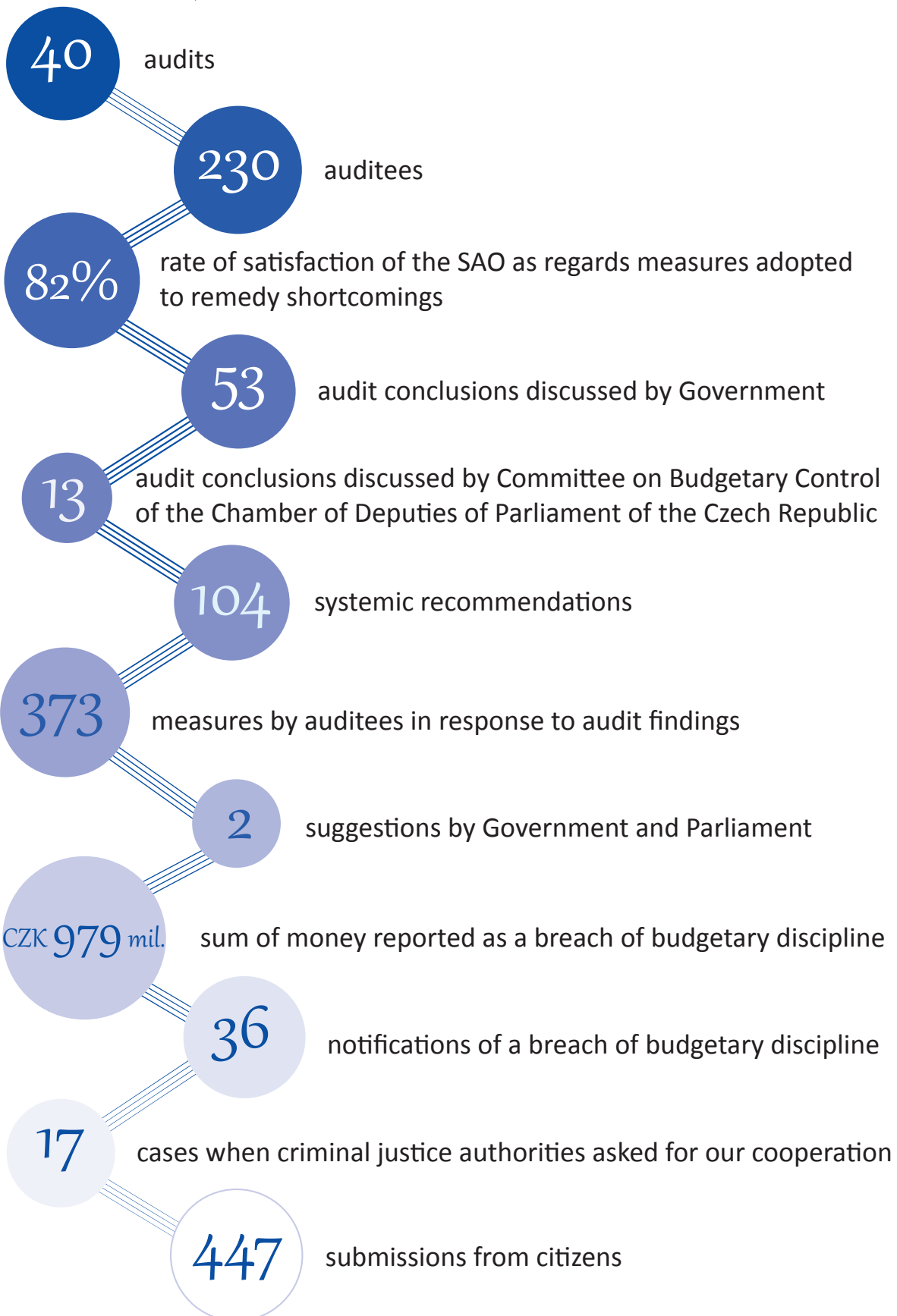


ANNUAL REPORT 2016



SAO IN 2016



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Opening message from the SAO President

Dear readers,

the SAO has completed its 23rd year of operations and last year, like every year, we concentrated more on particular areas in line with current requirements. The SAO focused on important areas of government policy and key Government projects and, like every year, on the state's financial management in high-risk areas; in doing so, we sought an answer to the question whether the defined goals are being achieved. In numerical terms, we completed 40 audits, scrutinised 230 audited entities and made 104 systemic recommendations responding to the detected shortcomings. And, to conclude, we filed a notification of a breach of budgetary discipline involving almost one billion Czech crowns.

When I look back on the last year, I take the greatest pleasure from the way the results of our work were treated. The Government intensified its discussion of audit conclusions, with 53 audit conclusions going through the Government's hands, twice as many as in the previous year. Another source of satisfaction is that audited entities adopted measures last year in response to 373 shortcomings we detected in our audits. In most of the cases, these measures made sense from our point of view – i.e., they were measures that would bring an actual impact as well as formal correction. Our audits are falling on fertile ground, and that is crucial.

There is yet another source of gratification, however. The audits completed last year showed us that one fundamental problem still persists in the Czech Republic. We find all too often that the Czech Republic still has work to do to improve the efficiency of the use of public money. A few examples will make clear what we mean: for example, audit 16/10, which looked at how money for environmental protection was used. The MoE spent over nine billion crowns on environmental protection, but the goals the MoE set made it impossible to assess whether such a huge sum had a positive impact on the environment. Audit 15/18 had a similar conclusion, as it showed that the state provided subsidies of almost five billion crowns for nine and a half thousand housing units for the socially disadvantaged or the disabled. The MoRD did not check whether the units are actually being used by the target group, however. Lastly, let me mention audit 15/06, which we published in 2016 – the state built science centres with 36 billion crowns from European funds, but almost half the audited centres had problems finding practical uses in the application sphere. According to estimates from that time, the state will pay almost 25 million crowns additionally on their operation during their sustainability period.

If we, as the sole independent audit institution, want to provide the Government, Parliament, and the public with increasingly relevant information about how the state is operating, we have to go further and not be content with answers about financial management and efficiency regardless of the environment we conduct audit work in. We have to keep asking whether the system we all operate in is sound – does the law, even when complied with, enable users to act in a manner that does not always deliver efficiency and value for money? Equally, we must continue to focus on the question whether the law legitimises activities that are unacceptable in every developed, modern state, or are outright unlawful, and also have a negative impact on the state's operation. And that is one of the main challenges facing the SAO.

I am confident we are on the right track. By reading this report, you can see for yourself how the Czech state performed last year and what went on and changed inside the SAO.

Pleasant reading!

Miloslav Kala
SAO President

I. Status and Powers of the SAO

1 Basic information on the status and powers of the SAO

The existence of the Supreme Audit Office (SAO) is rooted directly in the Constitution of the Czech Republic, which guarantees its independence from the legislature, executive and judiciary. The SAO thus represents on the indispensable elements of Parliamentary democracy.

More detailed rules on the status, powers, organisational structure, and work of the SAO are contained in Act No. 166/1993 Coll., on the Supreme Audit Office. Under this Act, the SAO mainly scrutinises the management of state property and finances collected by law in favour of legal persons, the implementation of revenue and expenditure items of the state budget, and the management of funds provided to the Czech Republic from abroad.

The SAO bodies are the President and Vice-President, the Board, senates, and the Disciplinary Chamber. In the interest of ensuring objectivity in the assessment of audit findings and in fundamental questions concerning the SAO's audit powers, the SAO Board and senates decide as collective bodies.

The SAO's independence guarantees that it is not influenced by the legislature, the executive, or the judiciary when planning, preparing, and conducting audit work. Besides institutional independence, the SAO has appropriate financial autonomy as well. The decisive body in this area is the Chamber of Deputies, which approves the state budget, including the *Supreme Audit Office* budget heading.

The basis for the SAO's audit work is its Audit Plan. After being approved by the SAO Board, the Audit Plan is put before the SAO President; it is presented to the Czech Parliament and Government for their information and published in the *SAO Bulletin*. Audit work results in audit conclusions, which summarise and assess the audit findings. Audit conclusions are approved by the Board or the appropriate senates of the SAO.

Under its defined powers, the SAO performs audits in line with its audit standards, which are based on International Standards of Supreme Audit Institutions. The SAO performs audits in line with the legal regulations, which encompass legality audits, financial audits, and performance audits.

The SAO's legality audits check whether the audited activities comply with the law and review the substantive and formal correctness of the audited activities in the scope necessary for achieving the audit goals.

The SAO's financial audits check whether the audited entities' financial statements give a true and fair view of the subject of the accounting in accordance with the law. This type of audit is a tool for verifying the accuracy of information that is presented in the closing accounts of state budget headings and is used by the SAO when formulating opinions on the draft state closing account.

The SAO's performance audits assess the effectiveness, efficiency, and economy of the use of state budget finances, state property or other finances the SAO audits in line with its powers.

2 SAO Board

The SAO Board is composed of the President, the Vice-President, and Members of the SAO. The SAO Board approves the Audit Plan, audit conclusions, the draft budget of the SAO submitted to the Chamber of Deputies of the Parliament of the CR, the closing account of the SAO budget heading, and the SAO financial statements compiled as of the balance-sheet date. The SAO Board also approves the Annual Report, the SAO Board's and senates' rules of business, the organisational rules and changes thereto and the disciplinary rules. It decides on appeals against decisions on objections to audit protocols and on objections claiming bias.



Members of the SAO Board; from left: Ms Jaromíra Steidlová, Mr Jan Vedral, Mr Jan Stárek, Mr Pavel Hrnčíř, Mr Jan Málek, Mr Miloslav Kala, Ms Zdeňka Horníková, Mr Jiří Adámek, Mr Petr Neuvirt, Mr Josef Kubíček, Ms Hana Pýchová, Mr Jiří Kalivoda, Ms Hana Hykšová.

Members of the SAO carry out audit work and draw up audit conclusions. They run audits from the authorisation to perform audit to the approval of audit conclusions. In the following overview, audits whose audit conclusion was approved in 2016 are marked in blue and audits not completed in 2016 are in green.¹

In 2016, the terms of office of SAO Members Ms Zdeňka Profeldová, Mr Antonín Macháček, Mr Rudolf Kufa, and Mr Karel Sehoř ended upon their attainment of the legally defined age limit. The Chamber of Deputies of the Parliament of the CR ("the Chamber of Deputies") elected Mr Jan Málek to the post of the Member of the SAO last year.

¹ In the Annual Report, audits are designed with the number given to them in the Audit Plan for the year in question. Audit conclusions approved in 2016 can be found in the various volumes of the SAO Bulletin, or by clicking on the audit number in blue text in the electronic version of the Annual Report.

Table 1: Overview of audits conducted in 2016

SAO Member	Member since	Number of audits s/he managed until the end of 2016	Overview of audits managed by the respective Member in 2016	
			finished	unfinished
Mr Jiří Adámek	25. 4. 2001	40	15/14 15/22 16/06	16/16 16/22
Mr Pavel Hrnčíř	11. 12. 2009	16	15/18 16/01	16/14 16/23
Ms Hana Hykšová	13. 2. 2014	7	15/21 15/24 16/07 16/11	16/32
Mr Jiří Kalivoda	17. 9. 1993	64	15/09 15/11 15/20 15/33 16/04	16/28
Mr Josef Kubiček	10. 6. 2014	5	15/36 15/39 16/02	16/21 16/26
Mr Rudolf Kufa ²	15. 9. 2009	13	15/28	–
Mr Jan Málek	21. 6. 2016	0	–	16/31
Mr Antonín Macháček ³	9. 12. 2005	28	15/17 15/25	–
Mr Petr Neuvirt	21. 12. 2010	21	15/16 15/23 15/27 16/05 16/10	16/19
Ms Zdeňka Profeldová ⁴	18. 4. 2002	41	15/15	–
Ms Hana Pýchová	24. 10. 2014	2	15/40	16/09 16/15 16/18
Mr Daniel Reisiel	30. 4. 2010	17	15/13 15/30 15/31	16/03 16/17 16/30
Mr Karel Sehoř ⁵	15. 9. 2009	14	15/10 15/29	–
Mr Jan Stárek	4. 6. 2015	1	15/38	16/13 16/20
Ms Jaromíra Steidlová	16. 11. 2006	22	15/32 15/35 16/08	16/25
Mr Jan Vedral	25. 4. 2001	46	15/12 15/19 15/26 15/34	16/12 16/24 16/27 16/29

The following SAO Members attained the legally defined age limit for their office:

- 2 Mr Rudolf Kufa on 2. 8. 2016
- 3 Mr Antonín Macháček on 5. 6. 2016
- 4 Ms Zdeňka Profeldová on 28. 3. 2016
- 5 Mr Karel Sehoř on 19. 7. 2016

3 SAO management

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



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

4 Audit Plan for 2016

The Audit Plan is a fundamental document for the exercise of the SAO's powers. The Audit Plan specifies what audits will be commenced in the relevant financial year and when they will take place. The SAO's Audit Plan is compiled independently in line with the SAO's powers guaranteed by the Constitution of the CR and the Act on the SAO. The SAO's independence is also exercised in accordance with the best audit practice as per the key INTOSAI principles⁶. The Constitution of the CR, the Act on the SAO and international practice are the fundamental pillars underpinning the exercise of its powers. The SAO's sole limitation from the perspective of international practice is the SAO mandate, which does not encompass audit of all public money.

In its strategy for 2014–2017, the SAO laid down a vision to provide relevant materials to the authors of policies and feedback on how successfully these policies are being implemented. By means of clear and comprehensible audit conclusions the SAO wants to provide information on the economy, efficiency, and effectiveness of the management of public funds and state property. The SAO wants its work to help promote good practice. When drawing up the Audit Plan, the SAO therefore increasingly targets both the revenue and expenditure sides of Government policies, their global and cross-cutting objectives and key projects.

Special attention the SAO devoted to compiling the 2016 Audit Plan was in line with this strategy. The ambition was to target audits at the highest-risk areas and weakest points in the state's

⁶ *Mexico Declaration on Supreme Audit Institution Independence* approved by the 19th Congress of the International Organisation of Supreme Audit Institutions (INTOSAI) in Mexico in 2007; ISSAI 10.

financial management; to find their causes and effects and to make recommendations to help put things right where dysfunction and shortcomings in the work of the responsible authorities need to be eliminated.

The audits included in the 2016 Audit Plan were based largely on instigations arising out of the SAO's own independent monitoring and analysis work. The Audit Plan also acted on four external suggestions which the SAO had previously received from the Chamber of Deputies or its Committee on Budgetary Control ("the Committee") and the SAO Board had decided to act on. Submissions from citizens and legal persons were also made use of in certain audits.

The Audit Plan for 2016 was adopted by the SAO Board at its 19 October 2015 session. 30 audits were approved in total. Two more audits were added to the plan during 2016, bringing the total number to **32 audits**. The total number of audits was partly influenced by the end of four SAO Members' mandates in 2016.

The key problem areas targeted by the SAO's 2016 Audit Plan included:

- **tax policy;**
- **the funding of the state budget;**
- **state support for research, development, and innovation;**
- **the state's subsidies policy in the fields of employment, sport and physical education, and care for nature;**
- **the financial management of selected state organisations;**
- **financial management in the health department;**
- **major eGovernment and efficient public administration projects;**
- **state investments in transport, the environment, and defence;**
- **the use of funds from the EU budget in the new 2014–2020 programming period;**
- **the reliability of the financial management data of significant administrators of state budget headings.**

An overview of the audits included in the 2016 Audit Plan, their specific focus and timing, is presented in Annex 1. The audits were launched in sequence during the year as per the timetable. Depending to the start time and audit duration, the planned completion dates (i.e., approval of the audits' audit conclusions) are in 2016 and 2017.

5 Principal role and benefits of the SAO's work

The feedback the SAO gives to the state in the form of objective, uninfluenced information on the management of public money and state property is not only important for the appropriate authorities' responsible management and control, it also provides both experts and the general public with access to information on the actual state of affairs. That is the mission of the SAO as an independent external audit institution and the implementation of its indispensable role in the working of a democratic state. Every output is a good opportunity to put things right wherever things do not function properly.

The SAO's work does not end with the completion of audits and issuing of audit conclusions, reports, or opinions. The SAO's motivation is to contribute as much as possible to positive changes in the state's financial management and thus deliver added value to society. The most important benefits of the SAO's work include:

- **its impact on the appropriate authorities with a view to eliminating identified shortcomings;**
- **recommendations for systemic measures and the implementation thereof by the appropriate authorities;**
- **preventive effect of audits and their results;**
- **boosting public administration's accountability and the enforceability of law;**
- **promoting good practice in the state's financial management;**
- **identifying defects in legislation and making recommendations on legislation;**
- **execution of the notification duty.**

II. Assessment of Audit and Analysis Work in 2016

Opening summary

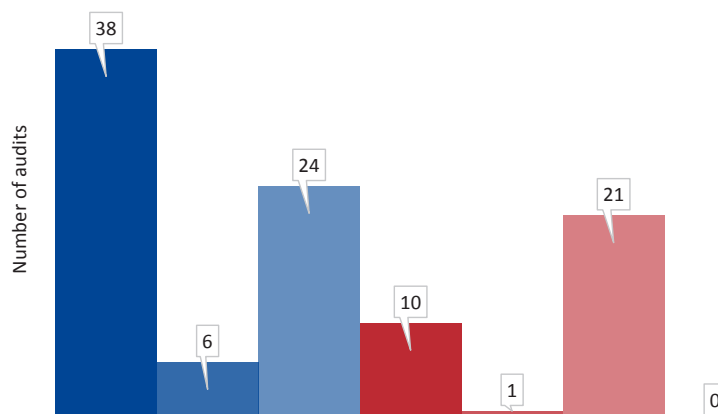
The assessment of audit and analysis work is based mainly on the results of audits that were completed in 2016 when their audit conclusion was approved by the SAO Board. In addition, the assessment draws on findings from the SAO's opinions on the draft state closing account for 2015 and on the report on economic development and the implementation of the Czech state budget for the first half of 2016, information from the *EU Report for 2016* and other findings from the SAO's analysis and monitoring work.

There were completed **40 audits** in 2016, with 31 of them launched in 2015 in line with the Audit Plan and 9 in 2016. Property and funds were scrutinised at **230 audited entities** during the completed audits in line with the focus and goals of the audits. Audit protocols were made out at all the audited entities, serving as a basis for the audit conclusions. An overview of audits completed in 2016 is given in Annex 2.

The audits carried out the SAO's mandate in various segments of its jurisdiction according to Section 3 (1) and (3) of the Act on the SAO, as shown in Graph 1. Almost all the audits covered the SAO's audit competence per letter a) – management of state property, and the majority of audits also covered its competence in letter c) – implementation of the state budget ("SB"). More than half the audits dealt with public procurement per letter f). The graph also reveals that the completed audits covered more than one segment. No audit dealt with the Czech National Bank (Section 3 (3)) in 2016, as this is a specific area the SAO scrutinises over longer intervals⁷.

In 2016, the SAO focused more on high-risk areas of the state's financial management and on important areas of Government policies and their key projects. In particular, whether and how the required objectives and goals are achieved. In doing so, the SAO did not just check the legality of the audited activities and related expenditure; it focused more on their effectiveness, efficiency, and economy. It also sought to identify more weaknesses in the state's financial management and made more recommendations for necessary changes.

⁷ The SAO Audit Plan for 2017 features an audit of the Czech National Bank (audit no. 17/11).

Graph 1: Number of audits by segments of the SAO's competence in 2016

Under Section 3 (1) of Act No. 166/1993 Coll. the SAO audits:

- management of state assets and finances collected by law in favour of legal persons, with the exception of finances collected by municipalities or regions under their autonomous competence
- the state closing account
- implementation of the state budget
- management of finances provided to the Czech Republic from abroad and finances for which the state has assumed guarantees
- the issuance and amortisation of government securities
- public procurement
- Under Section 3 (3) of Act No. 166/1993 Coll. the SAO audits the Czech National Bank's financial management in the field of expenditure on the acquisition of property and expenditure on the operation of the Czech National Bank

The results of the SAO's work in the previous period⁸ reveal that the state's financial management was better in terms of the achieved state budget results (most notably, increased revenues, improved financial result, faster drawdown of EU funds). Two key factors in this were the CR's economic growth and the huge drawdown of EU budget funds at the end of the programming period. However, the long-standing systemic shortcomings and weak points in the state's financial management detected repeatedly by the SAO in the previous period reduced efficiency in the execution of the state's operations and acted as a brake on efforts to deliver higher value added in the state's services for the benefit of citizens and on long-term efforts to make the CR more competitive.

The state's financial management in the previous period displayed the following strengths and weaknesses:

Strengths

- Increased budget revenues.
- Improved state budget result.
- Improved efficiency in the management of public debt.
- Faster drawdown of EU budget funds at the end of the 2007–2013 programming period and elimination of the resultant loss linked to underutilisation.
- High economic growth of the CR and increased employment.

Weaknesses

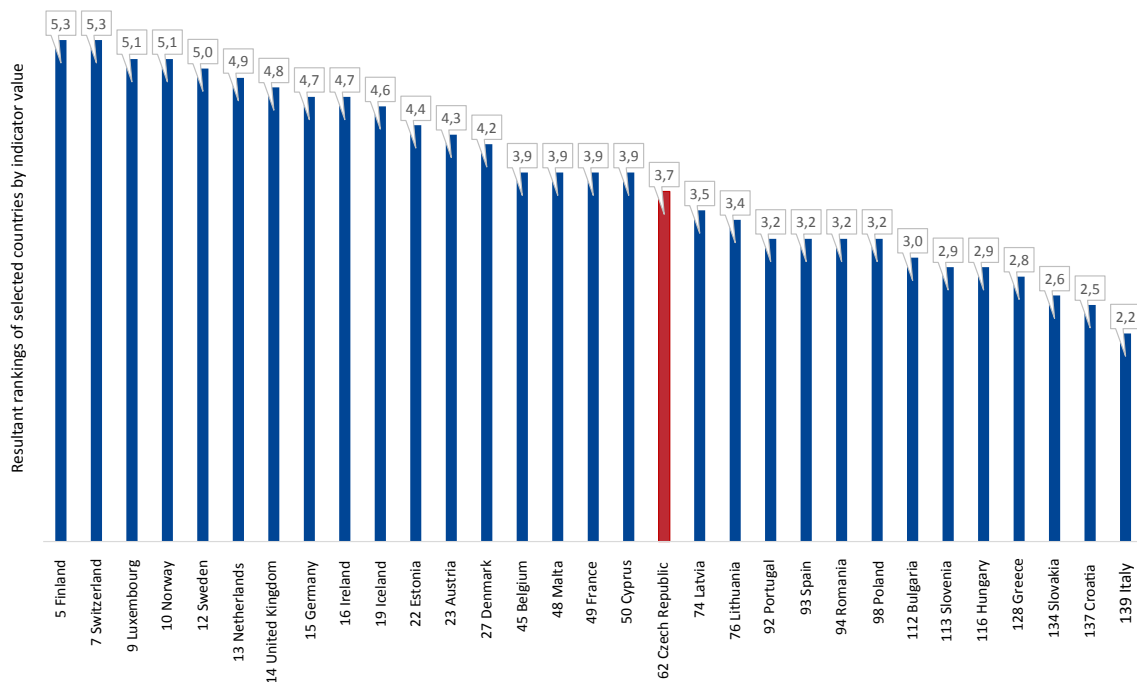
- The complexity and costliness of the tax system and large administrative burden for taxpayers.
- Failure to comply with the SB's medium-term expenditure frameworks, large number of budget changes.
- Weak connection between financial budgeting and policy goals.

⁸ With regard to the period which the SAO mainly scrutinised or analysed in 2016, this mainly comprises 2015 and the first half of 2016.

- **Low drawdown of capital expenditure in 2016.**
- **Haphazard development of ICT and failure to deliver the planned benefits of eGovernment.**
- **Formal nature of the system for financing programmes out of the SB that goes against the principles of target-based budgeting.**
- **Insufficient evaluation of the benefits and impacts of Government interventions.**
- **Failure to achieve the strategic goals of transport infrastructure and services development; building projects not prepared.**
- **Delays in the drawdown of EU budget funds in the 2014–2020 programming period.**
- **High proportion of public contracts awarded without public tenders.**
- **Institutions’ low standard of financial management and control.**

The state’s financial management and competitiveness can be viewed through the lens of international comparison. According to the World Economic Forum’s *Global Competitiveness Index* (CGI), countries’ competitiveness is partly influenced by their public sector performance. According to the GCI, in 2016 the CR was in 31st place out of the 140 rated countries, a 15-place improvement over 2014. According to the GCI’s *public sector performance* indicator, however, the CR was down in 62nd place; see Graph 2. The World Economic Forum regards the high level of inefficient Government bureaucracy as the most problematic factor holding back improvements in the CR’s competitiveness in international comparison.

Graph 2: Rankings of selected European countries in international comparison by public sector performance



Source: The Global Competitiveness Report 2015–2016; World Economic Forum 2015; <http://reports.weforum.org/global-competitiveness-report-2015-2016/competitiveness-rankings>.

With a view to helping resolve the biggest problems and establish good practice in the state’s financial management, the SAO formulated recommendations. As part of or further to completed audits the SAO provided **104 recommendations of a systemic nature** in 2016, concerning, for example, management and control of programmes and projects, conceptual and strategic management, organisational measures etc. Consequently, changes made to management and control work by government departments in response to these systemic findings and recommendations rank among the most important benefits.

Last year, the SAO played an active role in promoting the results of its audit work in collaboration with key partners in the Czech Parliament and Government. The Committee on Budgetary Control of the Chamber of Deputies discussed **13 audit conclusions** in 2016. The discussion of audit conclusions by the Government was fundamental. The Government stepped up its discussion of audit conclusions in order to respond more swiftly to the SAO's findings and recommendations. The Government discussed 53 audit conclusions in 2016, instructing the appropriate ministers to take measures to remedy shortcomings in 49 cases. Measures adopted in response to the discussed audit conclusions targeted **373 shortcomings and recommendations**, most systemic in nature, that were presented in the audit conclusions. The SAO commends the fact that in the vast majority of cases the adopted measures were sufficient and were a comprehensive response to the identified deficiencies. The degree of satisfaction with the adopted measures as evaluated by the SAO thus exceeded **82%**.

Another factor in ensuring the accountability of the audited persons was the SAO's fulfilment of its notification duty in respect of the financial authorities in cases where audit findings indicated a breach of budgetary discipline. In the past year, the SAO reported breaches of budgetary discipline involving almost **one billion Czech crowns**.

Key highlights for 2016:

- **40 completed audits.**
- **230 audited entities.**
- **104 systemic recommendations.**
- **13 audit conclusions discussed by the Committee on Budgetary Control of the Chamber of Deputies.**
- **53 audit conclusions discussed by the Czech Government.**
- **82% SAO satisfaction with the measures adopted to remedy shortcomings.**
- **Notifications filed for breach of budgetary discipline involved a total sum of CZK 979 million.**

The following sections of the Annual Report set out in greater detail the principal systemic deficiencies, recommendations and other findings, structured according to government policy areas or cross-cutting in the case of important state activities audited by the SAO. The SAO is confident that this information will help ensure that the problems existing in the state's financial management are defined and targeted more precisely.

1 Public finances – better results in the implementation of the SB and persisting systemic shortcomings in planning and budgeting

The results of the SAO's audit and analysis work over the past year, including the issued *Opinion on the Draft State Closing Account of the CR for 2015* and *Opinion on the Report on the Implementation of the State Budget of the CR for the 1st Half of 2016*⁹, make it possible to say that the state's financial management improved in terms of attaining better state-budget outcomes. The development of the resultant balances of the state budget and state debt can also be rated positively.

The fact that the management of public funds and property was positively supported by many external and internal factors linked to economic growth abroad and the CR's high level of engagement in economic cooperation cannot be ignored. Other factors were the huge drawdown of EU budget funds at the very end of the 2007–2013 programming period, households' growing disposable income, increasing employment and consumer confidence in economic development which mainly had a positive impact on the acceleration of economic growth, the state's budget revenues and the improved Czech state budget deficit of **CZK 62.8 billion** for 2015.

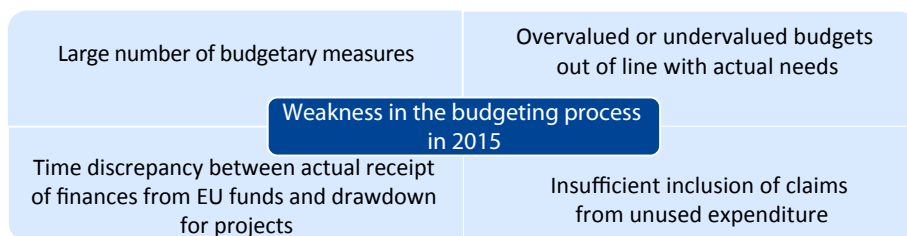
The positive development in the implementation of the state budget continued in 2016, when the

⁹ The SAO submits these opinions to the Chamber of Deputies of Parliament of the CR in accordance with Section 5 of Act No. 166/1993 Coll., on the Supreme Audit Office.

state budget ended the first half of 2016 with a surplus of CZK 40.7 billion and ended the year with a surplus of CZK 61.8 billion¹⁰. The surplus was not just the upshot of the improved state budget result, however: it was mainly caused by the continuing economic growth that led to bigger tax receipts (including social security insurance), increased revenues from the EU budget under the 2007–2013 programming period and a year-on-year fall of tens of billions of Czech crowns in the utilisation of capital expenditure. In this context, it cannot be overlooked that the state budget drawn up for 2016 was entirely out of step with actual developments, as the difference between the budgeted deficit and the actual surplus was greater than CZK 130 billion. That is a consequence of lax and highly formal budgeting and the creation of hidden reserves, which are ultimately and wrongly presented as Government successes.

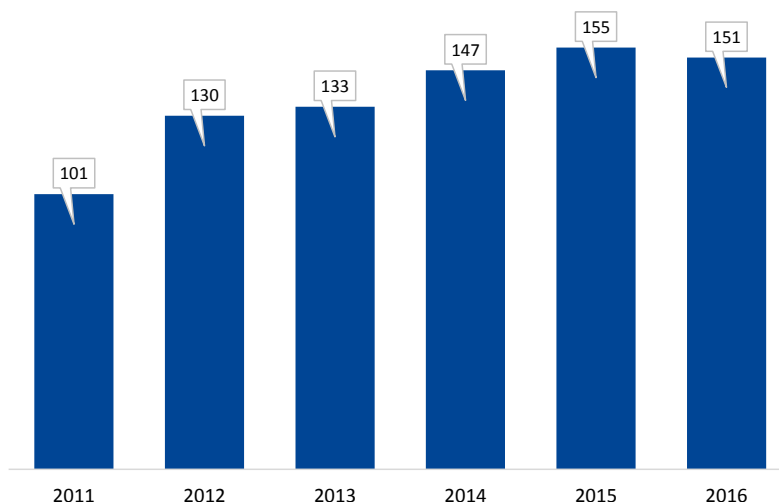
Here the SAO draws attention primarily to the persisting problems in the budgeting process that are significant factors negatively affecting the implementation of the state budget. The weaknesses in the budgeting process mentioned by the SAO in its opinion on the 2015 state closing account are depicted in the following picture.

Picture 1: Weaknesses in the budgeting process in 2015



The SAO states that budget heading administrators budget the various types of revenues and expenditures imprecisely. Consequences of that include the large number of budgetary measures and the establishment of claims from unused expenditure, which have remained high. What is more, the defined rules provide no motivation for rigorous planning of state budget revenues and expenditures. As Graph 3 shows, claims from unused expenditure exceeded CZK 150 billion as of 1 January 2015 and 2016.

Graph 3: Change in state of claims from unused expenditure as of 1 January of the given year (CZK billion)



Source: state closing accounts for 2010–2014; draft state closing account for 2015.

¹⁰ According to an MoF press release dated 3. 1. 2017; <http://www.mfcr.cz/cs/aktualne/tiskove-zpravy/2017/stat-v-roce-2016-hospodaril-s-rekordnim-27109>.

Another systemic problem flagged up repeatedly by the SAO is that the budgeted expenditures and their drawdown are not effectively tied to concrete and measurable policy goals in a way making them binding on the budget heading administrators who bear the responsibility for the release of funds. In a number of cases, the SAO finds that the benefits and impacts of interventions and support are not sufficiently evaluated or that it is not even clear what the provider of funding intended to achieve. In a number of cases, the budget is merely a formal framework, as repeatedly pointed out by the SAO when it has audited programme financing, for example.

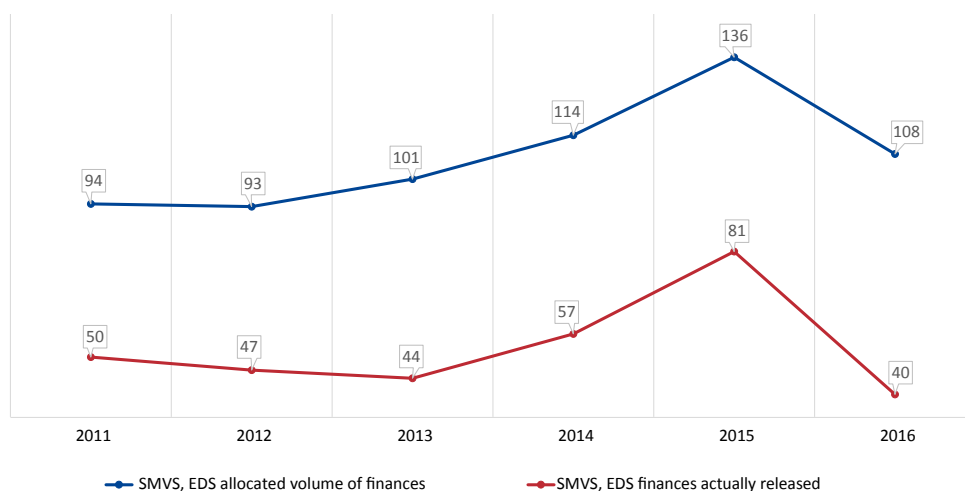
There are frequent changes in programmes' budgets as a result of insufficiently envisaged needs and aims, imprecise planning, ineffective management and insufficient control of policies, but also in consequence of frequent changes of decisions negating previous steps or in consequence of a lack of coordination between multiple budget heading administrators. The release of public funds is not always supported by an evaluation of the best value-for-money solution, even though this is one of the basic legal obligations of budget heading administrators. And public procurement is not always a tool for delivering the most advantageous solution for the state. One example is the haphazard development of information infrastructure.

The limited functionality of the financing of asset replacement programmes is borne out by a look at the budget and actual drawdown in 2011–2016, when programmes' actual drawdown was diametrically different from the budgeted funds; see Graph 4. According to data contained in the EDS/SMVS¹¹ information system, the total budget amounted in the years 2011–2016 was **CZK 647 billion**, but only **CZK 318 billion** was drawn down.

The inability to implement programmes according to the envisaged financial and time parameters has a profoundly negative impact on the entire process of compiling and implementing the state budget, generates enormous claims from unused expenditure and, above all, hinders the achievement of substantive goals in the areas of the state's expenditure policies. Despite the formalistic approach to programme funding that goes against the principles of target-based budgeting, one positive fact must be stressed: the majority of the funds budgeted are for programmes focused on specific objectives of the state's expenditure policies (i.e., not programmes focused on mere renewal of the state's material and technical resources).

In the years in question, the volume of funds for targeted programmes was **CZK 493 billion**, which was **76%** of the total amount of funds budgeted for all programmes; see Graph 5.

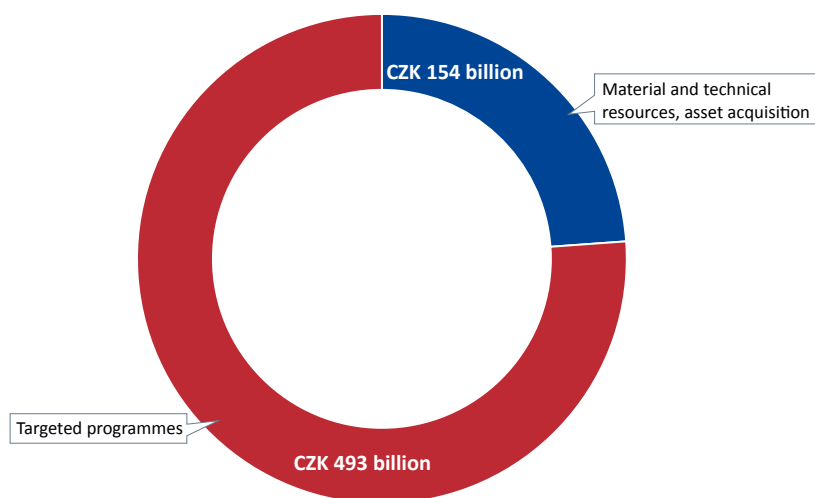
Graph 4: Volume of finances budgeted and drawn down for ministries' programmes in 2011–2016 (CZK billion)



Source: EDS/SMVS information system; data for 2016 refer to the state as at 18 January 2017.

¹¹ The EDS/SMVS (Subsidies Records System/Administration of State-owned Assets) information system is used to manage and keep records of repayable financial assistance and subsidies from the state budget provided for the acquisition of upgrading of fixed tangible and intangible assets (Subsidies Records System) and to manage and provide state budget funds for the acquisition or upgrading of fixed tangible and intangible assets of the state (Administration of State-owned Assets).

Graph 5: Volume of funds for financing ministries' programmes in 2011–2016 by programme focus (CZK billion)



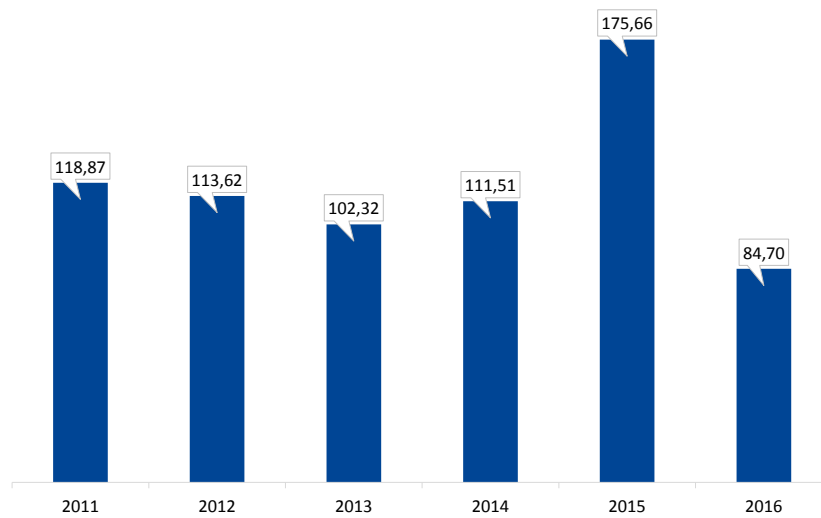
Source: EDS/SMVS information system; data for 2016 refer to the state as at 18 January 2017.

The budget process is also considerably influenced by the use of finances from EU sources, where the complicated implementation system results in highly unbalanced drawdown and a disproportionate amount of time between the receipt of finances from the EU budget and the drawdown of finances for projects pre-funded out of the state budget.

This is compounded by the delay in the drawdown of finances from the 2014–2020 programming period, which has a negative impact on both state budget revenues and expenditures on projects, e.g., investment projects. In 2016, the Government did not realise the planned support for economic growth in the form of public investments, mainly because strategic EU-funded transport infrastructure projects were not sufficiently ready. That is manifested in the state of drawdown of capital expenditure in 2016, among other things.

