



Audit Report

23/30

Management of state assets and spending of state budget funds in the chapter of the Ministry of Defence in the areas where shortcomings were found in Audits Nos 18/02, 18/17, 19/13 and 19/20

The audit was included in the audit plan of the Supreme Audit Office (hereinafter the “SAO”) for the year 2023 under No 23/30. The audit was headed and the Audit Report was prepared by SAO Member Jan Kinšt.

The aim of the audit was to examine whether the Ministry of Defence was managing state assets and spending state budget funds effectively, economically, efficiently and in accordance with legal regulations in the areas where shortcomings had been identified in previous SAO audits.

The audited period was from 2019 to 2023; where relevant, the preceding period and the period up to the end of the audit were also scrutinised.

The audit was carried out on the audited entity between November 2023 and June 2024.

Audited entity:

the Ministry of Defence (hereinafter the “MoD”).

The SAO Board, at its 11th session held on 5 August 2024,

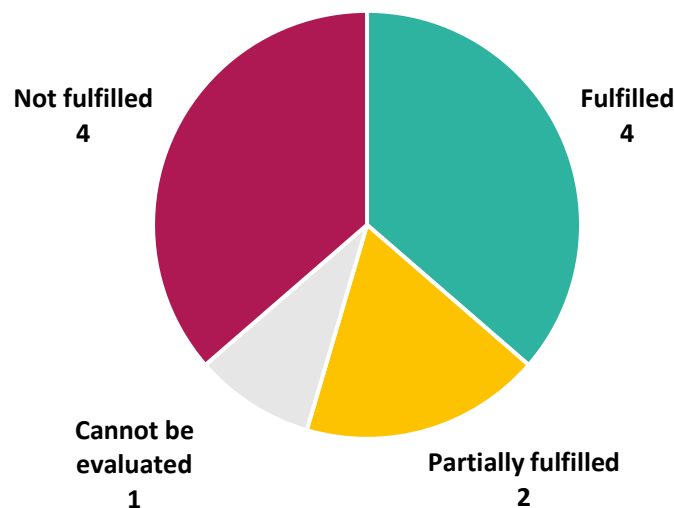
approved by Resolution No 8/XI/2024

the **Audit Report** as follows:

In the past, the SAO found shortcomings at the MoD during these selected audits:

- Audit No 18/02 – *Immovable assets and funds of the state related to those assets intended for securing the tasks of the Czech Armed Forces;*
- Audit No 18/17 – *State assets and funds of the state spent on the acquisition and distribution of equipment for members of the Czech Armed Forces;*
- Audit No 19/13 – *Armoured vehicles and equipment of the Czech Armed Forces;*
- Audit No 19/20 – *Higher education of members of the security forces and soldiers of the armed forces.*

The SAO evaluated the effectiveness of 11 measures imposed by the government to eliminate the identified shortcomings as follows:



Measures that the SAO assessed as not implemented or only partially implemented:

- The MoD did not ensure that the investment plans for the projects included the required statement of the efficiency of the invested funds.
- The MoD did not execute its own plan to reduce the deficit of funds for the acquisition of equipment for members of the Czech Armed Forces (CAF).
- The MoD has not yet introduced an electronic ordering system to simplify and speed up the issue of equipment for all members of the CAF.
- The MoD is not ensuring the specified operating capability of the tanks and has not secured a sufficient supply of spare parts needed for their repairs.
- The MoD does not maintain a stock of equipment in the central depot to cover unplanned requirements, supply shortages and other unforeseen situations.
- The MoD has not developed appropriate procedures and therefore cannot evaluate the life cycle costs of military equipment, especially during its use.

I. Summary and Evaluation

1.1. The SAO conducted an audit with the aim to examine whether the MoD was managing state assets and spending state budget funds (hereinafter “funds”) effectively, economically, efficiently and in accordance with legal regulations in the areas where shortcomings had been identified in previous SAO audits. The MoD’s measures were related to shortcomings found by the SAO in:

- *Audit No 18/02 – Immovable assets and funds of the state related to those assets intended for securing the tasks of the Czech Armed Forces;*
- *Audit No 18/17 – State assets and funds of the state spent on the acquisition and distribution of equipment for members of the Czech Armed Forces;*
- *Audit No 19/13 – Armoured vehicles and equipment of the Czech Armed Forces;*
- *Audit No 19/20 – Higher education of members of the security forces and soldiers of the armed forces.*

1.2. The SAO selected a total of 11 measures for the audit; they were examined for their degree of implementation and efficiency in the management of state assets and in the spending of funds in the MoD chapter. The audited amount of funds was CZK 2,678.1 million for immovable assets, CZK 4,880.0 million for equipment, CZK 5,624.0 million for armoured vehicles and equipment and CZK 922.0 million for higher education (universities), i.e., a total of CZK 14,104.0 million.

1.3. The SAO’s audit found that the MoD had not complied with some of the measures imposed by the government to remedy the shortcomings identified in previous SAO audits, namely Audits Nos 18/02, 18/17, 19/13 and 19/20. Of the eleven measures that were supposed to improve the management of state assets and the use of funds in the MoD chapter, four were not implemented at all and two others were only partially implemented. Thus, the MoD did not act in accordance with the law in these cases¹, as it did not follow the relevant Government Resolutions. Insufficient implementation of the measures has a negative impact on the effectiveness, economy and efficiency of the spending of funds, especially in the area of equipment provision, operation of military vehicles and equipment, and management of immovable assets in the restoration and modernisation of priority military sites. The SAO also found shortcomings and risks in areas where the measures had been implemented.

1.4. This overall summary is based on the following audit findings:

- a) The measure imposed to remedy the shortcomings identified in Audit No 18/02 was to ensure that only investment plans containing a statement of the efficiency of the invested resources together with a specification of the requirements for the operation of the capacity being built or renewed would be submitted to the MoD for registration. The MoD did not comply with the measure and thus failed to create one of the preconditions for efficient spending of funds for the implementation of the programme projects (see paragraphs 4.1 to 4.6).

¹ Act No 2/1969 Coll. of the Czech National Council, on the establishment of ministries and other central state administration authorities of the Czech Republic.

- b) The measures imposed to address the shortcomings identified in Audit No 18/02 included, inter alia, the following actions: conduct an analysis of the need for immovable assets, reduce related operating expenses, continue to implement projects to revitalise the immovable infrastructure. While the MoD had met these measures, the SAO found major shortcomings in meeting the objectives of securing the development and maintenance of immovable assets. These include, in particular, failure to meet some of the objectives set out on the basis of the analysis of the need for immovable assets in the *Concept of the Development and Maintenance of Immovable Infrastructure under the Competence of the MoD for the years 2020-2035* (hereinafter the “Concept”) and failure to meet the schedule of investments in the restoration and modernisation of 11 prioritised military sites. The impact lies in the risk that the MoD will not have time to build the necessary immovable infrastructure for the newly acquired military vehicles and equipment (see paragraphs 4.7 to 4.14).
- c) The measure imposed to eliminate the shortcomings identified in Audit No 18/17 consisted in gradually increasing the MoD’s budget for the acquisition of equipment so that the deficit of funds generated in the previous period would be compensated. Although the MoD gradually increased the budget for the acquisition of equipment, it did not purchase equipment stocks corresponding to that amount. Thus, there was no reduction in the deficit of funds in the area of equipment acquisition at the established rate. Therefore, the MoD did not implement the measure (see paragraphs 4.15 to 4.21).
- d) Another measure imposed to address the shortcomings identified in Audit No 18/17 envisaged the launch of an electronic equipment ordering system in 2022, which was to be followed by a mail order project. The MoD did not implement the measure. The SAO assessed the funds spent on the establishment of the electronic ordering system as ineffective, as the MoD had not met the objectives or seen the intended effects of the system for ordering and distributing equipment among the members of the CAF by the time the SAO audit was completed (see paragraphs 4.22 to 4.27).
- e) Measures imposed to address the shortcomings identified in Audit No 18/17 also included the development of conceptual and planning documents for the provision of equipment, as well as the maintenance of equipment stocks to address unplanned requirements, supply disruptions and other unforeseen situations. The MoD only partially implemented the measure because, at the time the SAO audit was completed, it did not have sufficient stocks of equipment to deal with such situations. Almost one-fifth of the needed equipment was missing from the central depot (hereinafter the “depot”), and the SAO thus assessed the funds spent on stocking the equipment as being efficient to a limited extent (see paragraphs 4.28 to 4.34).
- f) The measure imposed to remedy the shortcomings identified in Audit No 19/13 obliges the MoD to grant advances only once their economic advantage has been approved. Although the MoD had complied with the measure, the SAO assessed that the prerequisite for efficient or economical² spending of funds within the framework of the advances provided was ensured only for those contracts to which the set procedures applied. There are a number of financially significant contracts for which the MoD, on the basis of

² As regards efficiency, the economic advantage may lie, for example, in an earlier delivery of military equipment; in the case of economy, it is usually a discount on the tender price.

exceptions, granted advance payments as required by contractors (see paragraphs 4.35 to 4.41).

- g) The measures imposed to remedy the shortcomings identified in Audit No 19/13 also included, among other things, the establishment of new military repair facilities and, within the framework of equipment purchases, a requirement to procure all workshop supplies. Although the MoD complied with the measure, the SAO believes that the risk of uneconomical spending on maintenance and repairs of equipment remains due to the failure to meet the set numbers of repair personnel and the seven-year delay in the construction of the multi-purpose hall of the military repair facility (see paragraphs 4.42 to 4.49).
- h) Another measure imposed to address the shortcomings identified in Audit No 19/13 obligates the MoD to include in future contracts for acquisition and service support of vehicles and equipment such contractual penalties for failure to perform properly and timely to ensure that the contractors provide services or supplies in a timely manner and to reduce the average time of equipment inoperability. The SAO found that the MoD had established rules for setting the amount of contractual penalties. The right to a contractual penalty for the audited cases had not arisen by the end of the SAO audit, as the performance will take place in the following period. For example, in the case of the framework agreement for service support, the SAO could not verify the impact of the measure adopted, i.e., the reduction of the average time of inoperability of armoured vehicles and equipment (see paragraphs 4.50 to 4.56).
- i) The measures imposed to address the shortcomings identified in Audit No 19/13 also included the development of guidance to establish principles for the life cycle management of military material, including principles for calculating total life cycle costs for the purpose of assessing the economic advantage of tenders. The MoD implemented the measures only partially as it had not developed procedures to manage the total life cycle costs in all its stages. For this reason, and in view of the only partial use of the software to calculate estimates and monitor these costs, the SAO considers that the risk of uneconomical spending on the acquisition of military equipment remains (see paragraphs 4.57 to 4.64).
- j) The measures imposed to eliminate the shortcomings identified in Audit No 19/13 were intended to improve the operating capability of the tanks and to ensure a sufficient circulating stock of spare parts needed for their military repairs. The MoD did not implement the measures (see paragraphs 4.65 to 4.71).
- k) The measure imposed to eliminate the shortcomings identified in Audit No 19/20 consisted in improving the training of the relevant MoD employees so that when registering an investment project (hereinafter the “project”), the parameters of the project were always defined as measurable material indicators in terms of its objective (purpose). The MoD did implement the measure (see paragraphs 4.72 to 4.79).

