

Press release on completion of the auditing operation

No. 06/17

The auditing operation carried on by the Supreme Audit Office (SAO) focused on financial managing of national parks and preserved territories. The audit also took aim at fulfilling the tasks set by directions to preserve freely living birds, natural areas, wild animals, and plants that were issued by European Union (EU) to create the “Natura 2000” system. On the bases of mutual agreement, all members of EU were simultaneously audited within the International Organization of Audit Institutions (INTOSAI). Discharging these directions could have a negative influence on state budget expenses of the Czech Republic (CR).

The audited period was defined by years 2000 till 2005, the audited bodies were Ministry of the Environment, Agency for Nature Conservation and Landscape Protection of the Czech Republic (AOPK), as well as administrations of Czech national parks Podyjí, Šumava, České Švýcarsko, and Krkonoše (KRNAP).

„By January 2005, 38 from initially planned 41 bird preservation areas were authorized and declared. By the end of 2004, the government put off dealing the other areas because there were numerous discrepancies among ministries of agriculture, industry and trade, and environment. In connection with this, the European Commission could take steps against the Czech Republic concerning accession agreements failure. In case it is impossible to make up for improvements, there is a danger of a high penalty or the Czech Republic could be fined repeatedly “, said František Dohnal, the president of SAO.

He also added that administrations of the national parks have not so far obtained the competence to manage some state owned lands which involve special preservation care and some lands where natural landmarks are situated. “Some most strictly protected lands were sold to private owners. For example, 5 pieces of land within the Krkonoše area (KRNAP) were signed over to several private legal entities. Transferring lands out of nature preservation administrations will significantly affect the state budget considering the state duty to compensate for agricultural or forest management difficulties“, said Dohnal.

Faults were detected in managing the organizations themselves. For example, the administration of the national park Podyjí invested more than a quarter of a million on their vehicle operating in 2004 and 2005, but at the same time, they did not ensure demonstrability of these expenses as they did not keep records of journeys. In comparison, the administration of KRNAP has not followed the public order placement law since 2003 as they made a replicate contract with indeterminate duration with providers of cross-country motor cars in 2003 – without a competition of tenders.

„The contract did not involve any specific amount of financial discharge, which would be fundamental when choosing the form of placing the order. On the basis of this contract, the KRNAP administration actually purchased 12 motorcars for 9.891.000 CZK altogether from 2003 till 2005“, said the president of SAO.

Even the AOPK acted against the budget law when managing resources purposefully destined for implementation of the “Natura 2000” system. For example, the agency made contracts with mapmakers, but some of them were settled just on the day or even after the day of fulfilment. Other contracts were concluded without order specifications. Infeasible contracts were concluded with some mapmakers according to which the mapmakers would

have to chart up to 64 ha in a single day within 5 months till the fixed term to fulfil the contract”, said Dohnal.

The auditing operation was included in the Annual Audit Plan of SAO for the year 2006 under No. 06/17. Zdeněk Brandt, Member of the SAO, controlled the auditing operation and drew up the conclusion of the audit as well.

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No. 06/18

This time, the SAO auditors took aim at controlling the use of financial resources provided by the “Program of Selected Railways Reconstruction & Modernization”. The audited period was defined by the year 2004 and the fall of 2006, the previous periods were included only in case of factual context. The audited bodies were Ministry of Traffic, State Fund of Transport Infrastructure (SFTI), Railway Infrastructure Administration (RIA), and its constitutional parts within its framework – Civil Engineering Administrations of Olomouc, Plzeň and Praha.

During the audited period, 80 projects altogether were either entered or finished. 38 projects, with the total costs almost 38 billion CZK, were chosen for the audit operation.

When making decision whether to execute railway reconstruction and modernization projects, basic criteria did not always include social-economical effectiveness. “The project choice was carried out in accordance with criteria that had not been fixed. In total, 20 investment ventures were authorized without reasoning in spite they were assessed as unsuitable in terms of effectiveness. Another 15 projects were not rated on the basis of efficiency at all”, said Frantisek Dohnal, president of the Czech SAO.

Most imperfections in rating the offers and choice transparency were found when controlling placing public order for projects documentation and construction suppliers.

“Within the selected set, cost-effects with more than half of the projects were rated only on the partial criteria basis, which did not refer to the offer’s subject-matter. Some assessments of the offers were based on partial criteria, which had not been included in the tender conditions. On the other hand, contestants who had not met eligibility required for the contest were not avoided”, said president Dohnal.

The auditing operation was included in the Annual Audit Plan of SAO for the year 2006 under No. 06/18. Jiří Adámek, Member of the SAO, controlled the auditing operation and drew up the conclusion as well.

Press release on completion of the auditing operation

No. 06/20

The final account of Ministry of Industry and Trade (MIT) did not truly depicture the object of 2005 fiscal period in accordance with accounting laws. Auditors from the Supreme Audit Office (SAO) concluded this outcome during verification of the facts included in

statements that had been put out as supporting documents for the final account of the state budget chapter.

