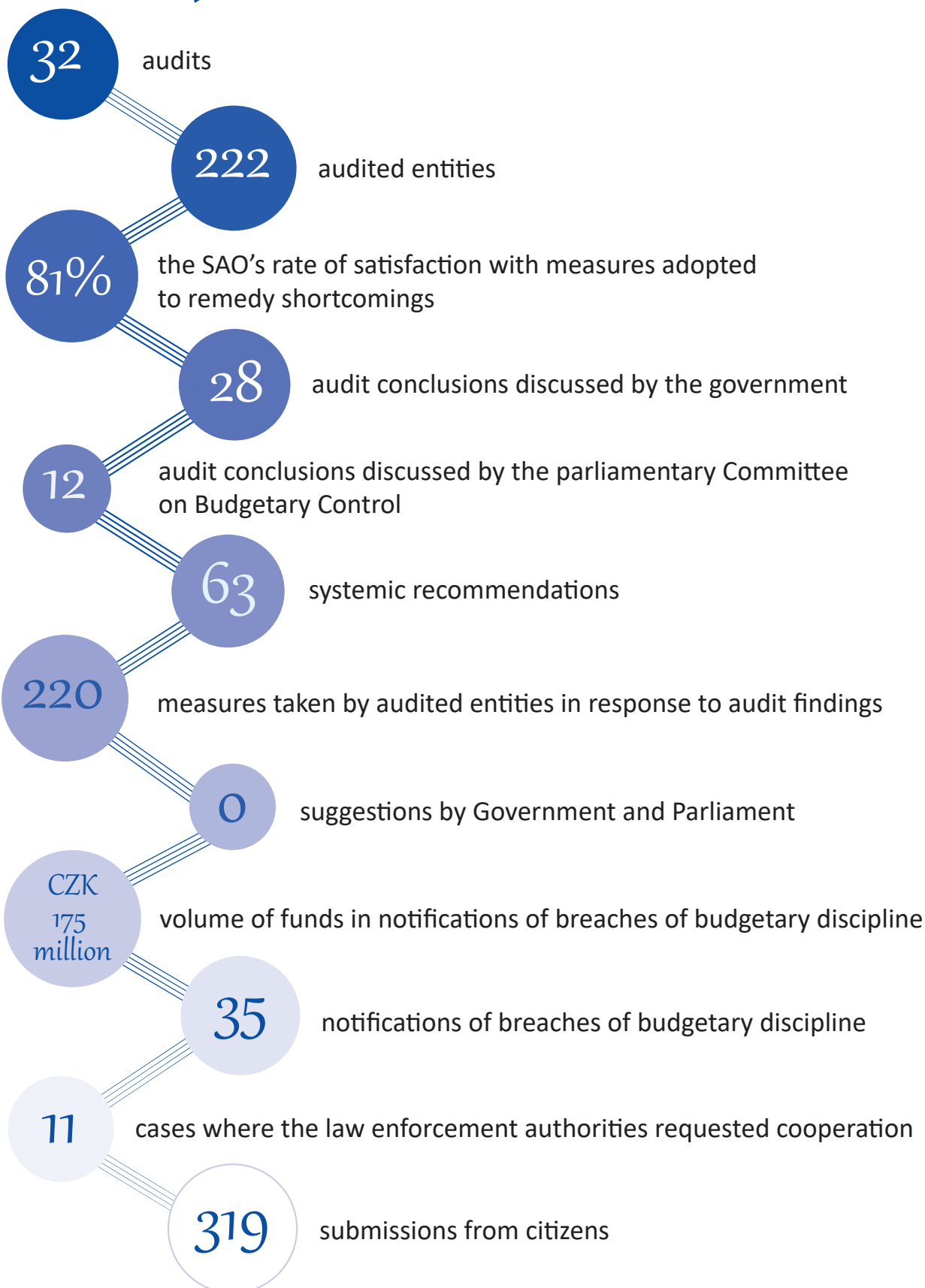


ANNUAL REPORT 2017



THE SAO IN 2017



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Opening message from the SAO President

Dear readers,

the Supreme Audit Office provides information about the state's financial management based on hard facts. This information is feedback for politicians who set the Czech Republic's course, or strategy, if you will. It also provides feedback for government officials who follow the course set and start to breathe life into and give form to the chosen strategy. The information is also useful for citizens, of course.

It is remarkable how citizens' judgements differ from the opinions of politicians and officials. Citizens expect that they will live in an effective, fair and cheap state that puts in place the necessary functions, is user-friendly, open and transparent and abides by its own clear and declared rules. Citizens want to live in a state where public affairs are run properly, where there is rule of law and where a high standard of fundamental human rights is guaranteed.

And it is no less remarkable that these natural demands of citizens are not fully satisfied. One just has to see how arcane and bureaucratic the tax system is, how poor the quality of the budget process is, how slowly the state moves when preparing to build motorways or how complicated and slow the system for distributing European subsidies is. Indeed, you will find many examples on the following pages.

Good governance is not just an idea from a fairy tale about a good king. Good governance is based on the decisions politicians and officials make every day when carrying out their duties. The everyday decisions always either improve the current state of affairs or worsen it. According to the World Economic Forum, the Czech Republic lies in 31st place in terms of competitiveness, while the country's public sector finished in 100th place out of 137 rated countries. I think this lays bare the reason for citizens' different take on things – the performance of the state administration lags far behind the country's economic performance. In other words: an inefficient state is holding back society.

It is not enough merely to describe the reasons for this state of affairs in various areas, however. Above all, attention should be paid to what these areas have in common, analysing the conditions and the sources of problems and comparing with best practice abroad. It needs to be acknowledged that the state and its employees face pressure from various actors and that interest groups nowadays have a vast range of ways to influence government employees and state officials. Equally, attention should be paid to how the Czech legal system functions and how enforceable the law is and how decision-making by administrative authorities and the courts impacts on the working of the state and the lives of citizens. And we must not forget the conditions under which state and European subsidies are distributed. We could go on and on.

Yes, we should be gratified that a number of things have improved in recent years: credit where credit is due. But the Czech Republic's ambitions cannot be confined to accepting minor improvements in various areas. What makes sense is overall change, where the various steps are logically connected and mutually compatible, tackling fundamental issues and helping put in place an environment that is predictable and dependable. Of course, this is a marathon not a sprint. Revising the tax system, for example, is vastly more complex than merely enacting additional rules. The longer it takes to tackle these issues, however, the harder it will be for us to change them. And the sharper the contrast between citizens' expectations and reality.

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 based directly on the Constitution of the Czech Republic, which guarantees its independence from legislative, executive and judicial powers. The SAO represents one of the indispensable elements of parliamentary democracy.

More detailed rules of the status, powers, organisational structure, and activities 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 the state budget, and the management of funds provided to the Czech Republic from abroad.

The SAO statutory 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 legislative, executive or judicial powers when planning, preparing, and conducting audit work. Besides institutional independence, the SAO also 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 approval by the SAO Board, the audit plan is submitted by the President of the SAO for information to the Czech Parliament and Government 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 SAO Board or the appropriate SAO Senates.

Under its defined powers, the SAO performs audits in line with its audit standards based on International Standards of Supreme Audit Institutions. The SAO performs compliance, financial, and performance audits.

The SAO's compliance audits check whether the audited activities comply with the law and review the substantive and formal accuracy of the audited activities to the extent necessary for achieving 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 which the SAO uses when formulating its opinion 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 SAO budget submitted to the Chamber of Deputies of the Parliament of the CR, the closing account of the SAO budget, and the SAO financial statements compiled as of the balance-sheet date. The SAO Board furthermore approves the Annual Report, the SAO Board's and Senates' rules of procedure, 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: Mr Jan Málek, Mr Pavel Hrnčíř, Mr Adolf Beznoska, Ms Hana Hykšová, Mr Jan Stárek, Ms Jaromíra Steidlová, Mr Jiří Kalivoda, Ms Zdeňka Horníková, Mr Josef Kubíček, Mr Miloslav Kala, Mr Roman Procházka, Mr Jan Vedral, Mr Daniel Reisiegel, Mr Petr Neuvirt, Mr Jiří Adámek, Ms Hana Pýchová.

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 2017 are marked in blue and audits not completed in 2017 are in green.¹

In 2017, the Chamber of Deputies of the Parliament of the CR ("the Chamber of Deputies") elected Mr Adolf Beznoska to the post of the Member of the SAO.

¹ In the Annual Report, audits are indicated by the number given to them in the Audit Plan for the year in question. Audit conclusions approved in 2017 can be found in various volumes of the *SAO Bulletin*.