II. Information on the Audited Area

2.1. The MoD is the central state administration authority of the Czech Republic mainly for the defence of the Czech Republic, the management of the CAF and the administration of

military sites. Pursuant to the provisions of Section 13 of Act No 219/1999 Coll.³, the CAF is the basis of the armed forces and is organisationally divided into military units and military facilities.

2.2. The tasks of the CAF are listed in the provisions of Sections 9 and 10 and Part Three of Act No 219/1999 Coll. The basic task is the preparation for the defence of the Czech Republic and defence against external attack. The CAF also performs tasks arising from the Czech Republic's international treaty obligations and participates in military drills and training. It can only perform its tasks provided that it has the necessary immovable assets, sufficient equipment for the members of the CAF and operable vehicles and equipment and has secured its training needs. These are the areas that the SAO focused on in the previous audits referred to in the following paragraphs.

2.3. Audit No 18/02 – *Immovable assets and funds of the state related to those assets intended for securing the tasks of the Czech Armed Forces* was focused on immovable assets managed by the MoD. The SAO found, among other things, that those assets exceeded the needs of the CAF, placed an excessive burden on the state budget, and at the same time were gradually being neglected. On the basis of the MoD's proposal to remedy the shortcomings identified in Audit No 18/02, the Government, by its resolution⁴, ordered the Minister of Defence to implement the proposed measures. The Minister of Defence informed the government about the progress of their implementation in the evaluation of the measures⁵.

2.4. Audit No 18/17 – *State assets and funds of the state spent on the acquisition and distribution of equipment for members of the Czech Armed Forces* examined, in particular, the securing of equipment needs of the members of the CAF and the distribution of that equipment. The SAO found, among other things, that the funds spent on the provision of equipment had not corresponded to the equipment needs of the CAF and that the MoD had to regulate the issue of equipment due to low stocks. The system of distribution of equipment among the members of the CAF was outdated and did not correspond to the technical possibilities. On the basis of the MoD's proposal to remedy the shortcomings identified in Audit No 18/17, the Government, by its resolution⁶, ordered the Minister of Defence to implement the proposed measures. The Minister of Defence informed the government about the progress of their implementation in the evaluation of the measures⁷.

2.5. Audit No 19/13 – *Armoured vehicles and equipment of the Czech Armed Forces* focused on funds earmarked for the implementation of projects for the acquisition, repairs and

³ Act No 219/1999 Coll., on the Armed Forces of the Czech Republic.

⁴ Government Resolution No 234 of 8 April 2019 *concerning the Supreme Audit Office's Audit Report on Audit No 18/02 – Immovable assets and funds of the state related to those assets intended for securing the tasks of the Czech Armed Forces*.

⁵ *Evaluation of measures taken following the Supreme Audit Office's Audit Report on Audit No 18/02 – Immovable assets and funds of the state related to those assets intended for securing the tasks of the Czech Armed Forces* (discussed at the meeting of the Government of the Czech Republic on 13 July 2020 – no resolution).

⁶ Government Resolution No 680 of 30 September 2019 *concerning the Supreme Audit Office's Audit Report on Audit No 18/17 – State assets and funds of the state spent on the acquisition and distribution of equipment for members of the Czech Armed Forces*.

⁷ *Evaluation of measures taken following the Supreme Audit Office's Audit Report on Audit No 18/17 – State assets and funds of the state spent on the acquisition and distribution of equipment for members of the Czech Armed Forces* (discussed at the meeting of the Government of the Czech Republic on 1 February 2021 – no resolution).

maintenance of armoured vehicles and equipment. The SAO found, among other things, that the MoD had not considered the total life cycle costs in the acquisition process. Furthermore, the MoD did not sufficiently ensure the repairs and maintenance of armoured vehicles and equipment and did not ensure the supply of spare parts. Thus, a high level of inoperability of those vehicles and equipment was found. On the basis of the MoD's proposal to remedy the shortcomings identified in Audit No 19/13, the Government, by its resolution⁸, ordered the Minister of Defence to implement the proposed measures. The Minister of Defence informed the government about the progress of their implementation in the evaluation of the measures⁹.

2.6. *Audit No 19/20 – Higher education of members of the security forces and soldiers of the armed forces* examined, among other things, the provision of educational needs of the CAF. The SAO found, among other things, that the MoD had set only an objective for one project but had not defined any parameters or indicators as measurable material indicators. On the basis of the MoD's proposal to remedy the shortcomings identified in Audit No 19/20, the Government, by its resolution¹⁰, ordered the Minister of Defence to implement the proposed measures. The Minister of Defence informed the government about the progress of their implementation in the evaluation of the measures¹¹.

III. Scope of the Audit

3.1. The aim of the audit was to examine whether the MoD was managing state assets and spending funds effectively, economically, efficiently and in accordance with legal regulations in the areas where shortcomings had been identified in previous SAO audits.

3.2. A total of 11 measures were selected for audit; they resulted from the audit findings listed in paragraphs 2.3 to 2.6 and were imposed by the government to address the identified shortcomings. The SAO considers the implementation of these measures to be important for the improvement of the state assets management and spending:¹²

- *Audit No 18/02 – Immovable assets and funds of the state related to those assets intended for securing the tasks of the Czech Armed Forces*
 - A.1 Compliance with legislation – Budgetary Rules (see paragraphs 4.1 to 4.6);
 - A.2 Establishing measurable targets for immovable assets (see paragraphs 4.7 to 4.14);

⁸ Government Resolution No 90 of 1 February 2021 *concerning the Supreme Audit Office's Audit Report on Audit No 19/13 – Armoured vehicles and equipment of the Czech Armed Forces*.

⁹ *Evaluation of measures of the Ministry of Defence following the Supreme Audit Office's Audit Report on Audit No 19/13 – Armoured vehicles and equipment of the Czech Armed Forces* (discussed at the meeting of the Government of the Czech Republic on 25 October 2021 – no resolution).

¹⁰ Government Resolution No 458 of 17 May 2021 *concerning the Supreme Audit Office's Audit Report on Audit No 19/20 – Higher education of members of the security forces and soldiers of the armed forces*.

¹¹ *Evaluation of measures of the Ministry of Defence following the Supreme Audit Office's Audit Report on Audit No 19/20 – Higher education of members of the security forces and soldiers of the armed forces* (discussed at the meeting of the Government of the Czech Republic on 9 March 2022 – no resolution).

¹² The following numbering of the individual measures A.1 to D.1 was chosen by the SAO and corresponds to the order given in Part IV of this Audit Report.

- *Audit No 18/17 – State assets and funds of the state spent on the acquisition and distribution of equipment for members of the Czech Armed Forces*
 - B.1 Funds to procure equipment (see paragraphs 4.15 to 4.21);
 - B.2 Ordering and distribution of equipment (see paragraphs 4.22 to 4.27);
 - B.3 Internal policies for planning the acquisition of equipment (see paragraphs 4.28 to 4.34);
- *Audit No 19/13 – Armoured vehicles and equipment of the Czech Armed Forces*
 - C.1 Delays in the implementation of projects for which the MoD has made advances to contractors (see paragraphs 4.35 to 4.41);
 - C.2 Insufficient capacity to provide military repairs (see paragraphs 4.42 to 4.49);
 - C.3 Low operating capability of vehicles and equipment, also due to the inappropriate amounts of penalties in the service support contracts (see paragraphs 4.50 to 4.56);
 - C.4 Lack of planning for the total life cycle costs of armoured vehicles and equipment (see paragraphs 4.57 to 4.64);
 - C.5 Low operating capability of upgraded tanks (see paragraphs 4.65 to 4.71);
- *Audit No 19/20 – Higher education of members of the security forces and soldiers of the armed forces*
 - D.1 Missing parameter for a project (see paragraphs 4.72 to 4.79).

3.3. Following the information provided by the MoD as part of the 11 measures, the SAO established one or more criteria for assessing the effectiveness, economy and efficiency of the funds spent or being spent on the area in question (see paragraphs 3.4 to 3.7). The SAO also verified, where appropriate, the effectiveness of the relevant measure on an audit sample of projects, contracts and framework agreements.

3.4. *Audit No 18/02 – Immovable assets and funds of the state related to those assets intended for securing the tasks of the Czech Armed Forces* – the SAO considered:

- in section A.1, an investment plan containing a statement of the efficiency of the funds invested to be one of the prerequisites for the efficient use of funds for the implementation of the programme projects. The SAO verified the effectiveness of the measure on three projects¹³ for the acquisition of immovable assets financed from the programme 107V75 – *Securing the civil and administrative sections of the MoD and the government subsidised organisation* (hereinafter “Programme 107V75”), registered by the MoD¹⁴ after the adoption of the measures concerning Audit No 18/02;
- in section A.2, the conceptual, planning and budgeting activities of the MoD and the funds spent on them to be effective (see Annex 1), provided that the MoD had met the objectives of the Concept according to the time milestones; furthermore, the SAO considered as prerequisites for the economical use of funds if the MoD assessed the need for immovable assets and subsequently disposed of unnecessary immovable assets at the lowest possible

¹³ Project No 107V752001901 *Vyškov – construction of an accommodation facility for basic training – implementation*, project No 107V752001921 *Lipník – reconstruction of heat sources – implementation* and project No 107V752002208 *Dědina military accommodation facility – facility reconstruction – implementation*.

