II. states that the uneconomical manner of using earmarked funds for executed and prepared construction projects ensues from the submitted AC; and III. requests that the Ministry of Transport present to the CBC its opinion on inclusion of the D3 motorway in its priority transport infrastructure.
104	24.11.2011	10/27	1321/11	Not discussed yet	The CBC I. takes cognisance of AC 10/27; II. states that former Ministry of Defence MUDr. Martin Barták, at variance with Government Decree No. 1082/07, did not submit to the government for approval the amended concession project despite the fact that the planned expenditure based on the competitive dialogue with bidders increased many fold; the government of Ing. Jan Fischer, CSc., approved a concession agreement that was disadvantageous for the state, and III. the SAO submits to the SAO a request under Section 17(2) of Act No. 166/1993 Coll., on the Supreme Audit Office, to conduct audits on the efficiency, effectiveness and economy of use of funds for economic, technical and legal advisory services.
98	13.10.2011	10/27	1321/11	Not discussed yet	CBC I. states that a) the CMH Prague and the MoD acted in an especially uneconomical manner when implementing the project b) CMH Prague did not make use of the contractual possibility to withdraw from the agreement and instead undertook to cover the contractual partner's costs up to the amount of CZK 217 million, and failed to credibly substantiate the reason for taking this step; II. suspends discussion of this point; III. requests that the Ministry of Defence submit to the CBC within 30 days information about the specific persons who were involved in the public private partnership project " <i>Accommodation for CMH staff, Hotel-Type Accommodation and Parking Lot</i> " and their role in decision-making in the period 2004–2011 and what the deliverable of the agreement on the provision of advisory services was; and IV. requests that the Ministry of Defence, pursuant to Section 39(2) of Act No. /1995 Coll., on the rules of procedure of the Chamber of Deputies, to attend the meeting of the CBC in person to discuss AC 10/27.

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 2011					
CBC resolution	Date of session	Audit No.	Government document No.	Government resolution No./Year	Summary of CBC's resolution
97	13.10.2011	10/08	248/11	303/11	The CBC I. takes cognisance of the statement of Minister of Finance Miroslav Kalousek to AC 10/08; II. requests the Minister of Finance to submit to the CBC by 14 November 2011 his written statement in accordance with Article III(1) under the resolution of ACT No. 87 dated 7 June 2011; and III. requests the Minister of Finance to ensure that the MoF: a) work during 2012 to make the entire system of taxes and fees more effective according to Article III(2) under the resolution of AC No. 87, b) delete subsidies from the Administration of Taxes Act and include them in the amendment to the Act on Financial Audit, so that the Code of Administrative Procedure is observed in proceedings.
94	8.9.2011	10/08	248/11	303/11	The CBC requests that the Minister of Finance, pursuant to Section 39(2) of Act No. 90/1995 Coll., on the rules of procedure of the Chamber of Deputies, attend the meeting of the CBC in person to discuss AC 10/08.