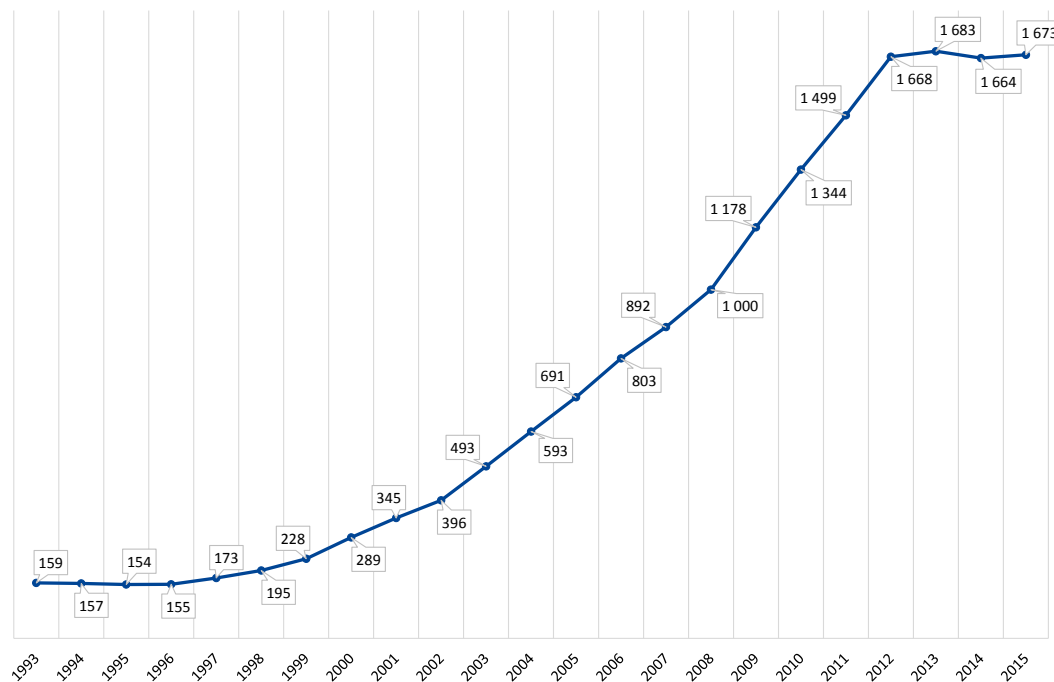
The new 2014–2020 programming period was launched three years ago, but drawdown is only just getting started and the process as a whole is considerably behind schedule, as set out in detailed in Section 4.3 *Management of finances provided to the CR from abroad*.

Graph 6 shows the utilisation of capital expenditure in the years 2011–2016. The data reveal that the actual utilisation of capital expenditure in 2016 was not even at **50%** of expenditure of 2015 and not even at **77%** of expenditure of 2014.

Graph 6: Utilisation of capital expenditure in 2011–2016 (CZK billion)

Source: Monitor information website; MoF press release of 3 January 2017 (utilisation of capital expenditure in 2016).

One important indicator of the state's budget policy is the development of government debt and related government expenditure associated with servicing the debt: these are a significant item running to tens of billions of Czech crowns a year. Government debt has grown more than tenfold since 1993, rising from **CZK 159 billion** to **CZK 1,673 billion** in 2015. Gross expenditure on servicing the debt, consisting primarily in interest on bonds, stood at **CZK 53.2 billion** in 2015. The development of government debt since the founding of the Czech Republic is shown in Graph 7.

Graph 7: Development of government debt 1993–2015 (CZK billion)

Source: Monitor information website.

In audit no. **15/13** the SAO focused on the management of government debt and on expenditure linked to funding the debt, including how the MoF creates a financial reserve to cover risks associated with government debt and how it uses this reserve.

The SAO concluded that the management of government debt displayed a shift towards more effective debt management in the audited period. The use of reserve funds¹² worth CZK 51.2 billion in 2014 and the use of finances in bank accounts of the state treasury to temporarily cover state financing needs and amounting to CZK 50.7 billion allowed the MoF to cut government debt as of year end 2014, despite the state budget deficit of CZK 77.8 billion. The SAO also pointed out the following:

- The reserve was almost entirely used up at the end of 2014, as the MoF had utilised CZK 128 billion of the CZK 140 billion for the years 2013 and 2014. In connection with the reserve, the SAO also pointed out that since 2015 the budgetary rules have allowed the MoF to issue Government bonds with a view to creating a financial reserve of any amount without the Czech Parliament's approval. The year 2014 saw a return to procedure in the *Government Debt* state budget heading that has repeatedly been criticised by the SAO: unused interest-based expenditure of CZK 5.1 billion was used for transfers to other headings of the state budget. The Government decided on the transfer of CZK 1.7 billion, while the finance minister permitted budgetary measures worth CZK 3.4 billion, 92% of which was channelled into budget headings administered by the MoF. Instead of these finances being reported as a saving in the budget heading in question, the Czech finance minister and Government transferred them to other headings of the state budget. The SAO has drawn attention to the similar creation of hidden financial reserves, for example in the audit conclusion of audit no. 14/14¹³.

Recommendations

A correctly compiled state budget is the foundation of efficient financial management by the state. According to the SAO's findings, significant improvements can be achieved by the following steps:

- **Improving the forecasting of planned state budget revenues and expenditures and ensuring that the draft state budget is more in line with expected developments.**
- **Ensuring the stability of planned expenditure for delivering the Government's strategic priorities, e.g., in the area of transport infrastructure financing.**
- **Eliminating the weak points of the budget process linked to budget inaccuracies and the enormously large number of budgetary measures.**
- **Eliminating the systematic overvaluation or undervaluation of the budget by rigorous planning of the various types of revenue and expenditure reported in budget items.**
- **Improving the motivation of budget heading administrators to implement budgets and minimising claims from unused expenditure.**
- **Restricting, in line with the budgetary rules, transfers of finances from heading to heading approved at the MoF level to expenditure that is foreseeable and should be part of the budgets of the individual headings.**
- **Reporting real budget expenditure savings in consequence of the improved efficiency of state administration and carrying them forward to the budget of the following period.**
- **Paying greater attention to the compilation of the budgets of off-budget state funds and eliminating the substantial differences between budgeted and actual values.**

¹² The MoF creates a financial reserve to preclude risks linked to financing the state budget deficit and government debt.

¹³ Audit no. 14/14 – *State budget funds under the state budget chapter General Treasury Management*; the audit was published in volume 1/2015 of the *SAO Bulletin*.

- **Setting the goals of Government policies in a way ensuring that the release of budgeted items for achieving these goals is demonstrably done in a manner taking into account the principles of economy, efficiency, and effectiveness.**
- **Addressing the need to change how the budget is compiled from institutional budgeting to target-based budgeting.**

2 State revenues – tax administration has not yet been simplified and the administrative burden on taxpayers has not been cut; the efficiency of tax administration differs

State revenues are constantly at the centre of the SAO's attention. That is not only because the generation of sufficient funds is a necessary condition for fulfilling the requirements and objectives of the state's expenditure policies: the SAO also seeks to assess the effectiveness of the management of revenues, the consequences of a number of legislative changes and these changes' impact on taxpayers. Tax receipts account for the majority of state revenues. The results of audit and analysis work in the previous period are also the basis for a broader evaluation of tax policy and its results in this section.

Three audits addressing this area were completed in 2016. The focuses were:

- taxation on real estate, the transfer of real estate and property acquired through inheritance or gifts, known as property taxes (audit no. [15/15](#));
- the administration of consumer and energy taxes (audit no. [15/33](#));
- the project to create a single collection point (audit no. [15/17](#)).

The SAO found that the administration of the taxes mentioned above is still inefficient. Efficiency in the administration of property taxes was three times worse than the administration of all taxes administered by the tax administration. By contrast, the administration of excise duties was rated efficient. There is still significant room for expenditure savings in the administration of tax revenues, despite some improvements. These savings were not achieved even though some projects intended to simplify management and bureaucracy were carried out.

- In audit no. [15/15](#) the SAO concluded that while the tax administration collected **CZK 77** in revenues per **CZK 1** of expenditure for all administered taxes in 2014, for property taxes the figure was just **CZK 25**. Spending on property tax administration in 2014 was **CZK 776 million** out of a total of **CZK 8.3 billion** spent on the work of the tax administration. The main factor making the collection of property taxes less efficient and more costly was the taxation system in place (level of tax, rate of exemption from tax, tax rates). According to OECD¹⁴ data from 21 selected EU countries, in 2013 the Czech Republic had the second lowest share of property taxes in total tax revenues.

The conditions for checking tax obligations in the administration of property taxes were improved by the introduction of automated data transfer from real estate register authorities and the subsequent roll-out of checking mechanisms. Unpaid tax remains a major problem, however, because the difficulty and success of collecting this tax is influenced by the large quantity of trivial unpaid amounts, i.e., unpaid amounts up to **CZK 5,000**. At the end of 2014, the tax authorities registered **105,000** cases of unpaid tax, three quarters of which were trivial amounts. They only accounted for **4%** of the total amount of **CZK 1.7 billion** in unpaid taxes, however.

- In audit no. [15/33](#) the SAO rated the cost-effectiveness of the administration of excise duties and energy taxes ("EDET") as efficient, with the customs administration achieving revenues of **CZK 35** for every **CZK 1** of expenditure. Expenditure of the Customs Administration of the CR was **CZK 1 billion** per annum and efficiency was high compared to other tax revenues. That is

a result of the rate of taxation and the extent of oversight. There is room, however, for cost savings in the tens of millions of crowns every year, e.g., by rolling out increased electronic tax return processing, introducing a selective approach to tax entities, by having administrative work done by civilian employees or by eliminating duplications in shared competences. The EDET administration system was not simplified and administrative costs were not cut; in fact, administrative costs grew. Contrary to strategic materials of the EU and the Government of the CR, EDET's share of total tax revenues is falling and energy taxes are of negligible significance. The administrative burden on taxpayers is not getting smaller.

The SAO also evaluated the impacts of the launch of two projects to modernise the customs administration and procedural and strategic management. The General Directorate of Customs ("GDC") spent **CZK 68 million** on these projects. The projects' principal objectives still have not been achieved three years after the projects were completed. Processes under the authority of the customs administration were not made more efficient, there was no major improvement in strategic management and the administrative workload was not reduced through modifications of processes. The SAO therefore judged the GDC's expenditure to be inefficiently spent, as sufficient benefits in the form of savings on the cost of the customs administration's work and on EDET administration were not achieved.

The SAO performed this audit in international cooperation with the Supreme Audit Office of Slovakia. The principal benefits of parallel audits in the field of excise duties were the sharing of experiences, comparison, and assessment of the excise duties administration systems in the Czech Republic and Slovakia and recommendations for good practice based on the differences identified. Last but not least, the finding that the international comparability of data on the effectiveness and efficiency of excise duties administration is very limited without parallel audit is beneficial. The two Supreme Audit Institutions declared that revenues from excise duties in the Czech Republic and Slovakia are growing more slowly than other tax revenues. The administrative expenditure on the administration of excise duties in the Czech Republic and Slovakia is displaying long-term growth (mainly because of pay growth), but even so the cost-effectiveness of the administration of this tax category is greater than with other taxes.

The most important project that comprehensively sought to make the collection of taxes, customs duties and social and health insurance simpler and more efficient and to relieve the administrative burden on taxpayers was the JIM project. The Government approved the project in 2008 and it was supposed to become fully operational from the start of 2015. Although the MoF, General Financial Directorate ("GFD") and GDC had used almost CZK 3.4 billion on the project by the completion of audit no. 15/17, bad management of the entire project meant that the single collection point did not materialise and tax administration was not simplified. The SAO also stated the following:

- The Government, the MoF, and the management of the SCP project only defined the basic conditions for the creation of the SCP. The SCP project management did not comply with the set project management rules and failed to carry out the tasks under its powers, which hindered progress on the project. Expenditure on the project did not comply with the principles of economy and effectiveness. One of the SAO's serious findings was that the MoF released **CZK 2.6 billion** to cover expenditure not connected to the project and did so without a decision by the SCP project management. Over **80%** was utilised by the GFD, which paid, e.g., current expenditure on acquiring and operating ICT or buying and renovating buildings and on employees' pay.

The results of the SCP project did not achieve the main objectives of simplifying the collection of taxes and insurance premiums and did not deliver savings on the part of either taxpayers or the state. That was meant to be achieved mainly by ensuring that procedures in the administration of tax and insurance premiums were mutually compatible, the performance of tax and insurance premium administrators were optimised and the standard of information sharing among administrators was raised. However, from 2008 to 2015, while the project was being executed, the legislative, procedural and ICT changes required to enable the merging of the collection function did not occur at the audited administrators. Nor was the Czech tax system simplified

in the sense of “one form, one payment, and one inspection”. Tax administrators continue to maintain numerous data in duplicate form. For example, there are one million self-employed persons registered in at least three registers simultaneously. According to information from the audited entities, the project was not completed at the time of the SAO audit in the sense of project management, so its assessment, including the accounting for project funds, had not been performed.

The results of the SAO’s audit and analysis work from recent years also make it possible to appraise tax policy as a whole. The National Reform Programme of the CR is a conceptual document of national economic policy and defines priorities for promoting economic growth in the CR in line with the EU priorities set out in *Europe 2020*. The Government’s priority objectives for the years 2011–2015 are shown in Table 2.

Table 2: Overview of strategic priorities in the field of tax

Reform of taxes and the tax system: priorities					
	2011	2012	2013	2014	2015
1.	Simplification of the income tax system	Simplification of the income tax system	Fight against tax evasion	Changes in the tax system	Improving tax collection and simplifying the tax system
2.	Other tax measures	Other tax measures	Support for research and development	Restricting the flat-rate costs deduction for the self-employed	Reducing the tax burden on labour
3.	Better coordination of tax policy and social policy	Reorganising the tax and customs administration	Single collection point	Improving tax collection and the fight against tax evasion	Shifting the tax burden
4.	Single collection point project	Single collection point project			Reducing the differences in the tax treatment of employees and the self-employed
5.	Establishing the General Financial Directorate				

Source: National Reform Programme of the Czech Republic for 2011 to 2015.

The tax policy priorities listed every year in the *National Reform Programme of the CR* were mainly linked to simplifying and changing the tax system, reorganising the tax and customs administration, the SCP project, improving tax collection, the fight against tax evasion, tax measures or reducing the tax burden on labour.

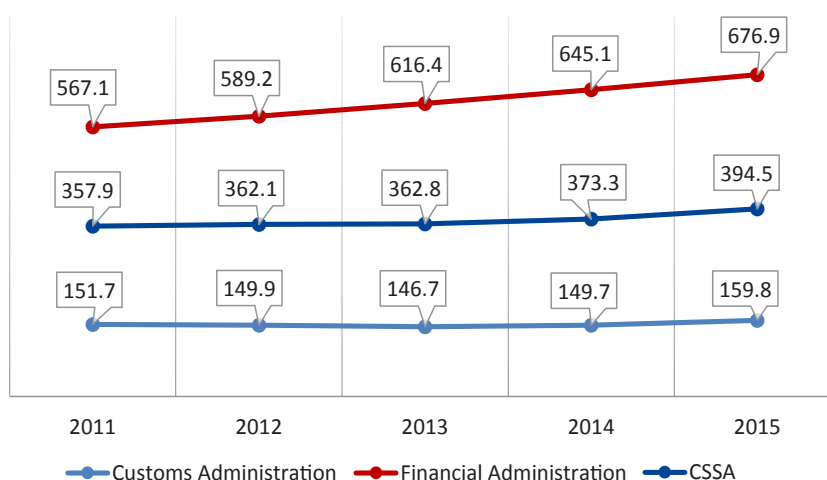
The SAO states that the pace of growth of total tax revenues in the years 2011–2015 exceeded that of administrative costs. The increased collection of tax revenues was largely a consequence of economic growth, most notably in connection with the positive development of the economy and employment in the last two years. Unpaid tax was also reduced as of 31 December 2015, but the amount of unpaid tax is still high compared to collected tax. Many priorities were not achieved, however.

In particular, the tax system was not simplified, the administrative burden on taxpayers was not reduced and information systems and information exchange were not put to more effective use. Some changes were rolled out in the field of automating the administration of natural persons’ income tax, excise duties and insurance premiums in the years 2010–2015. The changes were: the option of online access to forms for taxpayers; the option of electronic submissions; the

scrapping of the obligation to report changes to data in public registers; and the partial automation of processes and digitisation of files. There are still significant differences between the various organisations administering state budget revenues, however, especially in the automation of data processing. Money is spent in duplicate ways for the administration of the different information systems, which are not even interconnected. Even though numerous measures were implemented to boost the option of electronic submissions and communication with the authorities, the SCP project was a major failing in terms of benefits for the state and taxpayers alike.

The amount and development of total tax receipts administered by the Financial Administration of the CR (“FA CR”), the Customs Administration (“CA CR”) and the Czech Social Security Administration (“CSSA”) in the years 2011–2015 is shown in Graph 8.

Graph 8: Development of total tax receipts 2011–2015 (CZK billion)

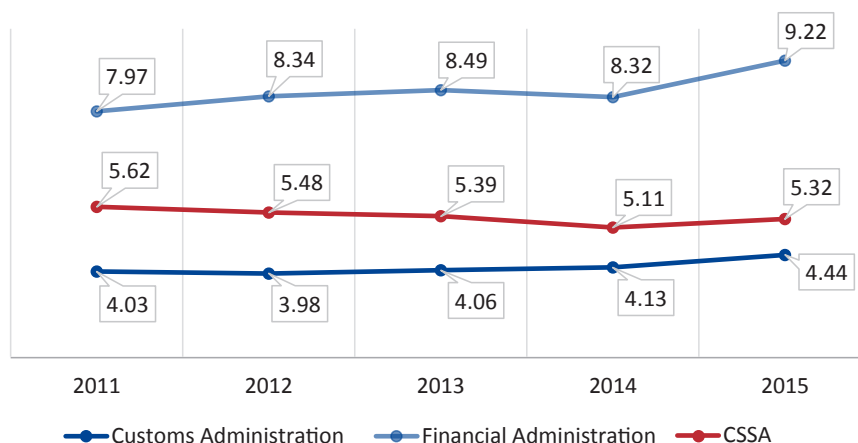


Source: reports on the work of the Financial and Customs Administration of the CR, reports on the work of the Czech Social Security Administration, Annual Reports

Tax receipts are increasing. Total tax revenues grew by approx. **14.4%** in the period in question, which slightly exceeds GDP growth that was at around **13%** in the period under scrutiny. This state of affairs is aided by falling unemployment. The amount of tax revenues collected was also influenced by changes in the rates of the most important taxes, which increased slightly, with the exception of natural persons’ income tax¹⁵. It is evident that excise duties collected by the Customs Administration of the CR and social insurance premiums collected by the Czech Social Security Administration are less vulnerable to economic fluctuations. The significance of the impacts of measures against tax fraud on total state budget revenues is not clear from the macroeconomic indicators. Total receipts are influenced much more by the economic situation, consumer behaviour and changes in tax rates.

The total expenditure of the FA CR, CA CR, and CSSA in 2011–2015 is presented in Graph 9. The development of expenditure by the authorities collecting the most significant state budget revenues corresponds to the development of pay policy in public administration, the size of these authorities’ workforces, and the work done. In the case of the CA CR, the fact that the tax administration is just one of its activities must be taken into account. The total workforces of these authorities grew by 354 employees between 2011 and 2015. This was due to an increase in the workforce of the FA CR of 575 and a fall in the number of people employed by the CA CR and CSSA of 217 and 4 respectively. The number of registered taxpayers grew in the period under scrutiny by 36% in the case of the FA CR, 20% in the case of the CA CR, and 4% in the case of the CSSA.

¹⁵ Natural persons’ income tax remained the same; legal persons’ income tax fell by one percentage point; the basic rate of value added tax was raised by two percentage points, with the reduced rate reduced further by six percentage points, or by one percentage point in the case of the second reduced rate; social insurance grew by one percentage point in the case of one group of self-employed persons and foreign employees; the excise duty rate increased significantly, especially for tobacco products.

Graph 9: Total expenditure of the CA CR, FA CR, and CSSA in 2011–2015 (CZK billion)

Source: closing accounts of headings 312 and 313.

The SAO also scrutinised the proportions of revenues and expenditures of the tax and social security authorities; see Table 3.

Table 3: Overview of revenues and expenditures of the CA CR, FA CR and CSSA in 2011–2015

Proportion of revenues and expenditures – calculated expenditure per CZK 100 of revenues in 2011–2015						
Authority	Indicator	2011	2012	2013	2014	2015
Customs Administration	Revenues (CZK billion)	146.52	145.87	143.02	145.10	154.48
	Expenditure (CZK billion)	4.03	3.98	4.06	4.13	4.44
	Expenditure per CZK 100 of revenues*	2.75	2.73	2.84	2.85	2.87
Financial Administration	Revenues (CZK billion)	555.29	585.01	609.50	639.06	670.27
	Expenditure (CZK billion)	7.97	8.34	8.49	8.32	9.22
	Expenditure per CZK 100 of revenues*	1.44	1.43	1.39	1.30	1.38
CSSA	Revenues (CZK billion)	358.10	362.36	363.25	373.65	394.69
	Expenditure (CZK billion)	5.62	5.48	5.39	5.11	5.32
	Expenditure per CZK 100 of revenues*	1.57	1.51	1.48	1.37	1.35

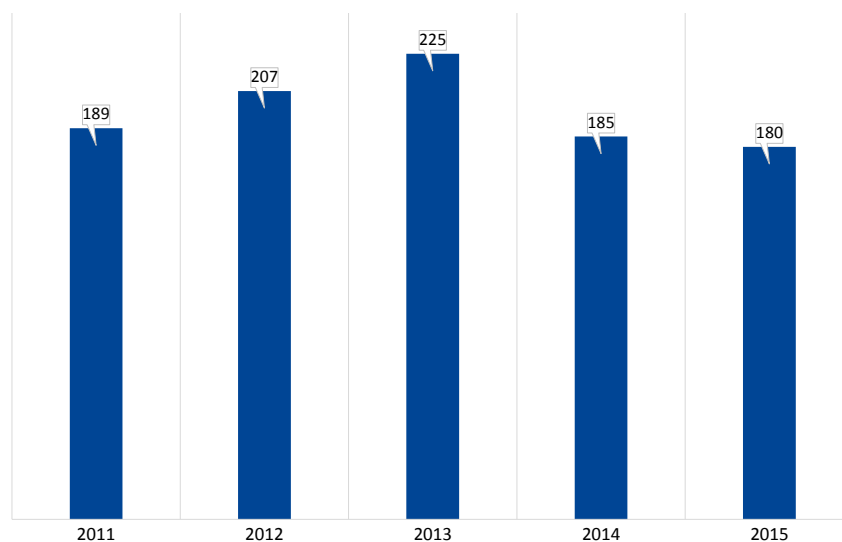
Source: closing accounts of headings 312 (Annex 5) and 313 (Annexes 3 and 5).

* SAO calculation

It follows from the data in the closing accounts of the relevant budget headings that collected revenues grew faster than expenditure in both the FA CR and CSSA, which indicates a gradual improvement in administration as regards collected revenues. In the case of the CA CR, this indicator is significantly influenced by spending on other powers exercised and not linked to tax revenues; for that reason, it cannot be judged without more detailed ascertainment of actual expenditure on tax administration. As mentioned above, the efficiency of administrative costs for the administration of excise duties and energy taxes was scrutinised by the SAO in audit no. [15/33](#); the SAO rated it as efficient.

Graph 10 shows the development of unpaid tax. The data reveals that the volume of accumulated unpaid tax fell in 2014 and 2015 (mainly because of write-offs as unrecoverable). Although this volume fell by **CZK 45 billion** between 2013 and 2015, i.e., by **20%**, the total level of unpaid tax was **CZK 180 billion** at the end of 2015, an amount that remains significant.

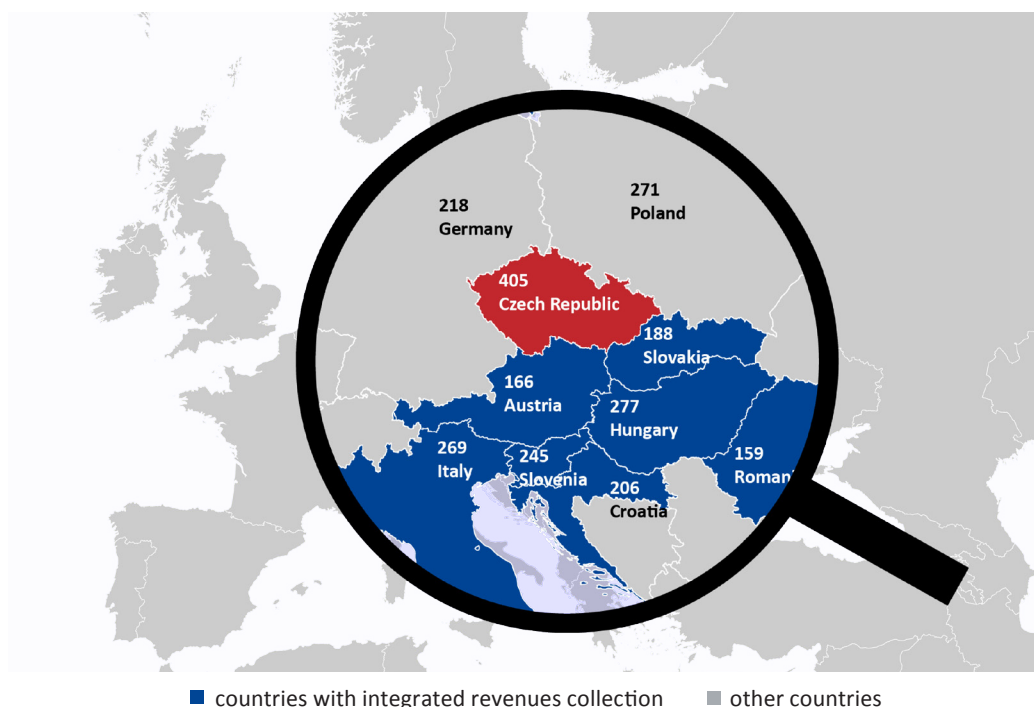
Graph 10: Volume of accumulated unpaid tax in 2011–2015 (CZK billion)



Source: draft state closing account for 2015.

According to OECD data, the tax burden in the CR was below average in 2015 at 33.5% of GDP (OECD member states' average: 34.3% of GDP). The structure of tax revenues in the CR does not match the OECD average, however. The tax on labour remains high in the CR. A full 44% is social security revenues, where the OECD average is just 26%. VAT revenues and legal persons' income tax revenues are comparable with the OECD average, while revenues from natural persons' income tax are not even half. Revenues from property taxes account for just 1% of the total tax take, where the OECD average is 6%.

One of the most serious problems is that the administration of taxes is highly demanding in administrative terms from the point of view of taxpayers in the CR. In audit no. 15/17 the SAO assessed the amount of time required to perform the administration of tax obligations in a medium-sized firm for the year in question in selected countries. Countries where a certain degree of integration of the administration of taxes and insurance premiums had been implemented were among those selected for comparison. While the time required for fulfilling tax obligations in 22 countries that had integrated collection functions was on average 184 hours in 2014, in the CR it was 405 hours; see Figure 2. The collection of public finances thus places an inordinate burden on taxpayers in the CR.

Figure 2: Time required for the administration of tax obligations in selected countries (hours)

Source: SAO's own representation based on MoF data and information published by the World Bank.

The outputs from audit and analysis work in the field of the administration of state revenues are an independent source of information for assessing the work of the authorities administering state revenues. The SAO monitors responses to its findings and recommendations. It is fair to say that the MoF and its subordinate bodies of state administration are gradually adopting corrective measures, even though they take issue with certain audit findings of the SAO. The SAO commends a number of adopted measures or intentions that should result on further improvements in the efficiency of revenues collection, e.g.:

- After the completion of audit no. **14/17**¹⁶, which stated that the measures rolled out to fight VAT evasion were insufficient, the “reverse charge mechanism” was extended to other high-risk commodities and the conditions for deciding on a VAT payer’s unreliability were modified. On 1 January 2016, the MoF introduced “control statements” as an extra tool in the fight against tax evasion, the goal being to collect approx. CZK 6–10 billion per annum more for the state budget.
- The Financial Administration is preparing a new collection concept in which, further to the SAO’s findings from audit no. **15/15**, it intends to focus on changing certain existing mechanisms and creating new systemic measures that should boost the efficiency of collecting unpaid taxes. The GDC has been rolling out measures since 2016 and will go ahead with them in 2017.
- In connection with the failure of the SCP project and the failure to simplify the collection and administration of taxes and insurance premiums (see also audit no. **15/17**), the MoF presented a new project in June 2016 called *Modern and Simple Taxes* (“MaST”). This project, which should deliver the required simplification and improved efficiency, partly reflects the SAO’s findings and recommendations. The project is tied to the simplification of the tax system and the widening of the digitisation of tax administration; it includes a new act on income tax, the introduction of tax self-assessment and an electronic portal for tax administration known as the “tax kiosk”. To this end, the MoF plans to replace the current unsatisfactory IT system (ADIS) with a new financial administration IT system that should improve control work.

¹⁶ The audit conclusion of audit no. 14/17 – *Value added tax administration and the impacts of legislative amendments for state budget revenues* was published in volume 2/2015 of the SAO Bulletin.



Recommendations

Further to the findings made by the SAO last year and developments in the administration of the state's revenues, the SAO recommends:

- in the field of property taxes and with regard to the SAO's findings regarding the low efficiency of their administration, a detailed analysis of property taxation in the CR should be performed and, based on its results, systemic changes in the taxation of property should be proposed;
- in the field of excise duties, the principal recommendations are:
 - to carry on with the electronisation of the administration of excise duties, especially online data transfer and automatic data processing;
 - to concentrate the scope of the CA CR's authority on control work which, by its nature, requires the engagement of employees of the security forces and remove duplications in the exercise of shared competences;
- in the field of simplifying the collection and administration of taxes and insurance premiums and achieving savings on the side of both the state and taxpayers, the principal recommendations are:
 - to ensure that procedures in the administration of taxes and insurance premiums are compatible;
 - to optimise the work of tax and insurance premium administrators;
 - to improve information exchange between tax and insurance premium administrators;
- to assess comprehensively the effectiveness of the new measures and obligations of taxpayers, e.g., control statements and electronic sales records; in this assessment, to take into account all costs on the part of both the state and taxpayers to show whether the benefits clearly outweigh the costs;
- to increase the use of information technologies for cutting the administrative burden on taxpayers and simplify their tax proceedings with the authorities administering the state's tax revenues by means of electronic communication;
- to simplify the tax system and to ensure it is stable so that there are not constant changes in the tax environment, and minimise the negative impacts on the motivation of taxpayers to do business and pay taxes and thus also on economic development;
- to approve changes to the tax laws so that the *vacatio legis* periods give the financial administration enough time to prepare methodologically and technically.

3 Government expenditure – improving the competitiveness of the CR is held back by systemic shortcomings in planning, management, and control

In the previous period, the SAO focused more on the issue of whether state interventions fulfil needs and goals in areas where it is the state's mission and indispensable role. The key questions were what the state obtains for public money and whether money is sensibly invested. The SAO thus sought to give feedback to policymakers on their success and to assess not just the legality of operations but, above all, their effectiveness, efficiency, and economy. The goals which the CR signed up to under the *Europe 2020* strategy and are linked to the CR's priorities in employment, research, development and innovation, climate change and energy, education and social inclusion are intended to promote social and economic development and improve the CR's competitiveness.

The following sections of the Annual Report are divided into the most important government expenditure areas the SAO looked at in the previous year. These sections examine the SAO's

principal findings in detail and list the SAO's recommendations designed to eliminate the key obstacles to the execution of the Government's plans.

Working on the basis of the SAO's specific findings in the various expenditure areas, the most frequently detected shortcomings indicate the main systemic reasons that the state fails to achieve the required efficiency of public administration in a number of cases.

The key factors reducing the effectiveness, efficiency, and economy of spending on Government policies are primarily linked to the generally poor standard of planning, management, and control. These are:

- **poor strategic and conceptual management;**
- **lack of binding force and frequent changes in strategies and concepts;**
- **failure to put in place the right conditions for achieving policy goals;**
- **spending without any demonstrable link to the achievement of goals;**
- **poorly set targets and monitoring indicators linked to assessment of their fulfilment;**
- **ineffectiveness and formalism of programme funding;**
- **inability to draw down budget finances;**
- **disproportionately long preparation of events and poor preparation of construction work;**
- **insufficient systems for assessing the need for and benefits and impacts of state intervention;**
- **insufficient control of the justification of costs and efficiency of spending;**
- **failure to hold programme administrators accountable.**

All these factors combine to make an entire mechanism of incorrectly designed and applied processes in the planning, management, and control systems.

The problems start in the phase of identifying needs, setting priorities and goals and securing funding. That is linked to the standard of strategic and conceptual documents and their validity over the longer term: they are neither binding nor consistent. The frequent instability of sources of financing and the predominance of interventions "on-the-fly" negate the advantages of conceptual planning and the implementation of the necessary priorities. Another problem is the failure to put in place the right conditions for achieving policy goals: for example, insufficient tools are in place for coordinating policy where its execution cuts across the competence of various government departments. In a number of cases, not even this was an obstacle to the release of considerable amounts of money. One example is the failed SCP project (audit no. [15/17](#)).

The way in which targets and monitoring indicators are designed is a chapter unto itself: the targets and indicators often make it impossible for administrators to judge the effectiveness and efficiency of achieving policy goals. Even where state interventions are intended to deliver an outcome and qualitative improvement, the effect of interventions is only assessed at the level of technical parameters such as length, number, area etc. Interventions are not assessed using indicators of results and impacts that are supposed to express what was achieved or what improved, i.e., what effects, benefits, or value was achieved for the money spent. It is alarming that these kinds of indicators are merely secondary and non-binding, as was found by an audit of enterprise support (audit no. [16/01](#)), for example.

Numerous examples have also repeatedly proved that programme funding has for long been ineffective in terms of the achievement of goals. Programmes' substantive and financial parameters are neither a firm framework nor an effective tool for achieving goals in many areas. Poor-quality documentation makes it impossible to assess the effectiveness, efficiency, and economy of spending on target-based programmes. The poor preparation of actions, interference in conceptual objectives, changes of priorities, insufficient methodological work and the predominance of unsystematic management over conceptual management mean that programme administrators

are unable to draw down funds and achieve the planned objectives in line with the principles of target-based budgeting. Programme funding has become nothing more than a formal tool. This is compounded by the haphazard development of unreliable and duplicative information support for the funding of programmes and subsidies that do not contribute to proper management (audit no. [15/31](#)).

It should be stressed here that the rules for releasing funds are clear. Under the Act on Financial Control¹⁷, heading administrators are obliged to comply with the principles of effectiveness, efficiency, and economy, to assess these principles before releasing funds, when releasing funds and afterwards. The problem is not, therefore, a lack of rules: it is the failure to comply with the rules and the unwillingness to hold budget heading administrators accountable, as the SAO has informed the Czech Government and Parliament.

The long-term and systematic effect of the above negative systemic factors holds back performance improvements across the entire government sector. The following sections are devoted to the main government expenditure areas and cross-cutting activities in which the SAO completed audits in the previous year. The SAO dealt with some areas repeatedly, making it possible to evaluate certain areas of government policy in broader contexts by applying long-term findings.

3.1 Effective Public Management and eGovernment – significant costs have outweighed the expected benefits so far

As in the previous year, the SAO was intensely devoted to the issue of building and developing information technology in public administration, the goal of which is to facilitate communication with public authorities and to make them more efficient. The centre of SAO's attention in this was primarily implementation of the eGovernment policy, which is meant to secure the performance of public administration and exercise of civil rights and the obligations of both natural and legal persons through electronic communication. It should above all provide for faster and more reliable provision of public services to the general public and a more open public administration in relation to citizens and other users.

An international assessment of eGovernment readiness put out by the UN in 2016¹⁸ shows that the Czech Republic continues to lag in the field of digital public services. Despite the fact that in 2016 it improved its position by three spots comparing to the last measurement in 2014, when it placed 50th of the 193 countries evaluated, it still ranked behind most European countries. An evaluation conducted by the European Commission¹⁹ also ranked the Czech Republic 17th of the 28 Member States. The Czech Republic thus numbers among the countries whose score is below the EU average and which have recorded slower growth since the 2015 measurement than the EU as a whole. The reasons can be seen, i.a., in the below-average results of providing for digital public services.

The SAO dealt with ICT and computerisation of services in a total of seven audits that it completed in 2016. These mainly concerned information systems classified as critical infrastructure and information systems designated as significant. These were:

- construction and operation of national infrastructure for electronic public procurement (NIPEZ) (Audit no. [15/10](#));
- ICT projects at the Ministry of Industry and Trade (audit no. [15/12](#));
- project to create a single collection point (audit no. [15/17](#));
- ICT projects at the Ministry of Transport (audit no. [15/23](#));
- information support for the system of programme financing and subsidies (audit no. [15/31](#));

¹⁷ Act No. 320/2001 Coll., on financial control in public administration amending certain acts (Act on Financial Control), e.g., Section 4.

¹⁸ According to an evaluation of the EGDI composite indicator (eGovernment development index); <https://publicadministration.un.org/egovkb/en-us/Data/Country-Information/id/45-Czech-Republic>.

¹⁹ According to an evaluation of the DESI 2016 composite indicator (digital economy and society index 2016); <https://ec.europa.eu/digital-single-market/en/news/desi-2016-country-profiles>.

- project for a National Information System for the Integrated Rescue System (NIS IRS) (audit no. [16/02](#)).

One audit was focused on a system for securing and funding the preparation and holding of elections (audit no. [15/36](#)). The aim of this audit was primarily to assess the elections in terms of the organisational and technical implementation with regard to the funds spent.

The results of the SAO audits show systemic and component deficiencies in the construction, development and operation of state ICT and eGovernment which, according to the SAO, are the cause of the state's lower value-for-money in this area. These causes contribute to the inability to fully exploit the potential of ICT for the necessary streamlining of state administration.

According to the SAO, the most frequent deficiencies that negatively influence the effectiveness, economy, and efficiency of the money spent by the state include:

- the low level of coordinated development of ISs, the result of which is a complicated and cost-intensive architecture, both at the level of application and technology, which does not sufficiently take into account the need to implement architectural models for shared services;
- the low quality of management and control processes and inadequate evaluation of the fulfilment of planned objectives and benefits of projects with regard to the funds spent;
- component and systemic errors at the level of project management, including the strategic and conceptual level thereof, which in some cases were even interdepartmental in nature but without the desired effect;
- ineffective, inefficient, and uneconomical expenditures caused by errors in determining the actual needs of addressing information support;
- frequent prolongation of the development period and implementation of new information support solutions compared to the binding project timelines as a result of errors in project planning or the procurement process;
- errors in public contracts, which are often procured through non-competitive processes (e.g., making use of negotiated procedure without publication or in-house exemptions²⁰), which as a result has limited the possibility of achieving cost-effective spending over the whole life cycle of the information systems and technological infrastructure;
- shortcomings in the verification (validation) of data in IS and thus also low quality of information, which has negatively influenced the quality of information support at various levels of public administration management, which in some cases was dealt with through the purchase of additional support services from external suppliers.

The audited period, which was covered by the audits completed in 2016 listed below, comprised primarily the years 2012 to 2015. The deficiencies indicate both systemic failures and in many cases also individual failure by the responsible management.