¹⁴ Pursuant to Section 12 of Act No 218/2000 Coll., on budgetary rules and on amendments to certain related acts (the Budgetary Rules).

cost, while maintaining the quality of the tasks performed in the area of immovable asset management.

3.5. Audit No 18/17 – *State assets and funds of the state spent on the acquisition and distribution of equipment for members of the Czech Armed Forces* – the SAO considered:

- in section B.1, the acquisition activities of the MoD and the funds spent on them to be effective, provided that the MoD had purchased equipment stocks in a volume according to the approved budget in order to reduce the deficit of funds in the area of equipment acquisition at the established rate;
- in section B.2, the funds spent on the establishment of an electronic ordering system for the issue of equipment to be effective, provided that the MoD had actually built the planned system for ordering and future distribution of equipment and that the system was being used and had led to simplification and acceleration of the issue of equipment to members of the CAF;
- in section B.3, funds spent to provide the necessary stock of equipment in the depot to be efficient, provided that the MoD, in comparison with the amount of allocated funds, had achieved the maximum possible scope and benefit of the tasks performed in the area of equipment provision when purchasing equipment supplies to address unplanned requirements, cover supply shortages and other unforeseen situations (i.e., the stock corresponds to the established needs).

3.6. Audit No 19/13 – *Armoured vehicles and equipment of the Czech Armed Forces* – the SAO considered:

- in section C.1, the funds spent on the advances granted to be efficient and economical, provided that they had always been provided on the basis of an approved economic advantage. The SAO verified the effectiveness of the measures on the contract for the acquisition¹⁵ or technical improvement¹⁶ of armoured vehicles and equipment;
- in section C.2, to be one of the prerequisites for economical spending of funds on maintenance and repairs of vehicles and equipment if the MoD purchased all workshop supplies together with the equipment. The SAO verified the effectiveness of the measures on the contract for the acquisition¹⁵ of armoured vehicles and equipment;
- in section C.3, the preparation of and compliance with an internal policy or methodological guideline containing rules for setting the amount of contractual penalties to be one of the prerequisites for economical use of funds in contractual relations. The SAO verified the effectiveness of the measures on the contract for the acquisition¹⁵ or framework agreement on service support¹⁷ for armoured vehicles and equipment;
- in section C.4, the preparation of and compliance with internal policies that contain rules for the management and calculation of total life cycle costs to be one of the prerequisites for economical use of funds for the acquisition of military equipment;

¹⁵ Project No 107V081002044 *NATO gun – purchase*.

¹⁶ Project No 107V081001921 *T-72 M4CZ Tank – technical improvement*.

¹⁷ Framework agreement *Comprehensive service support for the TITUS 6x6 chassis for wheeled armoured command and staff vehicles, wheeled armoured communication vehicles and fire support coordination points*.

- in section C.5, to be one of the prerequisites for effective spending of funds on military repairs of tanks if the MoD ensured a circulating stock of spare parts in the performance of specified tasks within the framework of ensuring the operating capability of tanks.

3.7. Audit No 19/20 – *Higher education of members of the security forces and soldiers of the armed forces* – the SAO considered:

- in section D.1, to be one of the prerequisites for effective spending of funds for the implementation of projects if the MoD had defined the parameters of the project as measurable material indicators in terms of its objective (purpose) in the preparation of the project (registration). The SAO verified the effectiveness of the measures on four projects¹⁸ for the acquisition of immovable assets funded by Programme 107V75.

3.8. The criteria for assessing compliance with legal regulations were drawn by the SAO from Act No 2/1969 Coll. of the Czech National Council and Act No 218/2000 Coll. The terms “economy”, “efficiency” and “effectiveness” are defined in Section 2(m), (n) and (o) of Act No 320/2001 Coll.¹⁹

3.9. The audited period was 2019-2023; both the previous and subsequent periods were also considered for contextual reasons. The audited amount of funds was CZK 2,678.1 million for immovable assets, CZK 4,880.0 million for equipment, CZK 5,624.0 million for armoured vehicles and equipment and CZK 922.0 million for higher education (universities), i.e., a total of CZK 14,104.0 million.

Note: The legal regulations indicated in this Audit Report are applied in their wording valid and effective for the audited period. The amounts of funds include prices including VAT unless otherwise stated.

IV. Detailed Findings of the Audit

A. Measures to remedy the shortcomings identified in the SAO’s Audit Report on Audit No 18/02 – *Immovable assets and funds of the state related to those assets intended for securing the tasks of the Czech Armed Forces*

A.1 Compliance with legislation – Budgetary Rules

→ *What did the government impose and what measures did the MoD take to address the identified shortcomings?*

4.1 In Audit No 18/02, the SAO found, among other things, that the MoD had not proceeded in accordance with the provisions of Section 12(6) of Act No 218/2000 Coll. by registering investment plans in which Armádní Servisní (Army Service Forces), government subsidised organisation (hereinafter “AS-PO”) had not provided a statement of the efficiency of the

¹⁸ The only two projects that can be audited, No 107V751003149 *Brno – Černá pole barracks – logistics centre – construction* and No 107V751003151 *Brno – Kounicova 44, reconstruction of the exterior part of the building*, for which the beneficiary of the support is the University of Defence in Brno (which was audited under Audit No 19/20), had not been completed at the time of the SAO audit completion. Therefore, the SAO selected two more completed projects of a similar nature carried out by other beneficiaries (project No 107V752001919 *Jaroměř – decentralisation of heat source, construction of gas pipeline – implementation*, project No 107V752001921 *Lipník – reconstruction of heat sources*) for the audit sample in order to verify the effectiveness of the measures.

¹⁹ Act No 320/2001 Coll., on financial control in public administration and on amendments to certain acts (the Act on Financial Control).

invested resources together with a specification of the requirements for ensuring the operation of the capacity being built or renewed.

4.2 On the basis of the MoD's proposal to remedy the shortcomings identified in Audit No 18/02, the government, by its resolution⁴, instructed the Minister of Defence to ensure, by organisational measures at AS-PO, that only investment plans with statements of the efficiency of the invested resources together with a specification of the requirements for ensuring the operation of the capacity being built or renewed, would be submitted to the Ministry of Defence for registration.

4.3 In the evaluation of the implementation of the measures to remedy the shortcomings identified in Audit No 18/02⁵, the MoD reiterated, inter alia, that the organisational measures adopted for AS-PO, in particular in the area of the internal control system, ensured that only investment plans containing a statement of the efficiency of the invested resources together with a specification of the requirements for ensuring the operation of the capacity being built or renewed were submitted to it for registration. Only investment plans containing complete background documents were supposed to be registered. According to the MoD, the measure was implemented.

→ SAO assessment: *The MoD has not corrected the identified shortcoming in practice, therefore the risk of inefficient spending of funds persists in the implementation of programme projects.*

4.4 The SAO assessed the implementation of the measure imposed by the Government Resolution⁴. The SAO verified whether the MoD had proceeded in accordance with the provisions of Section 12(6) (effective until 31 December 2021), or Section 12(7) (effective from 1 January 2022) of Act No 218/2000 Coll., i.e., whether it had registered projects on the basis of a correctly completed investment plan. The SAO considered an investment plan containing a statement of the efficiency of the funds invested to be one of the prerequisites for the efficient use of funds for the implementation of the programme projects.

4.5 The SAO verified the implementation of the measures on a sample of three investment plan projects under Programme 107V75: No 107V752001901 *Vyškov – construction of an accommodation facility for basic training – implementation*, No 107V752001921 *Lipník – reconstruction of heat sources – implementation* and No 107V752002208 *Dědina military accommodation facility – facility reconstruction – implementation*. It found that, although the investment plans for all the above projects had the relevant sections on the efficiency of the resources invested filled in, together with a specification of the requirements for ensuring the operation of the capacity being built or renewed, the text inserted did not contain, inter alia, any statement on the efficiency of the resources invested (see Example 1). Thus, the MoD did not proceed according to the provisions of Section 12(6) (for project No 107V752001921) or Section 12(7) (for project No 107V752001901 and project No 107V752002208) of Act No 218/2000 Coll., as it registered projects as the administrator of Programme 107V75, even though AS-PO had not expressed the efficiency of the funds invested and had not specified the requirements for ensuring the operation of the capacity being built or renewed in the investment plan as stipulated in the Programme 107V75 documentation.

Example 1

In the investment plan of 3 March 2020 for project No 107V752001901 Vyškov – construction of an accommodation facility for basic training – implementation, AS-PO stated the following as regards the efficiency of the funds invested: “The request for the implementation of a project of accommodation facilities for basic training was made by the Vyškov Military Academy. The reason is to secure the operation of basic training.” On the specification of the requirements to ensure the operation of the capacity being built or renewed, it stated: “This is an existing training centre that will be relocated after completion. Future operations will therefore be provided by existing CAF personnel.” The investment plan did not contain the data required by the Programme 107V75 documentation to express the efficiency of the funds invested, nor did it contain specifications of the requirements for the provision of operations, e.g., detailed conditions under which the project would be efficient and whether these conditions would be achieved, cost calculations or a comparison of the expenditure so far customary for the facility and the expenditure for the future operation of the facility, etc. Nevertheless, the MoD registered the project on 26 May 2022.

4.6 The SAO therefore summarises and concludes that the MoD did not implement the measures to eliminate the shortcomings identified in Audit No 18/02 and thus failed to proceed in accordance with the provisions of Section 21 of Act No 2/1969 Coll. of the Czech National Council, as it did not follow the Government Resolution⁴. The MoD thus also failed to create one of the preconditions for efficient spending of funds for the implementation of the Programme 107V75 projects.

A.2 Establishing measurable targets for immovable assets

→ *What did the government impose and what measures did the MoD take to address the identified shortcomings?*

4.7 In Audit No 18/02, the SAO found, among other things, that the MoD did not have any comprehensive document that would focus on the areas of development and maintenance of immovable assets and would set measurable objectives in these areas, and which would indicate the extent of immovable assets needed for the CAF or the MoD. According to the SAO, the optimisation of the volume and structure of immovable assets was intended to reduce the amount of funds needed for their management and operation and investments in them.