Table 1: Overview of audits conducted in 2017

| SAO Member | Member since | Number of finished audits, managed by the member, until the end of 2017 | Overview of audits managed by the Member in 2017 | |
|-----------------------|-------------------|---|--|-------------------------|
| | | | finished | unfinished |
| Mr Jiří Adámek | 25 April 2001 | 44 | 16/16 16/22 17/05 17/10 | 17/32 17/33 |
| Mr Adolf Beznoska | 14 March 2017 | 0 | – | 17/17 |
| Mr Pavel Hrnčíř | 11 December 2009 | 19 | 16/14 16/23 17/11 | 17/26 |
| Ms Hana Hykšová | 13 February 2014 | 8 | 16/32 | 17/02 17/25 |
| Mr Jiří Kalivoda | 17 September 1993 | 66 | 16/28 17/06 | 17/12 17/27 |
| Mr Josef Kubíček | 10 June 2014 | 8 | 16/21 16/26 17/03 | 17/21 |
| Mr Jan Málek | 21 June 2016 | 2 | 16/31 17/04 | 17/09 17/35 17/36 |
| Mr Petr Neuvirt | 21 December 2010 | 24 | 16/19 17/01 17/07 | 17/15 17/23 |
| Ms Hana Pýchová | 24 October 2014 | 5 | 16/09 16/15 16/18 | 17/13 17/16 17/20 |
| Mr Daniel Reisiegel | 30 April 2010 | 21 | 16/03 16/17 16/30 17/28* | 17/24 17/34 |
| Mr Jan Stárek | 4 June 2015 | 3 | 16/13 16/20 | 17/19 17/29 |
| Ms Jaromíra Steidlová | 16 November 2006 | 24 | 16/25 17/08 | 17/18 17/31 |
| Mr Jan Vedral | 25 April 2001 | 50 | 16/12 16/24 16/27 16/29 | 17/14 17/22 17/30 |

Note: * Audit No. 17/28 was removed from the audit plan by a resolution of the SAO Board No. 6 / IX / 2017 dated June 5, 2017.

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

4. Mission and benefits of the SAO's work

The SAO's vision² is to provide relevant information to the state's policy-makers and feedback regarding the degree of success to which these policies are being implemented; this information comes from the clear and comprehensible outputs of the SAO's work. The SAO's audit conclusions and opinions are intended to present important data on the economy, efficiency and effectiveness of the use of public funds and thus to help promote good practice in financial management.

Independent and objective feedback is absolutely crucial to the functioning of the state. It is particularly beneficial to the SAO's key partners (the Czech parliament and government), who are responsible for managing and scrutinising the use of public funds and property. The results of the SAO's work are also important for external audit by informing the broadest possible expert and lay public. The SAO successfully delivers value added 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 responsible authorities;**

² The SAO's vision is part of the *Supreme Audit Office Strategy for 2014–2017*.

- **audit work's preventive effect on other entities;**
- **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;**
- **carrying out its notification duty with regard to breaches of budgetary discipline and criminal liability.**

5. Audit plan for 2017

The audit plan is a fundamental tool for the exercise of the SAO's powers, vision and strategy. 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 line with audit best practice applied by supreme audit institutions according to the key principles of INTOSAI³. The Constitution of the CR, the Act on the SAO and international practice are the fundamental pillars underpinning the exercise of the Supreme Audit Office's powers. In line with its vision and strategy, the SAO focuses primarily on issues that touch on the highest-risk areas of the state's financial management in an endeavour to identify the causes and consequences of shortcomings and to recommend remedial measures wherever necessary.

The attention the SAO paid to compiling its plan for 2017 is a reflection of this philosophy. The audits included in the plan were based on suggestions arising out of the SAO's own independent analysis work and the application of a risk-oriented approach. The key problem areas targeted by the SAO's 2017 audit plan included:

- **tax policy;**
- **support for social housing;**
- **financial management in the health department;**
- **the electrification of and efficiency drives in public administration;**
- **clear-up of old environmental hotspots;**
- **state support for research, development and innovation;**
- **state investment in transport and security;**
- **the state's subsidies policy in support for children and youth and cultural heritage care;**
- **the financial management of selected state organisations;**
- **the use of EU budget funds;**
- **the reliability of data for financial management and accounting reform in public finances.**

Many of these areas are part of the SAO's long-term strategic focuses.

The 2017 audit plan was approved by the SAO Board at its 17 October 2016 session. 34 audits were approved in total. One audit was cancelled and two other audits were added to the plan during 2017, bringing the total number to **35 audits**.

Annex 1 presents an overview of the audits featured in the 2017 audit plan, their focus and timing. The audits were launched in the course of the year in line with the timetable. Depending on the start time and audit duration, the planned completion dates (i.e. approval of the audits' audit conclusions) are in 2017 and 2018.

³ *Mexico Declaration on the Independence of Supreme Audit Institutions*, approved by the 19th congress of the International Organisation of Supreme Audit Institutions in Mexico in 2007; ISSAI 10.

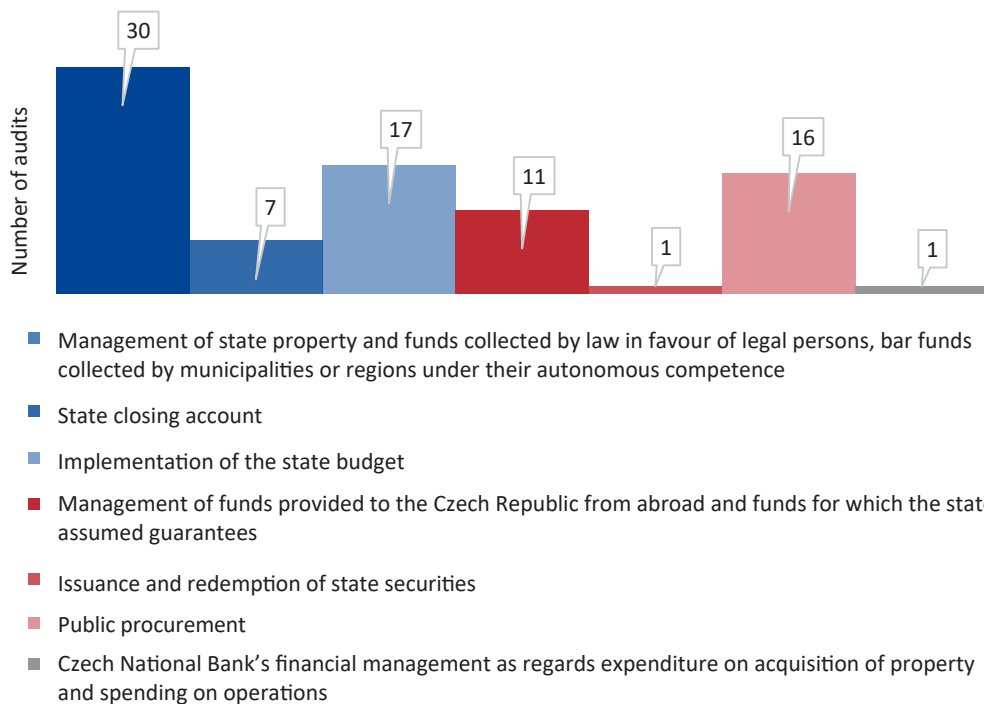
II. Assessment of Audit and Analysis Work in 2017

Opening summary

The assessment of the SAO's work presented in this chapter is based mainly on the results of audits that were completed in 2017 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 2017, from information in the *Report on EU Financial Management in the Czech Republic in 2016 (i.e. EU Report 2017)* and other findings from the SAO's analysis and monitoring work.

32 audits were completed in 2017, with 23 of them launched in 2016 in line with the audit plan and 9 in 2017. Property and funds were scrutinised at **222 audited entities** during the completed audits in line with the focus and goals of the audits. The audits implemented the SAO's mandate in all segments of its competence in accordance with Section 3 (1) and (3) of the Act on the Supreme Audit Office; see Chart 1. An overview of audits completed in 2017 is given in Annex 2. The audits mainly targeted the period from 2013 to 2016.

Chart 1: Number of audits by segments of the SAO's competence in 2017



The results of the SAO's audit and analysis work set out in detail in the following parts of this chapter featured a number of examples evidencing improved financial management by the state. These include reducing the state budget deficit, increased tax collection or savings and improved financial management by certain state institutions. These positives can be attributed both to the good economic health of the state, mainly driven by external economic conditions, and to the implementation of appropriate changes, some made on the basis of SAO's findings and recommendations from previous audits. Certain systemic problems persisted however, so the necessary progress has not yet been made in some specific and cross-cutting areas. These problems have long been among the factors making it harder to boost the efficiency of state administration, deliver value for money and improve the CR's competitiveness.

Improving the state's financial management continued to be hindered by certain long-term problems, so the necessary progress was not achieved in many areas.

The findings made by the SAO in the previous period show that the state's financial management displayed the following key strengths and weaknesses:

Strengths:

- + improved state budget balance;
- + more effective management of government debt;
- + increased budget revenues, especially tax revenues;
- + stable economic growth, low rate of unemployment and rising pay in both the private and public sectors as important positive factors boosting the state's revenues;
- + improved financial management by selected state institutions;
- + reduced motorway building costs as a result of the positive effect of a competitive environment and the SAO's pressure for more effective cost checking;
- + reduced expenditure on legal, consulting and advisory services.