Inefficient management at the strategic and executive level in combination with ineffective control mechanisms in many cases contributed to the failure to achieve planned objectives and expected benefits of developing eGovernment, which at the same time negatively influenced the effectiveness, economy, and efficiency of funds spent;

- In audit no. [15/10](#), the SAO focused on computerisation of public procurement as part of building the national infrastructure for electronic public procurement which was to save **CZK 50 billion** annually and make the procurement system more transparent. The main objective was to be fulfilled primarily by the NIPEZ procurement information systems,

²⁰ The contracting authority is not obliged to procure public contracts according to the law if their subject is the provision of supplies, services, or construction works to a public contracting authority by a person that carries out a significant part of its activities for that public contracting authority and in which the public authority has exclusive ownership rights.

i.e., the *National Electronic Instrument* (NEI) and the e-market. The Ministry of Regional Development (MoRD) did not however pursue or evaluate this objective which the SAO had already pointed out in audit no. **13/24**²¹. The NEI full launch was delayed by two and a half years, originally having been meant to take eight months. Its creation cost the ministry more than **CZK 230 million** and its operation costs the ministry a further **CZK 4 million** a month. The SAO also discovered problems in the reliability of data and information in the individual information systems that make up NIPEZ. The MoRD had also not created an enterprise architecture²² which is a necessary pre-condition for the effective construction of complex ICT systems of which NIPEZ is one. The SAO assessed that NEI did not bring about the expected savings for the public budget of **CZK 5 billion**, as only minimal use was made of it contrary to expectations. This was caused in part by the fact that no legal obligation to use certified electronic instruments was implemented.

- In audit no. **15/12**, which was focused on information systems at the Ministry of Industry and Trade (MoIT), the SAO discovered that this ministry had 112 various information systems for about **CZK 345 million** under its jurisdiction in March 2015. The SAO focused on selected information systems valued at over **CZK 127 million** and stated that there is one of these IT systems that no one has ever used, another one the MoIT has not launched at all, and for another one it has paid increased costs even though it was not supposed to. The SAO evaluated the situation as inefficient, ineffective, and uneconomic spending of funds totalling **CZK 8.3 million**.
- In audit no. **15/17**, the subject of inspection was the JIM project (concerning the single collection place) which was to simplify and streamline the collection of tax, customs, and social and health insurance (see also the information in Part II.2 *State Revenue*). Payers were now to pay their mandatory contributions to a single place via a single form and thus effectively communicate with a sole institution instead of the current five. The JIM information system, which was to connect the information systems of the individual administrators for tax and insurance and thus ensure joint collection, never even began to be created, despite the fact that over **CZK 2.1 billion** was spent on ICT under the project in the years 2009–2015. The General Financial Directorate (GFD) instead used these funds for current expenditures for the acquisition, replacement, and maintenance of ICT. The project management did not even award a contract for creating the JIM information system, nor did it charge the Ministry of Finance or GFD with doing so, nor is there a complete draft of the architecture for this information system. The administrators of tax, customs, and insurance thus continue to keep records inefficiently and duplicate each others' work. The administration of tax and insurance was not successfully simplified.
- In audit no. **15/23**, the SAO assessed that the Ministry of Transport (MoT) acted in an unstructured manner in building and developing ISs, without making use of project management for informed decision-making in the first phase of the project. The SAO ascertained that the MoT had a total of 50 information systems of which the Ministry spent over **CZK 1.2 billion** for the five most important including for example the central vehicle register and central driver register. Despite this, it had no long-term strategy for creating its ISs and its information concept had only been drawn up formally. It only applied elements of project management at the moment the contract was concluded. The MoT's unstructured approach and method of procurement caused delays to the individual projects, failure to meet EU commitments in interconnecting ISs, and an uneconomical approach in the form of overusing procurement outside open competition. The new central vehicle register was not functional on the day of its required launch in 2012. Despite the fact that MoT accepted the vehicle register from its supplier without any objections, following launch it encountered numerous problems that ended up having to be dealt with at the Governmental level. For example, 800,000 incompatible entries remained in it. The MoT

21 Audit conclusion from audit no. 13/24 – *Funds spent on the project National infrastructure for electronic public procurement (NIPEZ) and purchase of selected commodities via e-market* was published in Volume 2/2014 of the SAO Bulletin.

22 Tool for planning, managing and developing the organisation not only in the area of ICT infrastructure. It includes all fundamental aspects of the organisation – business (strategies, procedures), information (meta data, data models), software (application software, interfaces, interconnection thereof), and technology (hardware, application and database servers, networks). Comprehensive approach to enterprise architecture substantially increases the efficiency and performance of the organisation.

concluded contracts totalling **CZK 392 million** with suppliers in negotiated procedures without publication (NPWP) for operating the register and other traffic administration without the legally defined conditions for use of NPWP being met, which the SAO evaluated as uneconomic handling of funds.

- In audit no. **15/31**, the SAO examined the building of several information systems in which the state collects data on state investments and subsidies, specifically IS EDS/SMVS, CEDR III and *DotInfo*²³. The SAO assessed that the unstructured development of the inspected ISs and errors in strategic management contributed to the situation that the information systems for which the Ministry of Finance (MoF) and GFD paid over **CZK 338 million** between 2009 and 2015 do not fulfil the purpose for which they were created. As was determined, the data in them are unreliable and multiple similar ISs all focused on subsidy information were built simultaneously. Automated transfer of data among systems also failed to be achieved and procurement took place without open economic competition. For example, even 20 years after it began to be built, IS CEDR III does not provide the correct and legally stipulated data on subsidies provided from the state budget to final beneficiaries. In this system, the GFD even had the SAO recorded as the provider of a subsidy of **CZK 278 million** though the SAO never provided any such subsidy, nor could it have legally provided it. Auditors demonstrated the incompleteness of data in the information systems by comparing the data on subsidies provided to ten non-profit organisations in 2013 and 2014. While in IS CEDR III, GFD recorded subsidies totalling of **CZK 2.8 billion**, in *DotInfo* the MoF recorded for the same entities subsidies of only **CZK 342 million**. Similarly, unreliable data are contained in IS EDS/SMVS, which for example at the time of the audit had on record 289 activities for a total of **CZK 10.5 billion** as incomplete, even though they had been completed. The expenditures for creating, operating, and developing the systems were not always spent economically, efficiently, and effectively.
- In audit no. **16/02**, the SAO checked the NIS IRS project, which was to make efficient the manner of communication between the basic components of the integrated rescue system during rescue operations. The costs for the project reached nearly **CZK 360 million**, and although the project improved the quality of communication among the basic components, it did not fulfil the important goal of unifying receipt of emergency calls. Instead, the current state persists, with six information systems with differing functionalities still being operated for receiving emergency calls. The Ministry of the Interior (MoI) caused failure to fulfil certain project objectives back at the project preparation stage, when it erroneously assumed it would be possible to manage and coordinate the projects in league with the Emergency Medical Services (EMS) run by the regions. However, legislation did not allow the Ministry to do this, as the issue of EMS falls under the independent jurisdiction of the regions, which it did not take into account when preparing the project.

As part of its inspection activity on the efficiency of public administration in 2016, the SAO also focused on the funds spent in connection with the preparation and holding of elections and the system of their organisational and technical implementation. In audit no. **15/36**, the SAO discovered that the state spent **CZK 2.3 billion** on preparing and holding five selected elections in the years 2009–2014. The SAO found shortcomings associated with the effectiveness, economy, and efficiency of elections as a whole in terms of coordinating preparation and holding of elections, the funding system and control of expenditures.

It was determined, for example, that approximately **14.6 thousand** personal computers were used by the pickup points of the Czech Statistical Office (CSO) and election riding committees, yet the eligible costs for leasing computer equipment were not limited in any way, as opposed for example to the marginal costs for acquiring USB flash drives.

23 EDS/SMVS – an information system that is to serve for management and record-keeping of returnable financial assistance and subsidies from the state budget provided for the acquisition or technical appreciation of long-term of tangible and intangible assets (EDS) and for the management and provision of funds from the state budget for the acquisition or technical appreciation of long-term tangible and intangible assets of the state (SMVS);
 CEDR III – an information system that is meant to keep records of subsidies provided from the state budget;
 DotInfo – an information system that is to be meant to allow searches for data associated with providers of subsidies and returnable financial assistance from the Czech state budget.

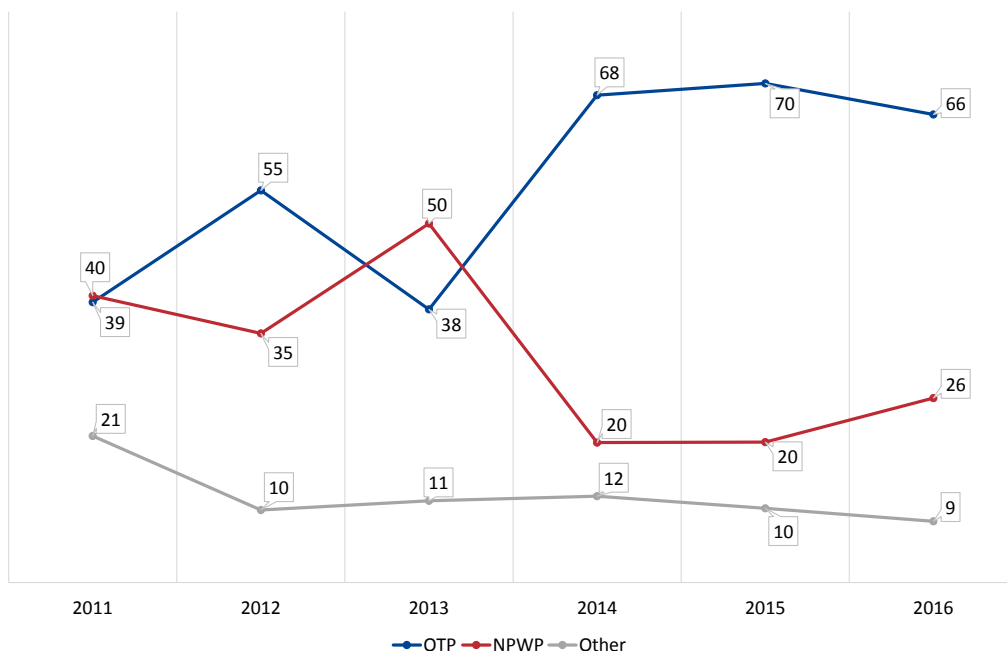
In the case of provision of similar activities for municipalities of the same level, significant differences were determined for example for other services where one statutory city purchased these services on average for **CZK 127** and another for approximately **CZK 14,500** per electoral district. What is more, the hand-off of election results from the electoral commissions continues to take place at pick-up locations that are positioned in such a way that their accessibility cannot be considered efficient. This was confirmed by a data analysis that made use of map and geodata material focused on three Czech regions. A positive fact that the SAO verified was the perceptibly lower expenditure (**by 90%**) for telecommunication services after transferring the obligation to provide for telephone connections for the elections in a decentralised manner by municipalities.

The results of this audit were taken up in November 2016 at a working meeting at the SAO with representatives of all auditees, i.e., MoI, MoF, and CSO. The main reason for the organisation of this meeting was the effort taken by the SAO to contribute as much as possible to positive changes in the audited area, as well as its effort to be a partner for auditees, not only in the period of inspection but in the following period as well. At the meeting, the representatives appreciated the recommendations of the SAO which in the future could also be reflected in the new electoral act.

The SAO also continuously monitored the overall state administration expenditure on ICT with the significant indicators being number and volume of public contracts. The SAO distinguishes between public contracts and concessions (hereinafter just “contracts”) in ICT based on approximately 1,000 CPV codes²⁴. In 2015, this comprised contracts valued at **CZK 22.2 billion** and for the first three quarters of 2016 the value of tendered contracts reached **CZK 8.6 billion**.

The following graph shows the percentage of public contracts tendered in a negotiated procedure without publication compared to the percentage of open tender procedures (OTP) and other procurement procedures.

Graph 11: Development of percentage of ICT public contracts tendered by ministries from 2011 until the 3rd quarter of 2016 in various types of procurement procedures (in %)



Source: SAO data warehouse, own processing.

It is apparent from the above data on contracts that even though there was a positive growth in the percentage of contracts awarded in open procedures in 2014 and 2015, it is still too early to assess whether the overuse of non-competitive procedures (NPWP) by public contracting authorities has been successfully restricted, particularly at the level of ministries or their subordinate organisations. We cannot ignore the fact that under the Government Council for Information Society (GCIS), 44 public contract plans to procure through NPWP were taken up in the *working group for negotiated procedure without publication* from November 2015 until November 2016, of which only three were not recommended. The expected value of projects presented in these plans totalled **CZK 9.1 billion** (VAT excluded), with the GCIS issuing a consenting opinion for 41 projects worth **CZK 2.6 billion**. The volume of funds of the unapproved plans was significantly affected by the project *Providing for Operation of an Electronic Toll System after 2016*, with a value of **CZK 6 billion**, which in the end was realised by the MoT under NPWP despite GCIS issuing a negative opinion.

In 2016, the Department of the eGovernment Chief Architect (MoI) assessed a total of 118 ICT projects with budgets reaching a total of nearly **CZK 20 billion**. It can be expected that these projects will be the subject of procurement procedures following a positive assessment. According to data from the state treasury, state expenditures for ICT reached roughly **CZK 10.5 billion** in 2015 in the 14 monitored chapters of the state budget, of which expenditures of central state authorities made up **CZK 6.5 billion**.²⁵ The complete data for 2016 were not available at the time this Annual Report was drawn up.

Recommendations

On the basis of the identified and assessed deficiencies, the SAO has formulated a number of recommendations. Below is a synthesis primarily of those recommendations that correspond to deficiencies emphasised above identified by the SAO in the area of ICT, not just in government departments but also in state enterprises:

- **Create ministerial information strategies and concepts tied in to the eGovernment strategic documents²⁶, current demands of cybersecurity and the expected benefits of shared services.**
- **In planning, procuring, and developing information systems, adhere to the architectural principles of the national architecture for public administration of the Czech Republic²⁷ which provide the groundwork for ensuring economy, efficiency, and effectiveness of ICT expenditures in public administration in both the short- and long-term.**
- **Take the step to draw up enterprise architectures which are a tool for planning, managing, and developing an organisation, not just in the field of ICT.**
- **Using project management for the processes of procuring and developing IS and in the case of the interdepartmental level, first create or modify the legal conditions that will effectively allow such a concept of project management.**

Adherence to the principles of the national architecture for public administration in the Czech Republic could, in the opinion of the SAO, help improve the situation and reduce the considerable financial volume of public contracts that are not subject to competitive types of tender procedure with regard to the persistence of vendor lock-in²⁸. In many cases this is caused by inappropriate and disadvantageous ICT solutions that do not correspond to the principles of technological neutrality or the principle of appropriately chosen licensing agreements for the software used.

²⁵ Selected items from the budget nos. 5042, 5162, 5168, 5172, 6111, 6125.

²⁶ Currently, these are the documents: *Strategy for Development of ICT Services in Public Administration*, adopted by Government Resolution No. 889 of 2 November 2015, and *Strategic Framework for National Cloud Computing – eGovernment Cloud Czech Republic*, adopted by Government Resolution No. 1049 of 28 November 2016.

²⁷ The Architectural Principles of the National Architecture of Public Administration of the Czech Republic are rules based on the objectives for development of eGovernment, specifically the *Strategy for Development of ICT Services in Public Administration* and their measures for streamlining ICT services, which were adopted by Government Resolution No. 889 of 2 November 2015.

²⁸ The effect of vendor lock-in consists of dependence of the customer on products or services of a specific supplier. This effect may be due to, for example, non-standardised product components that are protected by licensing rights.



The SAO assesses the systematic steps laid out in the *Strategy for Development of ICT Services in Public Administration* as correct, including the practical steps, consisting primarily of the methodological and assessment activities of the Department of the eGovernment Chief Architect (Mol).

3.2 Research, development and innovation – support has not yet resulted in greater practical use of the results of research, development and innovation or in raising the innovation potential of the CR to the necessary level

One of the priorities of government policy intended to help boost the innovation potential and competitiveness of the CR is support for research, experimental development, and innovation. The state tries to support research, development and innovation in a number of ways; special-purpose and institutional support rank among the key mechanisms.

In the previous year, the SAO as part of its long-term scrutiny of this Government priority completed audit no. **15/27** targeting special-purpose support for research, experimental development, and innovation (“RDI”) provided through the Technology Agency of the CR (“the Agency”), which ranks among the key providers of support out of state budget finances. The audit also addressed the question as to what impact the support for RDI out of public money has on the overall performance and potential of the CR in terms of the achieved results of the support and their practical application.

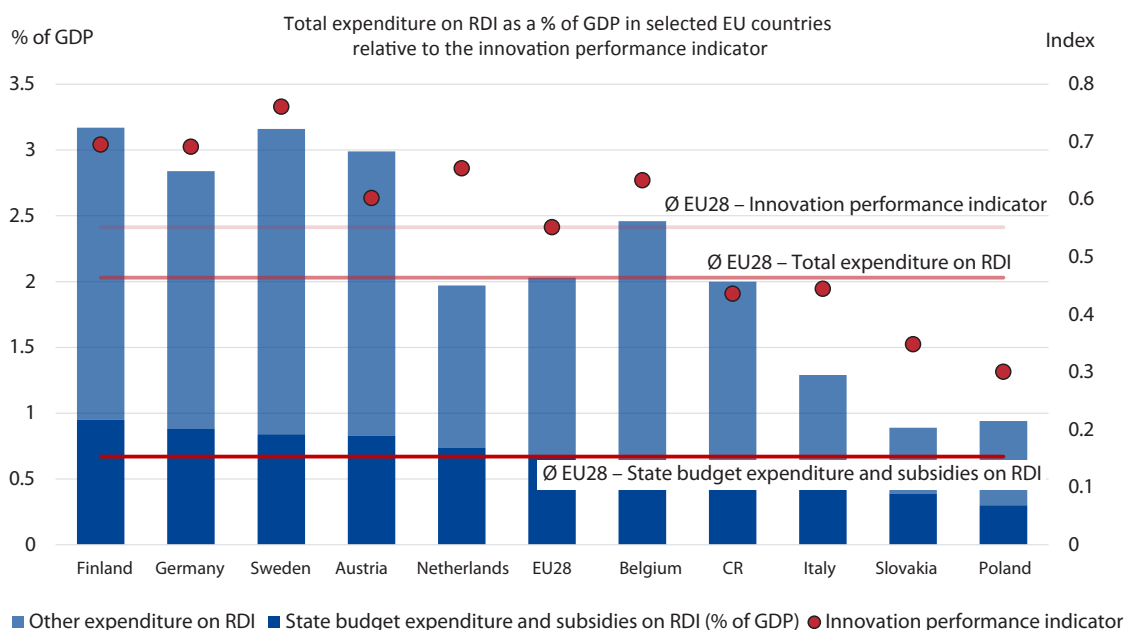
The results of the audit showed that the Czech Government provided almost CZK 11 billion through the Agency in the years 2011–2015, but use of the results of projects – which is principal purpose of the support, whether through the commercial exploitation of rights or the development of products and technologies and their sale on the market – founders in practice. The SAO found shortcomings in the Agency mainly in connection with non-transparent project selection and the lack of rigour in its demands that support beneficiaries comply with the subsidy terms. Even though the core of support through the Agency is supposed to be channelled into applied research, publication outputs such as articles in digests or periodicals made up a significant part of the results. The SAO’s other conclusions were as follows:

- The first projects supported by the Agency were completed in 2013 and the period for commercial use of the results has not yet elapsed. Out of 35 audited projects subsidised to the total sum of **CZK 208 million**, eight had been completed at the time of the audit and their results could be scrutinised. The audit found that the outputs of five of them were never put into practice; the outputs of one were put to partial use; and the use of project results were delayed in the case of two. Publication outputs made up the majority of the projects’ achieved results (as much as **44%**). The Agency knew that the projects’ results were not finding sufficient practical application. The Agency drew up an analysis looking at 378 plans for linking projects to practice. The analysis says that the expected or demonstrated economic benefit was highly disproportionate to the project costs in a number of cases.

The audit identified several areas of risk, which mainly included the assessment and approval of projects or the lack of rigour with which the Agency demanded that certain beneficiaries complied with the subsidy terms. These errors ultimately reduce the efficiency of applied research. The conduct of support beneficiaries also contributed to the delayed use of results in practice, with **72%** of contracts on the use of results not concluded properly and in good time. In some cases, the beneficiaries did not enter into any contracts at all. It was also found that the Agency did not proceed transparently when selecting some beneficiaries and evaluating some projects, especially when the first public tender of one of the support programmes was announced. **50** projects were recommended for support, and in the case of **17** of them the advisory bodies changed the order of projects.

International comparison also shows that support is not effective in terms of the achieved research results. The CR does not even reach the European average in the innovation performance indicator²⁹. International comparison of the innovation performance indicator shows clearly that the CR is below the EU average, even though the CR is comparable with the EU average (EU 28) in terms of “state budgetary expenditure and subsidies on research, development and innovation as a per cent of GDP”; see Graph 12. The graph also shows that the CR lags far behind the EU’s economic leaders in innovation (Sweden, Finland, and Germany), but also behind comparable countries (Belgium, the Netherlands, and Austria).

Graph 12: CR’s standing in RDI compared to selected EU countries in 2014



Source: SAO analyses based on Czech Statistical Office sources.

Recommendations

Based on its findings at the Agency, the SAO recommends minimising the risks that the benefits of supported projects are not achieved – this would increase the potential of applied research.

Further to the results of the audit and their discussion by the Czech Government, the Agency adopted measures to eliminate potential weak points in the support provision system, most notably measures to improve the project assessment system with a view to maximising effectiveness, transparency and objectivity; to boost the international aspects of assessment; and to strengthen project management’s internal capacities. It also moved to modify the conditions for beneficiaries concluding contracts on the use of project results.

In February 2016, the Government approved the updated *National Research, Development and Innovation Policy for 2016–2020*, under which greater emphasis will be placed in the coming years on supporting applied research for the needs of the economy and state administration. It is important that, in line with the SAO’s audit conclusions, the practical application of results and achieving the benefits of projects are deemed key by the Office of the Government of the CR as the central body overseeing the policy of support for research, experimental development and innovation. The SAO will continue to scrutinise the state’s support for research, experimental development and innovation, including the effectiveness of the adopted measures.

²⁹ The innovation union scoreboard is a key analytical tool for comparing European countries’ innovation performance (www.strast.cz). The scoreboard does not only apply to the Technology Agency of the CR, but to all providers of special-purpose support for research, development and innovation in the CR (seven ministries and two agencies).

3.3 Housing – non-functional tools for managing and coordinating state policy are the cause of the worsening situation in social housing

Housing policy is one of the priorities of government policy under the long-term scrutiny of the SAO. In the CR, this policy is based on the personal responsibility of the individual, while the state's role is supposed to be putting in place a stable environment strengthening this responsibility and supporting citizens' motivation to provide for their housing needs by themselves. But, in collaboration with municipalities, the state is supposed to put in place the conditions and tools to help those who, for objective reasons, are unable to provide for their own housing needs.

In 2016, the SAO completed audit no. [15/18](#), which focused on the provision, drawdown and use of housing support funds redistributed by the Ministry for Regional Development and the State Housing Support Fund ("SHSF") in the form of subsidies. In this context, the SAO also looked at certain housing policy tools and results, in particular in support for the construction of rental apartment for defined target groups of persons disadvantaged in their access to housing.

The SAO found that in 2011–2015 the MoRD and SHSF spent more than CZK 8.3 billion of public money on supporting housing and CZK 5.5 billion was disbursed out of *Integrated Operational Programme* finances. Even though the CR had spent almost CZK 138 billion of public money through various government departments from 1997 to 2012, the MoRD did not have functioning tools for pushing through the intentions of housing policy across departments and thus did not sufficiently carry out its coordination role. Yet, under the Competences Act, the MoRD is responsible for coordinating the activities of ministries and other central authorities of state housing policy, including coordinating the funding of these activities if it does not directly administer these funds³⁰. The MoRD has long subsidised the acquisition of apartments for persons disadvantaged in their access to housing but did not monitor whether the housing was actually used by these persons and did not even verify the need to acquire further such apartments. Other findings were as follows:

- As a result of the ineffective coordination role of the MoRD, for example, the *Social Housing Concept of the CR for 2015–2025* was approved by the Government in 2015 in a situation where the concept had been proposed by the Ministry of Labour and Social Affairs ("MoLSA") and approved, even though the MoRD did not agree with it because this concept insufficiently addresses the links to existing social and housing policy tools and does not demonstrate that the proposed system is realistic and financially sustainable. The SAO also found that the majority of the support administered and provided by the MoRD and SHSF lacked a sufficient system for assessing the goals and impacts of housing policy. From 1999 to 2015, for example, the MoRD provided subsidies under three programmes funded out of the state budget with practically the same substantive focus, but it did not assess progress towards the goals or the impact on housing policy in a single case. Even so, the MoRD commenced a fourth programme with the same focus and an extra subsidy title.

From 2003 on, the MoRD spent a total of CZK 4.9 billion on acquiring more than 9,000 rental apartments for defined target groups of persons disadvantaged in their access to housing. Applicants for subsidies (i.e., pensioners with reduced self-sufficiency, persons with a disability, persons leaving institutional facilities, children's homes, therapeutic communities, corrective facilities, etc.) did not have to prove their need for an apartment and the MoRD did not even monitor whether these apartments were actually used for the given purpose. On a sample of nine actions checked on the spot at the support beneficiary, for example, the SAO discovered that 18 of the 71 apartments were not let to disadvantaged persons. The SAO also found shortcomings in the form of large amounts of money the SHSF paid to banks for administering housing support, even though the SHSF was established for the purpose of

³⁰ Section 14 (2) of Act No. 2/1969 Coll., on the establishment of ministries and other central organs of state administration of the Czech Republic.

providing housing support. From 2011 to June 2015, this expenditure totalled CZK 471 million, i.e., 65% of the SHSF's total administration-related expenditure. In three out of nine audited subsidy beneficiaries the SAO identified breaches of budgetary discipline involving a total of CZK 8.6 million because the conditions of the subsidy provision decision were not complied with.

It is alarming that these shortcomings, apart from the SHSF's high expenditure on the administration of support, were detected by the SAO in an audit in 2010 (audit no. 09/24³¹). The measures implemented by the MoRD to remedy the shortcomings were ineffective and the shortcomings persisted. The above results and other SAO findings reveal that the execution of government housing policy is dogged by serious systemic problems. The main problems can be seen in the following:

- **the confused, extensive, fragmented, and uncoordinated nature of existing housing policy tools, including the system of funding from multiple sources – the issue of socially disadvantaged population groups cannot be addressed by partial measures (in particular, social housing support, social benefits and services and employment support must be coordinated);**
- **the absence of the state's effective coordinating role in managing housing policy, as this policy is carried out by the MoRD, SHSF, and other central authorities;**
- **the insufficiency of the system for evaluating the needs, benefits and impacts of housing policy.**

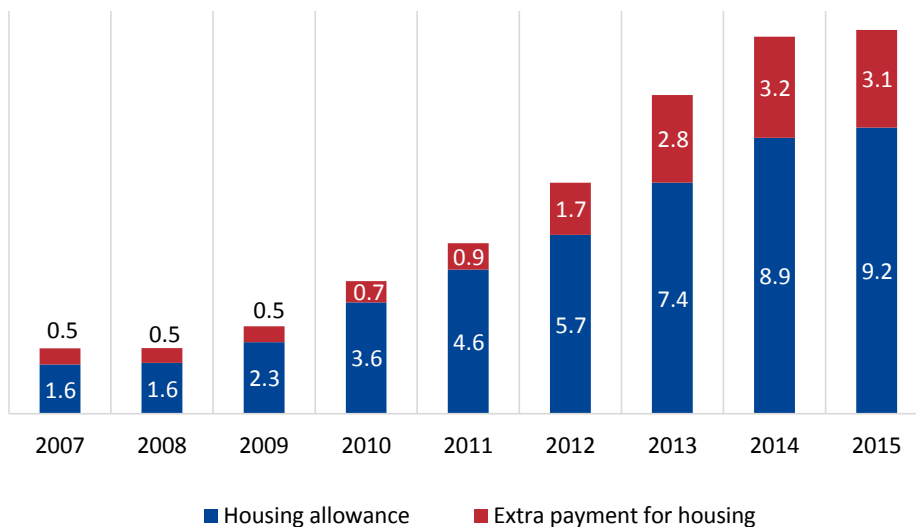
The negative developments in social housing documented by the above findings are backed up by the Government's own admission that the housing situation of socially excluded persons and those at risk of social exclusion has got worse since 2011³². The number of socially excluded localities has increased, the number of hostels has grown and "poverty business" has spread.

As both the SAO's analysis work and information from the closing accounts of the MoLSA budget heading for the given years showed, social housing policy is founded mainly on support through housing benefits and contributions. According to the ascertained data, the MoRD and SHSF spent almost CZK 14 billion on subsidising housing support from 2011 to 2015, i.e., on average CZK 2.8 billion per annum, while the MoLSA released over CZK 12 billion in extra payments and contributions in 2015 alone. The growing overall volume and numbers of housing benefits and allowances up to 2015 (see Graphs 13 and 14) are evidence that the causes of the problems are not being resolved.

³¹ Audit no. 09/24 – Funds earmarked for housing support programmes; the audit conclusion was published in volume 3/2010 of the SAO Bulletin.

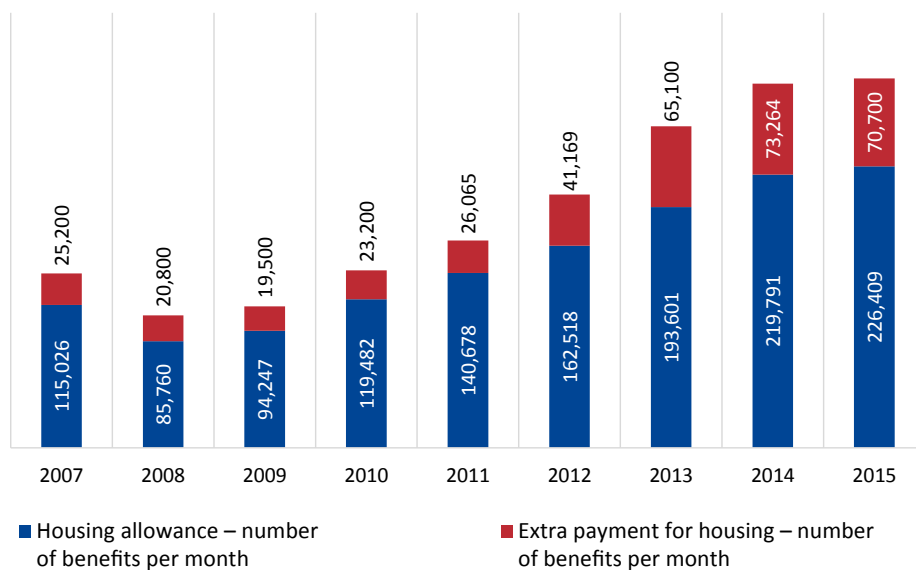
³² Report on the Implementation of the Strategy for the Fight against Social Exclusion for 2011 to 2015; approved by government resolution no. 133 of 23. 2. 2015.

Graph 13: Housing allowances and additional payments paid out in 2007–2015 (CZK billion)



Source: closing accounts of the MoLSA state budget heading for 2007–2015 and MoLSA statistical yearbooks on labour and social affairs.

Graph 14: Number of housing allowances and additional payments in 2007–2015 (number of benefits per month)



Source: closing accounts of the MoLSA state budget heading for 2007–2015 and MoLSA statistical yearbooks on labour and social affairs.

Recommendations

The SAO recommended that the MoRD designs an information gathering system for the programme focusing on subsidising the construction of supported housing for persons disadvantaged in their access to housing in such a way that, when a subsidy has been awarded, the MoRD can monitor whether the housing is actually used by the defined target group. In addition, a functioning system should be put in place for monitoring needs and evaluating the benefits and impacts of measures in housing policy.

Social housing support will be targeted by SAO audits in the coming period as well. The SAO has included audit no. 17/02 in the Audit Plan for 2017 this audit will mainly focus on whether selected social housing interventions have contributed to an effective solution to the causes of social exclusion or risk of social exclusion.

3.4 Transport – the goals of transport policy and the policy made more effective cannot be achieved until long-term problems in the development of transport infrastructure and services are resolved

The development of transport infrastructure and services and their effective working are fundamental preconditions for improving the economic environment, boosting competitiveness and improving quality of life for the population of the CR. Given the importance of the Government's plans in this area, the implementation of these plans is a focus of the SAO's systematic attention. The SAO sees a lot of room for improving the effectiveness of policies and delivering better value for money and quality.

In 2016, the SAO completed four audits targeting:

- the modernisation of the 3rd and 4th transit rail corridors (audit no. [15/14](#));
- public services in rail passenger transport (audit no. [15/22](#));
- the construction of the D8 motorway (audit no. [15/29](#));
- the modernisation of the D1 motorway (audit no. [16/06](#)).

The development of transport infrastructure is covered by the Government's main strategic and conceptual documents. The main ones are *Transport Policy of the CR for 2014–2020 with an Outlook to 2050* and *Transport Sector Strategies – Phase 2*³³.

In its audits, the SAO has long drawn attention to the failure to achieve the goals of transport policies, where important transport construction projects fall considerably behind schedule. The findings of these audits targeting transport investments confirmed this. The main reason applying to the building of transport infrastructure is the disproportionately long preparation time for construction work. Effective measures to shorten the preparatory phase have not been adopted, and the effects of Act No. 416/2009 Coll., on the acceleration of the construction of transport, water and energy infrastructure, which was meant to speed up zoning and building proceedings, have not materialised. The prolonging of construction projects has a negative impact on the efficiency of spending. Costs rise, so the benefits of the completion of construction projects are reduced or deferred.

- In audit no. [15/14](#) the SAO found that the deadlines for the completion of the modernisation of the 3rd and 4th transit rail corridors were repeatedly put back, with the deadline set originally for 2010 postponed till 2021. The modernisation is thus to take 18 years compared to the expected seven to eight years. The expected costs in 2011 were **CZK 188 billion**. In 2015, the MoT discarded two expensive sections to cut costs (Prague – Beroun and Nemanice – Ševětín, costing a total of **CZK 18 billion**). Together with a reduction in prices in award procedures, this reduced the costs to **CZK 94 billion**. No decision had been made what to do with these costly sections by the time of the end of the audit, and the costs may rise again. The prolonging of the projects had a negative impact on the efficiency of spending.

The main reason for the construction projects falling behind schedule was the disproportionately long preparation time, which lasted over six years for **30%** of projects, for example. The preparation of construction projects was held up mainly by ownership problems and problems obtaining zoning decisions and building permits. Only **71%** of the length of the 3rd corridor and only **59%** of the 4th corridor had been modernised by June 2015. The SAO already drew attention to the inordinate length of time and the putting back of deadlines in audit no. [09/19](#)³⁴, and the new audit showed that effective measures were not taken.

³³ *Transport Policy of the CR for 2014–2020 with an Outlook to 2050* is the government's principal strategic document for the transport sector. The document identifies the sector's main problems and proposes measures to resolve them. *Transport Sector Strategies – Phase 2* is a key strategic document for the operation and development of Czech transport infrastructure and is primarily a starting point for defining the goals of Operational Programme *Transport* for 2014–2020. The MoT is responsible for implementing the strategy.

³⁴ The audit conclusion of audit no. [09/19](#) – *Funds earmarked for railway infrastructure development* was published in volume 2/2010 of the *SAO Bulletin*.

- Similarly, in audit no. **15/29** the SAO found that completion of the D8 motorway, on which work began back in 1984 and was scheduled to take 15 years, is not planned until 2017³⁵. It will thus have taken 33 years to build 92 km of a motorway. The cost of building the last two sections of this motorway will exceed **CZK 38 billion**, which is 3.5 times more than envisaged in 1993 and twice as much as envisaged in 2003. The SAO had already stated in audit no. **06/03**³⁶ that the economical construction of the D8 motorway was complicated by the lengthy zoning proceedings and long-standing conflict between the public interests of sustainable societal mobility and conservation of environmental stability.

When preparing the construction of section 0805 near the Dobkovičky municipality, the Roads and Motorways Directorate underestimated how complicated the terrain the section passes through would be. A landslide that damaged a completed part of the motorway and the parallel railway line in 2013 complicated the completion of the motorway but was not the sole reason for putting back the completion date. Another reason was the court dispute on the path of the motorway that has been going on for seven years. At the time of the SAO audit's completion, i.e. more than 2.5 years after the landslide, the land still had not been remediated. The MoT did not commission an analysis of the causes of the landslide until February 2016. In this context, the SAO drew the MoT's attention to the danger of delay when claiming compensation for damages.

- In audit no. **16/06** the SAO stated that the Roads and Motorways Directorate failed to prepare the reconstruction of the D1 motorway in a conceptual manner to ensure that it is completed in good time before the subsequent preparatory work begins. The Roads and Motorways Directorate was still drawing up conceptual materials when building proceedings were underway and even when the first construction work was being done. The modernisation of the D1 motorway will be completed in 2020 at an expected cost of approx. **CZK 21 billion**, i.e., at least two years later; the exception is the Šmejalka bridge (section 01), which is due for completion by 2022. The SAO draws attention to the risk that this deadline will be missed as the most complicated and costly construction work mounts up in the last years of the modernisation project. A fundamental portion of the average annual benefit of **CZK 1.8 billion**, calculated for 2019 in an economic impact study from 2012, will not be achieved until 2021. 34 km out of a total of 161 km was completed by the end of June 2016.

The cost of transport construction works is significantly increased by the low standard of management and control work by the responsible authorities, in particular poor-quality preparation of projects, ineffective price control and deficiencies in public procurement. The inadequate assessment of whether envisaged costs and technical solutions are justified, deviations from price standards, and differences between expected and actual costs continue to be a problem. The objectivity of assessing cost changes can also be influenced by cases where the responsible authority leaves technical supervision over construction projects to the author of the project documentation. The positive impact of a competitive environment on delivering lower prices for the state is underestimated as well. It is obvious that eliminating these shortcomings can lead to significant cost savings and improved efficiency in the construction of transport infrastructure. That is borne out by the following examples:

- When approving the investment plans and projects for the 3rd and 4th rail corridors, neither the MoT nor the Railway Infrastructure Administration effectively checked whether the expected modernisation costs were justified. The SAO performed a guideline valuation of the construction costs of the audited projects and compared them to actual costs: it found that the deviation from price standards ranged from **-13% to +156%** (the cost per kilometre ranged from **CZK 117 million to CZK 352 million**). The MoT only decided on the binding use of valuation checking tools in the form of price standards from February 2015 onwards. Cases where the Railway Infrastructure Administration reduced costs because their level was unacceptable shows that it

³⁵ In the end, the final section was opened early in December 2016.

³⁶ The audit conclusion of audit no. 06/03 – *Funds earmarked for development of Motorway No. 8* was published in volume 4/2006 of the SAO Bulletin.

is possible to cut costs or look for cost-cutting solutions. In the case of one project, for example, the reduction in expected costs was **CZK 1.1 billion**, i.e., **27%** (audit no. [15/14](#)).

- The alternative reconstruction of the D1 motorway was not clarified before the preparation of the first construction works was launched, and the Roads and Motorways Directorate was still weighing up alternatives when four construction works were already underway. It was not objectively demonstrated that the adopted modernisation alternative provides better value for money. In the case of modernisation projects launched in 2015 and 2016, there was an increase in average cost per kilometre from **CZK 74 million** to **CZK 128 million**, i.e., **73%**, over that of projects commenced in 2013, yet according to the valuation in project documentation the cost was just **25%** higher. This increase shows that the tenders for contractors failed to deliver the best prices for the state. The SAO also pointed out that the objectivity of the assessment of changes during the construction work could have been compromised by having technical supervision for the investor (the Roads and Motorways Directorate) done by the actual authors of the project documentation (audit no. [16/06](#)).