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 2011

CBC resolution	Date of session	Audit No.	Government document No.	Government resolution No./Year	Summary of CBC's resolution
87	7.6.2011	10/08	248/11	303/11	<p>The CBC I. takes cognisance of a) AC 10/08, and b) the opinion of the MF on the AC contained in Government Document No. 248/11; II. states that the finding is serious and that it is apparent the MoF has done little on the issue and that the form of waiver of penalties cannot be left only to the discretion of the Minister of Finance himself; III. requests the Minister of Finance 1) submit to the CBC by 31 August 2011 a detailed report for the period of 1 January 2006 to 31 December 2010 on lodged applications for waiver of fines and penalties, with the report containing the following data: a) who was the applicant, b) the reason for the application, c) the amount of the requested waiver (of fines and penalties) d) substantiation of the MF – approved/rejected, reason for approving the application for the waiver of fines and penalties/reasons for rejection, 2) draw up and submit a proposal to make the entire system of administration of fines for breach of budgetary discipline more effective, including a proposal for the appropriate legislative measures, which should deal in particular with the following: incorporate into Act No. 218/2000 Coll., or Act No. 280/2009 Coll., a) the relevant reason for a waiver of fines and penalties based on a lodged application, b) definition of the term “reasons worthy of special consideration”, c) the deadline by which the GFD should decide i.e., issue a decision on approval/rejection of the application for waiver of fines and penalties – for example within 30 months of the application being lodged, d) procedural provisions where it shall be set out that a request for a waiver of fines and penalties shall be assessed by a commission whose members are approved by the Minister of Finance, with the commission also containing representatives of providers of funds to the state e) incorporate into Section 14(6) a clear definition of the term “the provider can stipulate” (whether or not there is the threat of the funds having to be returned) following “the provider must stipulate”, 3) propose amendment of the relevant laws to prevent a duplication of procedural acts by reason of Act No. 320/2001 Coll. and Act No. 280/2009 Coll., 4) incorporate into Act No. 250/2000 Coll.: a) the same provisions of Act No. 14 (5), (6), and (7) in conjunction with Section 44a) of Act No. 218/2000 Coll., – regions and others cannot, especially under the current legal state specify that certain conditions are less serious or that their non-fulfilment is less serious, or sanction the non-fulfilment of certain conditions with lower penalties (b) resolve so-called petty breaches of budgetary discipline (so that a breach of budgetary discipline of CZK 1 need not be dealt with).</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 2011					
CBC resolution	Date of session	Audit No.	Government document No.	Government resolution No./Year	Summary of CBC's resolution
83	25.5.2011	10/08	248/11	303/11	CBC suspends discussion of AC 10/08.
82	25.5.2011	08/20	722/09, 1750/09	841/09	CBC takes cognisance of: a) AC 08/20, b) the opinion of the MoC on AC08/20 contained in Government Document No. 722/09.
45	20.1.2011	09/14	419/10, 158/11	437/10	The CBC I. takes cognisance of: a) AC 09/14, b) the opinion of the MoFA on AC 09/14 contained in Government Document No. 419/10; and II. states that the MoFA was acting in violation of Act No. 218/2000 Coll. for ten years when reconstructing the Czech National Building in New York.
44	20.1.2011	07/27	327/09, 1559/09, 1306/10	839/09	The CBC I. takes cognisance of AC 07/27; II. takes cognisance of Government Decree No. 839/09 and Government Decree No. 10/11; III. states that remedial measures adopted by Government Decree No. 839/09 eliminate only shortcoming arising due to the lack of preparations for investment projects, does not address shortcomings in its own investment preparation of projects; IV. requests the Minister of Education, Youth and Sport to submit to the CBC by 31 January 2011: a) a list of actually implemented measures ensuing from the SAO's conclusions, b) the internal regulation of the MoEYS regulating the terms and conditions and procedure for preparing investment projects; V. requests the MoF to submit by 31 January 2011 a list of investment projects of the MoEYS for the period 2004–2010 with the reasons that led to a increase in prices, failure to observe deadlines or other changes during implementation; and VI. lodges a request with the SAO pursuant to Section 17(2) of Act No. 166/1993 Coll., on the SAO, to conduct an audit of utilisation of funds from the Czech budget provided in connection with organising the World Cross-Country Skiing Championships in 2009, which were spent in the period following the conclusion of SAO Audit No. 07/27 until the event took place.

Appendix No. 4 to the SAO's Annual Report for 2011

Overview of audits whose approved audit conclusions were discussed by the Government of the Czech Republic in 2011				
Government resolution No.	Date of session	Government document No.	Audit No.	Measures imposed by the Government
485/11	22.6.2011	610/11	10/10	The Government instructs the Minister of Defence to implement measures to eliminate the shortcomings mentioned in the audit conclusion and in the opinion on the audit conclusion, to assess the fulfilment of this measures and to inform the Government about the result of the assessment by 31.1.2012.
474/11	22.6.2011	477/11	10/13	Not imposed.
473/11	22.6.2011	547/11	10/16	The Government instructs the Minister of Culture to ensure continuous fulfilment of the measures mentioned in the opinion on the audit conclusion and to inform the Government about the fulfilment by 31.12.2012.
472/11	22.6.2011	480/11	10/12	The Government instructs the Minister of Environment: 1.to implement the measures to eliminate the shortcomings mentioned in the audit conclusion and in the opinion on the audit conclusion; 2. to inform the Government about the implementation of these measures by 30.6.2012.
471/11	22.6.2011	469/11	10/11	The Government instructs the Minister of Finance to ensure the implementation of the measures to eliminate the shortcomings mentioned in the audit conclusion and in the opinion on the audit conclusion and to inform the Government about the implementation of these measures by 31.12.2011.
307/11	27.4.2011	294/11	10/30	The Government instructs the Minister of Education, Youth and Sports: 1. to ensure the completion of financing of instalments within the programme No. 233 010 – <i>The Development and Renewal of material and technical resources of the management system of MoEYS</i> in accordance with the approved documentation of this programme.
306/11	27.4.2011	220/11	09/29	The Government instructs the Minister of Health to ensure, in 2012, the follow-up audit of the measures adopted and implemented by the GHIC CR to eliminate the shortcomings mentioned in the audit conclusion.
305/11	27.4.2011	238/11	09/26	Not imposed.