Weaknesses:

- complexity and bureaucracy of the tax system, for both the state and taxpayers;
- poor quality of the budget process when compiling the state budget, reflected in fundamental differences between the budget and reality in the fields of investment expenditure and EU budget revenues and expenditure;
- claims from unused expenditure as a result of the failure to draw down budgeted expenditure;
- insufficient exploitation of the potential of electronisation of public administration and eGovernment and low effectiveness of expenditure in delivering the required benefits;
- low effectiveness of support for science and research when compared with other countries;
- insufficient use of tools to improve the quality of education;
- absence of effective tools to speed up the development of transport infrastructure, most notably roads, and lack of a comprehensive strategy for charging for road use;
- unclear definition of the need for and funds required for asset replacement programmes for the Police of the CR;
- underfunding of the *Architectural Heritage Conservation Programme*, resulting in delayed repairs and rising related costs;
- non-transparent selection of projects for funding under the programme for the support of the material and technical resources for sport;
- underprepared projects and slow drawdown of funding under the programme for the support of the material and technical resources of public universities;
- slow and ineffective clear-up of environmental hotspots pre-dating privatisation;
- risk of failure to implement the EU directive on landfill;
- projects by local action groups and projects designed to boost cooperation between municipalities implemented without sufficient assessment of their necessity and benefits;
- absence of a strategy for managing the state's real estate as a requirement for effective and efficient spending on the management of property used by the state;

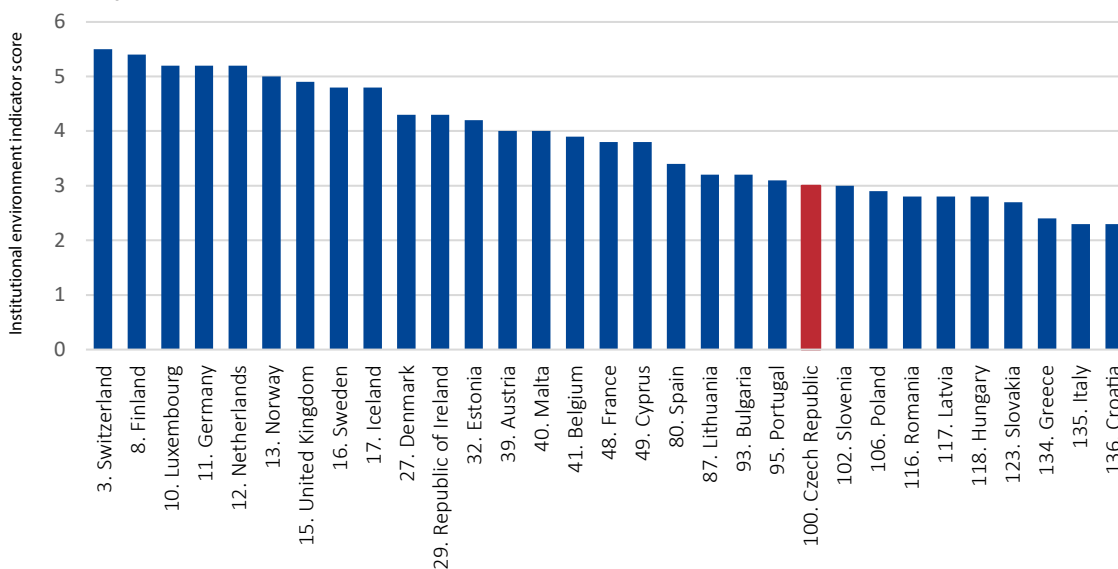
- significant delays in the utilisation of EU budget funds in the 2014–2020 programming period owing to the complexity of the implementation system, and risk of the loss of the performance reserve or application of the n+3⁴ rule.

Many of these shortcomings were or will be targeted by measures adopted by audited entities, which is a key requirement for improvements resulting in greater value for money. Some examples will be presented in the following sections of this chapter.

In many areas the SAO showed where the CR stands compared to other countries. That did not only help find answers to the questions as to where the country is and where it is heading; it also helped identify standards for economical, efficient and effective work.

Public-sector performance in the CR has not reached the necessary standard and is one of the factors limiting the country's overall competitiveness. According to the *public-sector performance* indicator that is part of the World Economic Forum's overall *global competitiveness index* (GCI), the CR was down in 100th place out of 137 rated countries in the previous period; see Chart 2. Yet in the 2015 assessment the CR was 62nd out of 140 countries. The CR was in 31st place in the overall *global competitiveness index*, unchanged from the previous period. The CR's competitiveness is mainly harmed by tax regulation, ineffective government bureaucracy and tax rates.

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



Source: *The Global Competitiveness Report 2017–2018*; World Economic Forum 2017; see <http://reports.weforum.org/global-competitiveness-index-2017-2018/countryeconomy-profiles/#economy=CZE>.

According to the World Economic Forum, the CR's competitiveness is held back mostly by tax regulation, ineffective government bureaucracy and tax rates.

In 2017 the SAO again played an active role in promoting the outputs of its audit work and rectifying matters where necessary. The formulation of SAO recommendations is one of the ways it helps. In the context of its audit conclusions or EU Report, last year the SAO submitted **63 systemic recommendations** (e.g. on programme and project management and control, on conceptual and strategic management), many of which have become or will become a basis for measures implemented by the departments responsible.

⁴ The n+3 rule is an administrative tool for ensuring smooth drawdown of EU budget funds. Under this rule, a support allocation for the nth year of a programming period must be utilised during the following three calendar years.

The SAO therefore regards the discussion of results in the form of audit conclusions with key partners in the Czech parliament and government as crucial. The Committee on Budgetary Control of the Chamber of Deputies discussed **12 audit conclusions** in 2017. The discussion of audit conclusions by the government was fundamental: the government discussed 28 audit conclusions and instructed various bodies to implement **220 measures**, which the SAO judged to be fully or partially appropriate to the identified shortcomings or recommendations. Consequently, the SAO can declare that its rate of satisfaction with adopted measures reached **81%**.

Another crucial factor in ensuring the accountability of the audited entities 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. The SAO reported suspected breaches of budgetary discipline worth **CZK 175 million**. In one case it also filed a notification of suspicion of a crime to the law enforcement authorities.

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 accurately.

1. Public finances – better state budget results in consequence of economic growth, but at a cost of low state investment

The results of the SAO's audit and analysis work for the previous year, the *Opinion on the Draft State Closing Budget of the CR for 2016*, *Opinion on the Report on the Implementation of the State Budget of the CR for the 1st Half of 2017*⁵ and current state budget results for 2017 make it possible to say that the Czech state has achieved better results in state budget management. The development of the resultant balance of the state budget and more effective management of state treasury liquidity can also be rated positively. The Czech Republic's stable economic growth continued, driven mainly by expenditure of household end consumption, increased corporate investment and foreign trade results. The CR was one of the EU's faster-growing countries.

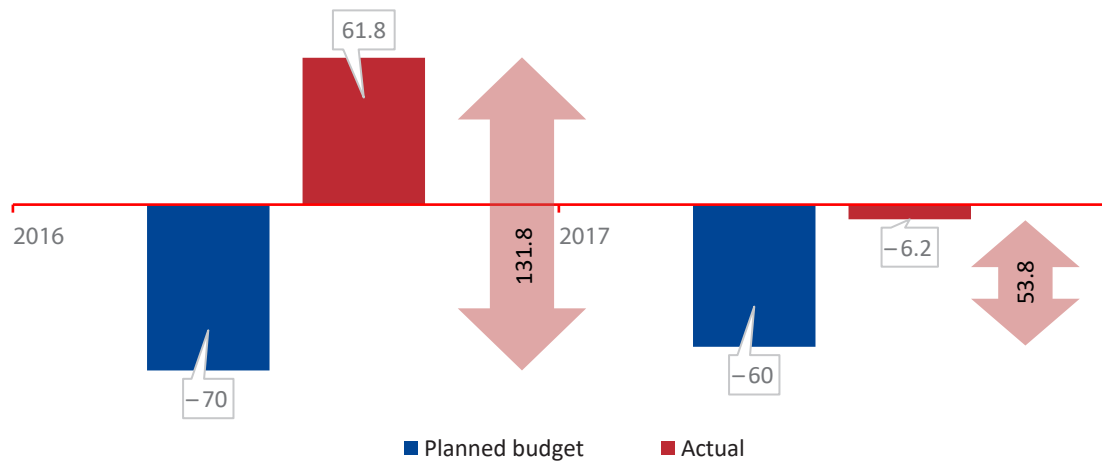
The state budget for 2017 was approved by the Chamber of Deputies of Parliament of the CR in the form of the Act on the State Budget⁶. Total revenues and expenditure were budgeted at **CZK 1,249 billion** and **CZK 1,309 billion** respectively, with the budget deficit to reach **CZK 60 billion**, i.e. **CZK 10 billion** less than the planned deficit in 2016. Actual total revenues in 2017 reached **CZK 1,274 billion** and expenditure **CZK 1,280 billion**, making the resultant deficit **CZK 6.2 billion**⁷. The difference between the planned and actual deficit was **CZK 53.8 billion**. For 2016, when the state budget delivered a surplus of **CZK 61.8 billion**, the difference between the budgeted deficit and actual surplus was even more than **CZK 130 billion**. These significant differences are evidence of a lack of rigour and a purely formal approach to compiling the state budget and the creation of hidden reserves; see the following chart.

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

6 Act No. 457/2016 Coll., on the state budget of the Czech Republic for 2017.

7 According to an MoF press statement dated 3 January 2018; see <https://www.mfcr.cz/cs/aktualne/tiskove-zpravy/2018/pokladni-plneni-sr-leden-listopad-2017-30618>.