The MoT did not achieve its goal to open up the market in public services in rail passenger transport. It thus failed to put in place the right conditions for the economical and efficient use of state budget finances provided for transport services in the form of passenger trains. The SAO regards the opening up of the market to competition as a major opportunity for optimising state expenditure on compensating for losses from the operation of trains in the public service of transporting passengers and for improving the quality of services for passengers. In audit no. [15/22](#) the SAO reached the following conclusions:

- In its transport policy for 2005 to 2013 the MoT set a target of **10%** of passenger rail transport services to be provided by transport firms other than Czech Railways by 2013. This target was not achieved. In the follow-up transport policy for 2014 to 2020³⁷ the ministry modified the plan so that the **10%** of passenger rail transport services is to be achieved on the basis of bids or on the open market. The current state of affairs indicates that this goal will not be achieved either. In 2015, all trains providing state passenger services were operated solely by Czech Railways. Additionally, the MoT failed to resolve the unification of the recognition of documents and the provision of equal conditions for all potential transport firms.

The MoT paid Czech Railways on average **CZK 6.7 billion per annum** for the provision of passenger rail services from 2010 to 2014, either directly or through the regions. The transport service plan³⁸, through which the MoT carried out transport planning, was not an entirely objective and transparent basis for specifying state budget finances for delivering state transport services. Most notably, it did not contain a definition of the expected extent of compensation for the operation of long-range transport routes linked to the specifically defined transport services provided on these routes. From 2010 to 2015, the MoT did not once check the correctness of the reported loss from the operation of Government-ordered trains. Yet transport performance fell by **12.5%** from 2010 to 2014 and the loss reported by Czech Railways per train-kilometre grew by **12.7%**.

The implementation of key transport policy objectives was also addressed by the SAO's opinion on the draft state closing account for 2015. Based on the results of its audit and analysis work, the SAO stated the following in its opinion:

- **The goal of stabilising sources of transport infrastructure funding is not being achieved.** In *Transport Policy of the CR for 2014–2020 with an Outlook to 2050* (and also in the previous period of 2005–2013), the MoT specifies that the operation, maintenance, and development of transport infrastructure requires stable funding at a level of 2.5% of GDP. This target was not achieved in 2010–2015, which could have a negative impact on the future state of transport infrastructure.

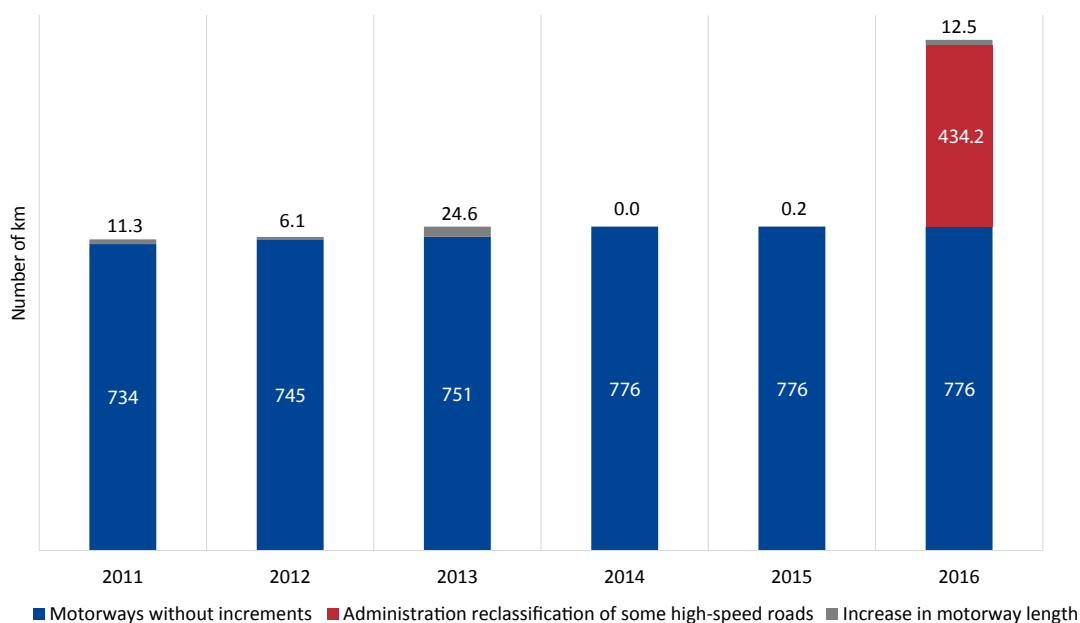
³⁷ Transport policy for 2014 to 2020 was approved by Government resolution no. 449 of 12 June 2013.

³⁸ *Plan for National Transport Service by Train – principles of commissioning long-range transport for 2012–2016.*

- **The goal of shifting part of goods transport from road to other modes of transport, i.e., the railways and waterways, is not being achieved.** According to the *White Paper* for European transport policy for 2012–2020, **30%** of road goods transport is to be switched to other modes of transport by 2030. The CR is not on the way to achieving this target: in fact, the trend is going in the opposite direction, as the share of goods transported by rail fell between 2012 and 2015 while the share of road goods transport increased.
- **Slow development of transport infrastructure and high costs.** The results of audits show that the Government is failing to achieve the objectives of key strategic documents (*Transport Policy of the CR for 2013–2020 with an Outlook to 2050* and *Transport Sector Strategies – Phase 2*). The lengthy preparation of transport construction projects makes them more expensive and causes delays in the drawdown of European funds. In its opinion, the SAO stated that the average duration of preparatory work for motorway construction is 12 years in the CR, while the duration is just half that in Austria, for example. The average construction cost per kilometre of motorway in the CR between 2000 and 2012 was **CZK 355 billion**, while in Germany it was **CZK 260 million**, i.e., **27%** less. The application of the amended Environmental Impact Assessment (EIA) legislation has become a serious problem, resulting in almost 100 major transport construction projects being stopped. Under the exemption agreed with the European Commission, only ten transport construction projects are to be executed. That poses a fundamental threat to the drawdown of investment finances from the *Transport* operational programme and state finances.

The unsatisfactory development of transport infrastructure is evidenced by the situation in motorway network construction, for example: the density of the motorway network in the CR still lags behind that of advanced European countries. Graph 15 shows how the total length of the motorway network changed from 2011 and 2016 and the lengths of the new sections of motorways put into operation. The graph shows that the CR had **1,223 km** of motorway at the end of 2016. However, the biggest factor in the overall increase in the length of motorways in this period was the administrative reclassification of the greater part of high-speed roads as motorways as of 1 January 2016, affecting a total of **434 km**. New motorways put into operation in this period accounted for just **55 km**. Not a single kilometre of motorway was put into operation in 2014 and 2015.

Graph 15: Total length of the motorway network and lengths of new sections of this network, 2011–2016 (km)



Source: Ministry of Transport 2015 transport yearbook, Roads and Motorways Directorate.

The target state of the motorway network in the medium to long term was supposed to be 2,180 km, according to the MoT's development plans. If we take into account the rate at which new sections of motorway were opened in the years 2011–2016, which comes out at on average 9 km per year if the administrative reclassification of part of high-speed roads is excluded, at the current rate of motorway building it would take the CR over 100 years to achieve the planned state of the entire motorway network.

Recommendations

The unsatisfactory state of affairs in the development of transport infrastructure and services led the SAO to propose a number of recommendations that the appropriate responsible authorities should act on to improve the situation. The main recommendations are:

- **in the field of rail and road infrastructure development**
 - when approving investment plans and projects, the justification of the envisaged technical solutions and the scope and costs of construction should be checked;
 - a decision should be made as soon as possible on a definitive solution for the two sections of the modernisation of the 3rd and 4th rail corridors;
 - systemic measures should be drafted to reduce the risk that shortcomings in the preparation and construction of transport projects, and in particular major projects, will be repeated;
 - the course of the clear-up of the landslide on the section of the D8 motorway should be assessed and standardised procedures should be drafted for responding to equivalent incidents;
 - the big differences between the valuations of unit prices for work in project documentation and the bids of the winners of public tenders for contractors for construction work for the modernisation of the D1 commenced in 2013 should be analysed and the causes of these differences should be pinpointed, so that this information can be put to use when preparing construction work and future tenders with regard to the large increase in construction costs from 2013 to 2016;
- **in the field of public services in passenger rail transport**
 - in order to ensure that reported losses are transparent, a single set of methodological rules should be drawn up for the reporting of costs, revenues and operating assets – these rules would apply to all potential transport firms, including those in regional transport ordered by the regions;
 - the market should be opened up to competition – the SAO regards this as an effective tool for optimising the compensation demanded by transport firms for the operation of trains as part of public service in passenger transport;
- **in strategic management**
 - compliance with approved strategic documents should be ensured, including regular and expert updating of these documents;
 - there should be long-term monitoring and assessment of the defined goals and the goals should be made binding on the various transport infrastructure administrators.

Further to the results of audits, recommendations, and developments, the SAO commends the fact that the MoT, Roads and Motorways Directorate, and State Transport Infrastructure Fund responded to the SAO's findings and recommendations by adopting a number of appropriate measures to remedy shortcomings. For example, the MoT adopted measures for the regular monitoring of the state of transport construction preparations in terms of investment and ownership; this monitoring will be used to analyse additional possible ways to speed up preparations and draft legislation. Under another measure, the State Transport Infrastructure Fund should prepare a catalogue for the valuation of railway construction projects at the planning level and documentation for zoning decisions. The MoT also adopted a measure consisting in the drawing up of general procedures for

responding to extraordinary incidents and the Roads and Motorways Directorate will conduct an analysis of the effectiveness of measures minimising the risk of further landslides. The MoT is also preparing methodologies for the reporting of costs and revenues from the operation of public rail transport.

The SAO also welcomes the fact that the State Transport Infrastructure Fund commissioned the drawing up of price standards that would help bring investments in transport infrastructure under control and the fact that the MoT ordered that these standards must be binding. In line with its recommendations, the SAO also commends the approval of Act No. 49/2016 Coll., due to enter into force on 1 May 2016. The amendment should speed up the preparation of transport construction projects, as the same conditions for buying land should apply right across the CR, and the state should save money compared to the present situation.

The identified long-term problems in the development of transport and the ineffectiveness of measures in the past are serious reasons for the responsible authorities to devote maximum attention to the execution of the adopted measures, which should contribute to positive changes in progress towards the Government's transport plans and should improve the CR's competitiveness.

3.5 Enterprise – the standard of assessment and evaluation of the actual results of state support and the overall efficiency of state support must be improved

In the context of boosting the competitiveness and innovation performance of the Czech economy in line with European and national strategic documents³⁹, another priority target for the state's interventions is enterprise, i.e., the formation and development of firms, employment, innovation, and the application of the results of science and research, energy efficiency, and the development of the environment and services for enterprise. This is a government policy area that touches on many government departments, so the SAO's findings from its scrutiny of other government policy areas, e.g., state revenues, eGovernment, and support for research, development, and innovation, also apply to the results of efforts to implement the Government's priorities.

For example, the Government perceived a need to create the kind of environment that would not needlessly constrain enterprise with administrative burdens and would enable greater use to be made of electronic communication with offices. It has also had a long-term focus on promoting an innovative economy by supporting research, development, and innovation. As the results and assessments presented in other parts of this Annual Report show, the following have been the main failures to date:

- **the failure to cut the paperwork associated with tax and insurance premium administration; other measures have been introduced, but in the SAO's opinion, there has been no economic evaluation of them in terms of benefits and total cost (see Section II.2 *State revenues*);**
- **the failure to make good use of eGovernment with regard to the mediocre results achieved in providing digital public services (see Section II.3.1 *Efficient public administration and eGovernment*);**
- **the failure to make good use of the results of research, development, and innovation and their commercial application, where the research results centred on publishing outputs (see Section II.3.2 *Research, development and innovation*).**

State support channelled mainly into enterprise was covered by audit no. **16/01** in 2016. In this audit, the SAO scrutinised how the Ministry of Industry and Trade ("MoIT") managed and achieved the goals of operational programme *Enterprise and Innovation* ("OPEI"), which was one of the principal tools for enterprise support in the years 2007 to 2015. **CZK 84 billion** of European and national finances was spent on supporting enterprise through this programme.

39 Most notably *Europe 2020* and national reform programmes.

Even though the subsidies had a positive impact on the supported enterprises, the way in which the objectives were designed, evaluated, and checked did not make it possible to prove what effect the support had on boosting the CR's competitiveness and innovation performance.

Other important points:

- What was particularly problematic was the design of the programme's global objectives and some partial goals, which were so general and indeterminate that they could not be evaluated. Regarding objectives that could be evaluated the SAO stated that the majority were achieved or partly achieved. Another fundamental finding of the SAO was that in most cases the MoIT did not bind beneficiaries to achieve actual results, i.e., benefits of support in the form of increased sales or new jobs created, for example. Most of the projects' binding outputs took the form of acquired machinery, buildings, or equipment. The decoupling of projects' outputs and results, where the mere execution of a project does not automatically deliver the required benefits, was documented by the SAO using the example of the building of an information technologies centre in Slavičín with a subsidy of **CZK 30 million**. The binding indicator was fulfilled by the fact that the subsidiary beneficiary built the centre with the required floor space. The result, or benefit, should have been that five innovation firms would be based in the centre, 35 new jobs would be created and the centre would cooperate with universities. The MoIT defined these results as non-obligatory, however. The SAO discovered that none of these benefits was delivered. The aforementioned decoupling of outputs and results could result in some of the programme's money being spent inefficiently.

The MoIT only monitored project results for the purposes of evaluating OPEI, without checking that they were accurate. That was the case with job creation, for example, where the SAO identified serious deficiencies in reporting. The actual number of jobs created is consequently many times lower than the stated **48,000**. The SAO's audit also found shortcomings in project assessment, tenders, expenditure eligibility, and the way the applicants' ownership structures were proven for the purposes of assessing the entitlement to subsidies. The MoIT's control system failed in approx. every fifth project audited by the SAO. Some of the support for improving energy efficiency was channelled into non-industrial fields, such as hotels, which was at odds with the focus of OPEI. The SAO regards these projects as ineligible. This shortcoming involves a sum of as much as **CZK 1.6 billion**.

Recommendations

In connection with the findings, the SAO regards the following measures as essential for improving the effectiveness of enterprise support policy:

- **formulating programme goals in a way making it possible to judge unequivocally whether they are achieved;**
- **make subsidies conditional not merely on the execution of projects but on achieving the declared benefits.**

The results of this audit were not discussed by the Czech Government before the end of 2016. It is evident that these recommendations have general validity for other programmes as well where the spending of public money must be efficient.

3.6 Employment – systemic overvaluing of the investment incentives budget for job creation did not encourage savings of public money; the tools of the policy for the employment of persons with a disability should be targeted at their employment on the open labour market

The SAO conducted two audits that addressed employment support in 2016, focusing on:

- investment incentives as an active labour market policy tool (audit no. **15/20**);
- the creation of equal opportunities for persons with a disability (audit no. **16/11**).



Among both the expert public and politicians, the issue of the need for investment incentives is a widely debated topic from the point of view of their fiscal and economic benefits and impacts on the job market. Numerous analyses and studies have tried to quantify these effects, but with no clear result. In 2016, the SAO focused on the system of investment incentives in the CR, how they are funded and what benefits they have delivered. In audit no. [15/20](#) the SAO sought to discover how the MoLSA and Labour Office of the CR spent state budget money to create new jobs and on retraining and training through investment incentives and what impact these interventions had.

The audit results revealed that from 2012 to 2014 the MoLSA annually overestimated the investment incentives budget for job creation to the tune of hundreds of millions of Czech crowns and on average just 10% of it was utilised every year. Expressed in figures this means that from 2012 to 2014 the MoLSA provided the Labour Office of the CR with CZK 1.4 billion, only CZK 279 million of which was used for investment incentives. The MoLSA used the unused funds for other purposes. It transferred half to claims from unused expenditure and half on salaries, for example, for the employees of the Labour Office, the CSSA, etc.

- The SAO also scrutinised 15 beneficiaries of investment incentives which created and filled a total of 4,916 new jobs between 2003 and 2013 having received material support worth almost **CZK 802 million**. One job created with the help of investment incentives thus cost on average **CZK 163,000** but the impact on the investment incentives on the rate of employment cannot be evaluated categorically, as they are just one of the active labour market policy tools. Job creation is also supported by other subsidy programmes; the new jobs are not only filled by unemployed candidates; and other jobs are scrapped while the new jobs are created. Unemployment fell from **8.6%** to **6.5%** between 2012 and 2015, but the number of registered job-seekers out of work for more than one year rose from **186,000** to **211,000**.

The main priority of employment policy and the purpose of all types of state budget support in the field of the employment of persons with a disability is to support their access to employment or to facilitate their entry onto the open labour market, and thus their inclusion in majority society. The way the legislation is currently designed, it is mainly tools supporting the employment of persons with a disability on the sheltered labour market that are used, which does not result in their inclusion in majority society. Even though state budget spending on the employment of persons with a disability grew from CZK 3 billion in 2010 to CZK 4.4 billion in 2015, none of the supported tools managed to reduce the proportion of disabled job-seekers among job-seekers registered with the Labour Office of the CR. This fact, along with other findings, was stated by the SAO in a further audit of employment (audit no. [16/11](#)), focusing on scrutiny of the system for providing support to firms employing persons with a disability:

- Neither the concept of employment policy nor the related strategies drawn up by the MoLSA set any specific, measurable goals for the employment of persons with a disability that would make it possible to evaluate progress towards them. The provision of the claim-based allowance pursuant to Section 78 of Act No. 435/2004 Coll. did not contribute to achieving the principal objective, i.e. the placing of persons with a disability on the open labour market and their integration into majority society. The provision of this allowance ultimately supported the formation of new employers specialising in employing persons with a disability and the concentration of persons with a disability on the sheltered job market. From 2010 to 2015 the largest proportion of money (as much as **96%**) was disbursed to employers active on the sheltered labour market. Other mechanisms intended for employers active on the open labour market (contribution to the establishment of a sheltered job and partial coverage of its operating costs, funds for work rehabilitation) were used only marginally. Another form of support for the sheltered labour market is “alternative performance”. This means securing sales of products and services from employers where persons with a disability make up over 50% of the workforce. In practice, there is still “re-invoicing” of products and services, i.e., the provision of “alternative performance” by the sale of goods or services from producers and suppliers that do not meet the 50% condition; the basic principle of this form of support, i.e. guaranteeing sales of the products and services of employers over half of whose employees are persons with a disability and the resultant creation and maintenance of jobs for disabled persons by means of the provision of an advantage for their employers on the labour market, is therefore not fulfilled.

Recommendations

Based on the problems identified in the budgeting process for investment incentives for employment, the SAO recommended that the MoLSA issue a methodology that will help the Labour Office of the CR, in cooperation with CzechInvest, the enterprise and investment agency, intensify communication with investors in order to find out how realistic the utilisation of material support is in the given calendar year. The MoLSA should take this information into account when budgeting the expenditure on support. The SAO is thus trying to help ensure that budget heading administrators compile expenditure budgets correctly, accurately and realistically and are motivated to save state budget finances.

As regards the provision of support for the employment of persons with a disability, the SAO recommends focusing mainly on improving the situation in the achievement of the overriding objective (i.e., the placing of persons with a disability on the open labour market) and also on making greater use of finances provided from active labour market policy sources intended for employers operating on the open labour market.

3.7 Agriculture – the MoA provided subsidies for training and consulting without a clear idea of what it wanted to achieve and did not track what benefits this support delivered

The main question the SAO keeps focusing on is whether the state's interventions genuinely deliver what the state needs and whether the acquired value is in line with the state's and its citizens' needs, including from the point of view of how economically the money is spent. If this support is to be effective and efficient, it must be based on a comprehensive strategy, accurately targeted at the necessary areas and distributed on the basis of clearly and correctly defined principles and conditions. Assessing them from the perspective of the expected benefits and effects is no less important. These basic principles are very often not adhered to in practice by the audited entities, however. That fact is evidenced by the results of audit no. 15/09, which sought to answer the question as to what the state gains by providing European subsidies from the *Rural Development Programme* ("RDP") and finances from national subsidy programmes for training, advice, and promotion in the MoA department.

The MoA lacked a comprehensive idea of what it wanted to achieve by supporting training and advice services, yet it spent CZK 1.4 billion doing so over eight years (2007 to 2014). The insufficient evaluation of the impacts and benefits of this support meant that the MoA often did not know what it was getting for the money provided. In the SAO's opinion, funding this kind of activity without a system for assessing the qualitative benefits of the provided subsidies is contentious and both the practicality and the economy of the money spent are dubious.

- From the perspective of multi-source funding, the area of national subsidies, including subsidies to non-Government non-profit organisations ("NGOs"), came out worst. The MoA did not have a comprehensive strategy for training and advice services under national subsidy programmes. The MoA paid out subsidies without any rules for selecting applications and determining the subsidy amounts. That was the case with educational programmes for children, for example, where the costs per participant differed hugely, ranging from **CZK 30** to **CZK 1,400**. There was a different situation with the provision of RDP subsidies, where they were clear rules and procedures but the targeting of the support was problematic, as it did not reflect genuine needs. That made it possible to finance almost any educational or advisory activity. In addition, the MoA did not verify and assess the quality of the providers of education and advice services or the content of the educational activities.

In the case of national subsidies, the MoA was not able to justify the need to support regional information centres ("RICs") tasked with providing free information on agriculture and rural development. Between 2007 and 2014 it provided these centres with over **CZK 45 million** without having verified the need for the support. Interest in the centres was negligible: the Central Bohemian Region RIC, for example, provided just 35 personal consultations between

2010 and 2012. The price of one consultation thus came to **CZK 11,000** in 2010 and **CZK 4,500** in 2011 and 2012. The SAO is of the opinion that the tasks carried out by RICs can be fully handled by the existing advisory institutions in the MoA department. This example demonstrates that the MoA failed to take into account the efficiency and economy of spending when providing the support.

In the context of both the RDP and the national subsidy programmes the MoA was not interested in what the supported educational or advisory activity actually brought the participants. The MoA did not have a high-quality and functioning system for assessing whether the purpose and benefit of national subsidies were being fulfilled and did not monitor either the effects or the impacts of the support provided. It did not have a clear idea of what it wanted to provide money for and what it wanted to achieve.

Recommendations

The state of affairs in this area and, above all, the results of audit no. **15/09** led the SAO to formulate the following recommendations:

- **for the RDP and national subsidies, an assessment of the benefits of educational and advisory activities should be introduced so it is clear what effects the provided subsidies and support deliver;**
- **in the case of national subsidies to NGOs, a uniform, more detailed form of submitted projects should be introduced so it is possible to perform high-quality verification and evaluation; detailed rules on expenditure eligibility should be defined.**

The adopted measures should put in place the right conditions for preventing a repetition of these shortcomings. The SAO welcomes the fact that the MoA adopted a new education concept for the 2015–2020 period and in December 2016 adopted an advisory services concept. In addition, it will unify procedures for providing subsidies and modify the rules for project selection and execution and the system for providing and checking subsidies to NGOs.

Money spent in the form of subsidies for promotional activities in the MoA department was also scrutinised in audit no. **13/36**⁴⁰, focusing on communication campaigns for agricultural products. Based on the results of this audit, the SAO recommended that the MoA re-evaluate the strategy for managing support in this area, design the support goals in a way making it possible to assess their impacts and benefits for the target groups, and assess the degree to which the activities' objectives were achieved before designing and executing new support.

3.8 Culture – the use of finances needs to be based on a concept, transparency and assessment of progress towards the required goals

Caring for the nation's cultural heritage is an important task for every advanced country. This undoubtedly encompasses monuments with national cultural and historical significance and supporting cultural life per se. In the field of culture, the SAO tries to ensure that its audits systematically cover both investment in care for real estate and movable property of exceptional cultural and historical value and subsidies to support other areas of culture, such as cinematography.

Care for cultural monuments is covered by the Ministry of Culture ("MoC") through programmes funded out of the state budget. The SAO has for long drawn attention to systemic shortcomings in the work of ministries as the administrators of asset replacement programmes. The concepts that are supposed to underpin the programmes are poorly devised: they often do not contain an assessment of the current state and the desired state and they do not define actual needs and priorities. When the concept is unclear, programmes and sub-programmes cannot become an effective tool for delivering the defined objectives in the area in question. Both timings and financial parameters are frequently altered. The

⁴⁰ The audit conclusion of audit no. 13/36 – *Funds spent on services aimed at the support of agricultural products and food on the local market* was published in volume 3/2014 of the SAO Bulletin.

SAO pointed out equivalent shortcomings in the MoC in audit no. 11/05⁴¹, which scrutinised funds earmarked for national cultural treasures, and again in 2016 in audit no. 15/40, focusing on programmes to rebuild, modernise, repair, and maintain state cultural and historical items:

- When scrutinising money earmarked for the renovation of heritage sites, the SAO discovered that programmes and sub-programmes have received funding for 13 years without the MoC evaluating their benefits. In two audited programmes, 559 actions worth over **CZK 5 billion** were executed. The conceptual materials drawn up by the MoC dealt with the development and renewal of the material and technical conditions of state cultural facilities only marginally; neither the current nor the desired state was assessed; and no priorities, investment requirements or parameters were defined. The selection of actions for execution was not transparent and clear rules were not set for selection. Selection was not based on needs and priorities defined by the MoC but on the requirements of contributory organisations established by the ministry. Scrutiny of 14 selected actions that received more than **CZK 820 million** in funding found that the execution deadline was extended for **11** audited actions and total costs were increased for **10** actions.

In 2016, the SAO focused both on state finances provided to culture through investment programmes for the renovation of heritage sites and on the provision of subsidies from the State Cinematography Fund (“the Fund”) to support cinematography and film incentives. The results in both areas are similar. The procedure followed by both the MoC and the Fund when providing finances was not transparent and was not based on clear concepts making it clear what was meant to be achieved.

- In audit no. **15/28** the SAO audited property and finances worth **CZK 4.7 billion**, **CZK 518 million** of which was paid out on incentives and **CZK 136 million** on cinematography support. In this audit the SAO found that the Fund issued a long-term concept for cinematography support more than two years after the Fund was set up. This concept for 2014–2019 did not contain any specific and measurable goals or indicators for assessing progress towards these goals, so it was not clear what the Fund wanted to achieve in its support for cinematography. The SAO also focused on decisions to award support to cinematography and stated in several cases that the project assessment process and subsequent distribution of finances were not transparent. The SAO also drew attention to shortcomings such as unjustified different conditions for support beneficiaries and insufficient control work, both in the administration of cinematography support projects or subsequently in the supervisory board, whose principal task was to check cinematography support projects. The Fund also awarded support to entities that had demonstrably not fulfilled the defined conditions in the past, which the SAO regards as risky, and paid out a total of **CZK 800,000** to two beneficiaries that did not properly submit the necessary documents.

Recommendations

Based on the shortcomings identified and assessed in audit no. 15/40, the SAO formulated a number of recommendations that should contribute to high-quality selection of actions and improve the working of programme financing in the area of state cultural facilities:

- **the current state of affairs should be assessed and compared with the desired state of cultural facilities under the authority of the MoC; priorities, investment requirements and time parameters should then be based on the results of that work;**
- **clear criteria should be defined for selecting actions for execution;**
- **when programme execution is set back, the programmes should be regularly assessed;**
- **there should be a link between the parameters in programme documentation and the parameters of the various executed actions;**
- **executed actions should be assessed in good time.**

⁴¹ The audit conclusion of audit no. 11/05 – *Funds earmarked for the Programme for the Care of National Cultural Treasure in State Ownership* was published in volume 1/2012 of the *SAO Bulletin*.

In connection with the findings of the previous audit, which also confirmed that the MoC was not rigorous in its approach to programme administration, the SAO sees these recommendations as measures to improve the identified state of affairs. The SAO commends the fact that the MoC adopted appropriate measures, i.e. committing to draw up a concept for the financing of MoC programmes by the end of March 2017. At the same time, the MoC pledged to set up an investment commission and to make allowance for the SAO's comments and recommendations in the documentation for the follow-up programme. The SAO sees the execution of these measures as a basis for improving programmes' effectiveness.

In response to audit no. [15/28](#), the Fund took measures to improve the management and control system, which should help eliminate and prevent some of the identified deficiencies. The Fund took other steps, such as:

- **drawing up and issuing a long-term concept for cinematography support and film incentives for 2016–2021, including follow-up documents;**
- **changing the decision-making process for cinematography support in line with the amended audio-visual act;**
- **completing the implementation of a new support database.**

Implementing these measures could help make the financing of cinematography support more transparent. The amendment of the audio-visual act, which took effect during 2016, should also help resolve the shortcomings.

3.9 Environment – attention should be focused on evaluating the benefits of subsidies and the achievement of the objectives of care for natural resources and the landscape; fulfilling the purpose and goals of revitalisation is also necessary for the proper development of regions

Care for the environment is a long-term government expenditure policy with pan-societal, strategic and expensive projects. Effective environmental protection is a goal of both *State Environment Policy of the CR* ("the Policy") and the EU as a whole. Conservation of nature and the landscape is one of the principal thematic areas of the Policy, which comes under the authority of the MoE and is implemented through operational programmes and national subsidy programmes. The SAO has systematically focused on these programmes, which are supposed to stop the negative development of the state of nature and the landscape or improve it. Regarding the environment, the SAO also focuses on specific issues like post-mining remediation or eliminating environmental damage that occurred before state firms were privatised. Three audits addressing this area were completed in 2016. The focuses were:

- re-cultivation in the localities of the Most and Chabařovice lakes (audit no. [15/21](#));
- post-mining remediation in the firm of DIAMO (audit no. [16/07](#));
- improving the state of nature and the landscape (audit no. [16/10](#)).

From the SAO's long-term perspective, the highest-risk area is the assessment of subsidy programmes and, in particular, their benefits. Assessing subsidy programmes linked to the state of nature and the landscape is predicated on monitoring of the benefits of spending on the individual programmes and projects. The assessment system in place for subsidy programmes did not enable the benefits to be monitored and assessed. That had been confirmed by audit no. 10/12⁴², in which the SAO scrutinised these programmes and stated that under the operational programme Environment ("OPE") in the 2007–2013 programming period the MoE set such low target values for some indicators that they had already been achieved in 2010 or were exceeded many times over in subsequent years, so they could not properly be used to evaluate the programmes' success. In the national subsidy programme the MoE did not set specific targets or indicators and did not assess the programme's benefit.

⁴² The audit conclusion of audit no. 10/12 – *Funds provided for the improvement of nature and the landscape* was published in volume 2/2011 of the SAO Bulletin.

- Six years later, the SAO found in the follow-up audit no. **16/10** that there had been little change in the assessment of subsidy programmes. Assessing the effectiveness of the money spent was prevented by the fact that the MoE did not set specific and measurable targets to be achieved through the programmes, with particular regard to the desired change in the state of nature and the landscape. It still had not set any binding indicators and parameters for assessing the national *Landscape Care Programme*. In both national subsidy programmes and in OPE 2007–2013, the MoE did not quantify any specific, measurable expected benefits and did not assess the impacts the money spent had on changing the state of nature and the landscape. The reason was that the MoE did not define specific benefit (impact) objectives for programmes and, what is more, often set excessively low target values for indicators of the programmes' outputs. From 2013 to mid-2016, almost **CZK 9.4 billion** was spent on conservation and care of nature and the landscape, but even so the state of nature and the landscape has not yet displayed any fundamental improvement. Quite the reverse: there has been a loss of agricultural land and a fall in the area of non-fragmented countryside, and the adverse state of watercourses persists.

There was a positive shift in the new programming period, with the MoE defining structured indicators for specific and quantified goals for OPE 2014–2020. Unlike the OPE 2007–2013 indicators, these are not merely numbers of executed measures but measurable units of defined indicators.

- Similar shortcomings as those identified by the SAO were found by the European Court of Auditors⁴³, which came to similar conclusions in an audit targeting the efficiency of the funding of projects under the ERDF in selected EU countries, including the CR. The ECA's principal finding was that that only material results (outputs) were used to evaluate the projects' success, without any monitoring of the projects' contribution to biodiversity and conservation of nature and the landscape.

Unlike in subsidy programmes intended to improve nature and the landscape, in past audits targeting post-mining remediation the SAO did not find any major shortcomings in the drawdown of finances. Even so, the SAO drew attention to certain risks linked to this work. The issue of post-mining remediation is specific and the state firm of DIAMO that performs this work was last scrutinised in this regard in 2006. The shortcomings in the utilisation of finances that were identified in previous audits have been remedied. Nevertheless, in audit no. 16/07 the SAO drew attention to risks that could jeopardise the funding of post-mining remediation or could make the entire process more expensive and lengthier.

- **CZK 36.9 billion** was spent on post-mining remediation in DIAMO between 2006 and 2015, with a further **CZK 45.8 billion** to be spent before extraction is expected to stop in 2042. The SAO's sees the main risks of the process as a whole in the imprecise definition of required money and remediation time, which are merely estimated and may be adjusted, e.g. because of unforeseen changes in technologies and techniques or a reassessment of targets. What is more, the clear-up projects do not include the cost of activities linked to treating and pumping water and post-remediation monitoring, which will continue after the remediation and re-cultivation work is finished. These costs have not been quantified yet. Although the lack of state budget funds for post-mining remediation is addressed by partial financing out of a special MoF account, there is a risk of a lack of money on this account as well, because the account's revenues mainly depend on dividends in the company ČEZ, a.s. A large part of expenditure from this account comprises transfers to the state budget to cover the pension system deficit and pay the state's commitments regarding the elimination of environmental damage caused before the privatisation of state firms – these payables may increase in future.

The money spent on eliminating environmental damage in the regions of Ústí nad Labem and Karlovy Vary from 2003 to June 2015 amounted to CZK 11.8 billion. This money is provided by the MoF out of the proceeds from the sale of privatised assets and profits from the state's participation in commercial companies. Even though the state has thus already spent considerable amounts on re-cultivation, it is not clear whether the defined goal and purpose

43 see http://www.eca.europa.eu/Lists/ECADocuments/SR14_12/QJAB14012CSC.pdf.

of revitalising and re-socialising the lakes locality will be achieved. The SAO drew attention to the shortcomings and risks preventing further development and better use of the re-cultivated Most and Chabařovice lakes localities in audit no. 15/21:

- Regarding the re-cultivation of the Most and Chabařovice lakes at a cost of **CZK 2,807 million** the SAO mainly pointed out that the defined goal and purpose of revitalising and re-socialising the lakes locality will only be achieved once all the related revitalisation projects have been executed, which is essentially only possible after ownership issues have been settled and the locality has been transferred to new owners. The way to settle the ownership of the re-cultivated land in the lakes area had not been fully resolved by either the state firm of Palivový kombinát Ústí⁴⁴ or the MoIT from the approval of the projects in 1993 and 1995 to the end of the SAO audit. There is consequently a risk that the cost of the subsequent work, operation and maintenance of the Most and Chabařovice lakes will continue to be covered out of state budget finances for post-mining remediation and out of the resources of Palivový kombinát Ústí. Another risk is that the new owners might not carry out the follow-up revitalisation projects in the sense of the defined goal of re-cultivation, revitalisation and re-socialisation.

Recommendations

In consequence of the serious fact that the MoE in some regards did not implement Czech Government resolution no. 472 of 22 June 2011⁴⁵, which instructed it to take measures to remedy the shortcomings identified in the previous audit no. 10/12, and in connection with the finding of audit no. 16/10, i.e. that the assessment of subsidy programmes did not make it possible to monitor and evaluate the programmes with regard to the state of nature and the landscape, the SAO recommended that the MoE:

- **set quantified and measurable goals and verifiable indicators for programmes so that the programmes' benefits can be categorically evaluated;**
- **regularly monitor and evaluate progress towards the target indicators and evaluate the support provided under subsidy programmes with regard to the current state of nature;**
- **update the subsidy provision conditions in national subsidy programmes so they are equivalent to the conditions of subsidy programmes from EU finances.**

Based on the results of audit no. 15/21 and with regard to the strategic and financial significance of the Most and Chabařovice lakes re-cultivation projects and ensuring that the revitalised area is effectively used for the development of the region, the SAO made the following recommendations after completing the audit:

- **the MoIT, as the founder of Palivový kombinát Ústí, should participate in resolving the issue of ownership of land in the lakes area;**
- **with regard to any possible future execution of equivalent projects, the MoIT should set binding rules not only for the various phases of the re-cultivation and revitalisation process in environmental hot-spots but also for the settlement of the ownership, subsequent management and use of re-cultivated territories and lakes.**

3.10 Defence and security – efficiency of spending is negatively influenced by haphazard planning and shortcomings in the funding of asset replacement programmes

The current political situation in the world and global security risks have been making the issues of security and defence increasingly important in recent years. From the perspective of the SAO and its audits, this area comes under the Ministry of Justice (“MoJ”) and Ministry of Defence (“MoD”).

⁴⁴ Palivový kombinát Ústí files applications for projects to be included in the programme, enters into cooperation agreements with the selected contract, performs construction and design on projects and expresses agreement with the scope of work done for individual invoices.

⁴⁵ Czech Government resolution no. 472 of 22 July 2011, regarding the audit conclusion of the Supreme Audit Office from audit no. 10/12 – Funds provided for the improvement of nature and landscape.

The Government is responsible for ensuring the security of the population and defending the sovereignty of the CR. To carry out these duties it must be able to call on high-quality and well-prepared armed forces, above all the Armed Forces of the CR. Developing and building the army's capabilities is a fundamental condition for ensuring the state can defend itself.

In 2016, the SAO completed two audits mainly targeting the material and technical resources necessary for carrying out tasks in the context of:

- the execution of selected programmes under the authority of the Ministry of Justice (audit no. [15/16](#));
- the acquisition of selected equipment of the Armed Forces of the Czech Republic (audit no. [16/05](#)).

One of the areas that have long been closely scrutinised both by the SAO and the public is the state's investments in arming and improving the capabilities of the Czech army. The SAO has repeatedly drawn attention to the poor standard of strategic and conceptual management, most notably the absence of strategic and conceptual documents that would detail the building up and development of the army with a specifically defined target state, material requirements and time requirements. These facts and, for example, deficiencies in medium-term planning, were previously flagged up by the SAO in audits nos. 10/10 or 12/33⁴⁶. Even though there have been improvements (e.g., in the content of asset replacement programmes' documentation) following the implementation of the measures adopted to eliminate the shortcomings identified in these audits, the state of affairs in the budgetary and acquisitions areas and in planning the development of the army's capabilities remained unsatisfactory. This is borne out by the following findings of audit no. 16/05:

- From 2011 to 2015, the MoD did not sufficiently put in place the fundamental conditions for ensuring the effective development of the state's defence system. Above all, the reorganisation and transformation of the MoD and the army that had been going for a number of years was not complete: numerous measures imposed on the basis of the *Defence White Paper* (2011) were implemented late or had not been implemented at all when the SAO audit was conducted. These were important measures in economic management, capability development, control and acquisitions. There was not even any document comprehensively addressing the army's future capabilities until 2015, when the Government approved the concept of the development of the Czech army. In addition, at the time of the audit's completion the MoD had not updated the *Defence Strategy of the Czech Republic* and had no approved concept systematically addressing the issue of armaments. Medium-term planning, which was highly haphazard up to 2014, was also complicated by repeated organisational changes in the MoD. Other problems slowing down improvements in the army's capabilities lay in the insufficient budget for defence and changes in the budget structure. Expenditure was shifted onto the mandatory expenditure side of the MoD rather than into investments in necessary renewal and modernisation. Spending on defence in the audited period fell far short of the CR's commitments under NATO. Expenditure fell from the required 2% of GDP to just less than 1% between 2005 and 2015. The share of money on defence was also insufficient when compared with the average of other European countries that are NATO members.