4.8 On the basis of the MoD’s proposal to remedy the shortcomings identified in Audit No 18/02, the government, by its resolution⁴, ordered the Minister of Defence to analyse the need for immovable assets that were under its management, had not yet been declared unnecessary and were intended for use by the CAF. On this basis, the MoD was to propose unusable assets for declaration as unnecessary and prepare these assets for disposal in a way that would reduce the related operating expenses. Furthermore, the MoD undertook to continue the implementation of projects for the revitalisation of immovable infrastructure and to identify other sites and facilities expected to be used by the CAF in relation to the needs of the CAF. The volume and spatial studies, which were to be used for further project planning or programme changes, were to include an estimate of the amount of funds needed for renovation and modernisation. The MoD had until 31 December 2019 to comply with the measure.

4.9 In the evaluation of the implementation of the measures to eliminate the shortcomings identified during Audit No 18/02⁵, the MoD stated, among other things, that its fundamental

response to the shortcomings identified by the SAO had been the issuance of the first ever concept in the area of immovable assets. The target state of the Concept of 12 May 2020 was to ensure the development and maintenance of immovable assets according to the needs of the MoD. Furthermore, the MoD stated that in 2019 it had prepared spatial and capacity studies on the use and optimisation of 11 prioritised military sites and that, on the basis of an assessment of the need for immovable assets for the CAF, unusable immovable assets had been declared unnecessary and entered into the amended register of unnecessary immovable assets. According to the MoD, the measure was being implemented on an ongoing basis.

→ SAO assessment: Although the MoD has corrected the identified shortcoming, it has only partially met the set objectives in the area of immovable assets, ...

4.10 The SAO assessed compliance with the measures imposed by the Government Resolution⁴ and examined whether the approved Concept contained measurable targets and milestones for their achievement in the area of immovable assets. The SAO considered the conceptual, planning and budgeting activities of the MoD and the funds spent on them to be effective provided that the MoD had met the objectives of the Concept according to the time milestones. The SAO considered as prerequisites for the economical use of funds if the MoD assessed the need for immovable assets and subsequently disposed of unnecessary immovable assets at the lowest possible cost, while maintaining the quality of the tasks performed in the area of immovable asset management.

4.11 In the Concept, the MoD set eight objectives to be met by 2022, of which the SAO has selected three as key objectives based on its own analysis. According to the SAO, the key objectives are crucial both for meeting the target state of the Concept, i.e., to ensure the development and maintenance of immovable assets according to the needs of the MoD, and because their fulfilment will lead to a reduction in the volume of funds needed for the management and operation of and investment in immovable assets (see paragraph 4.7). These objectives were:

- taking a comprehensive technical status inventory of individual facilities and recording of current data on immovable assets in the MoD information system;
- achieving a decrease in depreciation of immovable assets;
- reducing the value of unnecessary immovable assets.

The SAO's audit found that the MoD had met six of the eight objectives, including two that the SAO considered key. On the other hand, the MoD did not meet the key objective of taking a comprehensive technical status inventory of individual facilities and recording of current data on immovable assets in the MoD information system, nor did it meet the objective of increasing the number of staff in the area of preparation, implementation, acquisition, acceptance and accounting for construction projects and facilities.

→ ... which leads to the deterioration of the condition of immovable assets and to the risk that the MoD will not have time to build the necessary immovable infrastructure for the newly acquired military vehicles and equipment.

4.12 As mentioned in paragraph 4.9, in 2019 the MoD selected 11 priority military sites for which it had spatial and capacity studies for their use and optimisation (the so-called first stage) prepared. The SAO verified that the studies also included an estimate of the amount of funds needed for the renovation and modernisation of the sites. In 2020, the MoD also identified other priority sites and facilities for renovation and modernisation based on the needs of the CAF (the so-called second stage). In 2022, it evaluated the progress of the first

stage and, due to its minimal implementation, postponed the preparation of the spatial and capacity studies for the second stage to 2026. This is subject to the condition that the first stage is at least 50% complete in 2026. The SAO found that the MoD had carried out projects worth about CZK 2 billion in 2019-2023, which is only 14.5 % of the planned amount of the first stage of the renovation and modernisation of the sites by 2025 (out of the planned CZK 14 billion). The SAO thus warns that, as a result of the postponement of the implementation of the projects, the condition of the immovable assets is likely to deteriorate further and additional expenditure by the MoD on their restoration and modernisation will be necessary, and therefore funds will be spent uneconomically. Based on the findings, the SAO also identified a significant risk that the MoD would not have time to build the necessary infrastructure for the newly acquired military vehicles and equipment (see Example 2).

Example 2

On 30 September 2021, the MoD concluded the NATO gun – purchase Contract, with the first pieces of military equipment to be delivered in 2026. The site in Jince, where the relevant 13th Artillery Regiment of the CAF is located, was therefore included by the MoD in the first stage of the renovation and modernisation of the sites by 2025. Subsequently, however, the MoD changed its decision, replacing the Jince site with the site in Chrudim and reassigning it to the second stage. At the end of 2021, an internal audit of the MoD found that no modernisation and construction related to the purchase of the guns was underway at the Jince site, although the state of the neglected immovable infrastructure is known and there is a risk that the MoD will not have adequate garages and related technologies ready for the guns and the guarantees from the guns' supplier may be lost. As a result of the MoD postponing the preparation of the spatial and capacity studies for the second stage of the renovation and modernisation of the sites to 2026, the SAO identified a risk that the MoD would not be able to build the corresponding immovable infrastructure according to the schedule for the delivery of the guns.

4.13 The MoD or the CAF carries out continuous mapping and evaluation of the need for immovable assets in the form of regular deployment surveys. The aim is to determine the (non-)necessity of the immovable assets, the related costs and the need for investment or repairs. The MoD annually compiles the outputs of the surveys into “*summary lists of used and vacant facilities*” and also prepares “*plans for the disposal of unnecessary assets*”. The SAO also examined whether operating expenditure on unnecessary immovable assets was being reduced. It found that the MoD had significantly reduced its operating expenditure (especially for security and maintenance) (CZK 32.5 million in 2017 compared to CZK 4.3 million in 2022). The MoD pays for security provided by external entities only for large military facilities, while smaller ones are secured by the MoD staff. Maintenance is also carried out by the MoD only in emergency cases. By these steps, the MoD has created the conditions for economical spending of funds on unnecessary immovable assets.

4.14 Therefore, the SAO summarises and concludes that although the MoD fulfilled the measures to eliminate the shortcomings identified by Audit No 18/02 and thus proceeded in accordance with the provisions of Section 21 of Act No 2/1969 Coll. of the Czech National Council, as it was guided by the Government Resolution⁴, the SAO has found major shortcomings concerning the fulfilment of the objectives of securing the development and maintenance of immovable assets. In particular, the renovation and modernisation of 11 prioritised military sites are not proceeding according to the established time schedule and

financial plan. The impact lies in the risk that the MoD will not have time to build the necessary infrastructure for the newly acquired military vehicles and equipment. Further, the MoD did not meet two of the eight objectives of the Concept by 2022. The SAO therefore assessed the conceptual, planning and budgeting activities of the MoD and the funds spent on them as effective with slight shortcomings on the basis of its own evaluation scale (see Annex 1).

B. Measures to remedy the shortcomings identified in the SAO's Audit Report on Audit No 18/17 – State assets and funds of the state spent on the acquisition and distribution of equipment for members of the Czech Armed Forces

B.1 Funds to procure equipment

→ *What did the government impose and what measures did the MoD take to address the identified shortcomings?*

4.15 In Audit No 18/17, the SAO found that the funds spent on the provision of equipment in the years 2015 to 2017 had not corresponded to the equipment needs of the CAF. This created a shortage of the stock of equipment, which led to the regulation of the quantity of issued equipment.

4.16 Based on the MoD's proposal to eliminate the shortcomings identified in Audit No 18/17, the government, by its resolution⁶, ordered the Minister of Defence to take measures to gradually increase the budget for the acquisition of equipment (CZK 0.77 billion for 2019, CZK 1.04 billion for 2020, CZK 1.18 billion for 2021 and CZK 1.61 billion for 2022, i.e., CZK 4.60 billion in total for the period of 2019-2022). Furthermore, the MoD assumed that, by 2026, the deficit of funds in the area of equipment acquisition should be made up to the required amount of approximately CZK 2 billion per year.

4.17 In the evaluation of the implementation of the measures to eliminate the shortcomings identified during Audit No 18/17⁷, the MoD stated, inter alia, that it had fulfilled the measures to gradually increase the budget for the acquisition of equipment. In 2019, the volume of funds was drawn in the amount of CZK 0.73 billion, the budget²⁰ for 2020 was CZK 1.40 billion and the plan for 2021 was CZK 1.27 billion and CZK 1.61 billion for 2022 (i.e., in the period of 2019-2022, a total of CZK 5.01 billion), while the deficit of funds in the area of equipment acquisition will be made up to approximately CZK 2 billion per year by 2026. According to the MoD, the measure was being implemented.

→ *SAO assessment: In practice, the MoD has not corrected the identified shortcoming as it has not reduced the deficit of funds in the area of equipment acquisition at the specified rate.*

4.18 The SAO assessed the implementation of the measure imposed by the Government Resolution⁶. The SAO considered the acquisition activities of the MoD and the funds spent on them to be effective, provided that the MoD had purchased equipment stocks in a volume according to the approved budget in order to reduce the deficit of funds in the area of equipment acquisition at the established rate.

²⁰ This is the final expenditure budget adjusted for all budgetary measures, i.e., including budgetary measures that have budgeted entitlements from unspent expenditure.

4.19 The SAO found that the approved budget for the acquisition of equipment in the period of 2019-2023 had gradually increased from CZK 0.72 billion (2019) to CZK 1.64 billion (2024), see Table 1. In the period of 2019-2022, however, the MoD purchased equipment for only CZK 3.77 billion, i.e., for less than the planned amount according to the measure of CZK 4.60 billion, or according to the “evaluation of the implementation of the measure” of CZK 5.01 billion (see paragraph 4.17). The MoD thus did not implement the measure.

4.20 In the audited period of 2019-2023, the approved budget for the acquisition of equipment amounted to CZK 6.26 billion, but the MoD spent only 78 % of this amount (CZK 4.88 billion).²¹ The MoD thus failed to purchase equipment stocks in a volume according to the approved budget, and the deficit of funds in the area of equipment acquisition was not reduced at the established rate.