Chart 3: Differences between the approved state budget deficits for 2016 and 2017 and the actual result (CZK billion)



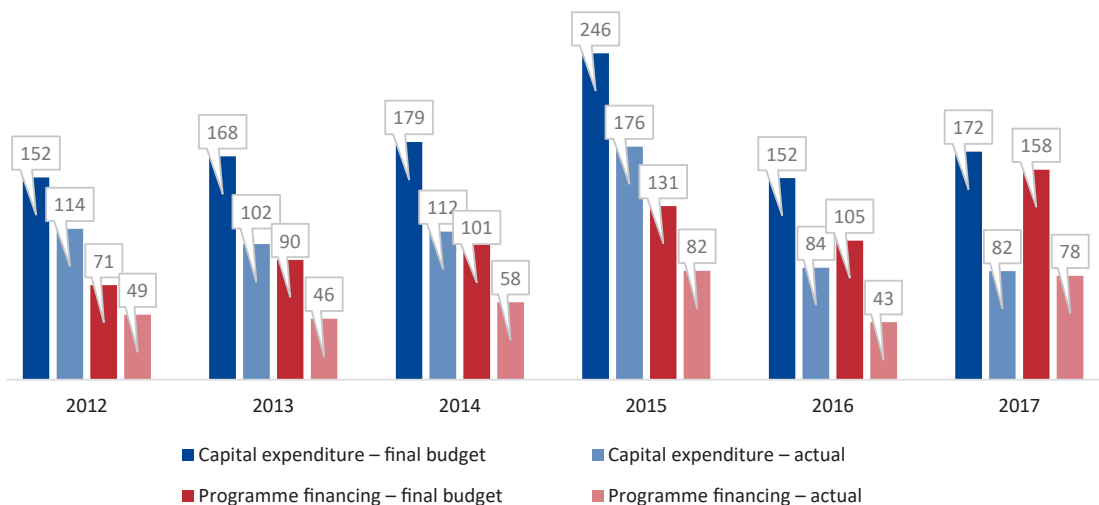
Source: Integrated Treasury Information System (ITIS) and MoF information from 3 January 2018.

The SAO regards as a serious matter the fact that during a period of economic growth at least a balanced budget is again not drawn up in 2017. In the past two years, tax revenues, the biggest revenue item in the state budget, increased by more than CZK 150 billion over the level in 2015, i.e. by more than 15%. Even so, the state budget reckoned with a deficit. During those two years the planned state budget deficit fell by just CZK 40 billion from the 2015 level. The CR should be exploiting this period of growth to achieve a balanced fiscal policy in the long-term outlook.

The 2017 results were significantly and positively influenced by the increased collection of tax revenues, including social security insurance, mainly thanks to economic growth. One negative factor is that the state budget was profoundly influenced by the low investment activity of the Czech government in connection with the slow start to the 2014–2020 programming period, along with other factors such as the long-term decline in the effectiveness of programme financing. The various departments were not able to execute investments that were factored into the final expenditure budget, and capital expenditure in particular thus remained largely unutilised.

CZK 81.7 billion was drawn down in capital expenditure in 2017, just **48%** of the final budget for this expenditure. Programme financing expenditure also fell short of the planned level, with **CZK 78.2 billion** drawn down, i.e. **49%** of the final budget; see Chart 4. This chart also shows that this is a long-term problem in the compilation and utilisation of the state budget in terms of capital expenditure, including expenditure on programme financing. Although supporting investment was one of the government's priorities, every year brings a marked difference between the final budget for capital expenditure and reality.

Chart 4: Utilisation of the capital expenditure budget in 2012–2017 (CZK billion)



Source: Integrated Treasury Information System (ITIS).

Just 48% of the final capital expenditure budget was drawn down in 2017.

The issue described above is the result of persisting problems in the budget system. The system in place offers no motivation for rigorous planning of state budget revenues and expenditures. The principal reasons are as follows:

- the inability to draw down planned expenditure for financing asset replacement programmes as a result of the lack of clarity surrounding the concept and requirements, poor preparation for projects and putting back deadlines;
- the lengthy process for selecting and approving projects and the considerable bureaucracy involved in joint CR and EU programmes in the 2014–2020 programming period, as a result of which the utilisation of planned funds lags far behind and significant differences exist between what is planned and what actually happens;
- the lack of links between the expenditure budget and specific, measurable policy goals so that they are binding on budget heading administrators who are responsible for the release of funds and ensure that programme financing is not just a formal framework;
- the overestimation of the expenditure side of state budget headings, where the actual expenditure requirement for budget headings is overstated, combined with the possibility of the assertion of claims from unused expenditure in the given budget year and the emergence of new claims from unused expenditure⁸.

The SAO regards the creation and assertion of claims from unused expenditure as a significant risk factor for the implementation of the state budget. In 2017 the SAO focused on unused expenditure reported by selected organisational components of the state, specifically the MoF, MoRD, MoT, MoH and MoA, in audit no. 16/09. The audit found the following:

- These claims have grown since 2008, when the institute of unused expenditure was established. As of 1 January 2016 these claims exceeded **CZK 151 billion** in value. The main reasons for the constantly high level of unused expenditure are unrealistic budgets approved for organisational components of the state and a failure to carry out tasks covered by the budget for the given year and their postponement to coming years. In a positive sense but

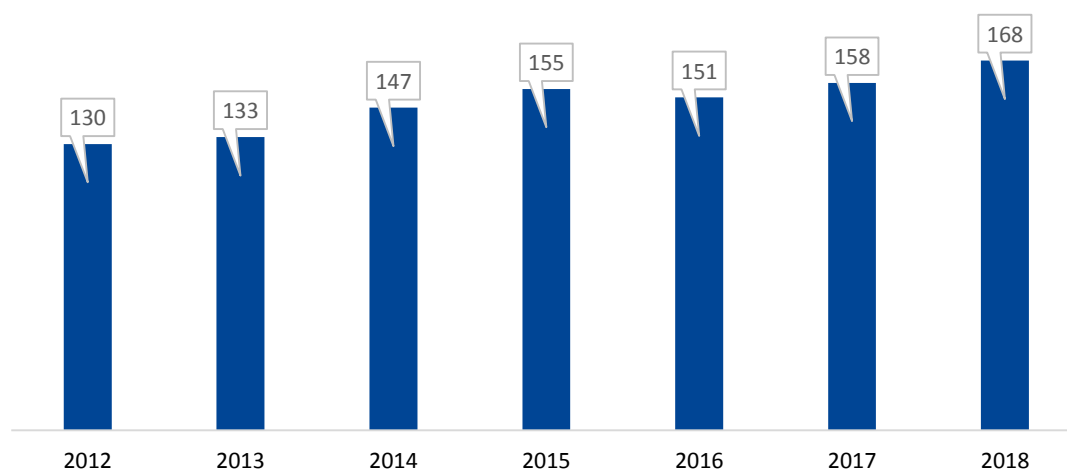
⁸ Claims from unused expenditure are established when organisational components of the state do not fully utilise their budget for a given year and set down the claims on these funds as expenditure claims for the coming period.

to a lesser degree, more economical performance of tasks is another reason for unused expenditure. The unused expenditure is thus carried over to future years in the form of claims but not actual funds. One major consequence of this is the constant increasing of unused expenditure and the risk of increasing the state's borrowing requirement, i.e. the state gets deeper into debt if the expenditure budget is exceeded and unused expenditure is used in subsequent budget years. In 2015, for example, state budget chapters 301 to 381 exceeded the budget by **CZK 93.8 billion**, with **CZK 12.5 billion** of that down to the use of previously unused expenditure. The SAO stated that the law does not regulate the procedures for unused expenditure clearly and unequivocally. The MoH, for example, claimed unused expenditure at the very start of the budget period, but had utilised only a negligible part by the end, carrying over the rest into the coming period again. This led to a gradual accumulation of unused expenditure. Furthermore, this ministry demanded additional funds from the government's budget reserve, which it again converted into unused expenditure.

Recommendations

The SAO therefore recommended that the MoF, as the guarantor of the state budget, change the law so that it explicitly and unequivocally regulates the procedures for claiming unused expenditure in the final budget and procedures for reducing it (ending it). It also recommended that the MoF also deal with the reasons for the creation of unused expenditure in terms of its classification and justification. This is primarily a question of eliminating a risk of increased state debt levels if budget expenditure is overstepped by the use of unused expenditure and the risk of possibly acquiring further state budget funds over and above the unused expenditure. The MoF regards the current law as sufficient, however, and did not accept the recommendation. The SAO continues to regard the state of unused expenditure as a considerable risk. As Chart 5 shows, claims have increased to **CZK 168 billion** as at 1 January 2018 and the trend is one of constant growth.

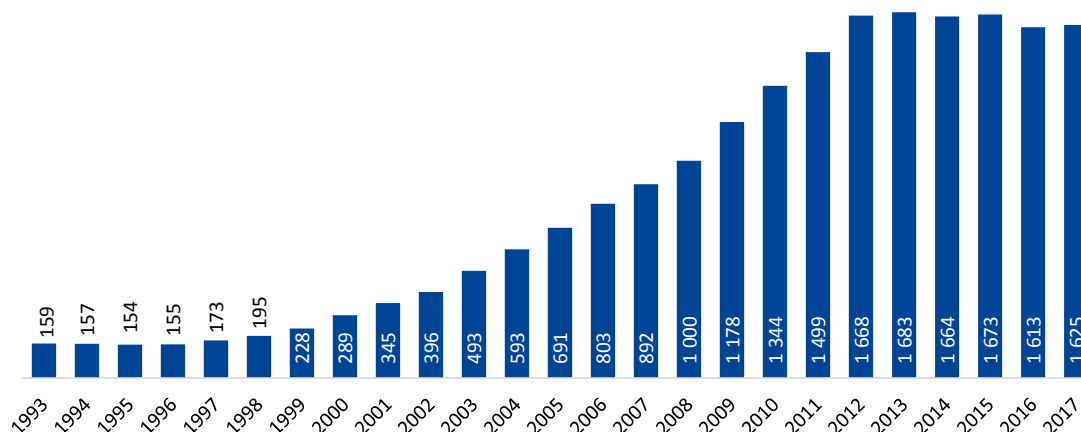
Chart 5: State of unused expenditure in 2012–2018 as of 1 January of the given year (CZK billion)



Source: Integrated Treasury Information System (ITIS).