Deficiencies in the conceptual, planning and budgeting processes result in non-systemic and non-conceptual purchases through asset replacement programmes. It is this haphazard planning that is one of the causes of the systemic failing of programmes funded out of the state budget, where the programmes are not an effective instrument ensuring efficient spending. The SAO has regularly drawn attention to this state of affairs based on audits performed across state budget headings. Most of the audit findings were linked to shortcomings concerning changes to the substantive, time and financial parameters contained in the documentation of programmes. This was no different in the case of asset replacement programmes of the MoD and MoJ:

⁴⁶ Audit no. 10/10 – *Funds earmarked for the acquisition of selected equipment of the Armed Forces of the Czech Republic* (audit conclusion published in volume 2/2011 of the *SAO Bulletin*) and audit no. 12/33 – *Funds earmarked for the purchase of selected technical equipment and weaponry for land forces and specialised forces of the Armed Forces of the Czech Republic* (audit conclusion published in volume 4/2013 of the *SAO Bulletin*).



- In audit no. **16/05** the SAO also focused on the purchasing of selected equipment by the Czech army under programmes with total expenditure of **CZK 5.1 billion** and stated that programme deadlines were put back in the audited period but even so assets had not been successfully purchased and the required capabilities of the army achieved by the end of the audit. Problems in the selection of suppliers and in the execution phase of investments were also a reason for the low utilisation of the programmes' planned finances. In this context the SAO drew attention to the fact that the time of control tests and military operation tests have a fundamental impact on the success, economy and efficiency of investments. Performing these tests before the contract with the selected supplier is concluded could prevent the subsequent risks identified by the audit, e.g. the need to cancel the contract. Rearming the Czech army with assault rifles, which has been taking place since 2009 under three programmes with a total planned cost of **CZK 2.7 billion**, was dogged by numerous problems during the audited period, with impacts on the economy, efficiency and effectiveness of the entire project. These problems were mainly caused by the fact that the MoD did not test the newly developed weapon before entering into the contract with the supplier.
- When scrutinising selected asset replacement programmes of the MoJ in audit no. **15/16**, the SAO found that the documentation of programmes with total expenditure of **CZK 10.7 billion** had not been prepared in a way ensuring that they were an effective tool ensuring efficient spending of state budget finances. The parameters put in place for evaluating programmes were changed during execution and the new parameters provided insufficient relevant information. The MoJ mostly covered its current needs out of the programmes: a shortage of finances meant that most of the MoJ's priority projects were not executed. The MoJ also made fundamental modifications to the programmes' time and financial parameters during execution. The SAO identified the gravest errors in two operations to acquire large-scale kitchen technologies for nine prisons: the Prison Service of the CR paid all the invoices in full before the goods were installed, demonstrated and tested, even though five per cent of the price should only have been paid once these activities were performed, according to the contract. The SAO judged these facts to constitute a breach of budgetary discipline involving a total of **CZK 804,000**.

By comparing the programmes of the MoJ and MoD, the SAO detected a key difference in the quality of the content of asset replacement programme documentation. There was an improvement at the MoD, partly due to the measures adopted in response to previous SAO audits (most notably audits nos. 12/33 and 10/10). MoJ programme documentation was insufficient and the programme financing was more or less merely formal. The unsatisfactory state of affairs in the conceptual, acquisitions and budgeting areas is changing very slowly at the MoD as well, however.

Recommendations

Based on the audit results, the SAO made the following recommendations:

MoD

- **long-term continuity of the concepts underpinning the development of the armed forces and long-term stability of defence spending should be ensured;**
- **the *Defence Strategy of the CR* should be updated immediately and the *Strategy for the Arming of the Armed Forces of the Czech Republic up to 2025* should be approved;**
- **the completion of the execution of measures imposed on the basis of the *Defence White Paper (2011)* should be accelerated;**
- **a new method of drawing up the budget framework for the defence department in the form of multi-year budget outlooks should be introduced;**
- **the reform of the acquisitions process and optimisation of the link between this process and the process of medium-term planning and budgeting should be completed;**
- **control and military operation tests should be performed before contracts are signed in strategic projects to strengthen the Czech army's capabilities;**

MoJ

- **the concept for the development of the justice and prison departments' material and technical resources should be updated.**

One positive fact is that the MoJ responded to the SAO's recommendations by adopting measures to improve the unsatisfactory state of affairs, especially in the areas of concepts, setting goals in updated programmes and preparing actions. The Government had not discussed the audit conclusion of audit no. **16/05** by the end of 2016.

3.11 Foreign affairs – the existing system of foreign development cooperation is functional and a number of objectives of EU migration and asylum policy have been achieved

Foreign affairs is one of the areas where the SAO's audits allowed it to declare that individual programmes and projects have had a positive impact on the target area. Specifically, this involves:

- foreign development cooperation (audit no. **15/11**);
- EU common migration and asylum policy (audit no. **15/24**).

In audit no. 15/11 the SAO found that from 2012 to 2014 the CR provided an annual average sum of CZK 4.3 billion on foreign development cooperation, i.e. on average CZK 405 per year per capita of the Czech population, which is the third highest amount in the extended Visegrad Group. Across the EU as a whole, however, the CR is in 18th place. After joining the EU, the CR undertook to set aside 0.33% of its gross national product for official development assistance up to 2015. The actual percentage has not exceeded 0.13% since 2010, however, making it clear that the CR has not been fulfilling its international commitment. In this audit the SAO focused more closely on bilateral projects in education, water and sanitation, state administration and civic society; the biggest beneficiaries were Afghanistan, Moldova, and Bosnia-Herzegovina. The SAO found that foreign development cooperation is in line with the concept laid down by the Ministry of Foreign Affairs ("MoFA") and that the projects have a positive impact, despite the following minor shortcomings:

- The implementation of certain projects was marred by problems with sustainability, which was low on the medium-term time scale. One of the main reasons was the local partner's failure to honour commitments; another was the legal unenforceability of these commitments. In the case of water and sanitation projects, for example, the low payments charged for water that did not cover operation and repair costs impacted on sustainability. Similar shortcomings in projects' sustainability were revealed by an audit of 23 projects focusing on supplies of drinking water in countries in sub-Saharan Africa performed by the ECA in 2012.

In audit no. 15/24, targeting progress towards the goals of the European Union's common migration and asylum policy, the SAO stated that, although numerous migration policy goals had been achieved, the system for assessing their impacts does not make it possible to ascertain precisely how many specific people benefited from them.

- The audit scrutinised four multi-year programmes designed to improve the conditions for receiving asylum seekers (the European Refugee Fund), integrating non-EU nationals, returning migrants to their country of origin and controlling external borders. In the CR, these programmes are covered by the *General Programme Solidarity and the Management of Migration Flows* administered by the Mol. Over **CZK 727 million** was drawn down under projects funded out of this programme between 2011 and 2015. The SAO found that just **29%** of the planned financial allocation was utilised in the case of the migrants return programme. The main reasons were the lack of clear rules on assisted voluntary returns in Czech law and the lack of interest in these activities among NGOs. The SAO also pointed out that the Mol's programme assessment system was unreliable, not making it possible to identify the actual foreign nationals who used this service but informing rather about the intensity of use of the services. In the case of

programmes designed to improve the conditions for asylum seekers and integration of foreign nationals in the CR, the MoI only had a qualified estimate of the number of specific foreigners the programmes had helped. The MoI estimates that more than **74,000 people** were helped from 2011 to 2015. In addition, when scrutinising 49 selected projects worth over **CZK 90 million** the SAO identified ineligible expenditure of **CZK 639,000** in the *Solidarity and Management of Migration Flows* programme. For that reason, the SAO rated the control work of the Ministry of the Interior, as the responsible authority, as only partially effective.

Recommendations

Based on the audit results, the SAO made the following recommendations:

- **in the area of foreign development cooperation**
 - **legally binding treaties should be concluded with partner countries;**
 - **particular attention should be paid to the sustainability criterion when preparing bilateral projects;**
 - **measurable indicators of progress towards goals should be defined in collaboration with the parties executing projects and rigorous attention should be paid to assessing this progress;**
- **in the area of non-EU immigration**
 - **administrative shortcomings in the project selection process should be eliminated and the system of penalties for violations of the subsidy conditions should be designed in a way ensuring it corresponds to the options provided by the budgetary rules. These shortcomings were already eliminated in the work procedures of the responsible authority for the 2014–2020 programming period drawn up during the audit, partly due to communication with the audited entity.**

The SAO welcomes the fact that the MoFA accepted the recommendations stemming from the audit of foreign development cooperation and incorporated these recommendations into a material entitled *Implementation of Foreign Development Cooperation after 2017*, which was subsequently put before the Czech Government. The OECD's Development Assistance Committee expressed its appreciation of the SAO's overall approach to audit when it assessed the Czech Republic's foreign development cooperation system (*DAC Peer Review of the Czech Republic 2016*). In its assessment the Committee also stated its desire to meet SAO representatives. The issue of foreign development cooperation and its subsequent assessment and control was discussed at the joint meeting.

4 Management of institutions

In its audit and analysis work the SAO also scrutinises institutions and the standard of their management and control systems. The centre of attention is the institutions' management of the assets entrusted to them and state finances as they carry out their mission and operations. In more than half the audits the SAO also scrutinises public procurement and compliance with the relevant rules and principles that are essential for economical use of public money. It also systematically monitors the strategically important area of management of funds provided to the CR from abroad, and in particular from the EU budget, and has long paid attention to assessing and evaluating the reliability of accounting and financial data that are a necessary condition for good management and reliable control.

The shortcomings identified by scrutiny of compliance with the rules of management and the economy, efficiency and effectiveness of the performed activities indicate that there is still considerable room for improving institutions' management processes and improving their efficiency.

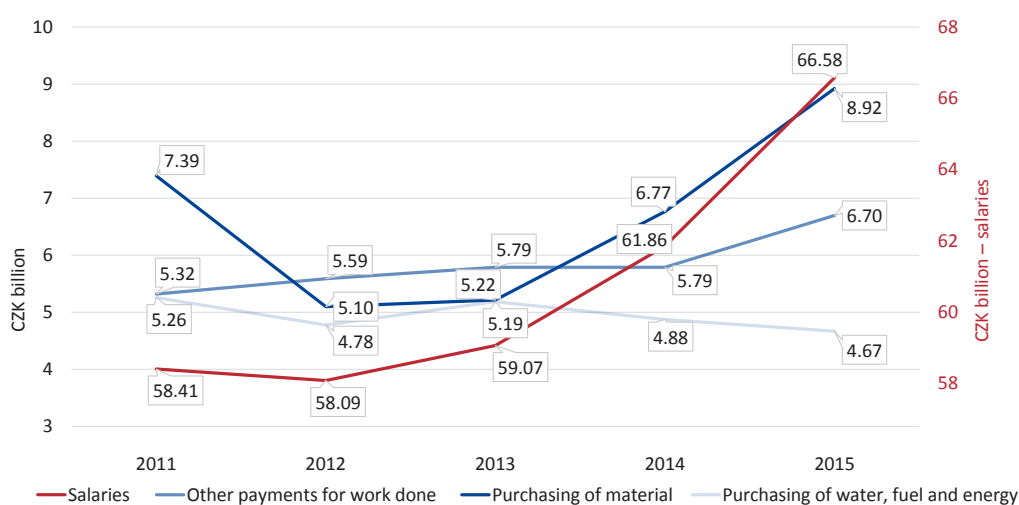
4.1 Institutions' management – there is great potential for savings in the purchasing of services to cover essential needs and respecting the rules governing care for and use of assets

One of the important areas where the SAO performs systematic audit work is state budget expenditure on administration and state assets. By systematically scrutinising public institutions' spending, the SAO seeks to draw attention to areas where it still sees potential for substantial savings. Six audits dealing with this issue were completed in 2016, focusing on:

- management by selected organisational components of the state and contributory organisations (audit no. **15/25** scrutinised the MoFA; audit no. **15/39** the Institute for the Study of Totalitarian Regimes ("ISTR") and Security Services Archive ("SSA"); audit no. **15/30** the Ministry of the Interior Services Facility ("MISF") contributory organisation; and audit no. **15/38** the Military Spa and Recreation Facilities ("MSRF");
- management by selected state firms under the Ministry of Health ("MoH") (audit no. **16/04**);
- defrayal of costs from the activities of selected ministries (audit no. **15/34**).

Last year the SAO again systematically monitored selected state budget expenditure items. This mainly means salaries and expenditure linked to the day-to-day operation of state institutions, i.e. non-investment purchases and related expenditure. This monitoring helps the SAO formulate its opinions on the state closing account and on the implementation of the budget and help the SAO target its audit work. The state closing account for 2015 states that spending on pay (organisational components of the state and contributory organisations) amounted to **CZK 72 billion**, which is **CZK 6.7 billion** more than in 2014; similarly, other payments for work done increased by **CZK 1.6 billion** over 2014. Total non-investment expenditure also registered year-on-year growth, up **CZK 4.1 billion** in 2015 to reach **CZK 117 billion**. As regards individual items of this expenditure, spending on the purchases of services increased by **CZK 1.3 billion** over 2014 and purchases of material by **CZK 2.1 billion**. The **CZK 0.2 billion** reduction in spending on purchases of water, fuels and energy is a positive trend that began in 2013. That is also confirmed by the development of selected non-investment expenditure in budget headings and state funds; see Graph 16.

Graph 16: Selected items of non-investment expenditure of ministries and state funds, 2011-2015 (CZK billion)

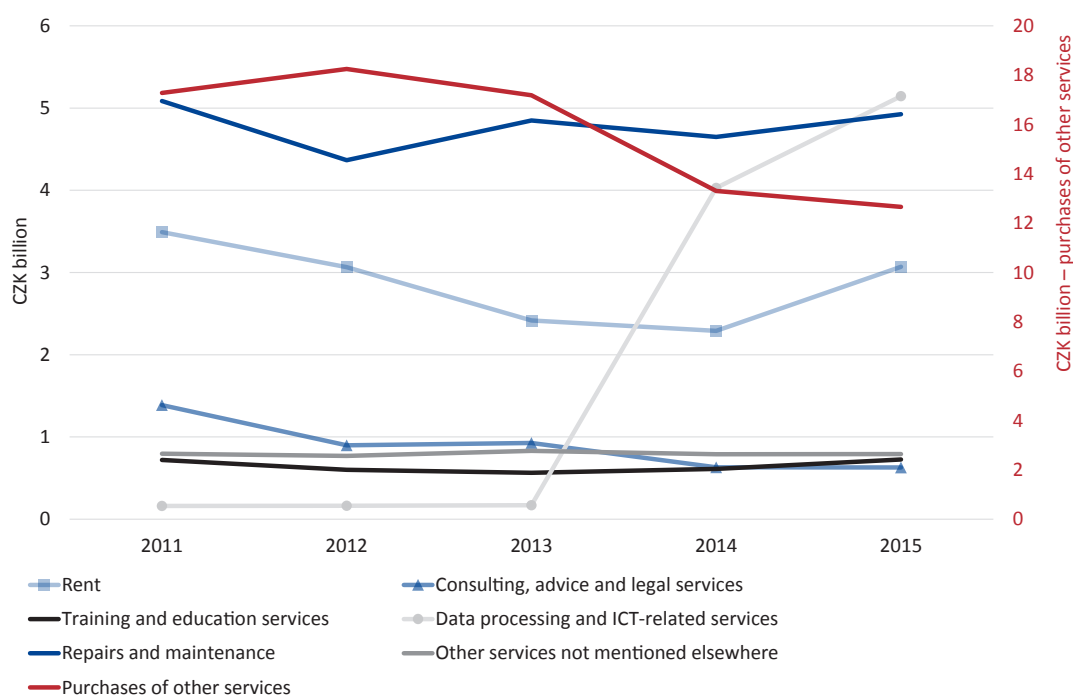


Source: Monitor information website.

Purchases of services are part of non-investment purchases. As mentioned above, there was year-on-year growth in total spending on services in 2015, unlike in 2014 when it fell compared to 2013. Graph 17 shows the development of spending by organisational components of the state and state

funds on selected services items. The graph reveals significant year-on-year increases in spending on data processing services, a trend that started in 2014. It is a reasonable conclusion from the spending trend on this item that these services were part of the “other services” item before 2014. A change in reporting caused the “other services” item to fall sharply, while a similarly sharp increase in “data processing services” is evident. The connection between these phenomena is demonstrated by the annual sum of the two values, which differ on average by **6.3%** despite the break in 2014. The new method of reporting expenditure on data processing services as a separate item gives the state better information about how much it is spending on these services. Spending on data processing services grew by more than **CZK 1 billion** from 2014 to 2015, which is also the reason that the SAO is focusing more on them (see also Section II.3.1 of this Annual Report). The SAO’s systematic scrutiny of financial management by state institutions is one of the reasons for the positive developments in spending on consultation, advice and legal services since 2011.

Graph 17: Expenditure on selected services by ministries and state funds, 2011–2015



Source: *Monitor* information website.

To make public administration’s expenditure more efficient it is essential that state organisations continue to cut spending on external services, or where appropriate draw up rules for outsourcing so that a responsible approach to financial management and performance of the basic tasks of public administration is guaranteed. One of the Government’s objectives for public administration is to limit outsourcing.

The fact that there is still room for more economical expenditure in the area of external services is demonstrated by the results of audits completed in 2016. In these audits the SAO flagged up the uneconomical conduct of certain state institutions. They either did not use the money at their disposal to cover essential requirements or they spent it on outsourcing, in some cases buying services they themselves should have performed as part of their principal activity:

- In audit no. **15/25** the SAO drew attention to an uneconomical approach to buying services. It found that from 2013 to 2015 the MoFA spent **CZK 11 million** on hiring a pre-school child care service for its employees in contravention of the legislation in force at the time, which specified that expenditure linked to hiring such a service could not be included in expenditure to cover the essential requirements of organisational components of the state or in expenditure on measures founded on the legal regulations.

- In audit no. **15/18** focusing on housing support the SAO found that the State Housing Development Fund paid large sums to banks for the administration of part of housing support, when the sole reason for setting up the State Housing Development Fund and its only purpose is to provide housing support. This expenditure was mainly linked to the processing of applications, management of the portfolio of concluded contracts, and handling accounts, reporting and statistics on support. The amount spent from 2011 to June 2015 was almost **CZK 471 million**, i.e., 65% of the total administration-related expenditure of the State Housing Development Fund.

In 2016, the SAO drew attention to cases where certain state organisations did not properly perform their functions and basic obligations laid down by law. The following SAO findings are examples of violations of these obligations (whether not fulfilling the purpose for which the institutions were set or not fulfilling obligations of organisational components of the state as the founders of state firms):

- In audit no. **15/39** focusing on the performance of the principal functions of the Institute for the Study of Totalitarian Regimes and the Security Services Archive the SAO pointed out that both state institutions, 9 years after they were founded, were still not performing of the main activities required of them by law⁴⁷, i.e. publishing all documents converted into electronic form. Scrutiny of the digitisation process revealed that the division of powers under this act is inefficient. Neither the ISTR nor the SSA complied with the obligations laid down in contracts on the digitisation process concluded between them and in their internal regulations. The conversion into electronic form was often done very shoddily. Money was thus spent on the creation of digital documents with no regard to the quality of the reproduction. Numerous specialised external inspections were conducted in both organisations in the years 2012–2014; an MoI inspection, for example, found serious shortcomings in consequence of poorly digitised archive materials. Even though these inspections divulged some serious findings, no fundamental corrective measures were undertaken in the audited period.
- In audit no. **16/04** the SAO found that the MoH was not adequately performing the function of the founder of state firms providing spa care. The ministry did not specify the scope of fundamental questions of the development concept for state firms; it did not appoint new members of the supervisory committees properly and in good time; and it did not have its own representatives on the supervisory committees, which made their work impossible. The MoH did not even check properly whether the state firms were providing for the state's needs efficiently and economically. Every year, the ministry put back the date for dissolving the long-term loss-making state firm of BALMED Praha (loss-making from 2009 to 2015), which settles up the residual assets of state firms. In the SAO's opinion, the MoH should wind up this state firm and transfer the residual assets the firm administers to the Office for Government Representation in Property Affairs.

The SAO also focused on assessing the drawdown of finances for selected items to cover costs, where it sees room for savings. The results of the SAO's audit work in 2016 revealed that the selected audited entities again had significant differences in the unit prices paid for material and services (e.g. office paper, English lessons, cleaning and guard services) or inordinately high costs for the education of the children of employees posted abroad.

- In audit no. **15/25** the SAO found that expenditure on the education of the children of employees posted to embassies abroad was growing sharply. The expenditure of **CZK 70.5 million** in 2012 had risen to CZK 102 million by 2015, an increase of **45%**, while the number of children increased by just **27%**. The differences in the average annual school costs per child were over **CZK 300,000** in half the audited cases and as much as almost CZK 1 million in two cases. Appropriate rules were not set for determining school fees to be paid out of the MoFA budget and the inclusion of schools on a list of reference schools was not done in a uniform manner.

⁴⁷ Act No. 181/2007 Coll., on the Institute for the Study of Totalitarian Regimes and on the Security Services Archive and amending certain acts.

- In audit no. **15/34** focusing on selected costs of the MoLSA, MoD and MoA, the SAO checked the unit prices of purchased commodities and services. The SAO found that the unit prices differed considerably from one ministry to another. The MoD, for example, bought packs of A4 paper at a higher average unit price than the others, with these prices ranging from **CZK 67** for the MoLSA to **CZK 86** for the MoD. The unit prices for English lessons ranged from **CZK 299** at the MoD to **CZK 450** at the MoA. The unit prices for regular cleaning in ministries ranged from **CZK 226** at the MoD to **CZK 1,370** at the MoLSA for monthly cleaning of an area of 100 m²; the unit prices for the work of a guard service employee ranged from **CZK 105** at the MoLSA to **CZK 170** at the MoD.

Another area where the SAO sees considerable room for improved efficiency and economy is the management of state assets. Here, too, the audit results reveal equivalent shortcomings in the conduct of state institutions when caring for the assets placed in their charge, including defending the rights of the state. The most common deficiencies concerned the reduction of revenues from lettings, the use of real estate and movable property by third parties free of charge and the insufficient defence of the state's rights when collecting debts.

- In audit no. **15/25** the SAO found that the MoFA did not proceed efficiently and economically when letting property: for a period of 3 years from September 2013 it allowed land to be used free of charge, and from 2012 to 2015 it reduced its revenue from the letting of property without good reason by not specifying the level of rent correctly. One tenant thus paid at least **CZK 2.2 million** less for using residential spaces in Prague 1 for four years than if the ministry had demanded the same rent as paid by the other two tenants in the same building.
- In audit no. **15/30** the SAO found that the Ministry of the Interior Services Facility provided two services linked to the use and repair of vehicles free of charge to other organisational components of the state in the MoI department. The budgetary rules do not allow that, however. It was the MISF that paid the costs linked to the use of these vehicles, e.g., the cost of third-party and comprehensive insurance, service inspections, repairs etc. The SAO stated that this system did not put in place the right conditions for economical use of public money. Contrary to the legal regulations, the users of these services did not pay for them. In total the services were worth **CZK 161 million**. The MISF also agreed on the free use of real estate and vehicles by a state firm in the MoI department, even though the state firm operates as an enterprise. The revenue from rent could have amounted to at least **CZK 8 million**. Also contrary to the law, the MISF provided some employees with an official car for private purposes free of charge.

In the field of debt collection, the SAO identified numerous shortcomings and a partially dysfunctional system for the administration of debts. The MISF, for example, did not demand penalty interest from debtors in some cases; it took steps to collect owed money after a considerable delay and included in the distraint agreements a provision that was disadvantageous for the state, namely that the sums owed would only be paid out by the collecting agencies after they had been collected in their entirety. The total amount paid (partial monetary payment for debts collected) for the individual distraint cases was **CZK 463,000**.

Regarding the management of state property, the SAO also drew attention to a case where state property was mostly not used for carrying out the state institution's principal activity. In audit no. 15/38 scrutiny of the financial management of the Military Spa and Recreation Facility ("MSRF"), an organisation part-funded by the Ministry of Defence, led the SAO to state that in the audited period the MSRF largely did not use the state assets in its charge for fulfilling the basic purpose it was established for. The SAO also pointed out that the MoD did not monitor and assess the use of the capacities of spa treatment centres and recuperation centres separately for principal activity and other activity, so it had no idea whether and to what extent the various MSRF buildings were being used for the principal activity and whether they serve the purpose for which they were established. According to the SAO's assessment, the MoD did not stress the need when managing the MSRF for its expenditure to be as economical, efficient and effective as possible. The SAO also drew attention to the following:

- Only **36%** of the capacity of the recreation and spa facilities administered by the MSRF and intended to serve the requirements of the MoD and armed forces was used by authorised persons, while **46%** of the capacity of all facilities was used for commercial purposes. During the audited period, the capacity of the spa treatment and recuperation centres of the MSRF was thus used more for secondary activities than for the organisation's principal activity for which it was founded, i.e. for the rehabilitation of authorised persons and for spa, therapeutic, medical and recreational care for such persons. Almost two thirds of MSRF facilities were not even used at a rate of **50%** for the fundamental purpose. This insufficient use of the facilities raises the question whether public support is justified⁴⁸. From 2012 to 2015, the MoD provided a total of almost **CZK 1.3 billion** out of the state budget for the operation of the MSRF; in contravention of Act No. 215/2004 Coll.⁴⁹ it did not request assurance from the Office for the Protection of Competition whether the contribution counts as state aid that is incompatible with the EU internal market.

Recommendations

Based on the shortcomings identified in audit no. **15/39** and in the endeavour to help ensure that state organisations fulfil the purpose they were set up for, the SAO recommended that the Institute for the Study of Totalitarian Regimes and the Security Services Archive define strategies and measurable goals for the activities required of them by law and subsequently incorporate categorical rules and obligations for digitisation in accordance with the law into contracts concluded between them and into their internal regulations.

Further to the findings and assessment of shortcomings in audit no. **16/04** the SAO formulated a number of recommendations that should help ensure that the MoH properly fulfil the duties of the founder of state firms providing spa care. The MoH should do the following, in the SAO's opinion:

- **appoint its representatives to supervisory committees without delay so that these organs of the state firms can duly exercise their control function;**
- **when defining the scope of fundamental matters of the concept of the development of state spa facilities, the ministry should determine a minimum scope for the provision of spa care covered out of public health insurance;**
- **initiate and participate in the defining of criteria applicable to the entire area of individual payments so that the funding of healthcare (which includes spa care) out of public money becomes transparent and reviewable;**
- **dissolve the loss-making state firm of BALMED Praha and transfer the residual assets administered by this firm to the Office for Government Representation in Property Affairs.**

The identified general shortcomings detected by audits into financial management by state institutions make it clear that the long-term deficiencies in care for assets and deficiencies in the management of state finances persist. In the SAO's opinion, to eliminate the long-term and recurring shortcomings in this area it is essential that the state institutions in question make effective changes to their internal control systems so that rigorous compliance with the law is ensured in care for state assets and state finances are spent to cover essential requirements in accordance with the principles of economy, efficiency and effectiveness. The SAO regards the implementation of these measures by the responsible authorities as a precondition for preventing these errors from being repeated and for improving the unsatisfactory state of affairs.

⁴⁸ The contribution towards operation is provided out of the state budget and is thus state aid. Military Spa and Recreation Facilities possesses the defining features of an enterprise within the meaning of EU law on state aid because it is a participant in the spa services market for ordinary clients, including foreign clients. In this case the support should be consulted with the Office for the Protection of Competition, which performs central coordinating, consulting and monitoring work in the field of state aid.

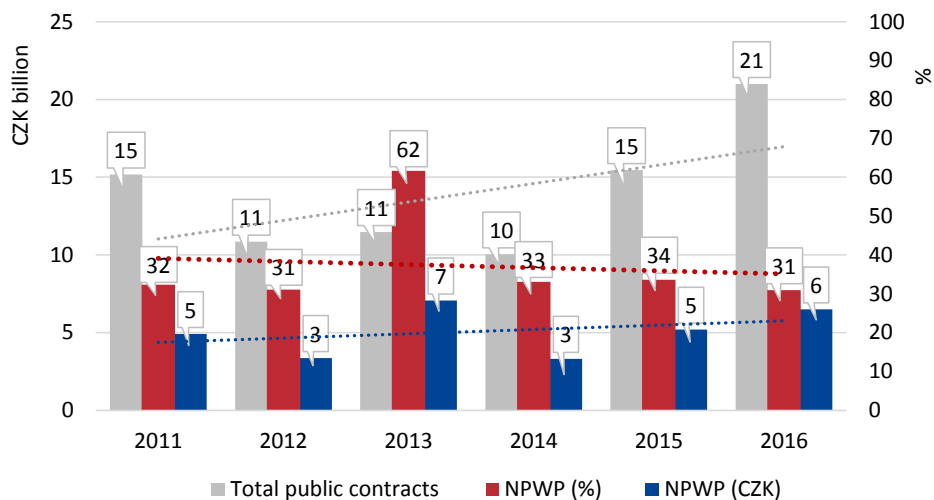
⁴⁹ Act No. 215/2004 Coll., regulating certain relations in the field of state aid and amending the act on support for research and development.

4.2 Public procurement – long-standing shortcomings do not lead to economical use of state finances

The SAO continues to see significant potential in public procurement for improving the state’s overall efficiency. Through its audit work the SAO systematically monitors the public procurement environment and tries to highlight the biggest risks linked to public procurement, such as the self-serving use of legal loopholes and neglect of economic criteria.

The most pressing problem in this area is without doubt the award of public contracts without open economic competition, and in particular the excessive use of negotiated procedure without publication (“NPWP”). This is an area where the SAO sees significant risks of uneconomical conduct, restriction of the competitive environment and discrimination. This is borne out by findings from the SAO’s audit work and the SAO’s analysis work. Graph 18 shows the total values of public contracts awarded by ministries from 2011 to 2016⁵⁰. The graph shows clearly that the trend in the use of NPWP, expressed in absolute values of the numbers of public contracts, is growing among ministries. The proportion of the total number of contracts accounted for by NPWP is largely evenly balanced in the period under scrutiny, with the exception of 2013. The graph data indicate, however, that the state is still not reducing the excessive use of NPWP among public procuring entities effectively, especially at ministry level. The SAO drew attention to ministries’ excessive use of this kind of award procedure in the field of ICT (see also Section II.3.1).

Graph 18: Number and share of public contracts awarded via NPWP compared to the total number of public contracts awarded by ministries from 2011 to 2016



Source: Information System on Public Procurement, own representation.

This state of affairs is again documented by the results of the SAO’s work in 2016. Every year the SAO points out that public contracts for the acquisition and operation of ICT are awarded without proper competition via NPWP, which often creates a long-standing dependency on a single contractor and its IS (the “vendor lock-in” effect). This makes it impossible to achieve the required economy and efficiency of public spending. The following are examples of this:

- Public contracts for information support for the system for financing programmes and subsidies were not always awarded in accordance with the law and did not lead to economical spending. When procuring information support services, the MoF caused the further development of information support for programme and subsidy financing to be dependent on the existing providers of ICT services who built the information systems (vendor lock-in effect). The MoF increased the dependency on contractors without good reason. In the audited contracts

50 The figures for 2016 apply to the first three quarters.

the SAO thus found that when modifying these IS the MoF awarded public contracts without open economic competition (via NPWP) and did not comply with the principles of transparency and anti-discrimination when awarding small-scale contracts. The SAO judged these violations of the Act on Public Procurement involving a total of CZK 43 million to be breaches of budgetary discipline (audit no. [15/31](#)).

- When developing a national infrastructure information system for the electronic award of public contracts, i.e. the *National Electronic Tool*, the MoRD violated the Act on Public Procurement several times. Among other things, it did not define the expected value of the public contract worth almost CZK 52 million in accordance with the law; it did not proceed transparently when assessing candidates' bids; it wrongfully used NPWP; and it allowed fundamental changes to the rights and obligations under the contract, thus violating the principle of equal treatment and the ban on discrimination. In the case of public procurement information systems, the MoRD took no steps before the end of the audit to reduce the dependency on a single contractor with a view to boosting economic competition (audit no. [15/10](#)).

The most common erroneous procedures that do not result in compliance with the principles of economical use of public money include the following:

- **insufficient definition of the subject of the tender;**
- **self-serving division of the subject of the public tender into multiple separate contracts so that they can subsequently be awarded as below-threshold contracts or small-scale contracts;**
- **failure to put in place a sufficiently competitive environment for procurement;**
- **non-systemic administration of public contracts through external consultancy companies;**
- **failure to exclude candidates that do not meet the qualification requirements and subsequent conclusion of contracts with these candidates.**

These erroneous procedures are documented by the following examples:

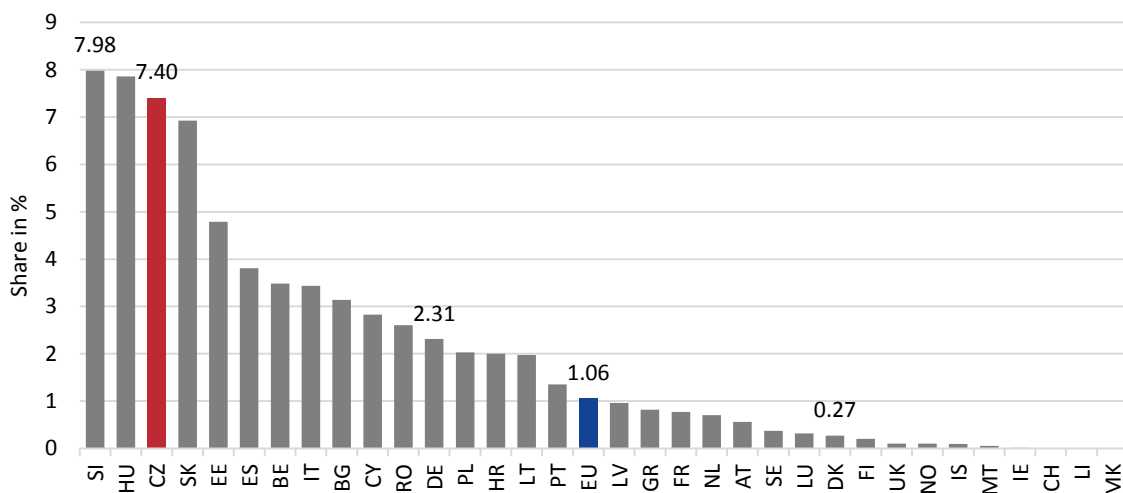
- As part of the construction of the D8 motorway, the Roads and Motorways Directorate did not rigorously proceed in accordance with the law when awarding a public contract for building work worth **CZK 9.9 billion**: in the tender documentation it did not define the subject of the contract in sufficient detail necessary for drawing up bids. In other public contracts worth a total of **CZK 349 million** errors were identified or it was not possible to judge categorically from the documents submitted for audit whether the conditions laid down by law were satisfied.
- The Ministry of Interior Services Facility that provides comprehensive services for the MoI department did not comply with the procedure laid down by the Act on Public Procurement⁵¹ in public contracts for laundry and legal services worth a total of **CZK 15 million**: it divided up the subjects of the tenders so that the expected values of the public contracts fell below the limits defined by this Act. By doing this, the MISF did not put in place the right conditions for bids to be submitted from multiple candidates, so the most suitable bid could not be selected. In the award conditions for public contracts for external repairs of vehicles and supplies of spare parts for these vehicles, the MISF also failed to define requirements for the bid price in a way making the bid prices comparable (e.g. hourly rate, prices of specific types of spares). The MISF thus selected a contractor on the basis of the total price offered without any link to the services offered (audit no. [15/30](#)).
- Numerous award procedures done by the Roads and Motorways Directorate in the context of the modernisation of the D1 motorway lacked a sufficient competitive environment, which could have had a negative impact on the prices of the public contracts. Based on the results of award procedures to select a provider of technical supervision services for building work on the modernisation of the D1 motorway, technical supervision was partly done for the investor by the authors of project documentation, which could have influenced the objectivity of the assessment of changes during the construction work because of possible shortcomings in the construction work documentation (audit no. [16/06](#)).

⁵¹ Section 21 of Act No. 137/2006 Coll., on public procurement.

- The MoIT largely outsourced the administration of ICT public procurement without any central coordination by the procuring authority. In connection with this non-systemic procedure for the administration of public procurement through external consultancy firms, in 2013 the MoIT concluded contracts with very different price rates for equivalent services. Audit work identified price differences of as much as a **multiple of 2.5** between contracts (audit no. **15/12**).
- When selecting an underground construction work contractor for projects to re-cultivate the Ležáky and Chabařovice quarries, the assessment commission and the MoF as the contracting organisation did not exclude the bid of a candidate that did not satisfy the qualification conditions set out in the tender documentation. The MoF subsequently concluded a contract with this candidate with a bid price of **CZK 155 million** (audit no. **15/21**).

The unsatisfactory state of affairs in public procurement in the CR is demonstrated by the large proportion of contracts awarded by NPWP, i.e. without competition. According to European Commission data, in 2015 the CR had the third worst ranking in terms of the numbers of public contracts awarded using non-standard procedures. Compared to the European average, where the proportion of public contracts thus awarded was around 1%, in the CR it was over seven times higher; see Graph 19.

Graph 19: Proportion of public contracts awarded by non-standard procedure in EU countries (%)



Source: EU website of publicly accessible data, viz. <http://data.europa.eu/euodp/cs/data/dataset/ted-csv>.

Recommendations

Based on the shortcomings identified and evaluated in audits looking at public procurement, the SAO formulated recommendations it regards as crucial for remedying the current state of affairs. In the SAO’s opinion, the following steps are essential for eliminating long-standing and persisting shortcomings:

- ensuring that public contracts are properly prepared before the award procedure proper, where poor preparation can lead to inefficient spending;
- categorically defining the work or services required, which is a foundation for the precise definition of the subject of the public tender and the price.

The need for a precise definition of the work or services required is made even more relevant by the new legislation on public procurement in the form of Act No. 134/2016 Coll., on public procurement.

4.3 Management of finances provided to the CR from abroad – significant delays in drawdown and recurring errors in the management and control system

During 2016, the SAO completed seven audits largely focusing on the management of finances provided to the CR from abroad. In all cases, the audits scrutinised finances provided out of the EU budget.

Measures financed in order to achieve the CR's objectives in economic, social and territorial cohesion ("Cohesion Policy") were targeted by audits of finances earmarked for selected projects of the following operational programmes ("OPs"):

- *Integrated Operational Programme* (audits nos. **15/10** and **15/18**);
- *OP Enterprise and Innovation* (audit no. **16/01**);
- *OP Education for Competitiveness* (audit no. **15/26**);
- *OP Transport* (audit no. **15/14**).

An audit of money spent on education, advice services and promotion in the MoA department looked at the support channelled into agriculture and rural development (audit no. **15/09**).

In audit no. **15/24** the SAO scrutinised EU finances earmarked for the implementation of migration and asylum policy objectives through the *Solidarity and Migration Flows Management* programme in the CR.

In line with these audits' priority focus on various expenditure areas of government policy, the results of these audits, with the exception of audit no. 15/26, were assessed in the previous sections of this Annual Report (Section II.3). This section mainly deals with systemic shortcomings and risks concerning the management and control system for funds provided to the CR out of the EU budget.

In previous years the SAO repeatedly drew attention to the fact that practically all OPs of the 2007–2013 programming period were still struggling with low rates of utilisation of the allocation for the CR for fulfilling the objectives of Cohesion Policy. Insufficient drawdown ultimately led to the European Commission ("the Commission") automatically decommitting its commitment to the CR, worth a total of approx. **CZK 20 billion**, by applying the n+3 and n+2 rules under the General Regulation⁵², i.e., reducing the allocation for the entire programming period by that amount.

Although drawdown of EU finances in Cohesion Policy was significantly stepped up during 2015, it was still insufficient for four OPs (OP RDI, IOP, OPTA and ROP Northwest), creating a risk that further allocated funds will be lost. The Commission will not perform automatic decommitment for 2015 until the deadline for sending applications for disbursement of the final balance has passed, however, i.e. until after 31 March 2017. At the end of July 2016 the National Coordinating Body ("MoRD-NCB"), an organisational component of the MoRD, published a preliminary estimate⁵³ indicating that the amount decommitted for 2015 should amount to the equivalent of almost CZK 6.8 million, which would constitute a total loss of approx. CZK 26.8 billion for the entire programming period.