Overview of audits whose approved audit conclusions were discussed by the Government of the Czech Republic in 2011				
Government resolution No.	Date of session	Government document No.	Audit No.	Measures imposed by the Government
304/11	27.4.2011	372/11	10/09	The Government instructs the Minister of Finance to implement measures to eliminate the shortcomings mentioned in the audit conclusion and in the opinion on the audit conclusion, and to inform the Government about the implementation of these measures by 30.9.2011.
303/11	27.4.2011	248/11	10/08	Not imposed.
81/11	26.1.2011	72/11	10/07	The Government instructs the Minister of Agriculture to implement measures mentioned in the opinion on the audit conclusion and to inform the Government about the implementation of these measures by 30.6.2011.
76/11	26.1.2011	1319/10	10/03	The Government instructs the Minister of Labour and Social Affairs to implement measures adopted to remedy and eliminate the shortcomings mentioned in the audit conclusion and to inform the Government about the implementation of these measures by 30.6.2011.
75/11	26.1.2011	1240/10	10/01	The Government instructs the Minister of Agriculture and the director of SAIF to implement measures mentioned in the opinion on the audit conclusion and to inform the Government of the implementation of these measures by 31.1.2011.
74/11	26.1.2011	1231/10	10/06	The Government instructs the Minister of Agriculture to ensure the implementation of measures adopted to remedy and eliminate the shortcomings mentioned in the audit conclusion and to inform the Government about the implementation of these measures by 30.6.2011.
73/11	26.1.2011	1213/10	10/05	The Government instructs the Minister of Justice to implement measures mentioned in the opinion on the audit conclusion and to inform the Government of the implementation of these measures by 30.6.2011.
72/11	26.1.2011	1296/10	09/28	The Government instructs the Minister of Regional Development to ensure the implementation of measures mentioned in the opinion on the audit conclusion, and to inform the Government about the implementation of these measures by 31.12.2011.
71/11	26.1.2011	30/11	09/27	The Government instructs the Minister of Transport to ensure the implementation of measures mentioned in the opinion on the audit conclusion, and to inform the Government about the implementation of these measures by 31.12.2011.

Appendix No. 5 to the SAO's Annual Report for 2011

Abbreviations

AAU	Assigned Amount Units
AC	Audit Conclusion
ADIS	Automated Tax Information System
AF	Armed Forces
CBC	Committee on Budgetary Control of the Chamber of Deputies of the Parliament of the Czech Republic
CEDR	Central Evidence of Budget Subsidies
CHD	Chamber of Deputies
CMH	Central Military Hospital
CR	Czech Republic
CSO	Czech Statistical Office
CSSA	Czech Social Security Administration
CTI	Czech Trade Inspectorate
CzR	Czech Railways
EC	European Commission
ECA	European Court of Accountants
EDS/SMVS	Information System of Programme Financing
EU	European Union
EUROSAI	European Organisation of Supreme Audit Institutions
EUROSTAT	European Statistics
FRG	Federal Republic of Germany
GFD	General Financial Directorate
GHIC CR	General Health Insurance Company of the Czech Republic
GIS	Green Investment Scheme
GTA	General Treasury Administration
INTOSAI	International Organisation of Supreme Audit Institutions
IS VZ	Information System on Public Contracts
IS	Information System
ISSAI	International Standards of Supreme Audit Institutions
MoA	Ministry of Agriculture
MoC	Ministry of Culture
MoD	Ministry of Defence
MoE	Ministry of the Environment
MoEYS	Ministry of Education, Youth and Sports
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoH	Ministry of Health
MoI	Ministry of the Interior
MoIT	Ministry of Industry and Trade
MoJ	Ministry of Justice
MoLSA	Ministry of Labour and Social Affairs
MoRD	Ministry for Regional Development
MoT	Ministry of Transport

NP	National Park
NTL	National Technical Library
OLAF	European Anti-Fraud Office
OPE	Operational Programme Environment
PPP	Public-Private Partnership
PS CR	Prison Service Czech Republic
RCCR	Regional Council of the Cohesion Region
RDP	Rural Development Programme
RFA	Refundable Financial Assistance
RHS	Regional Hygienic Station
RMD CR	Road and Motorway Directorate of the Czech Republic
SAI	Supreme Audit Institution
SAIF	State Agricultural Intervention Fund
SAO	Supreme Audit Office
SB	State Budget
SD	State Debt
SEF CR	State Environmental Fund of the Czech Republic
SFAO	State Financial Assets Operations
SFTI	State Fund for Transport Infrastructure
UN	United Nations
UNDP	United Nations Development Programme
VAT	Value Added Tax