Financial audits were performed to ascertain the validity and reliability of MIT financial statements which could influence the tested value of closing balance in the 2005 final account, including realia associated with 2006 and previous years.

“MIT’s 2005 final account was not a reliable source for drawing the final account of the state budget chapter 322 – Ministry of Industry and Trade. The financial audit resulted in a publication stating that the inaccuracy was worth 1.1 billion CZK. At the same time, a budgetary discipline breach was detected, with estimated value of more than 5.2 million CZK”, said František Dohnal, president of SAO. He also added that the amount of money referred to a delayed payment of revenues realized from MIT’s property disposal.

“In the face of the determined imperfections, it is necessary for MIT to ensure that inadequacies will be taken away by enforcing appropriate adaptations of their book-keeping. The largest amount of shortcomings lay in poor keeping of the returnable grants-in-aids”, said the president of SAO.

The audit report also concluded that the present state of obligatory regulation principles, which control presenting financial data on capital participation of the state in trading companies, markedly suggests various unacceptable interpretations. “This is the reason why the Ministry of Finance was proposed to try to find a solution so that we can clearly see which data can come out from single closing entries in the sphere of capital participation and how to interpret the statement of balances”, said František Dohnal.

The auditing operation was included in the Annual Audit Plan of SAO for the year 2006 under No. 06/20. Jan Vedral, Member of the SAO, controlled the auditing operation and drew up the conclusion as well.

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No. 06/21

The 2005 closing account made by Ministry of Education (ME) did not truly depicture the object of 2005 fiscal period in accordance with accounting laws. Auditors from the Supreme Audit Office (SAO) concluded this outcome during verification of the facts included in statements that had been put out as supporting documents for the final account of the state budget chapter.

Financial audits were performed to ascertain the validity and reliability of activities that were objects of ME financial statements, and which could influence the tested value of closing balance in the 2005 closing account, including realia associated with the previous fiscal periods. ME’s 2005 closing account was not a reliable source for drawing the annual closing account of the state budget chapter 323 – Ministry of Education.

Inconclusiveness and over- or undervaluing remainders of particular statement entries was the cause of the total incorrectness due to counteracting obligatory regulations. “Wrong book-keeping of the provided investment grants (which amounts to more than 22 billion CZK) makes an essential portion of the total loss. This error was cumulatively formed within several accounting periods and it is considered as alarming that it had not been uncovered

earlier. Significant shortcomings passed in stocktaking and account qualification”, said František Dohnal, president of the SAO.

Among the main reasons why such inaccuracy occurred is the fact that, during the audited period, ME did not introduce an effectual system of internal control, which could help to uncover, evaluate, and minimize risks related to the object of accounting.

The auditing operation was included in the Annual Audit Plan of SAO for the year 2006 under No. 06/21. Jan Vedral, Member of the SAO, controlled the auditing operation and drew up the audit report as well.

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No. 06/25

“Ministry of Healthcare poorly performed their duties when managing the program”, reads the conclusion of the audit report made by the Supreme audit Office (SAO). The purpose of the audit was to look in granting, drawing, and using the State Budget funds earmarked for the program of material and technical basis of teaching hospitals development. Auditors focused on the period from January 2003 till June 2006, including associated realia from the following period.

The audited bodies were Ministry of Healthcare (MH), St. Ann’s hospital in Brno, teaching hospitals of Brno, Hradec Králové, Olomouc, Plzeň, and Prague – Královské Vinohrady, the Teaching Hospital and Health Centre in Ostrava, the Teaching Hospital and Health Centre “Bulovka”, Prague, the Thomayer’s Teaching Hospital in Prague, and the General Teaching Hospital in Prague.

From 2003 to 2005, implementation of the program cost more than CZK 1,1 billion. The audit targeted 81 investment ventures with the total amount over CZK 979 million, making 86 % of all the money granted.

“For example, more than 50 % of provided finances were spent as late as the last month of the relevant year, which made difficult use for the audited teaching hospitals and consequently led to transferring those finances to a reserve fund. MH submitted only 2,67 % of the granted finances from 2003 – 2005 period to the audit. In addition, this audit was only perfunctory as no serious financial disposing break was found. The SAO audit reports have repeatedly warned of the fact having audited investments of the Ministry of Health,” said František Dohnal, president of SAO.

Together with counteracting some obligatory regulations, the teaching hospitals broke budgetary discipline when disposing finance, and the total irregularity amounts more than CZK 9 million. “During the audit, an offend against the public order law was found. It was caused by poor eligibility evidence of the contractor or vague publishing the information of a competition of tenders”, said president Dohnal.

The auditing operation was included in the Annual Audit Plan of SAO for the year 2006 under No. 06/25. Jan Holeček, Member of the SAO, controlled the auditing operation and drew up the audit report.