The new 2014–2020 programming period is evidently getting underway more slowly than the 2007–2013 programming period. Programmes were only approved in the middle of the programming period's second year for a number of reasons, including delayed legislation. In the previous programming period OPs had been approved by the end of the first year, but even so the implementation process struggled with a low rate of drawdown compared to the EU average, with the exception of 2008.

⁵² Article 93 of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999.

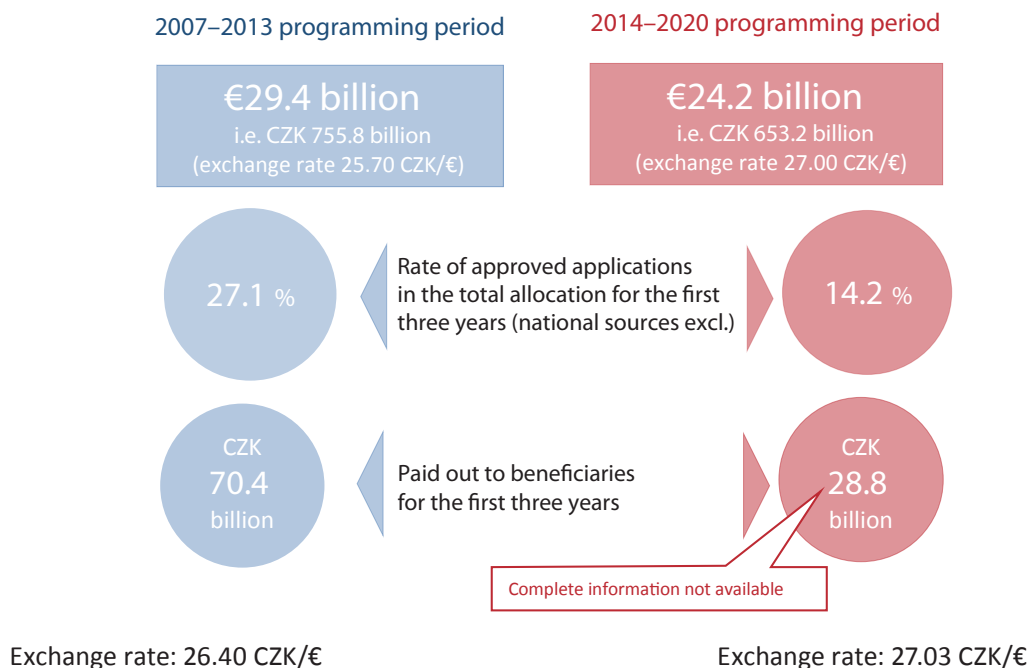
⁵³ See <http://www.strukturalni-fondy.cz/cs/Informace-a-dokumenty/Novinky/Ceska-republika-cerpala-vice-nez-cekala>.

The previous programming period’s problems with getting underway and drawdown rates are being repeated in the new 2014+ programming period. To make things worse, there are new risks that could affect the success of drawdown. Milestones have been set for 2018 that every Member State must pass in order to attain what are known as “performance reserves”. In the case of the CR this amount could be the equivalent of as much as **CZK 38.6 billion**. According to the latest official MoRD-NCB data⁵⁴, legal documents on the provision of support totalling **CZK 86.6 billion** had been concluded by 31 December 2016, which represents just **14.2%** of the total allocation of **CZK 609.4 billion** (not including the performance reserve) earmarked for the CR in the European Structural and Investment Funds (“ESI Funds”). The state of finances in paid payment applications was **CZK 28.8 billion** and the state in applications for interim payment amounted to **CZK 15.5 billion**.

That programmes are getting underway very slowly is underlined by the fact that a large part of the finances paid out is accounted for by “claim-based” payments paid out under the RDP for 2014–2020, and not the execution of project measures. 2018 will be another high-risk year in view of the application of the n+3 rule: insufficient drawdown again creates a risk of decommitment by the Commission, i.e. a reduction in the allocation for the CR. To give a clear picture, we present a comparison of the financial progress achieved in the first three years of the two programming periods; see Graph 20. It is evident from the graph that, as stated above, the drawdown of support in the 2014–2020 programming period is still significantly delayed compared to the 2007–2013 period.

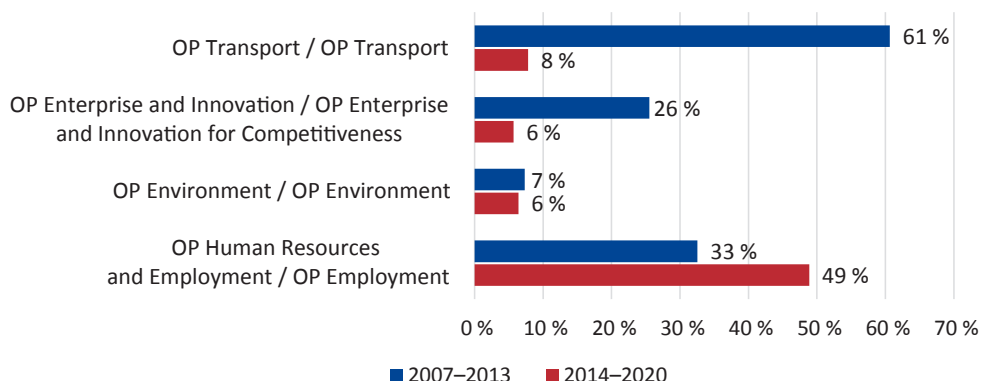
Graph 20: Comparison of financial progress in EU-funded programmes for the first three years of the two programming periods

a) Comparison of the total allocation and utilisation



54 Monthly Information on the Implementation of the ESI Funds in the Czech Republic in the 2014–2020 Programming Period, December 2016; data generated on 2 January 2017.

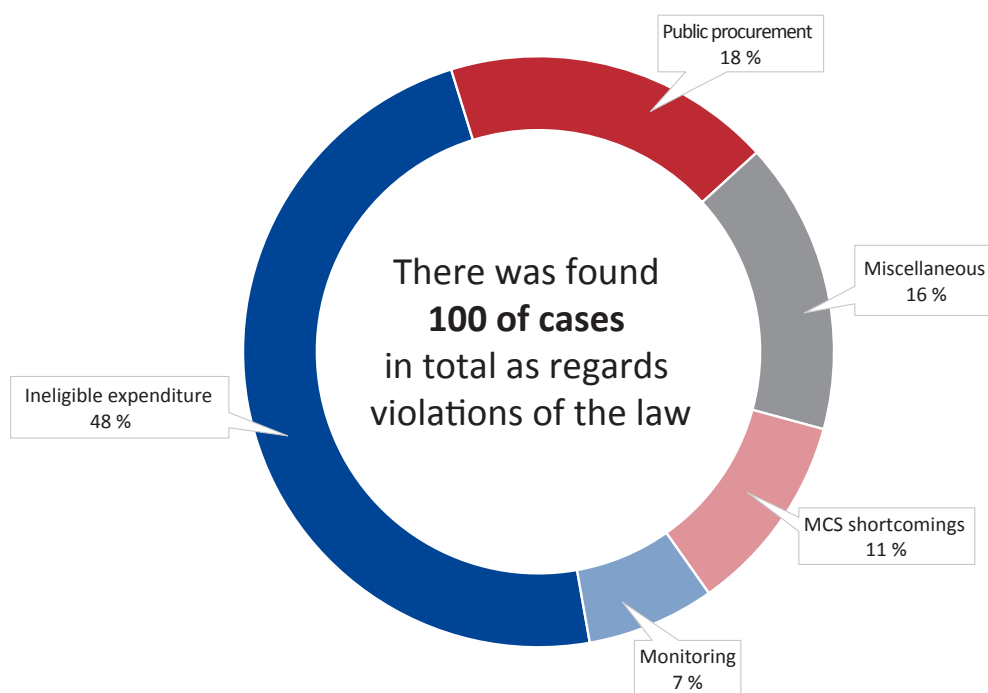
b) Comparison of the proportions of approved applications in the total allocation for selected operational programmes for the first three years of the programming periods



Source: MoRD – overview of projects for the 2007–2013 programming period, June 2016; *MoRD Monthly Monitoring Report for the 2007–2013 Programming Period*, December 2009; *Monthly Information on Implementation of the ESI Funds in the CR in the 2014–2020 Programming Period*, December 2016; report of the Structural Funds Monitoring System application, web profiles of OPs.

In a number of audits, the SAO drew attention to both the significant delay in the utilisation of the EU’s allocation from the 2014–2020 programming period and the recurring systemic shortcomings in the management and control of these resources. Based on the outputs from seven of the aforementioned audits completed in 2016 and the SAO’s monitoring and analysis work regarding funds provided to the CR from the EU, the SAO analysed audit findings and qualified violations of national or EU law from the point of view of the nature and incidence of these violations. Graph 21 shows the result of this analysis.

Graph 21: Nature and incidence of violations of the law found in SAO audits completed in 2016 and focusing on EU budget funds



Source: SAO Audit Information System.

Analysis of the findings of audits completed in 2016 revealed that there was an increase in the error rate over the previous period in the areas of ineligible expenditure and absence of suitable monitoring indicators for assessing the implementation of programmes. A slight fall in the error rate was found with regard to control systems, however. In addition to breaches of the legal regulations, errors identified using other criteria were also assessed. Here, the biggest category of shortcomings comprised violations of the principles of economy, efficiency and effectiveness.

Based on its analysis of the results of audit work relating to the 2007–2013 programming period, the SAO states that managing authorities emphasised project outputs and not projects' actual impacts. The conditions for drawing down subsidies mainly related to the physical outputs of a project, with actual positive outcomes not dealt with at all or only marginally. The managing authorities did not bind beneficiaries to achieve actual results and thus did not focus on maximising benefits. Managing authorities often did not respect the principle of sound financial management. In many cases they defined vague and general goals that were hard to measure, which made it impossible to evaluate the intended impacts of the support. When selecting and approving projects, they failed to judge whether the principle of economy was complied with and did not assess the need for projects or the reasonableness of their budgets. The responsible authorities did not monitor the actual benefits of the supported activities and did not assess whether their goals were achieved. One typical example of a managing authority emphasising project outputs instead of actual impacts was identified in audit no. 16/01, which is covered in detail in Section II.3.5 of this Annual Report. The said shortcomings were also confirmed by the results of the following audit, however:

- Audit no. 15/26 targeted the work of the MoEYS, MoLSA and Central Bohemian Regional Council linked to expenditure on selected information and promotion activities that were intended to raise awareness among both the general public and specialists about assistance from the EU, supported projects and their impacts and benefits for users. The SAO scrutinised funds worth a total of **CZK 250 million** in this audit.

Even though most of the money was spent on raising awareness about the EU, surveys show that the level of awareness about assistance from EU funds has remained unchanged since 2011, despite considerable expenditure. Some of the media campaigns targeted at the general public were badly timed at the end of the 2007–2013 programming period, most commonly for OP RDI. This timing might imply that one of the reasons was to increase the utilisation of funding. In this audit the SAO found that the managing authorities did not always organise the information and promotion activities in a way ensuring their goal was achieved economically. Risks of wastefulness already emerged during the planning and preparation phase. In their communication plans, the managing authorities of OPEC, OP HRE and the Central Bohemian Regional Council defined both the global and the specific goals too generally; the goals were difficult to measure, so it was not possible to judge whether the supported activities delivered the intended impacts. Spending on publicity for the audited programmes had reached a total of **CZK 248 million** by the end of the SAO audit, with **CZK 139 million** of that sum going towards buying radio and television space. Equivalent findings were made by the ECA regarding the promotion of agricultural products in Spain, France and Italy⁵⁵. The ECA stated that the absence of SMART objectives made it difficult to measure the policies' impact. The SAO also found that the managing authorities did not evaluate whether budgets were proportionate when the information and promotion projects were being approved; not one of the audited projects checked compliance with the principle of economy.

Recommendations

The state of affairs in spending on publicity and promotion for operational programmes and projects led the SAO to propose a number of recommendations the responsible authorities should act on to improve the unsatisfactory state of affairs:

55 ECA Special Report No. 10/2009 – *Information provision and promotion measures for agricultural products.*

- they should consider the amount of spending on media campaigns targeted at the general public, which only have a momentary, short-term effect in raising awareness of assistance from EU funds;
- providing information about the possibilities for utilising support and about the amount of money spent on successfully executed projects would help make the assistance provided from EU funds more transparent;
- a more balanced approach should be taken to promoting all EU funds out which assistance is given to the Czech Republic, not just the ESF.

Further to the results of this audit and the recommendations, the SAO rates positively the fact that in most cases the MoEYS and MoLSA proposed corrective measures targeting the 2014–2020 programming period (OP *Research, Development and Education* and OP *Employment*). For example, they redesigned the communication system for 2014–2020 when commissioning and running media campaigns etc. The SAO essentially agrees with these measures, but their quality and effectiveness can only be assessed by a follow-up audit.

Additional information on the management of EU funds in the CR is summarised in the *EU Report 2016*, which the SAO published in September 2016. In that report the SAO, based on the results of its audit work and analyses, identified a number of risks that might arise in the 2014–2020 programming period or may be repeated in some form or another. The following recommendations were made to counter these risks.

General recommendations:

- eliminate the shortcomings in information systems for programme management in order to ensure current progress is assessed transparently and improve the working of the MS2014+ monitoring system;
- improve the implementation of the “territorial dimension”, and in particular ensure greater coordination of cooperation between the affected entities; simplify and cut paperwork; improve methodological guidance and communication between the managing authorities and subsidy beneficiaries;
- eliminate errors in the design and working of control systems and irregularity management systems;
- step up efforts to fulfil all the preliminary conditions laid down in the *partnership agreement* for ensuring problem-free utilisation of the ESI Funds allocation for the CR.

Recommendations for project-managed measures:

- when assessing and selecting projects, place more emphasis on qualitative assessment and assessment of the need for projects in terms of pan-societal or, where appropriate, regional benefits;
- improve monitoring of the implementation of measures and assessment of the achievement of results and goals, and in particular define appropriate monitoring indicators;
- focus control work done by programme implementation authorities on whether expenditure is reasonable and economical and on projects’ benefits and results;
- regularly update estimates of actual needs and, where their project measures have insufficient absorption capacity, perform timely reallocation to other measures.

Recommendations for claim-based support under the CAP:

- properly apply new conditions and administrative procedures for providing direct payments and area-based measures of the RDP;
- eliminate shortcomings in the *Records of the Use of Agricultural Land* information system, mainly comprising discrepancies between the registered area and the actual state;

- **monitor more intensively compliance with mandatory farming requirements and good agricultural and environmental condition standards at support beneficiaries in the context of the conditionality system.**

4.4 Reliability of data for financial management – gradual improvements in data reliability are still constrained by certain systemic shortcomings in the design and implementation of accounting reform and by accounting errors

One essential attribute of the management of public money is transparency and the related principle of publishing data. The MoF set rules for publishing accounting information, including data on the state of and changes to assets and liabilities, profit and loss, and also data on state revenues and expenditure. This information can only be useful if it is correct, however. For that reason, the SAO devotes part of its capacity to checking the accuracy of data by auditing the closing accounts of state budget headings and other data for monitoring and managing public finances.

In 2016, the SAO checked the reliability of data for monitoring and managing public finances and completed the following three financial audits:

- audit no. **15/19** – *Closing account of the Ministry of Culture state budget heading for 2014, Ministry of Culture closing account for 2014 and data submitted by the Ministry of Culture for assessment of the implementation of the state budget for 2014;*
- audit no. **15/35** – *Closing account of the Ministry of Education, Youth and Sports state budget heading for 2015, Ministry of Education, Youth and Sports closing account for 2015 and data submitted by the Ministry of Education, Youth and Sports for assessment of the implementation of the state budget for 2015;*
- audit no. **16/08** – *Ministry of Justice closing account for 2015.*

During the financial audits, closing account data from the audited entities for the stated periods was checked. According to these data, their total assets amounted to **CZK 212 billion** net; total costs were **CZK 154 billion**; and total revenues were **CZK 12.3 billion**. In addition, data from statements for assessing the implementation of the budget were checked at two audited entities (MoC and MOEYS). The audit scrutinised revenues totalling **CZK 8.3 billion** and total expenditure of **CZK 34.6 billion**.

The SAO found no serious shortcomings regarding compliance with the legal regulations when the closing accounts were compiled.

The focus of attention in financial audit is book-keeping. The SAO checked whether the audited entities kept their accounts in a manner ensuring that the financial statements they underpin give a true and fair view of the subject of the accounts. In addition, the SAO scrutinised statements for assessing the implementation of the budget at selected audited entities. These audits again detected significant shortcomings that affected the reliability of data that can be used for monitoring and managing public finances:

- The audited entities committed book-keeping errors. The MoC, for example, incorrectly accounted for received refunds of co-financed transfers worth **CZK 1.2 billion** which it received from the National Fund and reported on the balance sheet. The MoC also incorrectly represented subsidies provided to contributory organisations it founded for the acquisition of property worth **CZK 68 million**, accounting for them as provided transfers even though they were not transfers (audit no. **15/19**). The MoEYS, for example, reported in its financial statements a conditional payable stemming from a decision to change a decision on subsidy provision which increased the subsidy amount. As a result, in its financial statements the MoEYS undervalued the amount of long-term conditional payables from transfers by almost CZK 666 million (audit no. **15/35**). As at the end of 2011 the MoJ performed an incorrect calculation of depreciation reserves when using the long-term assets depreciation method for the first time.

The MoJ incorrectly quantified depreciation reserves for these assets in the subsequent years 2014 and 2015 as well. Consequently, in the balance sheet the MoJ undervalued the balance of account 406 – *Valuation differences in the first use of the method* by **CZK 745 million** and the balance of account 021 – *Buildings* by CZK 720 million; this caused the profit/loss for 2015 to be inaccurate by almost CZK 13 million. Off the balance sheet the MoJ reported receivables it no longer expected to be paid and had no reason to track. As a result, the MoJ overvalued the balance of account 905 – *Discarded receivables* by CZK 10 million in the notes to its financial statements (audit no. **16/08**).

- The audited entities' accounts were incomplete. The MoC, for example, failed to account for some short-term or long-term conditional receivables worth at least CZK 60 million in its off-balance-sheet accounts (audit no. **15/19**). In connection with received non-investment transfers in which the MoJ was the transfer beneficiary and which were not financially settled by 31 December 2015, the MoJ's accounts did not comply with Czech Accounting Standard No. 703 – *Transfers*. Consequently, in its balance sheet the MoJ undervalued the balance of account 388 – *Active accrual accounts* by **CZK 58 million** and profit/loss by **CZK 11 million**; in its profit and loss statement it then undervalued the balance of account 671 – *Revenues of selected central Government institutions from transfers* by **CZK 46 million**. Even though the MoJ registered demands for compensation⁵⁶ from which it was clear that compensation for damages would in future be paid out, the ministry did not include any related conditional payables in its financial statements. As a result, in the notes to its financial statements the MoJ undervalued short-term conditional payables based on compensation for damages by **CZK 180 million** and long-term conditional payables based on compensation for damages by **CZK 540 million** (audit no. **16/08**).
- The SAO's ability to give an opinion on the reliability of the data in the MoC's financial statements in 2014 was considerably restricted by the state of the legislation on accounting for and reporting of transfers co-funded out of the EU budget and the EEA and Norway financial mechanisms and provided to end beneficiaries in the form of pre-financing out of the state budget. Decree No. 410/2009 Coll. and Czech Accounting Standard No. 703 – *Transfers* were amended with effect from 1 January 2015. In the SAO's opinion, these amendments confused the role of organisational components of the state when providing and receiving funds co-financed from abroad, especially in the case of pre-financing out of the state budget.
- It was found that in the audited period of 2015 (audits nos. **15/19** and **15/35**) the legal regulations on the accounting of organisational components of the state contained persisting confusion in the rules for entering certain items of the overview of changes to equity. The lack of clarity in the rules creates a risk that data in the selected accounting units will not be comparable.⁵⁷
- The SAO also detected inaccuracies in statements for assessing implementation of the budget. The MoC, for example, wrongly classified expenditure on support for libraries totalling **CZK 22 million** (audit no. **15/19**) and the MoEYS wrongly classified revenues from late-payment penalties worth **CZK 193,000** (audit no. **15/35**).
- When auditing the MoJ's accounts the SAO identified a breach of budgetary discipline. In 2015 the MoJ provided a voluntary contribution abroad worth **CZK 543,000**. It did not have the Government's prior consent for this expenditure, even though Act No. 218/2000 Coll. provides that the Government's consent is necessary for the provision of a contribution whose payment is voluntary.

⁵⁶ Under Act No. 82/1998 Coll., on liability for damages caused in the exercise of public power by a decision or incorrect official procedure and amending Czech National Council Act No. 358/1992 Coll., on notaries and their work (Notarial Code), the MoJ is liable in matters of compensation for damages caused by a decision or incorrect official procedure.

⁵⁷ The SAO has been drawing attention to the issue of the lack of uniformity in accounting procedures in its audit conclusions since 2012.



2016 also brought the completion of audit no. **15/32**, which checked the legality of the MoI's book-keeping and the compilation of its financial statements for 2014. **97%** of the total identified inaccuracies amounting to **CZK 4.9 billion** came from the fact that the MoI did not report certain long-term conditional payables from concluded contracts worth **CZK 4.8 billion** in its financial statements. Systemic deficiencies in book-keeping were also found, e.g. incorrect reporting of petty long-term assets, including circumstances related to the use of these assets.

The cases presented above do not merely affect the accuracy and thus also the informational value of data in accounting statements issued by the audited entities: they can also affect the usability of summary accounting statements for the Czech Republic as a whole (under consolidation) for 2015, compiled and first published in 2016.

The audit conclusions from audits nos. **15/19**, **15/32** and **15/35** were discussed by the Czech Government in 2016. The responses of the MoC, MoI and MoEYS to the audit conclusions are indicative of an endeavour to eliminate the identified deficiencies. The audited ministries reacted to all the shortcomings mentioned in the audit conclusions.

The regular checking of the reliability of data in the financial statements of selected accounting units (see audit no. **15/35**) has shown over time that financial audits have a major positive impact on the accuracy (falling error rate) of the data reported by the audited entities.

The SAO's audits in recent years have detected significant shortcomings in off-balance-sheet accounts. This means conditional receivables and payables not reported in the notes to financial statements. In particular, the reporting of incorrect closing balances on conditional payables accounts gives incorrect information about claims on future budgets.

Promoting good accounting practice and the SAO's recommendations

The SAO thinks that the reform of the state's accounting that began in 2010 was based on rational reasons and was in principle a step in the right direction, as the reform:

- led to a greater degree of accrual-based accounting and to the provision and publishing of more comprehensive information on financial management in the public sector;
- put in place the right conditions for better inter-sector comparison (between the public and private sectors) and for consolidation of data for the state.

The reform did not pass off without significant problems, however. Some problems are gradually being eliminated while others persist, and the SAO continues to draw attention to them in its audit conclusions. In connection with its findings and other information gained from the accounting reform, the SAO recommends that the MoF address the following systemic problems above all:

- the issuing of accounting regulations shortly before they take effect (*vacation legis*), which gives some accounting units problems with applying the new requirements correctly and in good time;
- the accounting regulations' confusion and lack of clarity regarding blanket corrections linked to transfers, state participation in commercial corporations, off-balance-sheet accounts or entering certain items in the overview of changes to equity;
- the lack of conceptual definitions of basic accounting terms such as assets, costs, revenues et al.

The SAO commends the fact annual financial statements for the CR were compiled for the first time in 2016 for the financial year 2015, albeit for a limited set of consolidated units, and published, which will make it possible to make full use of all the information that can be gained from accounting for the management of the state as a whole.

In 2016, the SAO issued a summary opinion on the data in the state closing account for 2015, declaring that data in the summary balance of state budget revenues and expenditures for 2015, data on total state budget revenues and data on total state budget expenditures broken down by headings and reported in ledgers C and H of the draft state closing account for 2015 can be regarded as reliable.

This opinion was based on the results of financial audits, taking into account results on the medium-term time scale, i.e., for the last 3 years (see Table 4). At the same time, an extensive analysis of the draft state closing account data's compliance with Departmental Information System data and other available sources, compliance within the draft state closing account and comparing data from the individual years 2013–2015.

Table 4: Overview of financial audits done by the SAO since 2010

Year							
State budget heading (auditee)	2010	2011	2012	2013	2014	2015	2016
306 – MoFA							L 2015
307 – MoD		L 2010		2012			
312 – MoF*					L 2013		N 2015
313 – MoLSA:		L 2010	2012				N 2016
CSSA	2010	2011			2014		
Labour Office					2013		
314 – Mol						L 2014	
315 – MoE					2013		
317 – MoRD				2012			
322 – MoIT				PAP			N 2015
327 – MoT			2011	2013			
329 – MoA			2011	2013	T 2014		
333 – MoEYS	2010	2011	2012		T 2014	2015	
324 – MoC						2014	
335 – MoH						2014	
336 – MoJ							2015

Source: register of completed audits, approved Audit Plan for 2016.

Legend:

* The MoF's accounts include the headings *Ministry of Finance, General Treasury Administration, Government Debt and State Financial Assets Operations*.

L – legality audit

T – audit focusing on transfers co-funded from abroad.

 Opinion issued on financial statements.

N – audit not completed / audit conclusion not published by the date on which the material for the Annual Report for 2016 was submitted.

AAO – audit focusing on the compilation of an auxiliary analytical overview.

Audits that underpinned the opinion on the state closing account for 2015 are in red.

Outputs from financial audits and accounting regulations and their problems were discussed with representatives of the International Monetary Fund at a meeting held in May 2016 and the SAO. The SAO representatives presented information about findings from audit no. 14/37⁵⁸, which focused on the reporting of transfers co-funded from abroad and drew attention to the issue of corrections, which are not yet addressed by the accounting regulations.

The SAO's audit work helps identify systemic risks and typical problems, looks for possible solutions and promotes greater use of accrual-based accounting data for the purposes of compiling accounts on the state's financial management, e.g. when compiling the closing accounts of state budget headings and the state closing account. It also monitors the changing demands placed on the state's accounting on an international level, in particular by the EU. In this context it is fair to say the ongoing European Commission project to create uniform European accounting standards for the public sector (EPSAS) can have a profound impact on public sector accounting in the CR in the medium and long term.

Another point worth mentioning with regard to monitoring of the evolution of international accounting rules is that in 2016 the SAO launched intensive preparations for translating the *International Public Sector Accounting Standards* (IPSAS) handbook for 2016 into Czech. IPSAS have undergone a whole series of changes since the last SAO translation in 2008 (new standards have been added, a conceptual framework has been created and existing standards have been modified); that is why the SAO judged that the old translations must be updated to incorporate the new standards and documents.

The SAO is aware of the importance of some accounting information for national accounts, for example. In response to the *cooperation memorandum* signed with the Czech Statistical Office, the SAO regularly monitors the situation in state accounting for these purposes and others. The SAO also regularly monitors accounting information that is important for financial management with a view to ensuring that public finances are sustainable. This includes information on conditional payables, where a potentially major impact on public finances cannot be ruled out.

The CR has a modern accounting system for the state sector that uses a high degree of accrual-based data. The accounting regulations still suffer from deficiencies, however, which ultimately devalue the reported data. An information system that can both gather and comprehensibly present data has been built. Up-to-date data on the financial management of state entities and now for the state as a whole are available to the public. However, all that makes sense only if the data are correct and clear and can be used meaningfully. That makes it necessary to assess whether the collected data have users and serve the intended purpose.

58 Audit no. 14/37 – *State budget, EU budget funds and other funds acquired from abroad*; audit conclusion published in volume 3/2015 of the *SAO Bulletin*.

III. Financial Evaluation of Audit Work

1 Summary financial evaluation of audits

Summary financial evaluation of audit work is performed every year via the indicator of the total volume of audited finances, assets and liabilities. This indicator primarily informs about the overall scope of audited state budget revenue and expenditure items, state assets and liabilities, funds provided to the CR from abroad and other finances (e.g. those in state funds). It is substantially influenced primarily by the number of audits, their subjects and goals and the length of the audited period.

Audits whose audit conclusions were approved in 2016 scrutinised finances and assets worth a total of **CZK 312 billion**. The total value does not include data from audits targeting the closing accounts of state budget headings (See Section II.4.4 of this Annual Report).

The indicator of the total amount of audited finances, assets and liabilities also does not include finances scrutinised merely at system level (e.g. when scrutinising strategic and conceptual materials and programmes finances in the context of audits of their administrators or mediating entities) or the value of scrutinised public procurement. The value of these finances in audits completed in 2016 amounted to **CZK 476 billion**.

2 Discharge of the notification duty pursuant to Act No. 280/2009 Coll., the tax code

Based on the facts presented in audit protocols, the SAO informs the relevant tax administrators of identified shortcomings linked to the audited entities' tax obligations. Specific audit findings can be used by the appropriate tax administrators to launch proceedings that could lead to a decision to impose a penalty for a breach of budgetary discipline.

In 2016, **36** notifications from 18 audits were sent to tax administrators under the notification duty. These notifications were related to the expenditure side of the state budget. The total financial loss quantified in these notifications amounted to **CZK 979 million**. The biggest single notification, worth over **CZK 300 million**, was based on the results of an audit scrutinising the economy and efficiency of spending on the acquisition, operation and development of selected information systems in the Ministry of Transport's department (audit no. **15/23**).

IV. Assessment of Other Activities

1 Cooperation with the criminal justice authorities

In 2016, the SAO did not file any notifications of circumstances indicating the commission of a crime pursuant to Section 8 (1) of the Criminal Code and based on findings from audits.

The criminal justice authorities requested the SAO's cooperation in **17** cases in 2016. Further to these requests the SAO provided audit materials from **14** audits. In 2016, the SAO President released **5** employees from their confidentiality duty pursuant to Section 23 of the Act on the SAO and on the grounds of important public interest.

2 Opinions on draft legislation

Section 6 of the Act on the SAO provides that both chambers of Parliament of the CR and their bodies are authorised to demand from the SAO opinions on draft legislation concerning budgetary management, accounting, Government statistics and the performance of control, supervision and inspection work. These bodies did not make use of this authorisation in 2016 by filing a formal request for an opinion. The SAO's findings in relation to necessary legislative amendments were presented in connection with the discussion of the SAO's audit conclusions at sessions of the Committee on Budgetary Control of the Chamber of Deputies of Parliament.

At a session on 26 May 2016, the Senate of Parliament of the CR did not pass a draft act amending Constitutional Act No. 1/1993 Coll., the Constitution of the Czech Republic, as amended, and rejected a draft act amending Act No. 166/1993 Coll., on the Supreme Audit Office, as amended, and other related acts, which would have extended the SAO's powers to scrutinising management of public finances and finances provided out of public budgets as well as the assets of legal persons in which the state or a territorial self-governing unit participates. On 31 October 2016, the Government again put the draft legislation in question (Parliamentary prints 947 and 948) before the Chamber of Deputies. The Chamber of Deputies did not debate the draft legislation in the first reading before the end of 2016.

In the interdepartmental consultation process pursuant to the *Government Legislative Rules* the SAO issued statements on draft legislation concerning it as an organisational component of the state or linked to its competence. The SAO received for assessment 181 draft legislative amendments and related materials linked to legal regulation in 2016. It issued specific comments, based mainly on audit findings, on 70 of them.

In 2016, the legislative process for a new act on public procurement was completed, thus transposing into Czech law the content of three EU directives regulating public procurement. The act was promulgated under no. 134/2016 Coll. and entered into effect on 1 October 2016. Most of the SAO's comments on the Government draft of this act were incorporated into the text.

Of the more important draft legislation previously commented on by the SAO in 2016, Act No. 302/2016 Coll., amending Act No. 424/1991 Coll., on association in political parties and political movements, as amended, and other related acts, was passed. This legislation established the SAO President's authorisation to nominate candidates for one member of the newly formed Office for Oversight over the Financial Management of Political Parties and Political Movements. The SAO President sent his nominations to the Senate of Parliament of the CR on 23 November 2016.

The following draft acts that responded to outputs from SAO audits and were passed and published in the Collection of Acts in 2016 are worth mentioning: Act No. 186/2016 Coll., on gambling games (in response partly to the results of SAO audit no. 13/35); Act No. 230/2016 Coll., amending Act No. 115/2001 Coll., on support for sport, as amended, and other related acts (in response partly to the results of SAO audit no. 14/04); Act No. 253/2016 Coll., amending Act No. 77/1997 Coll., on state firms, as amended (the submitted draft act was based partly on a proposal by the SAO President); and Act No. 263/2016 Coll., the Atomic Act (in response partly to the results of SAO audit no. 09/15).

The legislative process for the draft act on the management and control of public finances, which the SAO issued comments on in 2014 and 2015, was still not completed in 2016. This legislation should replace the currently applicable Act No. 320/2001 Coll., on financial control in public administration and amending certain acts (the Act on Financial Control), as amended. The main aims of the draft legislation are to define responsibility for the introduction of an internal management and control system and for protecting public resources, eliminating duplicate control work done by the financial administration authorities and to boost the independence of internal audit. The draft was approved by the Government on 19 December 2016 and put before the Chamber of Deputies on 22 December 2016 (Parliamentary print 1001). The comments issued by the SAO were incorporated into this Government bill.

As regards consulted Government bills that have not yet been put before the Government by their author, in June 2016 the SAO issued fundamental comments on a draft amendment of the Act on the Budgetary Rules, which is supposed to regulate in greater detail the subsidy provision process in connection with Supreme Administrative Court judgment 9 Ads 83/2014 – 46. The bill was withdrawn by its author, the Ministry of Finance, and a modified draft of the legislation was presented for consultation in December 2016.

In 2016, the SAO also commented on draft subordinate legislation, mainly under the authority of the Ministry of Finance and Ministry for Regional Development. These were draft amendments of implementing regulations accompanying the Act on Accounting and Act on Budgetary Rules and a set of implementing regulations for the new Act on Public Procurement. The SAO's comments on these drafts were based on the SAO's findings in the relevant areas.

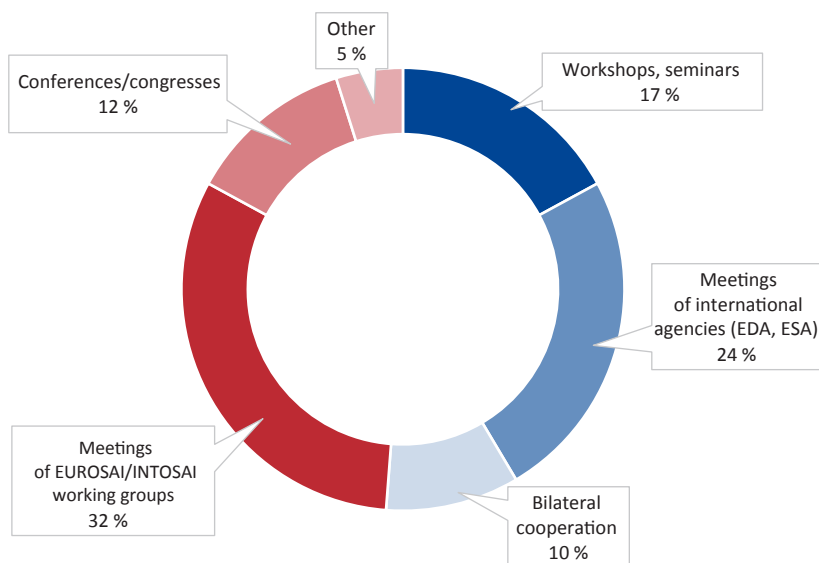
3 International cooperation

The SAO's international cooperation in 2016 focused mainly on activities in the context of the European Court of Auditors and EUROSAI, INTOSAI, and Contact Committee working groups. There was also bilateral cooperation, mainly with the SAI of Slovakia. In addition, intensive cooperation with the European Defence Agency ("EDA") and European Space Agency ("ESA") went ahead. SAO representatives have been members of their audit bodies since 2015, sharing their knowledge and experience with foreign colleagues when scrutinising financial statements and final reports from EDA projects and providing external audit for the ESA.

SAO representatives took part in 41 events abroad, with many of the trips abroad being for meetings of Contact Committee, EUROSAI, and INTOSAI working groups (13 such meetings in total). SAO representatives' participation in workshops and seminars also accounted for many of the trips abroad.

Graph 22 presents an overview of SAO representatives' trips abroad in 2016.

Graph 22: Number and focus of SAO representatives' trips abroad in 2016



At the start of April, the SAO Vice-President Zdeňka Horníková visited Japan, accompanying the vice-President of the Chamber of Deputies of Parliament of the CR and a delegation of its Committee on Budgetary Control. The visit followed an invitation by the Committee on Budget of the House of Representatives of Japan, whose delegation visited the SAO in October 2015.

A meeting was held at the Board of Audit of Japan, where the delegation was received by Board of Audit President Teruhiko Kawato; meetings were also held at the Ministry of Finance and with the Speaker of the House of Representatives. Further discussion took place in the Committee on Budget of the Diet. The discussions focused on the process of discussing and compiling the state closing account, the system for discussion of audit reports of the SAI of Japan by the Government and Parliament, the public administration control system, the status of SAIs and the role and tasks of Parliamentary oversight committees.



Visit in Japan

In mid-April 2016, SAO representatives took part in a meeting in The Hague focusing on the preparation of the new EUROSAI strategic plan for 2017–2023. The participants first evaluated EUROSAI members' needs and demands and EUROSAI's self-assessment. Based on that information, they then proposed a new structure for the working of the organisation and a new strategic plan, which was submitted to the EUROSAI Governing Board in June 2016.

The 44th session of the EUROSAI Governing Board was held in Luxembourg in mid-June 2016. The session was attended by SAO President Miloslav Kala with a delegation. The Governing Board, whose primary duty is to prepare activities, strategies and work plans for EUROSAI, approved the organisation's budget and reports on its financial situation and its work and discussed whether working groups achieved their objectives. The discussions focused on the outputs from the assessment of EUROSAI, the future role of the Governing Body and the EUROSAI strategic plan for 2017–2023.

At the meeting, the SAO President presented a report on the work and duties of the Goal Team 3 on Knowledge Sharing, which the SAO has chaired since 2011 and has since achieved major successes, e.g. creating a database of EUROSAI audits (<http://www.eurosai.org/en/databases/audits>). Other activities of this group include the creation of a database of products (<http://www.eurosai.org/en/databases/products>), the use of experts from national audit institutions, numerous educational activities, close cooperation in audit work etc.



EUROSAI Governing Board Meeting

Another important event was a meeting of the Contact Committee of Supreme Audit Institutions of the European Union and the European Court of Auditors, held in Bratislava on 19–21 October 2016. The EU's energy policy and climate change was at the top of the agenda. The event featured a seminar where the participants heard about audits and other activities of SAIs focusing on the transposition of EU regulations into national law and Member States' energy efficiency measures and their impact on the environment.

At the seminar, SAO representatives gave a presentation called *Energy Savings*, which drew on the results of SAO audit no. 15/02 – *State budget funds provided for support of energy savings*. Other topics included the results of activities by Contact Committee working groups, focusing on tax fraud, the structural funds, the implementation of *Europe 2020* and the creation of European public sector accounting standards.



Contact Committee Meeting

At the 17th meeting of the INTOSAI Working Group on Environmental Auditing (INTOSAI WGEA), held in Jakarta at the end of October, SAO representatives presented the final version of the *Energy Savings* study, whose lead author is the SAO, to the participants at the meeting. In their presentation they acquainted the participants with the structure of the document, which was later approved as an official INTOSAI audit material at the 22nd INTOSAI congress. The SAO delegation was also received by the chairman of the Audit Board of the Republic of Indonesia and bilateral talks took place.