Table 1: Overview of the use of funds for the acquisition of equipment (in CZK billion)

	2019	2020	2021	2022	2023	2024	2019-2023
Approved budget	0.72	1.12	1.30	1.54	1.58	1.64	6.26
Drawn	0.73	1.29	0.94	0.81	1.11	–	4.88
Drawn in %	101%	115%	72%	53%	70%	–	78%

Source: MoD.

4.21 The SAO therefore summarises and concludes that the MoD did not implement the measures to eliminate the shortcomings identified in Audit No 18/17 and thus failed to proceed in accordance with the provisions of Section 21 of Act No 2/1969 Coll. of the Czech National Council, as it did not follow the Government Resolution⁶. Although the MoD gradually increased the budget for the acquisition of equipment in the period of 2019-2023, the deficit of funds in the area of equipment acquisition has not been reduced at the set rate (the amount of CZK 1.38 billion remains unused). The SAO therefore assessed the acquisition activities of the MoD and the funds spent on them as having limited effectiveness.

B.2 Ordering and distribution of equipment

→ *What did the government impose and what measures did the MoD take to address the identified shortcomings?*

4.22 In Audit No 18/17, the SAO found that the system of distributing equipment among the members of the CAF was outdated and did not correspond to the current technical possibilities for the effective distribution of assets. The MoD considered changing the system as early as 2004, but had not implemented the planned projects by the time the SAO audit was completed. Thus, the MoD did not have a system set up to minimise the expenditure and tasks associated with distributing the equipment.

4.23 On the basis of the MoD’s proposal to remedy the shortcomings identified in Audit No 18/17, the government, by its resolution⁶, instructed the Minister of Defence to start the implementation of the “E-Shop” system (electronic ordering method of issuing equipment from the distribution points) after the conclusion of the contract for the technical

²¹ The MoD justified the failure to spend the approved budget by the COVID-19 pandemic and a sharp increase in inflation. However, the SAO found that the reasons given did not correspond with the data presented in Table 1 (e.g., the exhaustion of the approved budget in 2020, when the first wave of the COVID-19 pandemic was underway, or the spike in inflation that occurred only in 2022).

improvement of the *Information System for Logistics* (hereinafter also “ISL”), with the assumption of full operation in January 2022. The MoD planned to launch the operation of the follow-up mail order service in January 2026 at the earliest.

4.24 In the evaluation of the implementation of the measures to eliminate the shortcomings identified in Audit No 18/17⁷, the MoD stated, inter alia, that in January 2020 it had launched a trial operation of the “VESH” system (equipment e-shop), which had replaced the “E-Shop” system due to the failure to conclude a contract for the technical improvement of the ISL. Full operation of the “VESH” system was planned by the MoD for the year 2021. The objective of the distribution system was to create a mail order service for equipment based on it. According to the MoD, the measure was being implemented.

→ SAO assessment: The MoD has not corrected the identified shortcoming because the system of distribution of equipment among the members of the CAF still does not correspond to the current technical possibilities.

4.25 The SAO assessed the fulfilment of the measures imposed by the Government Resolution⁶, considering the funds spent on the establishment of an electronic ordering system for the issue of equipment to be effective, provided that the MoD had actually built the planned system for ordering and future distribution of equipment and that the system was being used and had led to simplification and acceleration of the issue of equipment to members of the CAF.

4.26 The SAO found that the MoD had created its own “OSV” system (equipment ordering system), which followed the system originally called “VESH”. The off-line OSV test run took place in 2020-2021, followed by an on-line test run from October to November 2022. The trial operation of the OSV started on 2 January 2023 and should last until March 2025. Access details for logging in to the OSV are issued by the MoD gradually; in April 2024 only 58 % of the members of the CAF had them. The SAO also found that, at the time the SAO audit had been completed, the MoD had not planned to implement a follow-up project for an equipment mail order service, which was supposed to address the distribution of ordered equipment from the distribution point to the unit of the relevant CAF member. The project was deferred in June 2023 with the understanding that it would be implemented only after the completion of the OSV. Thus, the MoD did not meet the set objectives (the full-fledged operation of the electronic ordering method of issuing equipment had been planned for the year 2021 or 2022, but at the time of the SAO audit completion it had been postponed to 2025 and at the same time the follow-up project of the equipment mail order service had also been postponed). This did not have the intended impact, i.e., the use of the OSV by all members of the CAF and the simplification and acceleration of the issue of equipment. The system of distribution of equipment among the members of the CAF thus still does not correspond to the current technical possibilities for the functioning of the system of ordering and distribution of equipment.

4.27 The SAO therefore summarises and concludes that the MoD did not implement the measures to eliminate the shortcomings identified in Audit No 18/17 and thus failed to proceed in accordance with the provisions of Section 21 of Act No 2/1969 Coll. of the Czech National Council, as it did not follow the Government Resolution⁶. The SAO assessed the funds spent on the establishment of the OSV as ineffective, as the MoD had not met the objectives or seen the intended effects of the system for ordering and distributing equipment among the members of the CAF by the time the SAO audit was completed.

B.3 Internal policies for planning the acquisition of equipment

→ *What did the government impose and what measures did the MoD take to address the identified shortcomings?*

4.28 In Audit No 18/17, the SAO found that low stocks of some items of equipment had led to the regulation of the issue of equipment to members of the CAF in 2015 and 2016. By introducing equipment regulations, the MoD violated the obligation set out in Section 59(1) of Act No 221/1999 Coll.²², as it did not provide appropriate conditions for the proper and safe performance of service by members of the CAF.

4.29 On the basis of the MoD's proposal to remedy the shortcomings identified during Audit No 18/17, the government, by its resolution⁶, ordered the Minister of Defence to adopt a *concept for the development of the Equipment Service of the CAF*, to develop a *plan for the provision of equipment* and to ensure that the MoD maintain a stock of equipment in the depot to deal with unplanned requirements, supply shortages and other unforeseen situations.

4.30 In the evaluation of the implementation of the measures to eliminate the shortcomings identified in Audit No 18/17⁷, the MoD stated, among other things, that the *concept for the development of the Equipment Service of the CAF* would be submitted for approval at the end of 2020 and that it was preparing a *plan for the provision of equipment*. It also reiterated that it maintained a stock of equipment in its depot to deal with unplanned requirements, supply shortages and other unforeseen situations. According to the MoD, the measure was being implemented.

→ *SAO assessment: The MoD only partially corrected the identified shortcoming; at the time the SAO audit was completed, the MoD did not have a sufficient stock of equipment to deal with unplanned requirements, supply shortages and other unforeseen situations.*

4.31 The SAO assessed the implementation of the measures imposed by the Government Resolution⁶. The SAO considered funds spent to provide the necessary stock of equipment in the depot to be efficient, provided that the MoD, in comparison with the amount of allocated funds, had achieved the maximum possible scope and benefit of the tasks performed in the area of equipment provision when purchasing equipment supplies to address unplanned requirements, cover supply shortages and other unforeseen situations (i.e., the stock corresponds to the established needs).

4.32 The SAO verified that the MoD was preparing the *plan for the provision of equipment*. On 5 November 2020, the MoD also issued an internal policy²³ on the breakdown of types of asset stocks, including equipment, which divided equipment stocks into operational stocks, available stocks ready for issue and stocks to cover combat activities. Operational stocks are intended for covering the day-to-day activities of the members of the CAF (training, operation and maintaining combat capability), available stocks for covering extraordinary tasks (e.g., foreign missions) and stocks to cover combat activities for the mobilisation and conduct of combat activities. The SAO also found that on 15 April 2021 the MoD had approved the *Concept of the Equipment Service* (which corresponds to the *concept for the development of the Equipment Service of the CAF*, see paragraph 4.29). The concept aims to ensure sufficient

²² Act No 221/1999 Coll., on active-duty soldiers.

²³ Normative Decree of the MoD No 80/2020 of the MoD Bulletin, *Breakdown of types of asset stocks for covering the tasks of the Armed Forces of the Czech Republic*.

equipment and the capability to fully provide equipment and related services. The MoD subsequently issued an internal policy²⁴ (also referred to as the “Order on the Development of Stock Standards”) on the development and scope of depot stock standards on 16 September 2021. Based on that policy, the MoD is to establish a stock of equipment according to the standards within 10 years (no later than 31 December 2030).

4.33 The MoD provided the SAO with an overview of the depot stocks as of 8 March 2024. The SAO analysed the stocks of equipment for covering the day-to-day activities of the members of the CAF and extraordinary tasks (operational + available stocks) and stocks to cover combat activities. In the case of operational and available equipment stocks, the SAO found that the MoD had not stocked 19% of equipment items at all²⁵, and another roughly one-half of the equipment (54%) had not been stocked in the depot in the quantities required by the Order on the Development of Stock Standards. Also, in the case of combat support stocks, the MoD did not have some equipment items in the depot²⁶, and another roughly two-fifths of the equipment (41%) were not stocked in the quantities required by the Order on the Development of Stock Standards. The fact that 66 of the 347 (i.e., 19%) equipment items were completely out of stock indicates that the MoD did not have a sufficient stock of equipment in the depot as of 8 March 2024 to meet unplanned requirements and cover supply shortages and other unforeseen situations. One of the reasons for this is the under-spending of the approved budget for the acquisition of equipment by CZK 1.38 billion in the period of 2019-2023 (see paragraph 4.20).

4.34 Therefore, the SAO summarises and concludes that the MoD has only partially complied with the measures to eliminate the shortcomings identified in Audit No 18/17. In the area of equipping the members of the CAF, the MoD had prepared conceptual documents and internal policies, but at the time of the SAO audit completion it did not maintain a stock of equipment in the depot (in central stocks) to deal with unplanned requirements, supply shortages and other unforeseen situations. Although the MoD gradually increased the budget for the acquisition of equipment in the period of 2019-2023, it was not able to spend these funds. In March 2024, 19% of the equipment items were completely missing from the central depot. The SAO therefore assessed the funds spent on the provision of equipment as being efficient to a limited extent.