The SAO continues to regard the state of unused expenditure as a considerable risk. Claims hit CZK 186 billion as at 1 January 2018 and their long-term growth is continuing.

More effective management of the state treasury's liquidity and the change in government debt and expenditure linked to servicing this debt can be included among positives in the assessment of the state budget in the previous period. The rate of increase of government debt consequently fell and the debt level itself even fell in 2014 and 2016, as Chart 6 shows.

Chart 6: Development of government debt 1993–2017 (CZK billion)

Source: State closing accounts from 2010 to 2016, MoF press conference of 3 January 2018.

In audit no. **16/30** the SAO scrutinised how the MoF proceeded when managing state treasury funds in the years 2015 to 2016. The audit revealed the following:

- In the audited period, no serious shortcomings were identified and it was not found that the MoF had proceeded uneconomically and inefficiently when managing state treasury funds and managing state treasury liquidity. Using state treasury funds as a way of covering the state's requirements made it possible to reduce debt financing and, consequently, reduce the associated interest rate costs. The SAO verified that the resultant debt financing fell by **CZK 43.2 billion** and the related expected saving on interest rate costs was **CZK 1.3 billion** in 2015. The state of utilised state treasury funds at year-end 2016 had a fundamental impact on the state budget surplus of **CZK 61.8 billion**, while debt financing was **CZK 2.3 billion** greater than the actual state financing requirement.

The development of the resultant balance of the state budget and more effective management of state treasury liquidity can be rated positively.

2. Government revenues – considerable bureaucracy and failure to exploit the potential of electrification hold back efforts to make tax administration more efficient

Tax revenues comprise the largest share of government revenues. These tax revenues, including social security revenues, amounted to almost **CZK 1,154 billion**⁹ in 2017, accounting for over **90%** of total state budget revenues. The biggest items are social security insurance premiums, value added tax, excises and tax on the incomes of legal and natural persons. The SAO maintains a constant focus on the administration of these taxes in particular. The reason is clear. For the state to be able to implement its expenditure policy it needs sufficient funds. And how these funds are secured is therefore a priority area for the SAO as well. In 2017 the positive trend of increased collection of practically all significant tax revenue items continued. This was mainly thanks to the effects of economic growth (increased output, high employment and increase in household's disposable income) and, partly, the implementation of some new measures. These effects were partially counterbalanced by the significant fall in revenues from the EU/FM budget. In 2017 revenues from the EU budget and financial mechanisms fell year-on-year by **CZK 81.9 billion** and tax revenues, including social security insurance revenues, **increased by CZK 82.4 billion**, but overall state budget revenues were down **CZK 8 billion** year-on-year.

⁹ According to an MoF press statement dated 3 January 2018; see <https://www.mfcr.cz/cs/aktualne/tiskove-zpravy/2018/pokladni-plneni-sr-leden-listopad-2017-30618>.

Last year the SAO completed further audits targeting tax policy. In audit no. 16/21 the SAO focused on the administration of natural persons' income tax in the years 2012 to 2015. In particular, it scrutinised whether tax administrators proceeded in line with the law and what impacts legislative changes for this tax had on the state budget and the efficiency of its administration. Natural persons' income tax is the fourth biggest tax revenue, amounting to CZK 154 billion, or 23% of total tax revenues, in 2015. The audit's results reveal that the administration of taxes in the CR is complicated and bureaucratic for both tax administrators and taxpayers alike and that there is room for simplification and exploiting the potential of tax administration electronisation.

- The SAO judged that the Act on Income Taxes¹⁰, which has been amended more than **130 times** since it was adopted, is confusing and complicated and contains a great many exemptions. That complicates tax administration, increases bureaucracy and does not make the collection of natural persons' income tax efficient. The total number of deductible items and tax discounts, and the increase in the number of these items or their abolition, made tax administration more difficult. Yet the tax administrators did not possess individual data on over half of taxpayers who are in employment and do not themselves file tax returns; this significantly affected the possibility of checking the justification of claims asserted for tax deductions, tax discounts and tax advantages. This is a systemic shortcoming, according to the SAO. The efficiency of natural persons' income tax administration in 2015 amounted to approx. **CZK 156** in revenues per **CZK 1** of expenditure. The total efficiency of all taxes collected by the Financial Administration of the CR ("FA CR") amounted to approx. **CZK 73** in revenue per **CZK 1** in expenditure. The overall efficiency of natural persons' income tax administration is, however, influenced by the transfer of a significant portion of the obligations under the administration of natural persons' income tax from dependent work to taxpayers (employers). If these obligations had to be fulfilled by the state, the state's estimated costs would have been almost **CZK 950 million** in 2015, and the efficiency of administration with these costs factored in would be approx. **CZK 76** in revenues per **CZK 1** in expenditure. The administrative burden was also significantly influenced by the incompatibility of the information systems of the CSSA and FA CR, where administrators had to exchange information on the basis of requests without exploiting the potential of automated processing. This state of affairs also did nothing to boost the natural persons' income tax system's resilience against tax evasion and affected the costliness of tax proceedings and the efficiency of tax administration.

The MoF agreed with the SAO's conclusions that the existing income tax system is confusing and complicated. It also pledged to prepare an entirely new act on income tax that will be more resilient against the negative impacts of the frequent introduction of exemptions. At the same time, the financial administration is preparing an ICT system for tax administration and a website called *MY taxes (MOJE daně)*, which is supposed to simplify electronic communication with the authorities¹¹.

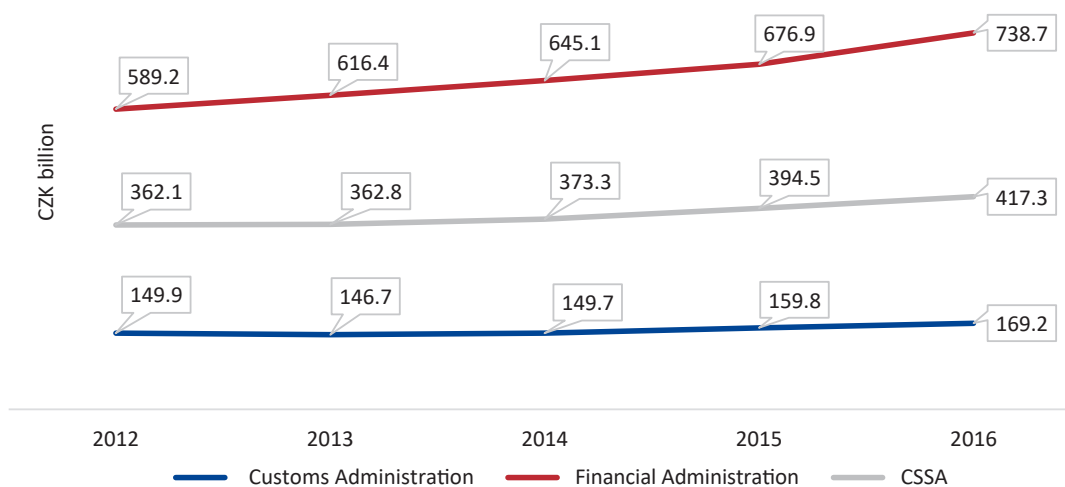
Tax collection is on the increase. Between 2012 and 2016 tax collection grew by **CZK 224 billion**, i.e. approx. **20%**, which exceeded GDP growth for the period in question by approx. **2.4%**¹². This state of affairs was also supported by falling unemployment and rising wages. The biggest increase was found in income taxes administered by the FA CR (**25.4%**). The fastest rate of increase came between 2014 and 2016. Tax collection in the years 2012 to 2016 is shown in Chart 7.

¹⁰ Act no. 586/1992 Coll., on income tax.

¹¹ MoF reaction to audit of the administration of natural persons' income tax; MoF press statement dated 21 August 2017; see <http://www.mfcr.cz/cs/aktualne/v-mediich/2017/reakce-mf-na-kontrolu-spravy-dani-z-prij-29412>.

¹² According to the Czech Statistical Office; see https://vdb.czso.cz/vdbvo2/faces/cs/index.jsf?page=vystup-objekt&pvo=NUC01-S1az3&f=TABULKA&z=T&skupId=21&katalog=30832&pvo=NUC01-S1az3&str=v84&c=v3~8_RP2016.