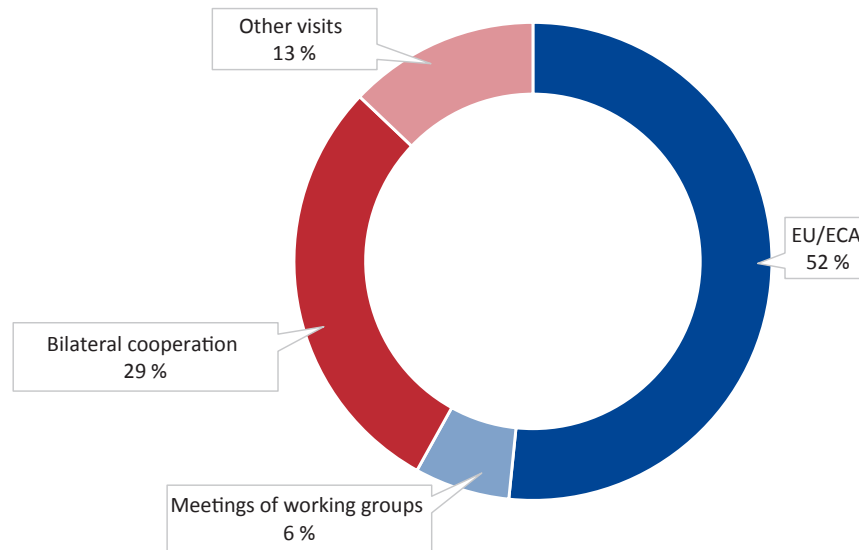
INTOSAI WGEA Meeting in Indonesia

Another important event held abroad in 2016 was the 22nd INTOSAI congress (XXII INCOSAI), which took place in Abu Dhabi (United Arab Emirates) at the beginning of December. The congress's conclusions were summarised in the *Abu Dhabi Declaration*, in which INTOSAI pledged to reinforce its long-term tradition of cooperation with the UN and to contribute to the 2030 Agenda for Sustainable Development and strengthen its partnership with international organisations. The congress reached the conclusion that it is important to audit and review progress towards sustainability goals and expressed the will to perform this work through four different approaches that are detailed in the new INTOSAI strategic plan for 2017–2022. Each approach will be based on a special framework that will help INTOSAI gather key findings made through the work of SAIs in this area. Another issue dealt with by the congress participants was the professionalization of INTOSAI. Professionalization is seen as a systematic process by which individuals and their organisations achieve a high standard of independence, expertise, professionalism, ethical conduct and quality and which is based on professional standards. To this end, INTOSAI set up the FIPP forum (*Forum of INTOSAI Professional Pronouncements*), which will be responsible for the content, consistency and quality of INTOSAI's international standards.



XXII INCOSAI

The SAO was also active in organising international events in the Czech Republic in 2016. Out of a total of 31 such events, most took place in collaboration with the ECA (16 events); bilateral activity was the least intensive (9 events). The structure of international events is shown in Graph 23.

Graph 23: Number and focus of international events organised by the SAO in 2016

At the start of March 2016, the SAO hosted a working meeting between the SAO President and other representatives and representatives of the SAI of Albania. The four-member delegation of the SAI of Albania was led by its President Bujar Leskaj. During the meeting, a cooperation agreement between the two audit institutions was signed, expressing their willingness to work together and share experiences in areas of common interest.



Signing an agreement on cooperation with ALSAI

A meeting between representatives of the SAO and the SAI of Slovakia was held in April. The two institutions' representatives informed each other about procedures for identifying the costliness and effectiveness of excise duty administration and implementation of the individual points of joint audit questions when performing parallel audits focusing on excise duty administration. They also shared information that will underpin the final report on the results of joint audit.

An International Monetary Fund (IMF) delegation expressed interest in the start of the new programming period and how the Czech Republic dealt with the problems of the past programming period at their May meeting with SAO representatives. The questions asked by members of the mission, which featured three IMF representatives and was received by SAO President Miloslav Kala, touched on Government accounting, problems when regulating Government accounting and the results of the SAO's financial audits.

The SAO organised the 11th meeting of the EUROSAI Working Group on Information Technologies in Prague at the start of June. The working group looks for ways to facilitate the exchange of information and experiences regarding the use of information technologies in audit processes. The first day of the meeting was opened by SAO President Miloslav Kala, who spoke about the information systems at the disposal of the Czech state and the issue of eGovernment. Information about two important EUROSAI databases that collect information on IT audits was presented at the meeting. One of these databases is CUBE, which is administered by the SAI of Poland and focuses entirely on IT. This database also serves as an analytical tool for IT audits. The other database (<http://www.eurosai.org/en/databases/audits>), the EUROSAI database of audits (<http://www.eurosai.org/en/databases/products>) is administered by the Czech SAO and contains both IT audits and audits from other areas relevant to EUROSAI members. The working group also addressed the issue of open data and parallel audits that are currently taking place in the field of IT.



Group photo from the 11 EUROSAI WGIT meeting

At the end of June 2016, the SAO was visited by a three-member delegation from the Board of Audit and Inspection of Korea, headed by the board member Kil-Young Chung. The main purpose of the visit was to obtain information regarding information technologies audit and the issue of providing information and acquiring data in audit.

To follow up this meeting, our Korean colleagues sent another delegation to the SAO in November 2016. The purpose of that visit was to discuss in detail the IT system used by the SAO and work with internal and external documents and data when preparing, conducting and assessing audits done by our Office.

At the end of August 2016, the SAO was visited by the Chairman of the Audit Board of the Republic of Indonesia Mr Harry Azhar Azis, accompanied by other representatives of that institution. The agenda included the exchange of key information on the two institutions' powers, composition and audit procedures, management of state assets, discussion of the results of audits in the field of education, science and research and the SAO's involvement in the INTOSAI Working Group on Environmental Audit. The visitors were also interested in healthcare audit methods and the issue of public procurement. The meeting also featured the signing of a *Memorandum of Understanding* designed to support and develop bilateral cooperation between the two institutions.



Signing the Memorandum of Understanding

Another important event organised in the Czech Republic was a meeting of leading representatives of the SAIs of the Visegrad Group, Austria and Slovenia (V4+2), held at Lednice at the beginning of September. The meeting centred on the issue obtaining data for audit purposes, data analysis and ways to use the processed data for international comparison of the efficiency of national economies. The participants discussed possible ways to make use of the large quantity of data available from public information systems and also data generated by SAIs' own analysis and audit work. Supreme Audit Office representatives presented a proposal for an international project focusing on the use of comparable information for creating indicators that would help monitor the performance of public administration in individual countries and would provide an overview of the efficiency of national economies on a broader international scale.



V4+2 Group photo

In November 2016, the SAO organised the 6th meeting of the EUROSAI Working Group on Knowledge Sharing, which it chairs. The meeting, attended by 11 foreign SAIs, featured a presentation on work done in the past, tasks for the future and an overview of activities by other EUROSAI working groups. There was also discussion of databases of audits and products, the preparation of the new EUROSAI strategic plan, a presentation on progress in EUROSAI's self-assessment and an invitation to a seminar to be held by the SAO in autumn 2017.

4 SAO's work in respect of the public

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

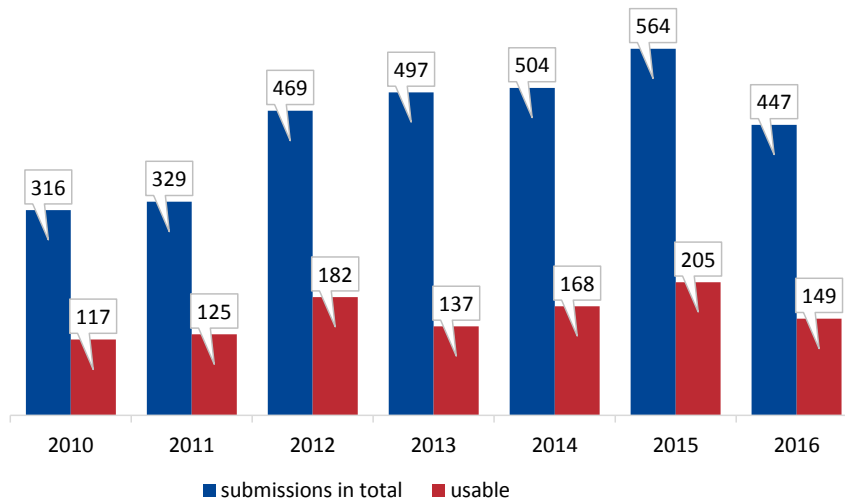
In 2016, the SAO received 27 written requests for information pursuant to Act No. 106/1999 Coll., on free access to information, as amended. The SAO dealt with thirteen of the requests by providing the requested information; in four of those cases, in line with Section 6 (1) of Act No. 106/1999 Coll., it provided data enabling the requesting party to seek out requested information that has already been published. The SAO shelved nine requests, seven because the SAO was not competent to reply and two after the deadline for providing additional information about the request elapsed with no result. The SAO rejected five requests for information about the course of SAO audits (audit protocols and other audit materials), citing reasons pursuant to Section 11 (4) (d) of Act No. 106/1999 Coll. In one case the requesting party appealed against a rejection decision: the contested decision was annulled and the request was dealt with by the provision of information enabling the requesting party to seek out the required information that was published by another entity independently of the SAO's ongoing audit. No complaints were filed in 2016 against the SAO's procedure when dealing with requests for information pursuant to Section 16a of Act No. 106/1999 Coll.

4.2 Citizens' submissions

In 2016, the SAO's communication department registered 447 written submissions (suggestions, complaints, requests, enquiries etc.) from citizens and legal entities. The content structure of the submissions remains similar as in previous years, which means that most were submissions of a private-law nature. In this area citizens often draw attention to breaches of labour law in the private sphere and complain about energy suppliers, electronic communications services providers and financial services providers.

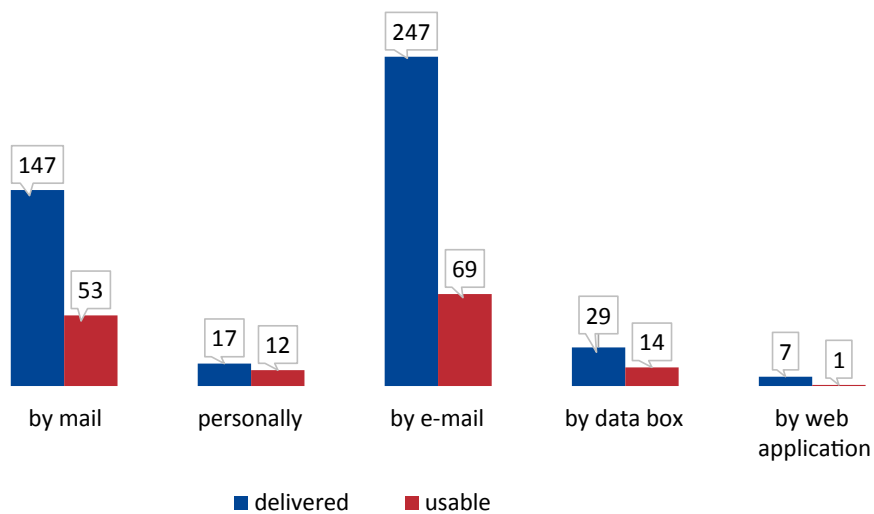
The content of all submissions is judged with regard to the SAO's powers and from the perspective of the possible use of information from the submissions in audit work. Submissions whose content concerns issues falling within the SAO's powers are used as an additional information source when preparing ideas for audits in the coming period and for appropriate ongoing audits. In 2016 the SAO received 149 external suggestions, i.e. 33.3% of the total number of registered submissions. In its audit work, the SAO mainly made use of information concerning the management of state assets and state budget finances and the utilisation of subsidies provided out of national resources and from European funds to state organisations, territorial self-governing units and other beneficiaries; 139 submissions dealt with this area, i.e., 93.3% of all usable external suggestions.

Graph 24: Overview of the total number of submissions and their usability for audit work, 2010–2016



Most communication from citizens to the SAO in 2016 was again in electronic form, primarily e-mail.

Graph 25: Breakdown of submissions in 2016 by manner of delivery and their usability



In 2016, the number of submissions concerning the activities of territorial self-governing units and organisations set up by them fell. This could have been influenced by the current status of legislative proposals to widen the SAO’s powers to cover financial management by local Government. In 2016, the SAO registered 78 submissions (93 in 2015) criticising local Government: 19 of them drew attention to the possible misuse of special-purpose subsidies and 59 concerned the exercise of autonomous competence, and in particular management of municipal assets.

5 Management of finances allocated to the SAO budget heading in 2016

5.1 Implementation of mandatory indicators of the SAO budget heading

The budget of heading 381 – *Supreme Audit Office* was approved by Act No. 400/2015 Coll., on the state budget of the Czech Republic for 2016.

Table 5: Overview of the implementation of defined mandatory indicators in 2016 (CZK thousand)

	Approved budget	Budget after changes	Implementation (%)	Final budget	Implementation (v %)	Actual
<i>Summary indicators</i>						
Total revenues	347	–	–	–	–	1,230.77
Total expenditure	500,840	503,649	9.50	527,201	94.10	496,107.04
<i>Specific indicators – revenues</i>						
Total non-tax revenues, capital revenues and received transfers	347	–	–	–	–	1,230.77
<i>Specific indicators – expenditure</i>						
Expenditure on performance of the SAO's duties	500,840	503,649	98.50	527,201	94.10	496,107.04
<i>Cross-cutting indicators</i>						
Staff pay and other payments for work done	270,630	272,704	98.87	272,704	98.87	269,610.18
Obligatory insurance premiums paid by the employer	92,362	93,067	98.19	93,067	98.19	91,379.58
Transfer to the cultural and social needs fund	3,731	3,763	99.99	3,763	99.99	3,762.88
Payroll	248,808	250,881	99.99	250,881	99.99	250,843.95
Total expenditure registered in the “EDS/SMVS” programme financing information system	61,276	61,276	100.56	75,648	81.45	61,617.71

Revenues

Revenues amounted to CZK 1,230,770, i.e. 354.75% of the approved budget.

Expenditure

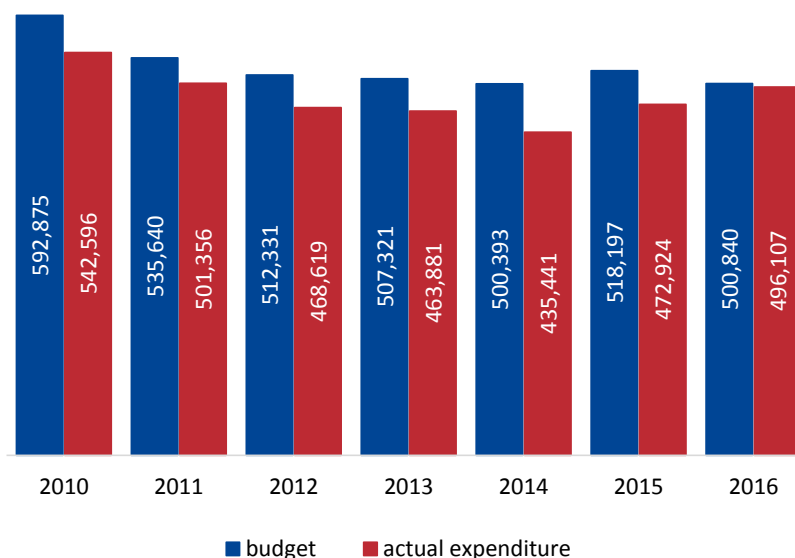
Total expenditure was CZK 496,107,040, i.e. 99.06% of the approved budget. After pay tariffs were increased from 1 November 2016, the Committee on Budgetary Control of the Chamber of Deputies of Parliament of the Czech Republic issued resolution no. 531 on 22 October 2016 increasing expenditure by CZK 2,809,452. The actual utilisation of budgeted expenditure after changes was 98.50%. Savings from previous years totalling CZK 23,551,820 were factored into the budget, making the total budgeted expenditure CZK 527,201,020. 94.10% of that was utilised. The biggest item was payroll and related expenditure at CZK 360,989,760 (72.76%).

The difference between the approved budget and actual utilisation was caused by reduced drawdown for programme financing, mainly because of the unforeseeable delay in a public tender to supply and implement a solution for creating electronic forms and workflow in the *MoJ SharePoint* environment. There was also lower drawdown for payroll and related expenditure, as the term of office ended for four members of the SAO during the year and the Chamber of Deputies only elected one member.

All the mandatory indicators of the SAO budget heading were fulfilled in 2016.

Graph 26 gives an overview of expenditure in budget heading 381 – *Supreme Audit Office* from 2010 to 2016. The approved budget decreased by CZK 92,0135,000 year-on-year from 2010 to 2016.

Graph 26: Overview of expenditure in budget heading 381 – *Supreme Audit Office* as per approved budget and implementation of the budget, 2010–2016 budget actual



5.2 Claims from unused expenditure

Claims from unused expenditure stood at CZK 287,969,810 as at year-end 2016. Claims worth CZK 23,551,820 were factored into the budget in 2016. Unconsumed expenditure totalling CZK 230 million will be used to prepare and start the construction of a new seat for the SAO.

5.3 Expenditure on asset replacement programme financing

Budget funds were spent on the implementation of Programme 18101 – *Development and Renewal of the Material and Technical Resources of the Supreme Audit Office from 2011*, specifically on information and communication technologies and on asset replacement. A total of CZK 61,617,710 was drawn down.

5.4 Information on external audits in the SAO

The audits listed below were done in the Supreme Audit Office by external bodies in 2016:

- The firm of Rogit, s.r.o., conducted a cyber security audit in March 2016. The audit sought to find out whether the IS/ICT were compatible with the requirements laid down by law, the related decrees and other regulations for administrators of major information systems. **Shortcomings were identified and appropriate measures adopted. Internal audit no. 2016/04 checked that the measures were being implemented.**
- The National Security Office performed an audit of the register of classified information in the SAO in March 2016. **No shortcomings were found by the audit.**
- In June 2016, the National Security Office performed an audit of cyber security in SAO, declaring: ***“based on our findings, it is fair to say that the issue of the management of cyber/information security is handled in an above-standard manner in the organisation.”***
- In July 2016 the Prague-based Universal Health Insurance Company inspected payments of public health insurance premiums and compliance with the other obligations of insurance premium payers in the SAO’s financial department. **The audit found no payments in arrears in respect of the Universal Health Insurance Company and no other records-related shortcomings.**
- The Customs Office for the Central Bohemian Region CZ610000 performed an on-the-spot inspection of compliance with the conditions of the permit to buy liquefied petroleum gas under VDO ref. no. 3878-13/2016-510000-11 at the Přebuz training centre in September 2016. **No shortcomings were found.**
- The Prague-based Regional Hygiene Authority of the Central Bohemian Region performed an “audit of the HACCP system” at the Přebuz training centre in December 2016. **No shortcomings were found.**

5.5 Mandatory audit

The annual financial statements of the SAO were audited by an auditor within the meaning of Section 33 (3) of Act No. 166/1993 Coll., on the Supreme Audit Office, as amended. The auditor’s statement reads: *“In our opinion the financial statements and financial reporting give a true and fair view of the assets and liabilities of the Supreme Audit Office as at 31 December 2016 and its costs, yields and profit/loss and revenues and expenditure for the year ending 31 December 2016 in accordance with Czech accounting law.”*

6 Internal audit

The fundamental legal and regulatory norms governing the work of the Internal Audit Department are Act No. 320/2001 Coll., on financial control in public administration and amending certain acts (Act on Financial Control), Decree No. 416/2004 Coll., which implements Act No. 320/2001 Coll., and the *International Professional Practices Framework* of the Institute of Internal Auditors.

The Internal Audit Department is divided into governing and executive structures, is functionally independently and answers directly to the SAO President.

The annual Internal Audit Plan for 2016 was approved by the SAO President on 4 January 2016. The main materials underpinning it were a summary analysis of the SAO’s risks, including risks identified by internal audit, and *the audit universe*⁵⁹. The annual plan was also based on the medium-term Internal Audit Plan for 2016 to 2018, the results of audits done at the SAO by external bodies, the results of previously done internal audits, the demands of senior SAO staff and the Internal Audit Department’s capacity.

⁵⁹ In line with the International Professional Practice Framework, audit universe means a list of all possible internal audits that could be performed at the SAO.

Based on the approved annual plan, the Internal Audit Department performed six audits. When compiling the agendas of individual audits and when selecting samples of operations, the department has long strived to gain a comprehensive insight into the audited area.

The internal audits scrutinised:

- the process of providing information and dealing with petitions;
- the system preventing corruption and fraudulent conduct, including how complaints are dealt with;
- compliance with the code of ethics;
- the working and effectiveness of the internal control system;
- compliance with the relevant provisions of Act No. 181/2014 Coll., on cyber security and amending certain acts (Act on Cyber Security);
- changes to budgets and authorisations to transfer state budget funds within the framework of the individual binding indicators defined by the Act on the State Budget for the administrator of the *Supreme Audit Office* budget heading;
- activities linked to organising the operation and use of official vehicles.

The results of audits completed in 2016 were discussed with senior employees of the audited units. The findings contributed to the more effective functioning of financial management and compliance with the law and with internal regulations and confirmed that the audited systems are in place and sufficiently functional.

From the perspective of the performed internal audits, there is no indication that the SAO financial statements gave a true and fair view of the facts underpinning the accounts.

Relevant and specific measures with time limits for their implementation were adopted for all the shortcomings identified during the audit work. The implementation of the adopted measures is regularly monitored and assessed by the Internal Audit Department. A significant fraction of the approved measures was implemented by the responsible employees during 2016.

The performed internal audits made no serious findings within the meaning of Section 22 (6) of the Act on Financial Control. No corruption or fraud was detected.

In addition, throughout 2016 the Internal Audit Department:

1. performed consultation work and methodological work, primarily in the following areas:

- risk management;
- public procurement;
- the conclusion of contractual relations;
- staffing;
- records of assets;
- implementation of measures;

2. organised:

- training for internal auditors;
- a conference on *Reform of Mandatory Audit in Practice*, intended for auditors scrutinising the financial statements of entities of public interest in the Czech Republic and held at the Supreme Audit Office on 29 April 2016; speeches were delivered by a number of experienced specialists who eruditely recapitulated current approaches to audit – whether external or internal audit or audit committees – and raised a number of important questions and issues that will have to be focused on in the future.

3. cooperated:

- with the audit group of the National Security Office where necessary for reviewing the fulfilment of obligations imposed on the Supreme Audit Office as the administrator of an important information system by the Act on Cyber Security;

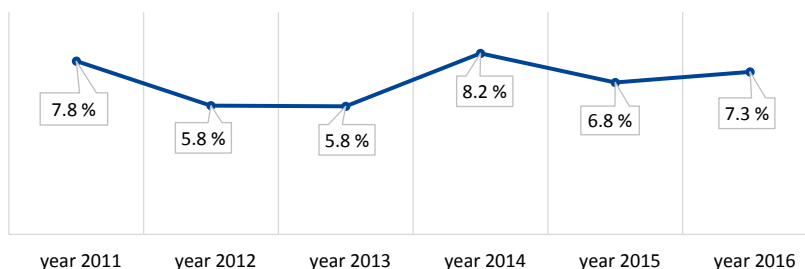
- with the audit firm of AGIS, spol. s r.o., for the purpose of the proper audit of accounting and financial reports and the annual financial statements of the SAO for 2016 as necessary for verifying the effectiveness of the internal audit system.

The SAO President Miloslav Kala received and signed the *Internal Audit Report for 2016* on 31 January 2017. This report contains the following declaration on internal audit: *“Based on the results of the audits, we declare that in the selected areas of the internal operational and financial management of the SAO in the audited period the management and control processes in place were proportionate and effective, with the exception of shortcomings of intermediate and low significance. The findings from the audits have no impact on the working of the system as a whole and provide support for improving the quality of the audit environment, updating and complying with internal regulations, personnel planning, employee training, and protection of legitimate rights and interests of the Office.”*

7 SAO staffing

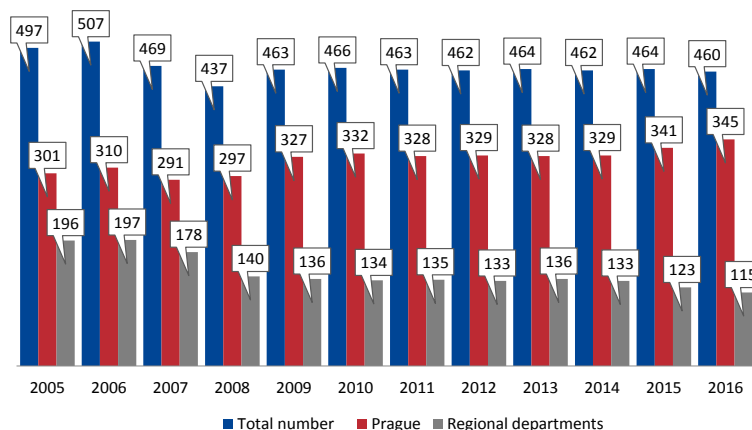
In 2016, the SAO had 465 employees⁶⁰, 330 of whom worked in the Audit Section, i.e., 70.97% of the total registered average number of SAO employees in 2016. 35 new employees were recruited in 2016 and a further 5 returned to work after taking parental leave. 42 employees ended their employment. The fluctuation rate in 2016 was 7.31%. Graph 27 shows how the annual employee fluctuation rate evolved in the SAO from 2011 to 2016.

Graph 27: Development of the annual employee fluctuation rate of the SAO, 2011–2016



The converted average number of SAO employees for 2016 was 460; the converted average number of employees in the Audit Section for 2016 was 326. Graph 28 shows the converted average number of SAO employees and employees of the Prague and regional departments for the 2005 to 2016 period.

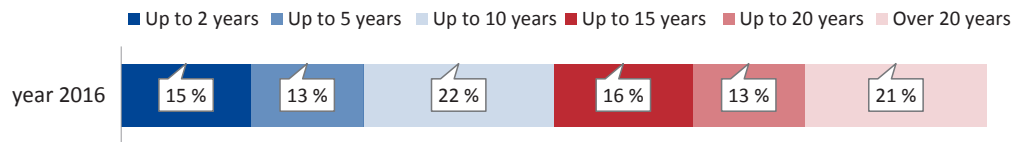
Graph 28: Development of the converted average number of SAO employees, 2005–2016



⁶⁰ Average registered workforce for 2016.

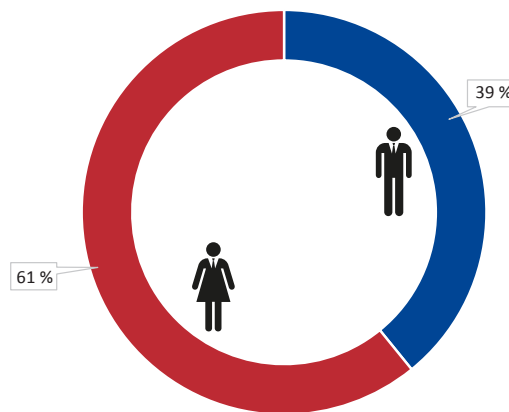
Graph 29 shows the duration of SAO employees' employment as at 31 December 2016. As at that date, 14.98% of the total SAO workforce had been employed with the SAO for less than two years; 20.97% of the total number of SAO employees had passed the 20-year employment milestone.

Graph 29: Duration of employees' employment with the SAO as at 31 December 2016 (%)



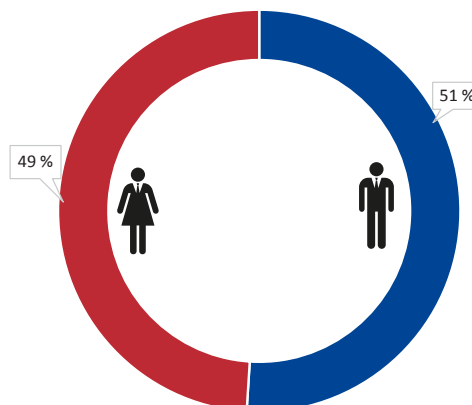
The SAO offers its employees equal working conditions and opportunities. Graph 30 shows the proportion of men and women employed at the SAO in 2016.

Graph 30: Proportion of men and women employed at the SAO in 2016 (%)



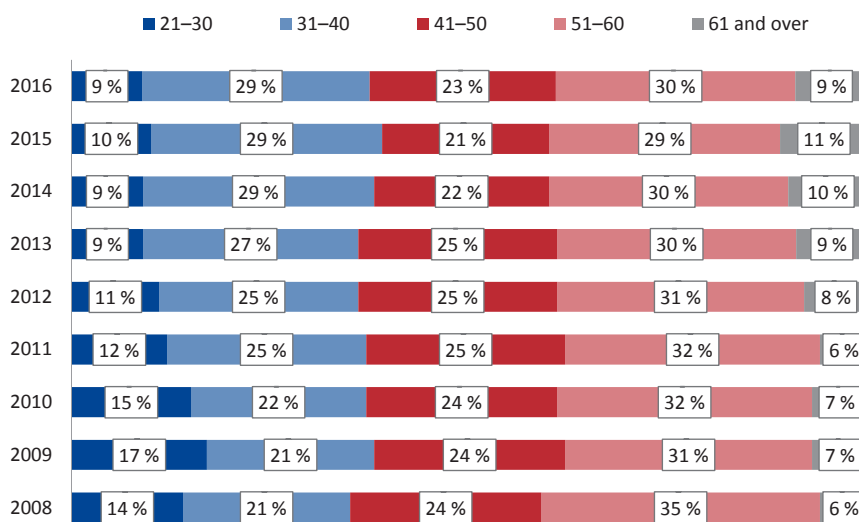
Graph 31 shows the proportion of men and women in management positions in the SAO as at 31 December 2016.

Graph 31: Proportion of men and women in management functions in the SAO, state as at 31 December 2016 (%)



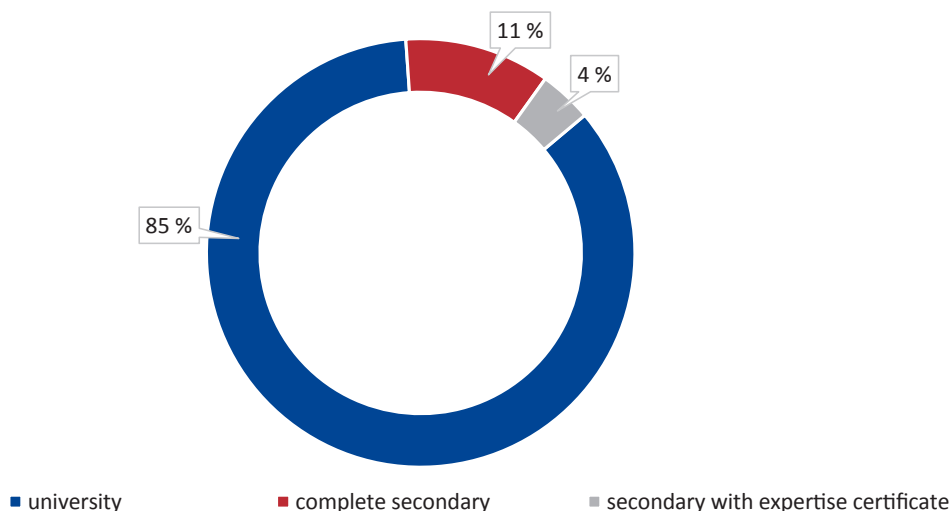
The average age of SAO employees in 2016 was 46. The age structure of the SAO workforce as at 31 December 2016, including a comparison with the years 2008–2016, is shown by Graph 32.

Graph 32: Age structure of SAO employees in the 2008–2016 period (comparison of the states at year-end)



84.63% of the SAO’s workforce were university-educated as at 31 December 2016. Graph 33 presents the educational structure of SAO employees as at 31 December 2016.

Graph 33: Qualification structure of the SAO workforce by educational attainment as at 31 December 2016



Labour-law, wage and other demands of SAO employees were satisfied in accordance with the valid collective agreement.

Training and development

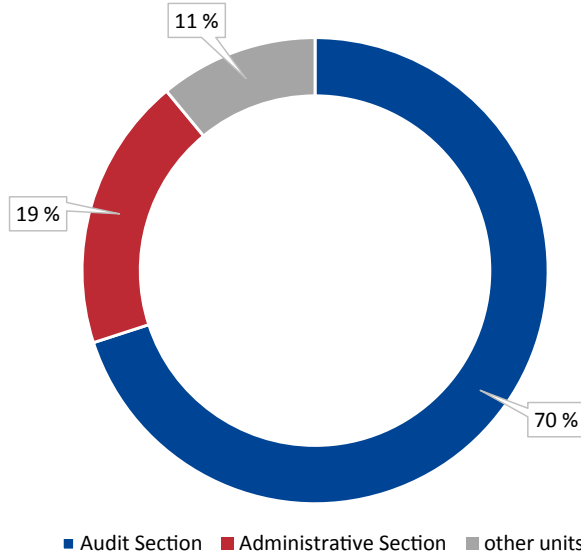
Employees’ professional development is one of the human resources priorities at the SAO. Based on the identified development needs of the SAO’s specialist units, diverse training activities are provided in order to improve employees’ knowledge and skills as part of the SAO’s systematic training system.

The emphasis in internal training events is placed on initial training for new employees, which takes the form of seminars and lectures. Specialist training that improves knowledge in various areas, and above all audit work, is the priority for professional development.

SAO language training took the form of regular lessons in English, French, and German. In addition, intensive language courses and specialised language training were organised to improve knowledge of specialist terminology and presentation skills.

Training focusing on employees’ personal growth was an integral part of internal training activities. The structure of SAO employee training by unit in 2016 is shown in Graph 34.

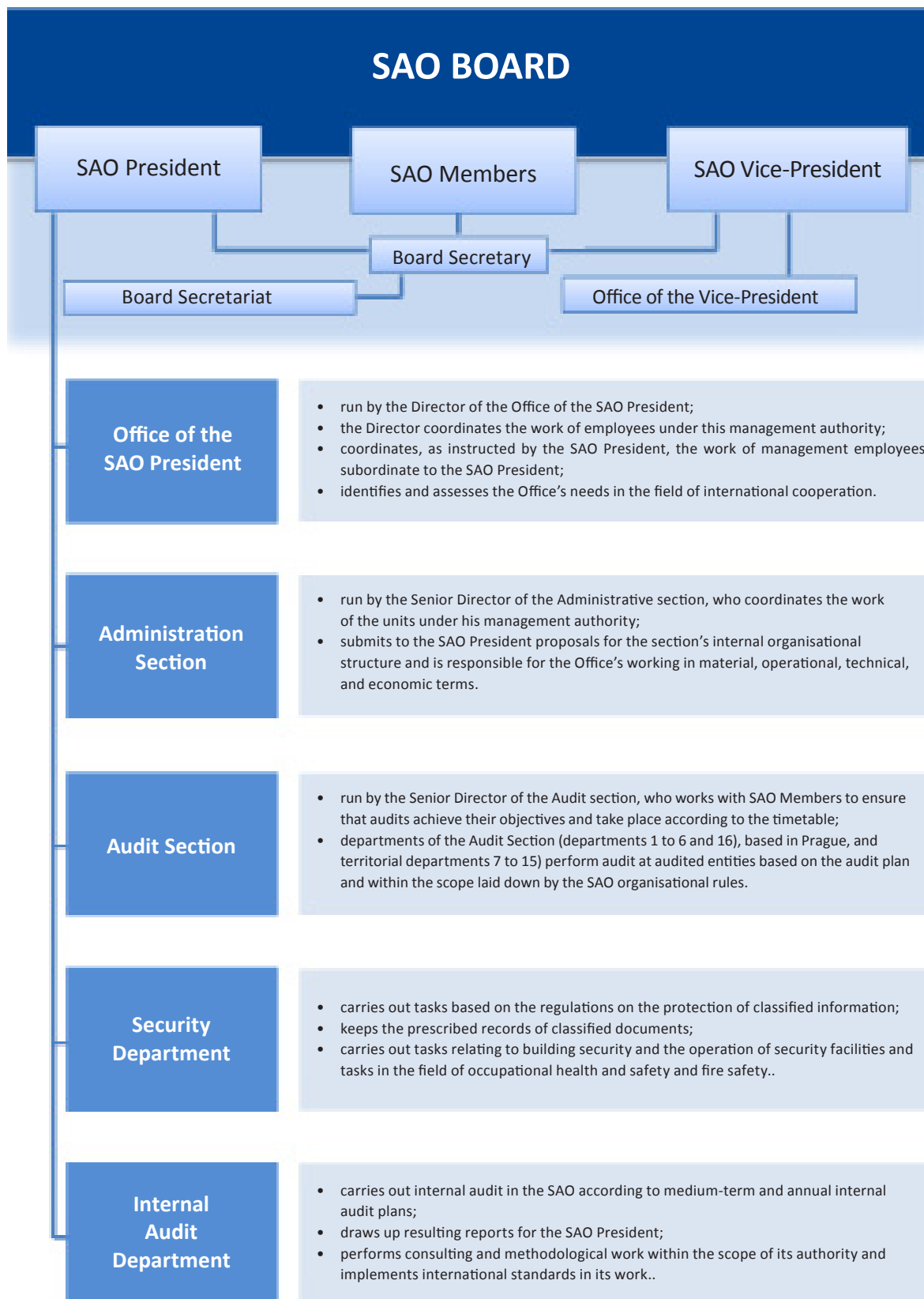
Graph 34: SAO employee training in 2016



Training activities are both outsourced and, to a large extent, provided by internal instructors, who play a key role in passing on knowledge, skills and experiences as part of comprehensive training programmes focusing primarily on audit work (Auditor II, the specialised Performance Audit and Financial Audit courses).

A new training module was added in 2016: cyber security, where evaluation takes the form of online tests.

8 Organisational structure of the SAO



Conclusion

In 2016, the SAO gave answers to the Government, Parliament, and the public, based on 40 completed audits. These audits covered a wide range of areas: from state budget revenues and expenditure to public procurement, the environment, transport and the drawdown and utilisation of finances provided by the European Union. The SAO scrutinised how successful policymakers were in realising their intentions and whether the implementation of their policies involved the economical, efficient and effective use of state finances. In this sense, the SAO provided independent, highly expert, and indispensable feedback.

The results of our work clearly demonstrate that the execution of key state policies is regularly marred by a number of problems. One of these is the weak link between budgeting for these key policies and the actual needs that are fundamental for the individual policies. Budgets are often nothing more than a formal framework for redistributing money, which the SAO has repeatedly found in audits dealing with programme financing, for example. Another problem is that the state evaluates the impacts and benefits of its interventions in a manner making it unclear whether the interventions helped, or how they helped or whether they were, in fact, counterproductive. Last but not least, the state is not entirely certain what it wants to achieve by using the money. And if the state does not know that in the first place, it becomes very hard to avoid the problems listed above.

In addition to key policies, budgeting or the conceptual use of public money, there are also more tangible problems holding back the Czech Republic's advancement. One of them is the complicated and expensive tax collection system, which is complicated for both tax administrators and taxpayers. Nor can the slow development of electronic public administration be overlooked, when correct, rational procedures would facilitate and accelerate contact between the public sphere and the surrounding world. Last but not least, there is the error that numerous transport construction projects still have not been prepared.

These are errors that are more significant than in previous years from a certain point of view. It would be very wrong to say that last year was entirely negative, however: the Czech Republic had the best possible conditions for learning lessons from what are often persistent problems. The state's financial management was better in terms of state budget indicators, largely thanks to the Czech Republic's economic growth and the reverberations from the enormous drawdown of EU budget finances at the end of the last programming period. It therefore had and still does have a rare and very good opportunity to move forwards: to work on and complete meaningful projects that will have an actual benefit; to build infrastructure; to make processes within the state more efficient; and to think of its future. It is not clear how long the Czech Republic will enjoy such an advantageous position, but if the state does not remedy the problems described above, it will miss the opportunity to ensure that the Czech Republic makes genuine significant progress.