C. Measures to remedy the shortcomings identified in the SAO’s Audit Report on Audit No 19/13 – Armoured vehicles and equipment of the Czech Armed Forces
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C.1 Delays in the implementation of projects for which the MoD has made advances to contractors

→ *What did the government impose and what measures did the MoD take to address the identified shortcomings?*

²⁴ *Order of the Director of the Logistics Section of the MoD on the Development of the Central Equipment Depot Stock Standards – Assets of the Asset Group 2.1.*

²⁵ E.g., summer boots, reflective jackets, fireproof winter overalls, special or reflective rucksacks and emergency vests.

²⁶ E.g., winter leather gloves, rucksacks, caps 95 – summer.

4.35 In Audit No 19/13, the SAO found, inter alia, that in most cases the MoD had implemented projects for the acquisition or modernisation of armoured vehicles and equipment with a delay compared to the period for which they had been planned. In some cases, it also used the approved budget to pay advances to contractors. In the period of 2016-2018, advances for deliveries to be made in a later period amounted to CZK 1.25 billion for armoured vehicles and equipment projects.

4.36 On the basis of the MoD's proposal to remedy the shortcomings identified in Audit No 19/13, the government, by its resolution⁸, instructed the Minister of Defence that the MoD should grant advances on the basis of their economic advantage approved by the MoD's Economic Section. Advances were to be sent only to a contractor's account set up for that purpose and evaluated regularly.

4.37 In the evaluation of the implementation of the measures to remedy the shortcomings identified in Audit No 19/13⁹, the MoD stated, inter alia, that advances were always provided on the basis of their economic advantage approved by the Economic Section of the MoD. In the event of a breach of the conditions for drawing down advances, the contractor was to be penalised according to the contract. According to the MoD, the measure was being implemented.

→ SAO assessment: While the MoD has corrected the identified shortcoming, there are a number of financially significant contracts where the MoD has granted advances as per contractor requirements.

4.38 The SAO assessed the implementation of the measure imposed by the Government Resolution⁸. The SAO considered the funds spent on the advances granted to be efficient and economical, provided that they had always been provided on the basis of an approved economic advantage.

4.39 The MoD established rules for the provision of advances by an internal policy²⁷. It evaluates the economic advantage of the advances by applying an indicator which it calculates as the difference between the "*standard tender price including VAT without advance payment*" and the "*negotiated final tender price including VAT with advance payment*". The indicator must not show a negative value. Another indicator is the "*analysis of the contractor – recipient of the advance*", through which the MoD takes into account the financial and non-financial risk of the contractor. At the time of the completion of the SAO audit, the procedures for developing both indicators had not been regulated in detail. However, the MoD has indicated that it is preparing the relevant methodological guideline. The SAO also found that the procedure for assessing the economic advantage of advances was not always applied. There are a number of exceptions. These include, in particular, contracts to which representatives of national governments are parties (e.g., government-to-government contracts) and which are concluded with state-owned enterprises, under FMF/FMS²⁸ or NATO agencies. The MoD commented that the necessity to provide advances on a number of contracts was due to the requirements of the selected contractors, which the MoD was unable to influence. This applies, for example, to treaties with the State of Israel or the U.S. Government.

²⁷ Normative Decree of the MoD No 127/2014 of the MoD Bulletin, *Implementation of funding in the scope of the Ministry of Defence*.

²⁸ *Foreign Military Financing / Foreign Military Sales*.

4.40 The SAO planned to verify the compliance with the set procedures on two contracts for the acquisition or technical improvement of armoured vehicles and equipment, which had been the only ones concluded in the audited period. It found that the procedures set up with regard to the selected contractor (a state-owned enterprise or company) had been applied only in a subsidiary manner to both contracts. The contract *T-72 M4CZ – technical improvement* of 10 September 2020 was concluded by the MoD with VOP CZ, s. p. Following the provision of a 38% advance on the tender price of CZK 1.12 billion, VOP CZ, s. p. provided a discount of CZK 0.02 billion (i.e., 2%) to the MoD. The *NATO guns – purchase* contract dated 30 September 2021 was concluded by the MoD with a French state-owned company. Following the provision of an 86% advance on the tender price of CZK 9.77 billion, the state-owned company provided a discount of CZK 1.23 billion (i.e., 13%) to the MoD. The SAO did not find any shortcomings in the process of granting and using the advances according to the terms of both contracts.

4.41 The SAO therefore summarises and concludes that the MoD implemented the measures to eliminate the shortcomings identified in Audit No 19/13 and thus proceeded in accordance with the provisions of Section 21 of Act No 2/1969 Coll. of the Czech National Council, as it followed the Government Resolution⁸. However, the SAO assessed that the prerequisite for efficient or economical spending of funds within the framework of the advances provided was ensured only for those parts of the contracts to which the set procedures applied, i.e., where the MoD had concluded that the advances had been economically advantageous. Indeed, there are a number of financially significant contracts for which the MoD granted the contractors' requests when making advances for the reasons set out in paragraph 4.39.

C.2 Insufficient capacity to provide military repairs

→ What did the government impose and what measures did the MoD take to address the identified shortcomings?

4.42 In Audit No 19/13, the SAO found, among other things, that the CAF did not have sufficient workshop, technical and personnel capacities to secure at least basic maintenance and repair tasks (see paragraph 4.46 for details). The method of securing equipment was characterised by a higher proportion of non-military repairs, often awarded to contractors in negotiated procedures without prior publication. This leads to higher spending. In contrast, the military method of maintenance and repairs reduces some costs, such as administration or transport costs. The SAO therefore warned of the risk of uneconomical increases in expenditure if the current system of maintenance and repairs of equipment remained unchanged.

4.43 On the basis of the MoD's proposal to remedy the shortcomings identified in Audit No 19/13, the government, by its resolution⁸, instructed the Minister of Defence that the MoD should organisationally establish new military repair facilities and that all workshop supplies, i.e., complete catalogues of spare parts, workshop manuals or repair and service resources, should be acquired together with the equipment.

4.44 In the evaluation of the implementation of the measures to eliminate the shortcomings identified in Audit No 19/13⁹, the MoD stated, inter alia, that it was preparing a project for the organisational establishment of new repair facilities. At the Lázně Bohdaneč Repair Centre, which is the supreme military repair facility of the CAF, it was planned to build a new multi-

purpose hall for the Jaroměř Repair Section. It was to be completed in 2025 and lead to a significant increase in repair capacity. According to the MoD, the measure was being implemented.

→ **SAO assessment: Although the MoD has corrected the identified shortcoming, the risk of uneconomical spending on maintenance and repairs of equipment remains.**

4.45 The SAO assessed the implementation of the measure imposed by the Government Resolution⁸. The SAO considered to be one of the prerequisites for economical spending of funds on maintenance and repairs of vehicles and equipment if the MoD purchased all workshop supplies together with the equipment.

4.46 The MoD divides the maintenance and repairs of equipment into four levels, with the first to third levels being military-based and taking place within the MoD. In contrast, the fourth level is handled by non-military entities, i.e., external contractors. The SAO found that the ratio of military to non-military maintenance and repairs in the period of 2019-2023 had been 43% vs. 57% (CZK 0.96 billion vs. CZK 1.25 billion). Although the MoD slightly increased its repair capacity during the period, its average utilisation was below one-half of the total capacity due to insufficient staffing levels. An internal audit of the MoD in 2023 found that this state of affairs had a detrimental effect on the entire maintenance and repair system. The risk of uneconomical increase of funds for maintenance and repairs of vehicles and equipment, which was pointed out by the SAO in the framework of Audit No 19/13, thus still persists.

4.47 A feasibility study for the multi-purpose hall for the Jaroměř Repair Section was prepared in 2017. The goal is to build a facility that will meet current and future requirements for complex repairs of established and newly introduced vehicles and equipment²⁹. The efficiency of the construction was documented by the MoD, among other things, by calculating annual savings of CZK 93.75 million compared to the implementation of maintenance and repairs outside the military by an external contractor. The *Jaroměř – multi-purpose hall – construction* project was included by the Ministry of Defence in the programme *107V69 – Maintenance and development of logistics support capabilities* with a completion date of 2025. During the audit, however, the MoD told the Supreme Audit Office that it would complete the construction seven years later, i.e., in 2032, due to a delay in the preparation of the project. The impact of postponing the construction of the multi-purpose hall lies in not increasing the repair capacity, which would help to improve the equipment operating capability indicator (see paragraph 4.69). At the same time, this would also contribute to reducing the risk of increasing the funds for maintenance and repairs of vehicles and equipment and thus to reducing their uneconomical spending, which was pointed out by the SAO in the framework of Audit No 19/13 (see paragraph 4.42).

4.48 The SAO also verified, on the *NATO guns – purchase* contract dated 30 September 2021, the effectiveness of the measure to procure all workshop supplies together with the relevant equipment. It found that the MoD had defined in that contract, inter alia, the individual levels of repairs, the need for spare parts, technical requirements, logistics support and all workshop material (e.g., technical documentation, catalogues or data sheets). The MoD thus fulfilled

²⁹ Acquisition of a repair capability for the newly introduced vehicles and equipment in the range of six repair bays for wheeled vehicles and equipment and eight bays for tracked combat vehicles and equipment, including downstream operations and spare parts depots.

one of the prerequisites for economical spending on maintenance and repairs of vehicles and equipment.

4.49 Therefore, the SAO summarises and concludes that although the MoD fulfilled the measures to eliminate the shortcomings identified by Audit No 19/13 and thus proceeded in accordance with the provisions of Section 21 of Act No 2/1969 Coll. of the Czech National Council, as it was guided by the Government Resolution⁸, the risk of uneconomical spending of funds on maintenance and repairs of vehicles and equipment persists. This is due to both the failure to meet the necessary numbers of repair personnel and the seven-year delay in the construction of the multi-purpose hall of the Repair Centre, which should provide increased capacity for complex repairs of both established and newly introduced vehicles and equipment.

C.3 Low operating capability of vehicles and equipment, also due to the inappropriate amounts of penalties in the service support contracts

→ *What did the government impose and what measures did the MoD take to address the identified shortcomings?*

4.50 In Audit No 19/13, the SAO found, inter alia, that the MoD had not been meeting the minimum coefficient of the operating capability of 85% for wheeled infantry fighting vehicles and wheeled armoured personnel carriers. During the execution of the equipment service support contracts, problems were encountered with the provision of repairs and spare parts. The contractual penalties were set by the MoD at 0.05% of the price of individual items for each day of delay.