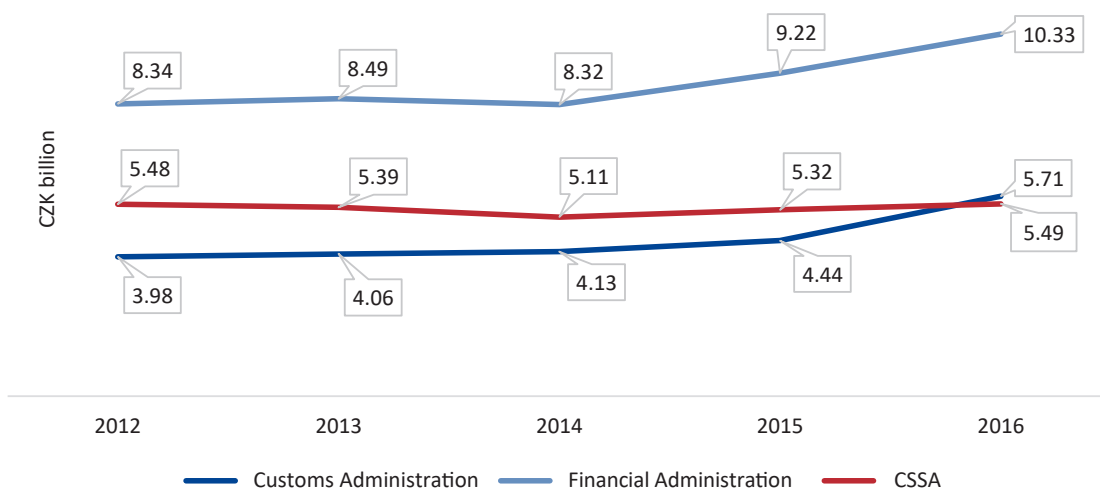
Chart 7: Development of total tax revenues 2012–2016 (CZK billion)



Source: Reports on the work of the FA CR and CA FR and reports on the work of the Czech Social Security Administration (CSSA) for the years 2012–2016.

Spending on tax collection also increased, however. The increase between 2012 and 2016 was almost CZK 3.7 billion, i.e. 21%, which was slightly more than the percentage increase in collected taxes (20%). In 2016, for example, the FA CR spent over CZK 1.1 billion more on administering the taxes it collected than in 2015 and CZK 2 billion more than in 2014. As regards the Customs Administration of the CR (“CA CR”), the biggest increase in expenditure on administration came in 2015 and 2016 and amounted to approx. CZK 1.3 billion. While expenditure on the collection of social security insurance premiums has been constant in the last five years, spending on the administration of taxes and customs duty has grown sharply since 2014, even though neither the number of employees involved nor the number of taxpayers increased significantly. The rate of growth of spending by the FA CR of almost 24% between 2012 and 2016 corresponds to that. In the case of the CA CR, the level of current expenditure in 2016 was significantly affected by an extraordinary repayment of collected customs duty when Council Decision 2014/335/EU changed the distribution of customs duty to 80% of customs duty to the EU and 20% to EU Member States. This required the CR to repay to the EU a difference of 5% of the share of customs duty retroactively from 1 January 2014. In December 2016 the CA CR paid approx. CZK 1 billion¹³. The evolution of total spending on tax collection in the years 2012 to 2016 is shown in Chart 8.

¹³ Council Decision 2014/335/EU, Euratom, of 26 May 2014, on the system of own resources of the European Union, which was ratified by all EU Member States on 27 September 2014.

Chart 8: Total spending on tax collection in the years 2012 to 2016 (CZK billion)

Source: Closing accounts of headings 312 and 313 for 2012–2016.

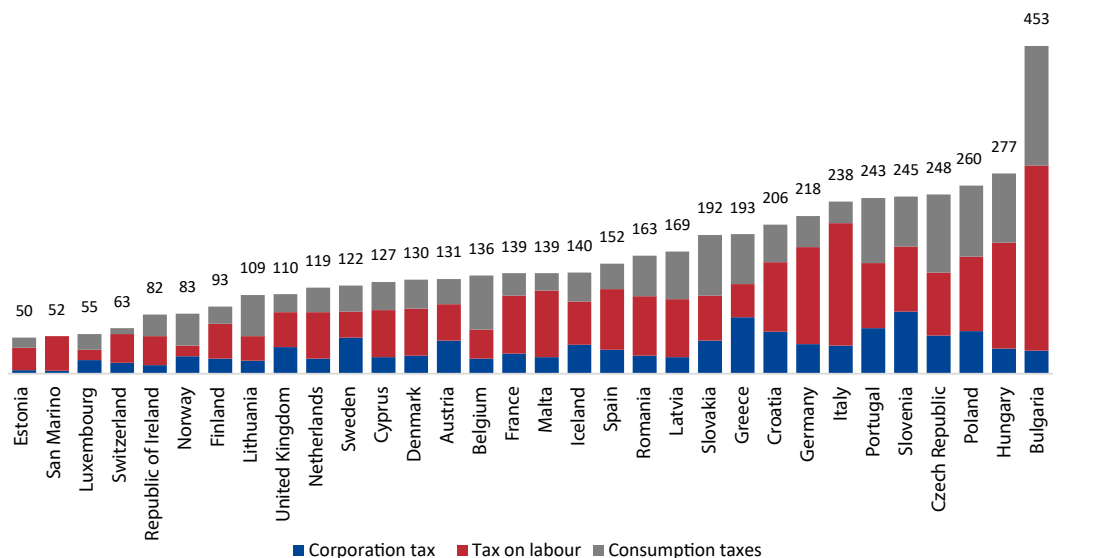
Despite the positive developments in revenues, the administration of taxes in the CR continues to be marred by its laborious nature, duplicated operations by tax administrators and the poor interconnectedness of information systems. After the failed “single collection point” project that was intended to make the collection of taxes, customs duty and social and health insurance simpler and more efficient¹⁴, in the SAO’s opinion it is necessary to find a swift solution for systemic change, especially for income taxes (including payments of social and health insurance premiums) and to make significant progress in the electrification of tax administration by using high-quality ICT systems that will be mutually compatible and making use of the potential of online government services for taxpayers. At the same time, the possible negative impact on increased bureaucracy of any new measures being introduced must be compensated for. In the previous period, the main focus of attention was on tax evasion (e.g. by the roll-out of audit statements and electronic sales records), but insufficient attention was paid to reducing the amount of taxpayers’ time and money involved.

The long-term delay in finding a solution to the above problems has meant that the CR has fallen far behind other countries in the bureaucracy involved in tax administration. In a worldwide study called *Paying Taxes 2018*¹⁵, the World Bank and PwC analysed the amount of time it takes to fulfil administrative obligations in respect of the state for three types of tax: corporate income tax, personal income tax (including all obligatory payments to the state on behalf of employees) and taxes linked to consumption (including VAT). The CR came 29th out of 32 scrutinised EU and European Free Trade Association countries (EFTA) in terms of the amount of time required to comply (Chart 9). The total amount of time required to comply with these tax obligations reached **248 hours** per year in the CR. Firms in Czechia have to spend **53 hours** on corporation tax; **87 hours** to employee taxes; and **108 hours** to consumption-linked taxes (including VAT). According to the report, making progress is contingent largely on greater use of technologies by both taxpayers and tax authorities and improving online archives and payment systems.

¹⁴ Even though the MoF, GFD and GDC drew down almost CZK 3.4 billion, poor management of the project as a whole meant that the single collection point was never set up and tax administration was not simplified. See audit no. 15/17 – *Funds spent on measures relating to streamlining of tax and insurance collection and administration, mainly under the Project to Set Up a Single Collection Point for State Budget Revenues*; the audit conclusion was published in volume 4/2016 of the SAO Bulletin.

¹⁵ According to *Paying Taxes 2018*; The World Bank Group and PwC 2017; see https://www.pwc.com/gx/en/paying-taxes/pdf/pwc_paying_taxes_2018_full_report.pdf.

Chart 9: Time required to comply with tax obligations towards the state in EU and EFTA countries (hours)



Source: *Paying Taxes 2018*; The World Bank Group and PwC 2017.

Despite positive developments in revenues, the administration of taxes in the CR continues to be marred by its laborious nature, duplicated operations by tax administrators and the poor interconnectedness of information systems.

At the same time, the possible negative impact on increased bureaucracy of any new measures being introduced must be compensated for.

The SAO monitors the response to the results of its audit work in the field of the administration of state budget revenues. Following up previous audits, the SAO welcomes a number of measures adopted to improve tax administration and make it more efficient. These are often systemic solutions whose effect only becomes clear in the longer term. Measures in the field of VAT, payments levied on gambling games and excise duties are examples of this:

- In the field of VAT, significant measures to fight tax fraud were adopted in recent years. The SAO repeatedly covered the issue of VAT in its audit work, e.g. in audits nos. **11/07**¹⁶ and **14/17**¹⁷. In the first audit the SAO identified a significant level of VAT evasion. One of the reasons identified by the SAO was the insufficient use of the institute of tax guarantees and shortcomings in the legislation, some of which concerned the possibility of the application of tax guarantees. These shortcomings were eliminated and the FA CR started to apply the institute of tax guarantees to a far greater extent, which the SAO rates positively. However, the cases presented in the media where courts ruled to annul tax guarantee orders are testimony to shortcomings in methodological and coordination work, resulting in the disproportionate and incorrect application of this tool. When used appropriately, the institute of tax security is a key and irreplaceable tool in the fight against VAT fraud. The second audit declared that insufficient use was being made of the tools introduced in the fight against tax evasion, such as the institute of the unreliable payer or the taxable supply beneficiary's guarantee, and shortcomings in VAT administration as regards the reverse charge mechanism. The SAO states that there was a substantial increase in the number of decisions on payer unreliability since the audit and that the shortcomings described above were eliminated by the introduction of audit statements.