Annex 1 to the SAO Annual Report for 2016

Audits in the Audit Plan for 2016							
Audit no. ⁶¹	Subject of audit	Start of audit (month/year)	Audit conclusion submitted for approval (month/year)	Chapter administrator	Audit conclusion written by SAO Member	Audit conclusion approved by	
16/01	EU and state budget funds earmarked for financing of interventions within the Operational Programme Enterprise and Innovation with focus on the fulfilment of objectives	01/2016	11/2016	MoIT	Mr Hrnčíř	SAO Board	
16/02	Funds earmarked for ICT and crisis management systems of units of the Integrated Emergency System	01/2016	11/2016	MoI	Mr Kubiček	SAO Board	
16/03	Closing accounts of state budget chapters the Ministry of Finance, State Debt, State Financial Assets Transactions and General Treasury Management for the year 2015, and data for 2015 submitted for the assessment of fulfilment of the state budget 2015	01/2016	01/2017	MoF	Mr Reisiegel	SAO Board	
16/04	Property under the management of state-owned enterprises that are under authority of the Ministry of Health	01/2016	09/2016	MoH	Mr Kalivoda	SAO Board	
16/05	Funds earmarked for acquisition of military and support equipment for the Armed Forces of the Czech Republic	02/2016	11/2016	MoD	Mr Neuvirt	SAO Board	
16/06	Funds earmarked for modernisation of motorway D1	02/2016	12/2016	MoT	Mr Adámek	SAO Board	
16/07	Funds earmarked for mitigation of impacts of mining activities of the DIAMO state-owned enterprise	02/2016	10/2016	MoF, MoIT	Ms Hykšová	SAO Board	

⁶¹ Audit conclusions approved and/or published in 2016 can be found in the various volumes of the SAO Bulletin, or by clicking on the number of the audit highlighted in blue text in the electronic version of the Annual Report.



Audits in the Audit Plan for 2016							
Audit no. ⁶¹	Subject of audit	Start of audit (month/year)	Audit conclusion submitted for approval (month/year)	Chapter administrator	Audit conclusion written by SAO Member	Audit conclusion approved by	
16/08	Financial statements of the Ministry of Justice for 2015	03/2016	11/2016	MoJ	Ms Steidlová	SAO Board	
16/09	Claims for unused expenditures reported by organisational units of state	03/2016	01/2017	MoT, MoRD, MoH, MoA	Ms Pýchová	SAO Board	
16/10	Funds provided for the improvement of nature and landscape	03/2016	12/2016	MoE	Mr Neuvirt	SAO Board	
16/11	State budget funds earmarked for creation of equal opportunities for persons with disabilities	03/2016	12/2016	MoLSA	Ms Hykšová	SAO Board	
16/12	Arrangements of unified methodological environment for drawdown of EU subsidy in the programming period 2014+	04/2016	02/2017	MoRD	Mr Vedral	SAO Board	
16/13	Funds spent on development of education in the Czech Republic	05/2016	02/2017	MoEYS	Mr Stárek	SAO Board	
16/14	EU and state budget funds earmarked for support of local development within the Leader initiative via the Rural Development Programme	05/2016	01/2017	MoA	Mr Hrnčíř	SAO Board	
16/15	Management of state property and funds allotted to the National Theatre, an organisation co-funded from the state budget	05/2016	01/2017	MoC	Ms Pýchová	SAO Board	



Audits in the Audit Plan for 2016									
Audit no. ⁶¹	Subject of audit	Start of audit (month/year)	Audit conclusion submitted for approval (month/year)	Chapter administrator	Audit conclusion written by SAO Member	Audit conclusion approved by			
16/16	Funds earmarked for the interoperability on the current railways	05/2016	01/2017	MoT	Mr Adámek	SAO Board			
16/17	Accounting of the Ministry of Foreign Affairs	06/2016	02/2017	MoFA	Mr Reisiegel	SAO Board			
16/18	Management of state property and funds allotted to the State Institute for Drug Control	06/2016	03/2017	MoH	Ms Pýchová	SAO Board			
16/19	State funds earmarked for purpose-built support of research and development via the budget chapter the Grant Agency of CR - Czech Science Foundation	06/2016	03/2017	GA CR	Mr Neuvirt	SAO Board			
16/20	State funds spent by the Ministry of Education, Youth and Sports on the development and renewal of the material-technical base of sports	06/2016	03/2017	MoEYS	Mr Stárek	SAO Board			
16/21	Income tax administration and the impacts of legislative amendments on the state budget revenues	06/2016	04/2017	MoF	Mr Kubiček	SAO Board			
16/22	Management of state property and funds allotted to the Road and Motorway Directorate of the Czech Republic, an organisation co-funded from the state budget	07/2016	04/2017	MoT	Mr Adámek	SAO Board			
16/23	Funds earmarked for implementation of measures related to waste management	08/2016	04/2017	MoE	Mr Hrnčíř	SAO Board			
16/24	Management of state property and funds allotted to the National Security Authority	08/2016	05/2017	NSA	Mr Vedral	SAO Board			

Audits in the Audit Plan for 2016							
Audit no. ⁶¹	Subject of audit	Start of audit (month/year)	Audit conclusion submitted for approval (month/year)	Chapter administrator	Audit conclusion written by SAO Member	Audit conclusion approved by	
16/25	Closing account of the state budget chapter the Ministry of Industry and Trade for the year 2015, their financial statements and data for 2015 submitted for the assessment of fulfilment of the state budget 2015	09/2016	05/2017	MoIT	Ms Steidlová	SAO Board	
16/26	Expenditures on operations and use of immovable assets including expenditures on ICT support related to administration, operation and maintenance of immovable assets	09/2016	06/2017	MoF, Mol	Mr Kubiček	SAO Board	
16/27	Funds spent on settlement of operating costs by selected administrators of state budget chapters	09/2016	06/2017	SONS, OPDP, IPO	Mr Vedral	SAO Board	
16/28	Funds spent by selected hospitals on settlement of operating costs	10/2016	08/2017	MoH	Mr Kalivoda	SAO Board	
16/29	Closing account of the state budget chapter the Ministry of Labour and Social Affairs for the year 2015, their financial statements and data for 2015 submitted for the assessment of fulfilment of the state budget 2015	11/2016	07/2017	MoLSA	Mr Vedral	SAO Board	
16/30	State treasury funds and management of state treasury liquidity	11/2016	08/2017	MoF	Mr Reisingel	SAO Board	
16/31	Development and renewal of material and technical basis of state universities	09/2016	07/2017	MoEYS	Mr Málek	SAO Board	
16/32	EU and state budget funds earmarked for the support of cooperation development between municipalities and local partnership	10/2016	06/2017	MoLSA, Mol	Ms Hykšová	SAO Board	



Annex 2 to the SAO Annual Report for 2016

Overview of audits with their audit conclusions approved in 2016							
Audit no. ⁶¹	Subject of audit	Chapter administrator	Audit conclusion written by Member of SAO	Audit conclusion approved by	Date of Approval	Issued in SAO Bulletin no.	
15/09	Funds spent on education support, consultation and promotion within the Ministry of Agriculture	MoA	Mr Kalivoda	SAO Board	10. 6. 2016	4/2016	
15/10	Funds spent on the National Infrastructure for Electronic Public Procurement (NIPEZ) and its utilisation for purchase of selected commodities	MoRD	Mr Sehoř	SAO Board	29. 1. 2016	3/2016	
15/11	State budget funds provided for international development cooperation	MoFA	Mr Kalivoda	SAO Board	8. 1. 2016	3/2016	
15/12	Management of the state property and state funds allotted to the projects concerning IT and communication technology at the Ministry of Industry and Trade	MoIT	Mr Vedral	SAO Board	8. 1. 2016	3/2016	
15/13	State debt and expenses for its financing	MoF	Mr Reisiegel	SAO Board	29. 1. 2016	3/2016	
15/14	Funds earmarked for modernisation of III. and IV. transit railway corridor	MoT	Mr Adámek	SAO Board	29. 1. 2016	3/2016	
15/15	Taxation of real estate, real estate possession transfer and property acquired by inheritance or gift	MoF	Ms Profeldová	SAO Board	12. 2. 2016	3/2016	
15/16	Funds earmarked for financing of selected programmes that are in the competence of the Ministry of Justice	MoJ	Mr Neuvirt	SAO Board	8. 1. 2016	3/2016	
15/17	Funds spent on measures related to streamlining of tax and insurance collection and administration, mainly within the project „Setup of single collection point for state budget revenues“	MoF	Mr Macháček	SAO Board	8. 4. 2016	4/2016	
15/18	Funds earmarked for housing support	MoRD	Mr Hrnčíř	SAO Board	29. 1. 2016	3/2016	

Overview of audits with their audit conclusions approved in 2016						
Audit no. ⁶¹	Subject of audit	Chapter administrator	Audit conclusion written by Member of SAO	Audit conclusion approved by	Date of Approval	Issued in SAO Bulletin no.
15/19	Closing account of the state budget chapter the Ministry of Culture for the year 2014, the financial statements of the Ministry of Culture for 2014 and data submitted by the Ministry of Culture for the assessment of state budget fulfilment for the year 2014	MoC	Mr Vedral	SAO Board	5. 2. 2016	3/2016
15/20	Investment incentives as a tool of active employment policy	MoLSA	Mr Kalivoda	SAO Board	4. 3. 2016	3/2016
15/21	Funds earmarked for re-cultivation in the locality of Most and Chabařovice lakes	MoF, MoIT	Ms Hykšová	SAO Board	25. 3. 2016	3/2016
15/22	State budget funds provided for the public service in railway passenger transport	MoT	Mr Adámek	SAO Board	4. 3. 2016	3/2016
15/23	Management of the state property and state funds allotted to the projects concerning IT and communication technology at the Ministry of Transport	MoT	Mr Neuvirt	SAO Board	1. 4. 2016	4/2016
15/24	Funds earmarked for the implementation of EU asylum and migration policy objectives	Mol	Ms Hykšová	SAO Board	18. 3. 2016	3/2016
15/25	State property and funds allotted to the Ministry of Foreign Affairs	MoFA	Mr Macháček	SAO Board	15. 4. 2016	4/2016
15/26	EU and State budget funds spent within technical assistance for the activities related to publicity and promotion of operational programmes and projects implemented in the programming period 2007-2013	MoRD, MoLSA, MoEYS	Mr Vedral	SAO Board	29. 4. 2016	4/2016
15/27	State funds earmarked for special-purpose support of research and development within the budget chapter of the Technological Agency of the Czech Republic	TA CR	Mr Neuvirt	SAO Board	6. 5. 2016	4/2016
15/28	State property and funds allotted to the State Cinematography Fund	–	Mr Kufa	SAO Board	13. 5. 2016	4/2016
15/29	Funds earmarked for the construction of motorway D8	MoT	Mr Sehoř	SAO Board	29. 4. 2016	4/2016



Overview of audits with their audit conclusions approved in 2016									
Audit no. ⁶¹	Subject of audit	Chapter administrator	Audit conclusion written by Member of SAO	Audit conclusion approved by	Date of Approval	Issued in SAO Bulletin no.			
15/30	State property and funds allotted to the state-funded organisation „Zařízení služeb pro Ministerstvo vnitra“ (Services for the Ministry of the Interior)	Mol	Mr Reisiel	SAO Board	13. 5. 2016	4/2016			
15/31	Funds earmarked for arrangement of information support for the system of programme and subsidy financing, and for collected subsidies and programmes of property reproduction	MoF	Mr Reisiel	SAO Board	24. 6. 2016	4/2016			
15/32	Financial statements of the Ministry of the Interior as of 31. 12. 2014	Mol	Ms Steidlová	SAO Board	13. 5. 2016	4/2016			
15/33	Excise Duty Administration	MoF	Mr Kalivoda	SAO Board	14. 10. 2016	1/2017			
15/34	Funds spent on settlement of expenses related to operation of selected ministries	MoD, MoLSA, MoA	Mr Vedral	SAO Board	22. 7. 2016	4/2016			
15/35	Closing account of the state budget chapter the Ministry of Education, Youth and Sports for the year 2015, the financial statements of the Ministry of Education, Youth and Sports for 2015 and data submitted by the Ministry of Education, Youth and Sports for the assessment of state budget	MoEYS	Ms Steidlová	SAO Board	8. 7. 2016	4/2016			
15/36	Funds spent in relation to preparation and execution of elections	Mol, MoF, ČSÚ	Mr Kubiček	SAO Board	15. 7. 2016	1/2017			
15/38	State property and funds allotted to the state-funded organisation „Vojenská lázeňská a rekreační zařízení“ (Army Spa and Recreational Facilities)	MoD	Mr Stárek	SAO Board	5. 8. 2016	1/2017			
15/39	State property and funds allotted to the selected organisational units of the state within the Institute for the Study of Totalitarian Regimes and Security Services Archive	ISTR	Mr Kubiček	SAO Board	5. 2. 2016	3/2016			
15/40	Funds earmarked for development and renewal of the material-technical base of state cultural facilities	MoC	Ms Pýchová	SAO Board	8. 7. 2016	4/2016			



Overview of audits with their audit conclusions approved in 2016							
Audit no. ⁶¹	Subject of audit	Chapter administrator	Audit conclusion written by Member of SAO	Audit conclusion approved by	Date of Approval	Issued in SAO Bulletin no.	
16/01	EU and state budget funds earmarked for financing of interventions within the Operational Programme Enterprise and Innovation with focus on the fulfilment of objectives	MoIT	Mr Hrnčíř	SAO Board	28. 11. 2016	1/2017	
16/02	Funds earmarked for ICT and crisis management systems of units of the Integrated Emergency System	Mol	Mr Kubiček	SAO Board	28. 11. 2016	1/2017	
16/04	Property under the management of state-owned enterprises that are under authority of the Ministry of Health	MoH	Mr Kalivoda	SAO Board	17. 10. 2016	1/2017	
16/05	Funds earmarked for acquisition of military and support equipment for the Armed Forces of the Czech Republic	MoD	Mr Neuvirt	SAO Board	14. 11. 2016	1/2017	
16/06	Funds earmarked for modernisation of motorway D1	MoT	Mr Adámek	SAO Board	19. 12. 2016	1/2017	
16/07	Funds earmarked for mitigation of impacts of mining activities of the DIAMO state-owned enterprise	MoF, MoIT	Ms Hykšová	SAO Board	14. 11. 2016	1/2017	
16/08	Financial statements of the Ministry of Justice for 2015	MoJ	Ms Steidlová	SAO Board	28. 11. 2016	1/2017	
16/10	Funds provided for the improvement of nature and landscape	MoE	Mr Neuvirt	SAO Board	19. 12. 2016	1/2017	
16/11	State budget funds earmarked for creation of equal opportunities for persons with disabilities	MoLSA	Ms Hykšová	SAO Board	19. 12. 2016	-	



Annex 3 to the SAO Annual Report for 2016

Overview of audits whose approved audit conclusions were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2016						
Committee resolution no.	Date discussed	Audit number ⁶¹	Ref. no. of Government material	Government resolution (number/year)	Summary of the Committee resolution	
233	15. 12. 2016	14/10	1131/16	991/16	The Committee I. suspends the discussion of the audit conclusion; II. requests the minister of culture to submit to the Committee by 31 January 2017 up-to-date information on the implementation of the timetable of the Single Records and Grant Information System and on its envisaged cost.	
232	15. 12. 2016	14/01	1455/16; 663/15	74/15	The Committee I. suspends the discussion of the audit conclusion; II. requests the minister of culture to submit to the Committee by 31 January 2017: a) an overview of external consultation, advisory and legal services for 2015 and 2016 and b) written replies to the unanswered questions arising out of the discussion at the Committee meeting.	
213	9. 6. 2016	14/27	969/15	687/15	The Committee notes: a) audit conclusion 14/27; b) the MoF opinion on the audit conclusion contained in Section IV of Government material no. 969/15; c) Government resolution no. 687/15.	
207	8. 6. 2016	14/21	773/15	1002/15	The Committee notes: a) audit conclusion 14/21; b) the MoT opinion on the audit conclusion contained in Section IV of Government material no. 773/15; c) Government resolution no. 1002/15.	
206	8. 6. 2016	13/33	1135/14	72/15	The Committee I. notes: a) audit conclusion 13/33; b) the MoT opinion on the audit conclusion contained in Section IV of Government material no. 1135/14; c) Government resolution no. 72/15; II. requests the transport minister to submit to the Committee by 30 June 2016 information about talks on the exchange of territory in Hamburg.	
201	12. 5. 2016	14/10	-	-	The Committee strongly requests that the culture minister submit to the Government without undue delay the material relating to audit conclusion 14/10 that it was meant to submit by 31 January 2015 at the request of the prime minister (of 15 December 2014).	
198	12. 5. 2016	14/11	728/15; 72/16	998/15	The Committee I. notes: a) audit conclusion 14/11, b) the opinions of the MoA, Morava River Authority and Ohře River Authority on audit conclusion 14/11 contained in Section IV of Government material ref. no. 728/15; c) Government resolution no. 998 of 7. 12. 2015; d) the information from the MoA, Morava River Authority and Ohře River Authority on the state of implementation of measures adopted in response to the findings in audit conclusion 14/11 as referred to in Government material ref. no. 72/16; II. asks the agriculture minister to submit to the Committee by 12. 6. 2016: a) the development of hydroelectricity in the river authority state firms; b) an overview of public administration inspections done in 2015 river authority state firms.	

Overview of audits whose approved audit conclusions were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2016					
Committee resolution no.	Date discussed	Audit number ⁶¹	Ref. no. of Government material	Government resolution (number/year)	Summary of the Committee resolution
191	28. 4. 2016	14/03	107/15	1001/15	<p>The Committee I. notes:</p> <p>a) audit conclusion 14/03;</p> <p>b) the MoT opinion on audit conclusion 14/03 as referred to in Section IV of Government material no. 107/15;</p> <p>c) Government resolution no. 1001 of 7. 12 2015;</p> <p>II. recommends that the transport minister widen the set of measures listed in the MoT opinion on audit conclusion 14/03 (Government ref. no. 107/15) to include measures incorporating the following SAO comments:</p> <p>a) the SAO recommends eliminating the discrepancies between the MoT's conceptual materials;</p> <p>b) the SAO regards the absence of measurement and evaluation mechanisms as a fundamental problem;</p> <p>c) the SAO recommends making the start of work on the Příklad range and Pardubice port conditional on the existence of a binding decision on the preparation and implementation of projects ensuring the lower Labe will be navigable;</p> <p>d) the SAO insists that binding rules must be defined to minimise costs on contingent investments and ensure that documentation of the investor's and financing entity's procedure is transparent;</p> <p>e) the SAO recommends that the causes and effects of changes are addressed when investment plans are updated.</p>
176	18. 2. 2016	12/23	968/13; 1498/14; 1557/14; 1572/14	772/13	<p>The Committee I. notes:</p> <p>a) audit conclusion 12/23;</p> <p>b) the MoH opinion on audit conclusion 12/23 as referred to in Section IV of Government material no. 968/13;</p> <p>c) the MoH information on the execution of measures per Government resolution no. 722 in connection with ensuring the measures listed in audit conclusion 12/23 are implemented as referred to in Section II of Government material ref. no. 1557/14;</p> <p>II. requests the health minister to submit to the Committee information:</p> <p>a) on measures taken to rationalise purchases of medicaments and medical equipment and on specific anti-corruption measures taken (anti-corruption directive) by the MoH;</p> <p>b) whether healthcare facilities established by the MoH using the same graph of accounts.</p>
174	18. 2. 2016	12/03	448/13; 1340/13	414/13	<p>The Committee I. notes:</p> <p>a) audit conclusion 12/03;</p> <p>b) the MoH opinion on audit conclusion 12/03 as referred to in Section III of Government material no. 488/13;</p> <p>c) the MoH information on the implementation of corrective measures stemming from audit conclusion 12/03 as contained in Section II of Government material ref. no. 1340/13;</p> <p>II. asks the health minister to submit to the Committee:</p> <p>a) the composition of the Commission for Assessing the Deployment of Medical Apparatus and the Commission's work methodology, and an explanation of the criteria the Commission decides according to;</p> <p>b) information on the current state of implementation of measures stemming from audit conclusion 12/03.</p>



Overview of audits whose approved audit conclusions were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2016						
Committee resolution no.	Date discussed	Audit number ⁶¹	Ref. no. of Government material	Government resolution (number/year)	Summary of the Committee resolution	
173	18. 2. 2016	14/23	1042/15	997/15	<p>The Committee I. notes:</p> <p>a) audit conclusion 14/23;</p> <p>b) the MoI opinion on audit conclusion 14/23 as referred to in Section IV of Government material no. 1042/15.</p>	
169	14. 1. 2016	14/04	331/15	1004/15	<p>The Committee I. notes:</p> <p>a) audit conclusion 14/04;</p> <p>b) the MoEYS opinion on audit conclusion 14/04 as referred to in Section IV of Government material no. 331/15;</p> <p>c) the SAO's comments on the MoEYS opinion and proposed measures in respect of audit conclusion 14/04 as presented by the SAO in the consultation process;</p> <p>c) the MoF opinion on the MoEYS opinion and proposed measures in respect of audit conclusion 14/04 as presented by the MoF in the consultation process;</p> <p>II. requests the education minister to ensure the sport funding system is transparent and the serious shortcomings listed in audit conclusion 14/04 are remedied as soon as possible.</p>	
168	14. 1. 2016	14/02	59/15; 1210/15	75/15	<p>The Committee I. notes:</p> <p>a) audit conclusion 14/02;</p> <p>b) the State Administration of Land Surveying and Cadastre's opinion on audit conclusion 14/02 as referred to in Section IV of Government material no. 59/15;</p> <p>c) the State Administration of Land Surveying and Cadastre's information on the state of implementation of measures adopted in respect of the findings of audit conclusion 14/02 as referred to in Section II of Government material no. 1210/15.</p>	
167	14. 1. 2016	13/25	629/14; 834/15	1025/14	<p>The Committee I. notes:</p> <p>a) audit conclusion 13/25;</p> <p>b) the MoLSA opinion on audit conclusion 13/25 as referred to in Section IV of Government material no. 629/14;</p> <p>c) information on the implementation of measures adopted to remedy and eliminate the shortcomings listed in audit conclusion 13/25 as contained in Government material no. 834/15;</p> <p>II. requests the labour and social affairs minister to submit a document showing that the state aid in the provision of services ranks as a service in the general economic interest pursuant to Commission Implementing Directive 2012/21/EU and does not require notification to the European Commission.</p>	

Annex 4 to the SAO Annual Report for 2016

Overview of audits whose approved audit conclusions were discussed by the Czech Government in 2016

Government resolution no.	Date discussed	Ref. no. of Government material	Audit number ⁶¹	Measures imposed by the Government
1094/16	5. 12. 2016	1552/16	15/25	The Government instructs the foreign affairs minister to execute by 31.12.2016 the measures contained in the opinion on the audit conclusion as referred to in Section III of material no. 1552/16.
1086/16	5. 12. 2016	1392/16	15/09	The Government instructs the agriculture minister and SAIF director to execute the measures contained in the opinion on the audit conclusion as referred to in Section IV of material no. 1392/16 and to inform the Government of progress by 30.6.2018.
1085/16	5. 12. 2016	1445/16	15/40	The Government instructs the culture minister with ensuring that the measures contained in the opinion on the audit conclusion and referred to in Section IV of material no. 1445/16 are implemented.
1084/16	5. 12. 2016	1405/16	15/28	The Government instructs the culture ministry and the State Cinematography Fund director to ensure the measures contained in the opinion referred to in Section III of material no. 1405/16 are implemented.
1083/16	5. 12. 2016	1349/16	15/35	The Government instructs the education minister to implement the measures contained in the opinion on the audit conclusion and referred to in Section III of material 1349/16.
1082/16	5. 12. 2016	1249/16	15/26	The Government instructs the education minister to implement the measures contained in the opinion on the audit conclusion and referred to in Section III of material 1249/16.
1081/16	5. 12. 2016	1393/16	15/30	The Government instructs the interior minister to implement the corrective measures contained in the opinion on the audit conclusion and referred to in Section III of material 1393/16.
1080/16	5. 12. 2016	1301/16	15/32	The Government instructs the interior minister to implement the measures contained in the opinion on the audit conclusion and referred to in Section IV of material 1301/16.



Overview of audits whose approved audit conclusions were discussed by the Czech Government in 2016				
Government resolution no.	Date discussed	Ref. no. of Government material	Audit number ⁶¹	Measures imposed by the Government
1079/16	5. 12. 2016	1268/16	15/27	The Government instructs the 1. the deputy prime minister for science, research and innovation and the President of the Technology Agency to evaluate the measures contained in the opinion on the audit conclusion and referred to in Section III of material no. 1268/16 and to inform the Government of progress by 31. 12. 2017; 2. the deputy prime minister for economics and the finance minister, in cooperation with the deputy prime minister for science, research and innovation, to take into account the results of the audit conclusion when increasing personnel capacity in connection with the optimisation of the work of the Technology Agency and in line with the Technology Agency development concept discussed by the Council for Research, Development and Innovation at its 313th session on 26. 2. 2016. The extent of the staffing changes and any increase in personnel capacities will be based on the conclusions of a personnel audit the Technology Agency will discuss with the deputy prime minister for science, research and innovation by 15. 12. 2016.
1078/16	5. 12. 2016	1279/16	15/17	no instructions
1077/16	5. 12. 2016	1085/16	15/39	no instructions
991/16	7. 11. 2016	1131/16	14/10	The Government instructs the culture minister to implement measures to eliminate the shortcomings listed in the audit conclusion, and to do so within the framework of the existing personnel capacities and salary resources of the Ministry of Culture budget heading and to inform the Government of progress by 31. 12. 2016.
990/16	7. 11. 2016	1068/16	15/20	The Government instructs the labour and social affairs ministry to implement measures to remedy and eliminate the shortcomings listed in the audit conclusion as mentioned in the opinion on the audit conclusion referred to in Section IV of material no. 1068/16.
-	7. 11. 2016	890/16	15/25	Withdrawn from the agenda.
989/16	7. 11. 2016	884/16	15/21	The Government instructs the 1st deputy prime minister for the economy and the finance minister and industry and trade minister to implement the measures mentioned in the opinion on the audit conclusion as referred to in Section III of material no. 884/16 and inform the Government of progress by 31 August 2018.
988/16	7. 11. 2016	1045/16	14/31	The Government approves the report on the audit conclusion referred to in Section III of material no. 1045/16 and instructs the minister for regional development to implement corrective measures within the meaning of the findings listed in the audit conclusion.



Overview of audits whose approved audit conclusions were discussed by the Czech Government in 2016					
Government resolution no.	Date discussed	Ref. no. of Government material	Audit number ⁶¹	Measures imposed by the Government	
987/16	7. 11. 2016	853/16	15/10	The Government instructs the minister for regional development 1. to prepare and implement measures responding to the SAO's recommendations in the audit conclusion and implement the measures mentioned in the opinion on the audit conclusion as referred to in Section III of material no. 853/16; 2. to inform the Government of the implementation of these measures by 31. 3. 2017.	
986/16	7. 11. 2016	1129/16	14/35	The Government instructs the interior minister to implement the measures contained in the opinion on the audit conclusion and referred to in Section IV of material no. 1129/16.	
985/16	7. 11. 2016	1100/16	15/24	no instructions	
984/16	7. 11. 2016	1123/16	15/23	The Government instructs the transport minister to implement the measures contained in the opinion on the audit conclusion as referred to in Section IV of material no. 1123/16.	
983/16	7. 11. 2016	1121/16	15/29	The Government instructs the transport minister to implement the measures contained in the opinion on the audit conclusion as referred to in Section IV of material no. 1121/16.	
982/16	7. 11. 2016	868/16	15/22	The Government instructs the transport minister to implement the measures contained in the opinion on the audit conclusion as referred to in Section IV of material no. 868/16.	
777/16	31. 8. 2016	645/16	15/19	The Government instructs the culture minister 1. to ensure that measures to eliminate the shortcomings contained in the opinion on the audit conclusion as referred to in Section IV of material no. 645/16 are implemented; 2. to inform the Government by 1. 1. 2017 on the implementation of the measures listed in Section III of material no. 645/16.	
776/16	31. 8. 2016	687/16	15/18	The Government instructs the minister for regional development to implement measures in line with the opinion on the audit conclusion referred to in Section IV of material no. 687/16.	
775/16	31. 8. 2016	686/16	15/04	no instructions	



Overview of audits whose approved audit conclusions were discussed by the Czech Government in 2016					
Government resolution no.	Date discussed	Ref. no. of Government material	Audit number ⁶¹	Measures imposed by the Government	
774/16	31. 8. 2016	499/16	15/06	The Government instructs the minister for regional development and education minister to implement the measures listed in the opinions on the audit conclusion and referred to in Section III of material no. 499/16.	
773/16	31. 8. 2016	735/16	15/14	The Government instructs the transport minister to implement the measures proposed in the opinion on the audit conclusion as referred to in Section IV of material no. 735/16.	
772/16	31. 8. 2016	1073/15	14/30	The Government instructs the transport minister to ensure that the measures contained in the opinion on the audit conclusion as referred to in Section IV of material no. 1073/16 are implemented.	
771/16	31. 8. 2016	715/16	15/13	The Government instructs the 1st deputy prime minister for the economy and the finance minister to implement the measures mentioned in the opinion on the audit conclusion as referred to in Section IV of material no. 715/16 and inform the Government of progress by 31. 12. 2017.	
770/16	31. 8. 2016	712/16	15/15	The Government instructs the 1st deputy prime minister for the economy and the finance minister to implement the measures mentioned in the opinion on the audit conclusion as referred to in Section III of material no. 712/16 and inform the Government of progress by 31. 12. 2017.	
444/16	18. 5. 2016	571/16	14/36	The Government instructs the defence minister to implement measures to eliminate the shortcomings listed in the audit conclusion and in the opinion on the audit conclusion contained in Section III of material no. 571/16, to evaluate the implementation of the measures to acquaint the Government with their evaluation by 31. 1. 2017.	
443/16	18. 5. 2016	570/16	15/05	The Government instructs the 1st deputy prime minister for the economy, the finance minister, industry and trade minister and agriculture minister to implement the measures mentioned in the opinion on the audit conclusion as referred to in Section III of material no. 570/16 and inform the Government of progress by 31. 12. 2017.	
442/16	18. 5. 2016	557/16	15/12	The Government instructs the industry and trade minister 1. to execute the measures contained in the opinion on the audit conclusion as contained in Section IV of material no. 557/16; 2. to inform the Government by 31. 12. 2016 of progress in the implementation of the measures contained in the audit conclusion and referred to in Section III of material no. 557/16.	
441/16	18. 5. 2016	460/16	14/33	The Government instructs the health minister to inform the Government by 31. 3. 2017 about the final state of implementation of the measures referred to in Section III/c of material 460/16.	

Overview of audits whose approved audit conclusions were discussed by the Czech Government in 2016					
Government resolution no.	Date discussed	Ref. no. of Government material	Audit number ⁶¹	Measures imposed by the Government	
440/16	18. 5. 2016	446/16	15/11	The Government instructs the foreign affairs minister 1. to strive to strengthen resources for the official development assistance of the CR within the capacity of the state budget; 2. in cooperation with the Czech Development Agency director, to ensure the measures contained in the opinion on the audit conclusion as referred to in Section IV of material no. 446/16 are implemented.	
439/16	18. 5. 2016	383/16	15/16	The Government instructs the justice minister to inform the Government by 31. 1. 2017 about the implementation of measures adopted to eliminate the shortcomings listed in Section IV of material no. 383/16.	
299/16	7. 4. 2016	1459/15	14/41	The Government instructs the defence minister to implement measures to eliminate the shortcomings listed in the audit conclusion and in the opinion on the audit conclusion contained in Section IV of material no. 1459/15, to evaluate the implementation of the measures to acquaint the Government with the result of their evaluation by 31. 3. 2017.	
298/16	7. 4. 2016	304/16	15/07	The Government instructs the health minister to execute the measures contained in the opinion on the audit conclusion as contained in Section IV of material no. 304/16.	
297/16	7. 4. 2016	365/16	15/08	The Government instructs the interior minister to execute the measures contained in the opinion on the audit conclusion as referred to in Section IV of material no. 365/16.	
296/16	7. 4. 2016	320/16	15/03	The Government instructs the interior minister to execute the measures contained in the opinion on the audit conclusion as referred to in Section IV of material no. 320/16.	
161/16	24. 2. 2016	130/16	15/02	The Government instructs 1. the industry and trade minister, annually and in cooperation with the environment minister and minister for regional development, to evaluate developments in energy savings and their support and the effectiveness of the implemented measures; 2. the industry and trade minister and the Coordination Committee for the Implementation of the National Action Plan for Energy Efficiency established by him to submit to the Government, once a year, information on developments in energy savings and support for them and the effectiveness of the implemented measures, with the first information to be submitted to the Government by 31. 5. 2017.	
160/16	24. 2. 2016	1478/15	14/32	The Government instructs the transport minister to implement measures to eliminate the shortcomings listed in the audit conclusion and in the opinion on the audit conclusion as referred to in Section IV of material no. 1478/16 and to inform the Government of progress until 31. 10. 2017.	
159/16	24. 2. 2016	1347/15	14/38	The Government instructs the labour and social affairs minister to implement measures to remedy and eliminate the shortcomings listed in the audit conclusion and in the opinion on the audit conclusion referred to in Section IV of material no. 1347/15.	



Overview of audits whose approved audit conclusions were discussed by the Czech Government in 2016					
Government resolution no.	Date discussed	Ref. no. of Government material	Audit number ⁶¹	Measures imposed by the Government	
158/16	24. 2. 2016	1532/15	15/01	The Government instructs the agriculture minister to implement the measures contained in the opinion on the audit conclusion as referred to in Section III of material no. 1532/15 and inform the Government about their implementation by 30. 6. 2017.	
157/16	24. 2. 2016	1534/15	14/37	The Government instructs the education minister and agriculture minister to implement the measures listed in Section IV of material no. 1534/15.	
156/16	24. 2. 2016	1281/15	14/24	The Government instructs the education minister to implement the measures contained in the opinion on the audit conclusion and referred to in Section III of material 1281/15.	
155/16	24. 2. 2016	1563/15	14/28	The Government instructs the 1st deputy prime minister for the economy and the finance minister to implement the measures mentioned in the opinion on the audit conclusion as referred to in Section III of material no. 1563/15 and inform the Government of progress by 31. 12. 2016.	
154/16	24. 2. 2016	1354/15	14/25	The Government instructs the 1st deputy prime minister for the economy and the finance minister to implement the measures mentioned in the opinion on the audit conclusion as referred to in Section III of material no. 1354/15 and inform the Government of progress by 1. 8. 2016.	
108/16	8. 2. 2016	1202/15	14/29	The Government instructs the culture minister and the education minister: 1. to ensure the measures contained in the MoC and MoEYS opinions on the audit conclusion contained in Sections IV and V of material no. 1202/15 are implemented; 2. to inform the Government about the implementation of these measures by 30. 6. 2016.	
107/16	8. 2. 2016	1256/15	14/34	The Government instructs the agriculture minister to execute the measures contained in the MoA and State Land Office opinion on the audit conclusion as referred to in Section IV of material no. 1256/15 and to inform the Government about their implementation by 30. 6. 2016.	
106/16	8. 2. 2016	1170/15	14/15	The Government instructs the interior minister 1. to make allowance for the outputs from the audit conclusion when updating the Strategic Framework for the Development of Public Administration of the CR for 2014–2020; 2. to propose a solution for the monitoring of all projects mentioned in the Implementation Plans of the Strategic Framework for the Development of Public Administration of the CR for 2014–2020.	



Overview of audits whose approved audit conclusions were discussed by the Czech Government in 2016				
Government resolution no.	Date discussed	Ref. no. of Government material	Audit number ⁶¹	Measures imposed by the Government
105/16	8. 2. 2016	1211/15	14/14	The Government I. instructs 1. members of Government and heads of other central state administration bodies to proceed according to the uniform particulars mentioned in Annexes 1 and 2 of this resolution when submitting requests for budgetary measures from the General Treasury Administration heading for expenditure not covered by the budget; 2. the 1st deputy prime minister for the economy and the finance minister to submit to the Government an amendment of Act No. 218/2000, on the budgetary rules, and amending certain related acts (the budgetary rules), as amended, in line with the conclusions contained in the audit conclusion; II. recommends that the heads of the Office of the President of the Republic, the Office of the Chamber of Deputies, the Office of the Senate and the Office of the Public Defender of Rights, and the Presidents of the Constitutional Court, the Academy of Sciences, the Radio and Television Council, the Office for the Protection of Competition, the Council of the Czech Telecommunication Office, the Grant Agency and the SAO to proceed according to the above provision.
104/16	8. 2. 2016	1189/15	14/17	The Government instructs the 1st deputy prime minister for the economy and the finance minister to scrutinise the reasons for further corrections to tax levels for receivables owed by debtors in insolvency proceedings and, if appropriate, to take further measures or propose legislative changes.
103/16	8. 2. 2016	9/16	14/06	The Government instructs the industry and trade minister, in cooperation with the environment minister, agriculture minister and President of the Energy Regulation Office to evaluate annually the effectiveness of implemented measures and general developments in the development of renewable energy sources and their support, with the first information to be submitted to the Government by 31. 3. 2017.

Annex 5 to the SAO Annual Report for 2016

List of acronyms

ADIS	automated tax information system (from Czech <i>Automatizovaný daňový informační systém</i>)
CA CR	Customs Administration of the CR
CR	Czech Republic
CSO	Czech Statistical Office
CSSA	Czech Social Security Administration
CPV	Common Procurement Vocabulary
DESI	digital economy and society index
EDA	European Defence Agency
EDET	excise duties and energy taxes
EIA	Environmental Impact Assessment
ESA	European Space Agency
FA CR	Financial Administration of the CR
EDGI	eGovernment development index
EDS/SMVS	Information system of programmed financing (from Czech <i>Evidenční dotační systém and Správa majetku ve vlastnictví státu</i>)
EMS	emergency medical service
EU	European Union
GA CR	Grant Agency of the Czech Republic
GCI	Global Competitiveness Index
GCIS	Government Council for Information Society
GDC	General Directorate of Customs
GDP	Gross Domestic Product
ICT	information and communication technology
IPO	Industrial Property Office
IS	Information system
ISTR	Institute for the Study of Totalitarian Regimes
MaST	Modern and Simple Taxes
MISF	Ministry of the Interior Services Facility
MoA	Ministry of Agriculture
MoC	Ministry of Culture
MoD	Ministry of Defence
MoE	Ministry of the Environment
MoEYS	Ministry of Education, Youth and Sports
MoF	Ministry of Finance

MoFA	Ministry of Foreign Affairs
MoH	Ministry of Health
MoI	Ministry of the Interior
MoIT	Ministry of Industry and Trade
MoJ	Ministry of Justice
MoLSA	Ministry of Labour and Social Affairs
MoT	Ministry of Transport
MoRD	Ministry of Regional Development
MSRF	Military Spa and Recreation Facilities
NEI	National Electronic Instrument
NGO	non-Governmental non-profit organization
NIPEZ	National Infrastructure for Electronic Public Procurement
NPWP	negotiated procedure without publication
NIS IRS	National Information System for the Integrated Rescue System
NSA	National Security Authority
OECD	Organisation for Economic Co-operation and Development
OP	operational programme
OPDP	Office for Personal Data Protection
OPEI	operational programme <i>Enterprise and Innovation</i>
OTP	open tender procedure
RDI	Research, Experimental Development, and Innovation
RDP	Rural Development Programme
RIC	regional information centre
SAO	Supreme Audit Office
SB	state budget
SHSF	State Housing Support Fund
SONS	State Office for Nuclear Safety
UN	United Nations
VAT	value added tax
TA CR	Technological Agency of the Czech Republic