4.51 On the basis of the MoD's proposal to remedy the shortcomings identified in Audit No 19/13, the government, by its resolution⁸, instructed the Minister of Defence that the MoD should establish such penalty arrangements (contractual penalties) for failure to comply with proper and timely performance in future contracts as would achieve timely provision of services or supplies by the contractor. This was to reduce the average time of inoperability of wheeled armoured personnel carriers and wheeled infantry fighting vehicles.

4.52 In the evaluation of the implementation of the measures to eliminate the shortcomings identified in Audit No 19/13⁹, the MoD stated, inter alia, that in order to avoid excesses (in negotiations or setting the amount of contractual penalties in tender procedures) that did not allow subsequent changes to the contractual terms, it had prepared a *Methodological Guideline on setting the amount of contractual penalties and limitation of the right to compensation for damage at the Armaments and Acquisition Section of the Ministry of Defence* (hereinafter the "Guideline"). According to the MoD, the measure was being implemented.

→ *SAO assessment: Although the MoD had corrected the identified shortcoming by drafting the relevant internal policy, the SAO could not verify its application in practice, as no entitlement to the contractual penalty for the audited contracts had been established by the time the SAO audit was completed.*

4.53 The SAO assessed the implementation of the measure imposed by the Government Resolution⁸. The SAO considered the preparation of and compliance with an internal policy or methodological guideline containing rules for setting the amount of contractual penalties to be one of the prerequisites for economical use of funds in contractual relations.

4.54 The SAO found that the MoD had developed a Guideline in 2021 that was intended solely for the use of the personnel of the MoD's Armaments and Acquisition Section. The MoD thus established the procedure for determining the appropriate amount of the contractual penalty, ranging from 0.1% to 0.3% per day of the value of the corresponding part of the performance not fulfilled. It also laid down specific conditions for the application of rates lower than those mentioned above (e.g., the possibility to reduce the contractual penalty rate to the minimum permissible rate of 0.05%). A lower rate must always be justified in writing. The MoD thus created a prerequisite for economical spending of funds in contractual relations (only for the Armaments and Acquisition Section of the MoD, not for the entire MoD).

4.55 The SAO verified compliance with the Guideline on a contract for the acquisition of military vehicles and equipment and on a framework agreement on the service support for armoured vehicles and equipment. These were the only two contracts concluded after the Guideline was issued. In the *NATO guns – purchase* contract dated 30 September 2021, the amount of the contractual penalties was set at the minimum permissible rate of 0.05%. The MoD justified this by the results of negotiations with the contractor, who had insisted on that rate, arguing that if the rate had been increased, the contract might not have come into force. In the framework agreement *Comprehensive service support for the TITUS 6x6 chassis for wheeled armoured command and staff vehicles, wheeled armoured communication vehicles and fire support coordination points* dated 29 February 2024, the amount of contractual penalties was also set at the minimum permissible level of 0.05%. The MoD justified this by the results of negotiations with the contractor, stating that the contractor had not been willing to accept the original contractual penalty of 0.2 %. The SAO verified that both the contract and the framework agreement concerned public contracts that had a major impact on the defence of the Czech Republic, i.e., for which the Guideline allowed for a lower than recommended contractual penalty rate.

4.56 The SAO therefore summarises and concludes that the MoD set rules for setting the amount of contractual penalties through a methodological guideline within the Armaments and Acquisition Section of the MoD. The right to a contractual penalty for the audited cases had not arisen by the end of the audit, as the performance will take place in the following period. For example, in the case of the framework agreement for service support, the SAO could not verify the impact of the measure adopted, i.e., the reduction of the average time of inoperability of armoured vehicles and equipment.

C.4 Lack of planning for the total life cycle costs of armoured vehicles and equipment

→ *What did the government impose and what measures did the MoD take to address the identified shortcomings?*

4.57 In Audit No 19/13, the SAO found, inter alia, that the MoD had not planned the total life cycle costs when acquiring armoured vehicles and equipment. The MoD thus failed to proceed in accordance with the provisions of Section 21 of Act No 2/1969 Coll. of the Czech National Council, as it did not follow the Government Resolutions³⁰ which had imposed this obligation

³⁰ Resolution of the Government of the Czech Republic No 369 of 18 May 2011 *on the White Paper on Defence*, Resolution of the Government of the Czech Republic No 1166 of 19 December 2016 *on the Strategy for Armaments and Support for the Development of the Defence Industry of the Czech Republic until 2025*, Resolution of the Government of the Czech Republic No 187 of 18 March 2019 *on the Long-term Outlook for Defence 2035*.

on it since 2011. Yet the MoD itself reached the conclusion that if it did not address the total life cycle costs when acquiring vehicles and equipment, it then had problems securing servicing and spare parts.

4.58 On the basis of the MoD's proposal to remedy the shortcomings identified in Audit No 19/13, the government, by its resolution⁸, instructed the Minister of Defence that the MoD should develop expert and methodological guidelines for establishing principles for the life cycle management of military material, including principles for calculating total life cycle costs for the purpose of assessing the economic advantage of tenders.

4.59 In the evaluation of the implementation of measures to eliminate the shortcomings identified in Audit No 19/13⁹, the MoD stated, inter alia, that measures were continuously being taken to establish principles for the life cycle management of military equipment, including principles for the calculation of total life cycle costs. The MoD also amended an internal policy³¹ which was to enshrine the need to take account of total life cycle cost estimates when deciding whether to include assets in the medium-term plan. It was also to prepare a related methodological handbook and launch a market survey to obtain software that would allow total life cycle cost estimates to be generated, refined and tracked. According to the MoD, the measure was being implemented.

→ SAO assessment: The MoD has only partially corrected the identified shortcoming, so the risk of uneconomical spending persists.

4.60 The SAO assessed the implementation of the measures imposed by the Government Resolution⁸. The SAO considered the preparation of and compliance with internal policies that contain rules for the management and calculation of total life cycle costs to be one of the prerequisites for economical use of funds for the acquisition of military equipment.

4.61 The SAO verified that the MoD had amended an internal policy³¹ which enshrined the need to take account of total life cycle cost estimates when deciding whether to include assets in the medium-term plan. In this context, the MoD established life cycle stages, which are the conceptual, analytical, acquisition, asset use and asset disposal stages. Furthermore, on 20 December 2022, the MoD produced a *Methodological Aid for Life Cycle Cost Estimation at the Ministry of Defence*. The aid established procedures for calculating the total life cycle cost estimates for strategic and major projects, e.g., through expert or engineering estimation using software (see paragraph 4.63). However, the aid only covers the conceptual, analytical and acquisition stages of the life cycle. By the time the SAO audit was completed, the MoD had not defined procedures to manage the total life cycle costs for the remaining two life cycle stages, i.e., the asset use and disposal stages. According to the SAO, the risk of uneconomical spending on the acquisition of military equipment thus remains.

4.62 The MoD also established a "Life Cycle Management Task Force" to submit a report containing proposals for addressing the life cycle at the MoD by the end of 2023. The report was to include, among other things, the identification of missing processes and the principles, roles and responsibilities of the organisational units for the individual processes of the life cycle management of military equipment. The SAO found that the report had not been submitted by the time the SAO audit was completed. At the beginning of 2024, the MoD came

³¹ Order of the Minister of Defence No 55/2017 of the MoD Bulletin *on the acquisition of assets, services and construction work at the MoD for a consideration*.

to the conclusion³² that, among other things, it did not have an internal policy containing the basic definition of the process of life cycle management of military equipment in individual stages and by individual responsible persons, and that the MoD information systems were not adapted to support the life cycle management, especially in terms of collecting, evaluating and analysing the necessary data.

4.63 The SAO also found that the MoD had entered into a contract on 22 November 2022 to purchase software for estimating and tracking total life cycle costs. The MoD already has the software, but only uses it for certain stages of the life cycle. The reason is that the existing Information System for Logistics and the financial information system (i.e., the two main data sources for the evaluation of the total life cycle costs in the asset use and disposal stages) are not yet linked. In addition, some data is being entered manually into the ISL, which increases the error rate. Thus, by the time the SAO audit was completed, the MoD had not automated the processing of input cost data or the evaluation of cost effectiveness in the “asset use” and “asset disposal” life cycle stages. The MoD thus failed to secure the prerequisite for the economical use of funds for the acquisition of military equipment.

4.64 **Therefore, the SAO summarises and concludes** that the MoD has only partially complied with the measures to eliminate the shortcomings identified in Audit No 19/13, as it has not developed procedures to manage the total life cycle costs for all stages. For this reason, and in view of the only partial use of the software to calculate estimates and monitor the total life cycle costs, the SAO considers that the risk of uneconomical spending on the acquisition of military equipment remains.

C.5 Low operating capability of upgraded tanks

→ *What did the government impose and what measures did the MoD take to address the identified shortcomings?*

4.65 In Audit No 19/13, the SAO found, among other things, that the MoD had not been meeting the minimum coefficient of the operating capability of the upgraded T-72 M4CZ³³ tanks (hereinafter the “tank”) of 85%. During the course of the contract for the repairs and maintenance of the tanks, there were delays in the supply of spare parts and the performance of servicing.

4.66 On the basis of the MoD’s proposal to remedy the shortcomings identified in Audit No 19/13, the government, by its resolution⁸, ordered the Minister of Defence to ensure that the MoD had a sufficient circulating stock of spare parts needed for military repairs of tanks. The MoD was to improve the operating capability of the tanks by completing the *project of technical improvement of an upgraded tank* (the “Project”), which it approved on 9 July 2020.

4.67 In the evaluation of the implementation of the measures to eliminate the shortcomings identified in Audit No 19/13⁹, the MoD stated, inter alia, that it was implementing the Project. It was to be completed in 2023, when the MoD was planning to reach maximum operating capability of the tanks. The MoD was also to purchase a circulating stock of spare parts needed for military repairs of tanks. It further stated that all tanks were gradually increasing their operating capability. According to the MoD, the measure was being implemented on an ongoing basis.

³² Report to the Minister of Defence dated 2 January 2024.

³³ The T-72 tank was upgraded to the T-72 M version in 1985 and then to the T-72 M4CZ version in 1995.