¹⁶ The audit conclusion of audit no. 11/07 – *Value added tax administration concerning the import of goods from third countries* was published in volume 1/2012 of the *SAO Bulletin*

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

- In audit no. **13/35**¹⁸, which targeted state revenues from lotteries and similar games, the SAO found that the conditions for efficient and effective administration of payments levied and for state supervision were not put in place, which led to a significant loss of revenues for public budgets. The MoF accepted the SAO's criticisms and drew up entirely new legislation for this area, which was adopted by the Czech parliament and which the SAO regards as proportionate¹⁹. The reasoned statement envisaged that the revenue of public budgets in 2017 through the introduction of the tax on gambling games and new rates²⁰ would be approx. **CZK 1.9 to 2.3 billion** higher than in 2014. This expectation was fulfilled: in 2017 public budgets gained approx. **CZK 2.2 billion** from the tax on gambling games. The measures included the introduction of the possibility of blocking websites offering unauthorised gambling games and the possibility of offering foreign-based operators the chance to operate gambling games legally in the CR. It can be deduced from the publicly available information that the MoF also took action to block websites and that a number of websites offering illegal gambling in the CR before the new legislation are no longer accessible.
- In audit no. **15/33**²¹, which dealt with the administration of excises, the SAO judged that the tax administration system is effective, though room for expenditure savings exists. Despite partial objections, the MoF and GDC stated that certain remedial measures were adopted during 2016. These include the methodology for reporting human resources and other measures that should be adopted during 2017 (automated processing of tax returns, cost analysis for the individual processes). As regards the overall concept of tax collection (self-assessment), which should enable human resources economies during administrative work, the measure will be implemented at a later date. The SAO regards the adopted measures as proportionate, but will continue to monitor them.

3. Government expenditure – monitoring value for money is necessary for improving the efficiency of government policies

The sections of this chapter summarise and evaluate the results of audit and analysis work relevant to the various state expenditure policies the SAO covered in the past year. In line with its vision and strategy, the SAO sought to focus more on questions of the effectiveness of state policies that were judged to be significant in terms of citizens' lives and in terms of fulfilling the state's irreplaceable role in efficiently implementing these policies.

Besides the positive results of policies, the state achieved, the SAO showed that spending was not always economical, efficient and effective. In some cases, ministries and other responsible authorities simplify their job by not bothering to assess the effects and impacts of their work: instead of monitoring indicators of results and impacts, they only monitor indicators of outputs that say nothing about whether the required policy goals were achieved. The failure to monitor value for money, insufficient identification of needs, the lack of measurable goals and indicators and the failure to evaluate the actual benefits and impacts of policies are consequently fairly common.

The duty to spend money in line with the principles of economy, efficiency and effectiveness is laid down by law, and the SAO draws attention to failures to discharge this duty. This failing gives rise to considerable reserves and even losses, instead of savings that could be put to better use. The following rank among the biggest problems of the state's spending under various expenditure policies, i.e. problems that are the biggest impediment to achieving value for money:

¹⁸ The audit conclusion of audit no. 13/35 – *State budget revenues from lotteries and other similar games* was published in volume 3/2014 of the *SAO Bulletin*.

¹⁹ Act No. 186/2016 Coll., on gambling games.

²⁰ Tax on gambling games pursuant to Act No. 187/2016 Coll., on taxation of gambling games, became part of the Czech tax system on 1 January 2017.

²¹ The audit conclusion of audit no. 15/13 – *Excise duty administration* was published in volume 1/2017 of the *SAO Bulletin*.

- **the absence of a clear and comprehensive concept and strategy and management errors** (e.g. when developing the IS of the State Institute for Drug Control, audit no. **16/18**; or when procuring and operating the electronic toll system, audit no. **17/10**);
- **the implementation of programmes without clearly defined needs and corresponding assessable goals and without securing the necessary funding** (e.g. in relation to the material and technical resources of the Police of the CR, audit no. **17/07**);
- **violation of the programme financing principles and the persisting formalistic approach to programme budgeting** (e.g. in relation to the material and technical resources of public universities, audit no. **16/31**);
- **the absence of indicators for measuring the effectiveness of support and insufficient assessment of the overall impacts of the provided support** (e.g. in the case of projects by local action groups under the LEADER initiative, audit no. **16/14**);
- **the implementation of projects that have not been demonstrated to be necessary and beneficial** (e.g. in the case of municipalities' mutual cooperation projects, audit no. **16/32**);
- **problems in project preparation and the related delays in implementing projects and delivering policy goals** (e.g. in motorway building, audit no. **17/05**).

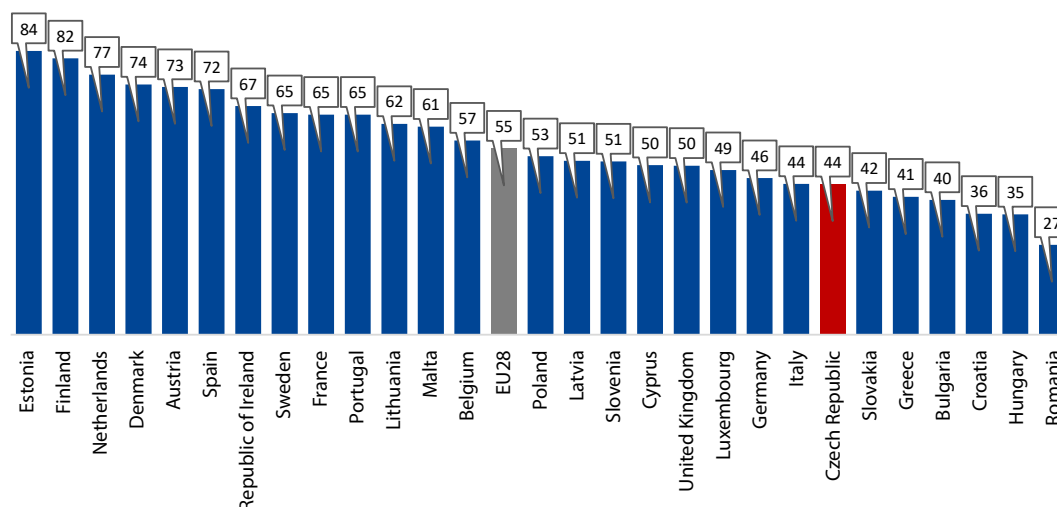
These problems are often the reasons for uneconomical, inefficient or ineffective use of state resources, the low success rates of certain policies and the poor efficiency of the government sector as a whole.

3.1 Effective public administration and eGovernment – poor efficiency of spending in the electronisation of state administration and delivering the required benefits

In 2017 the SAO continued to pay close attention to the issue of information technologies, eGovernment and the electronisation of public administration as ways to achieve efficient public administration. The SAO views this area as a priority in its audit work. That is because effective electronic administration can provide a wide range of benefits to citizens and deliver more efficient expenditure in both the government and business sectors. Additionally, the CR's results in this field have long been unsatisfactory and, by identifying the main causes of inefficient state action, the SAO tries to help push through the necessary changes that will improve the current state of affairs.

In 2017, the Czech Republic was in 18th place in the European Commission's Digital Economy and Society Index (DESI²²) out of the 28 ranked European countries. Compared to the previous year, the CR made progress in digital public services, mainly because of a marked improvement in the *open data* subarea. It retained its position in human capital, but in other areas it got worse. Despite the progress made, the CR was down in 22nd place for *digital public services*, DESI's principal eGovernment indicator; see Chart 10. It is not that no progress has been made in the development of eGovernment in the CR, rather that other countries are able to make these changes much faster, including adopting related legislation. Estonia and Finland are the EU leaders in digital public services.

22 The *Digital Economy and Society Index 2017* composite indicator encompasses the following aspects: connectivity, human capital, use of internet services, integration of digital technology, and digital public services; European Commission 2017; see <https://ec.europa.eu/digital-single-market/en/desi>.

Chart 10: Comparison of EU countries according to the *digital public services* indicator in 2017

Source: European Commission, *digital public services* indicator in DESI 2017.

In 2017 the SAO scrutinised information technologies and the electrification of public administration in four audits. As in 2016, the SAO focused mainly on information systems forming part of the state's critical infrastructure and on information systems designated important. The audits targeted the following:

- the preparation of a single methodological environment for utilising EU support in the 2014+ programming period (audit no. [16/12](#));
- state property and funds managed by the State Institute for Drug Control (audit no. [16/18](#));
- expenditure on the operation and use of real estate, including expenditure on information support linked to the management, operation and maintenance of real estate (audit no. [16/26](#));
- healthcare information systems administered by organisational components of the health department (audit no. [17/03](#)).