→ **SAO assessment: The MoD has not corrected the identified shortcoming, thus it still does not meet the minimum coefficient of the operating capability of tanks.**

4.68 The SAO assessed the implementation of the measures imposed by the Government Resolution⁸. The SAO considered to be one of the prerequisites for effective spending of funds on military repairs of tanks if the MoD ensured a circulating stock of spare parts in the performance of specified tasks within the framework of ensuring the operating capability of tanks.

4.69 The SAO found that the MoD had started the Project in 2018 with the completion of the relevant project *T-72 M4CZ tank – technical improvement* in 2023. The aim was to increase the combat capabilities of the tanks. The MoD decided to award the public contract directly to VOP CZ, s. p. The tender price of VOP CZ, s. p. in the scope of the specification required by the MoD amounted to CZK 1.96 billion and exceeded the estimated value of the public contract (CZK 1.10 billion) by almost 79%. The MoD therefore reconsidered the scope of the technical improvement of the tank and withdrew from the purchase of spare parts. VOP CZ, s. p. modified its tender and the MoD concluded a contract with its worth CZK 1.10 billion on 27 May 2020. The tanks were to be delivered in phases between 2022 and 2025. However, the MoD gradually extended this deadline, and at the time of the SAO audit completion the tanks were to be delivered in the period of 2024-2025. At the same time, the SAO found that the MoD had not been meeting the minimum coefficient of the operating capability of the tanks in the audited period. Thus, the implementation of the Project did not improve the negative situation identified by the SAO during Audit No 19/13, which the MoD had undertaken to remedy.

4.70 During the audited period, the MoD did not conclude any separate contract for the supply of spare parts needed for military repairs of tanks. Spare parts were procured only within the framework of concluded contracts for non-military maintenance and repairs and technical improvement of tanks, so it was not a matter of ensuring a circulating stock of spare parts.

4.71 The SAO therefore summarises and concludes that the MoD did not implement the measures to eliminate the shortcomings identified in Audit No 19/13 and thus failed to proceed in accordance with the provisions of Section 21 of Act No 2/1969 Coll. of the Czech National Council, as it did not follow the Government Resolution⁸. By failing to purchase spare parts, the MoD did not meet the prerequisite for effective spending on military tank repairs.

D. Measures to remedy the shortcoming identified in the SAO's Audit Report on Audit No 19/20 – Higher education of members of the security forces and soldiers of the armed forces

D.1 Missing parameter for a project

→ **What did the government impose and what measures did the MoD take to address the identified shortcomings?**

4.72 In Audit No 19/20, the SAO found, inter alia, that the MoD had set the objective (purpose) of project No 107702001401 *Brno – reconstruction of the headquarters of the University of Defence – Kounicova 65*, but had not defined the project parameter as a measurable material indicator for its evaluation.

4.73 On the basis of the MoD's proposal to remedy the shortcoming identified in Audit No 19/20, the government, by its resolution¹⁰, ordered the Minister of Defence to make changes in the professional training of relevant staff involved in the preparation of projects.

4.74 In the evaluation of the implementation of the measures to eliminate the shortcoming identified in Audit No 19/20¹¹, the MoD stated, inter alia, that it had made changes in the training of the relevant employees so that when registering a project, the parameters of the project were always defined as measurable material indicators in terms of its objective (purpose). In addition, to improve the work of the staff concerned, "*Work Instructions 1 and 2*" and methodological clarifications of procedures were to be updated in June 2021. According to the MoD, the measure was being implemented.

→ **SAO assessment: The MoD has corrected the identified shortcoming.**

4.75 The SAO assessed the implementation of the measure imposed by the Government Resolution¹⁰. The SAO considered to be one of the prerequisites for effective spending of funds for the implementation of projects if the MoD had defined the parameters of the project as measurable material indicators in terms of its objective (purpose) in the preparation of the project (registration).

4.76 The SAO verified that the MoD had made changes to the training of relevant staff and issued methodological recommendations. In particular, "*Work Instructions No 2/21*"³⁴, which contain procedures for ensuring the preparation and implementation of projects. At the same time, the MoD established³⁵ the obligation to define the project parameter when registering the project so that it was indicative of the substantive content of the project and its purpose.

4.77 The SAO verified the implementation of the measures on a sample of four projects under Programme 107V75:

- No 107V751003149 *Brno – Černá pole barracks – logistics centre – construction*;
- No 107V751003151 *Brno, Kounicova 44, reconstruction of the exterior part of the building*;
- No 107V752001921 *Lipník – reconstruction of heat sources*;
- No 107V752001919 *Jaroměř – decentralisation of heat source, construction of gas pipeline – implementation*.

4.78 The SAO found no shortcomings in three of the projects (No 107V751003149, No 107V751003151 and No 107V752001921). For project No 107V752001919, the SAO found limited fulfilment of the prerequisite for the effective use of funds for the implementation. The MoD registered the project with parameters ("*new boilers*", "*on-site heating pipeline*" and "*on-site gas pipeline*") that did not match the parameters specified in the Programme 107V75 documentation³⁶. Thus, although the project parameters were set as measurable material indicators in terms of the objective (purpose) of the project, it will be difficult for the MoD to use them to assess the achievement of the Programme 107V75 objective.

³⁴ *Work Instructions No 2/21 for the performance of the activities of employees of the Construction Management Department under the Immovable Assets Management Agency in charge of administering the management documentation of investment projects of programme financing* dated 3 June 2021.

³⁵ Letter from the Director of the Economic Section of the MoD dated 11 August 2021.

³⁶ According to the factual focus of the project, probably parameter 36014 *Reconstruction of backbone water distribution systems, sewerage, heating pipes* (in lm) and parameter 36026 *Reconstruction of thermal equipment with a capacity of 1,000-9,999 kW* (number of boiler rooms).

4.79 The SAO therefore summarises and concludes that the MoD implemented the measures to eliminate the shortcoming identified in Audit No 19/20 and thus proceeded in accordance with the provisions of Section 21 of Act No 2/1969 Coll. of the Czech National Council, as it followed the Government Resolution¹⁰. For three projects, the SAO found that the prerequisite for the effective use of funds for implementation had been fulfilled; for one project, the SAO found that the prerequisite had been fulfilled only to a limited extent.

List of terms and abbreviations

AS-PO	Armádní Servisní (Army Service Forces), government subsidised organisation (Czech acronym)
CAF	Czech Armed Forces
Concept	<i>Concept of the Development and Maintenance of Immovable Infrastructure under the Competence of the MoD for the years 2020-2035</i>
CR	Czech Republic
depot	central military equipment storage depot
E-Shop	electronic ordering method of issuing equipment from the distribution points
fire support coordination point	place/point where fire support is coordinated and directed
FMF/FMS	<i>Foreign Military Financing / Foreign Military Sales</i>
funds	state budget funds
Guideline	<i>Methodological Guideline on setting the amount of contractual penalties and limitation of the right to compensation for damage at the Armaments and Acquisition Section of the Ministry of Defence</i>
investment plan	planned investment project (investment plan)
ISL	<i>Information System for Logistics</i>
Im	linear metre
MoD	Ministry of Defence
NATO	North Atlantic Treaty Organization
Order on the Development of Stock Standards	<i>Order of the Director of the Logistics Section of the MoD on the Development of the Central Equipment Depot Stock Standards – Assets of the Asset Group 2.1</i>
OSV	equipment ordering system (Czech acronym)
Programme 107V75	<i>Programme 107V75 – Securing the civil and administrative sections of the MoD and the government subsidised organisation</i>
project	investment project
Project	<i>project of technical improvement of an upgraded tank</i>
SAO	Supreme Audit Office
tank	T-72 M4CZ tank
U.S.	United States of America
University of Defence	University of Defence, Brno

VAT	value added tax
VESH	equipment e-shop (Czech acronym)
VOP CZ, s. p.	Vojenský opravárenský podnik (Military Repair Services), state-owned enterprise
wheeled armoured command and staff vehicle	type of wheeled vehicle – armoured command and staff vehicle
wheeled armoured communication vehicle	type of wheeled vehicle – armoured communication vehicle
wheeled armoured personnel carrier	type of wheeled vehicle – armoured personnel carrier
wheeled infantry fighting vehicle	type of wheeled vehicle – infantry fighting vehicle

Aid to evaluate the four levels of effectiveness for area A.2

Concept objectives by 2022:

- 1) *based on the process analysis, the organisational structure and responsibilities of the organisational units responsible for the development and maintenance of immovable infrastructure will be changed and the number of staff in the area of preparation, implementation, acquisition, acceptance and accounting for construction projects will be increased as necessary;*
- 2) *BIM methodology will be applied to all major public contracts for the construction and modernisation of immovable infrastructure;*
- 3) *situational, spatial and capacity studies for selected garrisons and major permanent deployment sites will be completed, on the basis of which existing plans will be refined and corrected;*
- 4) *a comprehensive technical status inventory of individual construction facilities will be taken (or updated), and the current data on the properties will be recorded in the information system;*
- 5) *a decision on the requirements for the immovable infrastructure needed to ensure the mobilisation deployment of troops and to secure the capacity in the event of a state of war will be known;*
- 6) *the property depreciation rate will be halted; the depreciation rate will be below the 50% threshold and conditions will be created for further continued reductions in depreciation;*
- 7) *cleaning in garrisons and permanent deployment sites will be provided using vertical cooperation through an external contractor;*
- 8) *the value of unnecessary immovable assets under the management of the Ministry of Defence will be reduced below the 5% threshold.*

According to the SAO, objectives Nos 4, 6 and 8 are crucial, as their fulfilment is important for achieving the target state of the Concept, i.e., ensuring the development and maintenance of immovable assets according to the needs of the MoD, and is also important for reducing the volume of funds needed for the management and operation of and investment in immovable assets. This was one of the findings of Audit No 18/02.

The SAO set up a four-level scale for the evaluation of effectiveness, according to which it considered the conceptual, planning and budgeting activities of the MoD and the funds spent on them to be:

- **effective – if a minimum of 7 sub-objectives, including 3 key objectives, had been met;**
- **effective with slight shortcomings – if a minimum of 5 sub-objectives, including 2 key objectives, had been met;**
- **effective to a limited extent – if a minimum of 5 sub-objectives, including 1 key objective, had been met;**
- **ineffective – if none of the key objectives had been met.**