As the results of audits completed in 2017 showed, certain information systems that failed to deliver the required benefits continued to be developed and operated. The electrification of public administration in the CR is extremely costly, as the following examples show:

- In audit no. [16/12](#) the SAO focused on the MoRD's work to put in place a single methodological environment ("SME") for utilising EU support in the 2014+ programming period (see also section II.4.2) and checked the state of preparedness of information support for the SME in the form of the MS2014+ information system, which was supposed to help improve the management of European finances, boost transparency and reduce the administrative burden involved in accessing support. The SAO found the MS2014+ IS to be complicated and not providing the required support for the working of the SME. The new monitoring system's capacity and potential are not fully exploited and the system does not always provide reliable and complete information, which makes the management and coordination of drawdown less effective. The system's complexity is a reason for its high cost. The information system had not been adequately prepared by the MoRD at the time of launch and its functionalities had not been properly defined, which resulted in the costs of its operation and development exceeding the acquisition cost. By the end of August 2016 the total cost of acquiring, operating and developing the IS had reached **CZK 872 million**.
- In audit no. [16/18](#) the SAO scrutinised finances linked to the development of the *Central Depository of Electronic Prescriptions* ("CDEP"). Although the costs associated with developing the depository amounted to at least **CZK 318 million** from 2007 to 2016, the SAO found that the State Institute for Drug Control ("the Institute") had created the CDEP without any

investment plan, feasibility study or any other study and even, up to May 2015, without any information concept and operating documentation; in this regard it fell short of the legislative requirements. In the period from August 2011 to October 2016 the number of electronic prescriptions issued was just **1.6%** of the total number of prescriptions issued. The non-use of electronic prescriptions was mainly because the system was based on voluntary use until 31 December 2017. Based on contracts concluded in December 2016, additional spending of at least **CZK 18 million** on the administration and operation of the CDEP can be expected for the years 2017 to 2020. The SAO rated the Institute's procedure in developing the CDEP as inefficient. Furthermore, in connection with the haphazard management of IS and ICT between 2009 and 2014 the Institute insufficiently protected the supplier's copyright on selected software products, resulting inter alia in compensation of **CZK 119 million** being paid to the supplier.

- In audit no. **16/26** the SAO scrutinised the efficiency and effectiveness of information support for the administration, operation and use of real estate based on data in the information systems of the Office for Government Representation in Property Affairs ("the Office") and the MoI. The SAO stated that the current way in which the information systems are used has not delivered all the expected benefits in the optimisation of the administration of real estate (see also section II.4.1). The SAO had already drawn attention to the non-fulfilment of the conditions for proper administration of property in its audit conclusion from audit no. **13/40**²³. The *Central Register of Administrative Buildings* ("CRAB"), on whose acquisition and operation the Office spent at least **CZK 554 million** between 2012 and 2016, does not provide complete, correct and comparable data. The content of CRAB gives an overview of the administration of just **6%** of the buildings owned by the state in 2015.²⁴ Operating the CRAB costs over **CZK 70 million** a year and the operational expenditure on recording data on one building amounted to **CZK 27,000** in 2016, for example. As the SAO found, the MoI did not use data from the information systems for managing the state's real estate, or even as a tool for optimising the use and administration of real estate. Based on the audit's results, the SAO recommended reducing the number of indicators to the necessary minimum that could be used for strategic and conceptual decision-making and substantially cutting the operating costs of CRAB. The failure to define needs and measurable goals is a systemic shortcoming affecting the entire area of the administration, operation and use of real estate.
- In audit no. **17/03** the SAO scrutinised whether the MoH and the organisational components it founded proceeded economically and efficiently when managing and coordinating selected information systems (healthcare registers). 43 healthcare registers were set up in the audited period 2009–2017. Their acquisition cost amounted to **CZK 130 million** and annual spending on their operation was **CZK 73 million**. In the SAO's judgement, the administration and coordination of the selected healthcare registers did not in all cases result in economical and efficient development or subsequent operation of the registers. As the authority in charge of the electronisation of healthcare, the MoH did not create its first binding strategy until 2016. That was a basic precondition for coordinating healthcare electronisation projects with an envisaged value of as much as **CZK 3.9 billion**, but by the time of the audit's completion the MoH had not set up the *National Electronic Healthcare Centre* that was supposed to carry out this work.

Certain information systems that failed to deliver the required benefits continued to be developed and operated.

²³ The audit conclusion from audit no. 13/40 – *Managing state property and finances in relation to the use of property by selected government institutions* was published in volume 2/2014 of the *SAO Bulletin*.

²⁴ Data from "state property maps" were used to give the basic value of all buildings owned by the state.

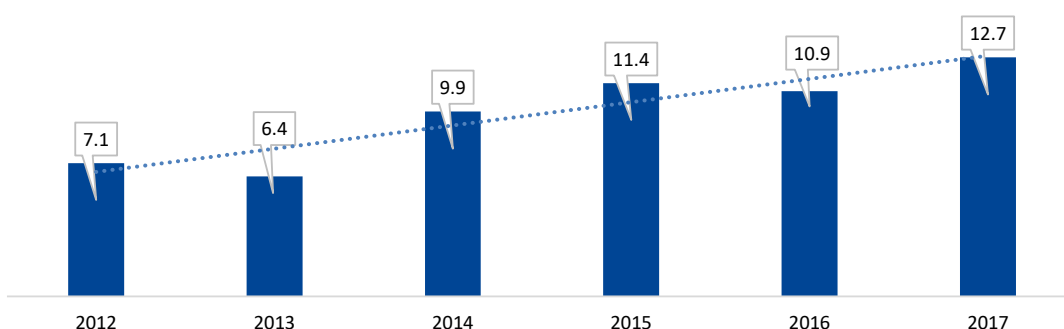
One positive example where the electronisation of state administration made agendas more efficient is the launch and use of the EMCS²⁵ information system for excises administration. In 2017 the SAO, in conjunction with the Supreme Audit Office of the Slovak Republic (“SAO SR”), issued a *Joint Final Report on the Results of Parallel Audits of the Administration of Excises in the SR and CR*, which is an assessment of audit no. **15/33** by the SAO and audit no. KA-023/2016/1050 by the SAO SR.²⁶ The results showed that the launch of the electronic system for the movement and control of products subject to excises made the administration of excises more efficient while also reducing administrative costs for both tax administrators and taxpayers.

According to the SAO, the key long-term shortcomings affecting information technologies and the electronisation of public administration and harming the economy, efficiency and effectiveness of state spending include:

- **the creation of new public administration information systems without thorough analysis of requirements and before the necessary legislation and other preconditions for their effective use were in place;**
- **the persisting fragmentation of information systems, resulting in the impossibility of sharing data between information systems serving various public authorities, which ultimately leads to increased administrative costs;**
- **high overall acquisition costs and operating costs for information systems, where the goals and expected benefits were not achieved even after long-term use;**
- **high additional costs for modifying and developing information systems owing to poor project preparation, leading to additional costs upon launch that exceed the acquisition cost several times over;**
- **persisting problems with dependency on a specific supplier as a result of the failure to deal properly with issues of copyright, which then leads to increased development costs and problems with switching to another supplier.**

These circumstances impact on the level of the state’s annual spending on ICT. Total expenditure in the field of information technologies is one of the indicators. Chart 11 shows that the total monitored spending on ICT has been growing since 2012 and hit almost **CZK 13 billion** in 2017. Nevertheless, the SAO expects that the actual value of expenditure on ICT is even higher, as these figures do not include budget items that may comprise other related spending than spending directly on ICT.

Chart 11: Ministries’ expenditure on ICT 2012–2017 (CZK billion)



Source: *State Treasury Integrated Information System*; selection of budget items nos. 5042, 5162, 5168, 5172, 6111, 6125.

²⁵ *Excise Movement and Control System*; the purpose of the IS is to monitor movements of goods subject to excises between Member States under the contingent exemption from tax procedure.

²⁶ The audit conclusion from audit no. 15/33 – *Excise duty administration* was published in volume 1/2017 of the *SAO Bulletin*; for the joint report see <https://nku.cz/cz/publikace-a-dokumenty/ostatni-publikace/sprava-spotrebnich-dani-spolecna-zprava-cr-slovensko-id8738/>.

The SAO also monitored the situation around public contracts awarded under negotiated procedure without publication (“NPWP”), which are dealt with by a working group of the Government Council for Information Society that scrutinises planned above-the-threshold public contracts for information and communication technologies in order to prevent the unauthorised use of NPWP. This working group’s minutes reveal that 25 public contracts awarded under NPWP and worth a total of **CZK 1.7 billion** (not including VAT) had been submitted to it as of 30 November 2017. In the field of ICT, the total volume of public contracts awarded by ministries under NPWP in 2017 was **CZK 1.5 billion**, which represented almost **12%** of the total volume of public contracts awarded in this field, i.e. **CZK 13 billion**. Despite a fall in this share in 2017 compared to 2016, the volume of contracts awarded under NPWP remains significant.

Based on the identified shortcomings and assessment of their causes, the SAO formulated a number of recommendations in its audit conclusions designed to improve the management of investments in ICT and the development of eGovernment.

Despite some minor shortcomings, the amendment of Act No. 365/2000 Coll.²⁷, on public administration information systems and amending certain other acts, can be described as beneficial. This amendment enacted the *Fundamental Principles for Procedure when Utilising Funds for Expenditure Linked to Information and Communication Technologies Exceeding CZK 6 Million per Year*, which had till then been part of Czech government resolution no. 889 of 2 November 2015, concerning the further development of information and communication technologies for public administration services.

These Principles specify that every processing authority is obliged to familiarise the Division of the eGovernment Chief Architect (“the Division”) with the ICT project before implementing it, including all related materials, and in particular the basic conditions, financial and staffing requirements and the architectural model of the proposed solution. Enacting these Principles put in place the right conditions for effective coordination of the development and expansion of eGovernment across public administration.

Before this amendment took effect, the Division was not able to judge eGovernment projects linked primarily to public administration information systems managed and operated by local government authorities. Based on the Principles, in 2016 the Division assessed a total of **117** project applications worth in excess of **CZK 19 billion** and in 2017 it assessed, or received for assessment, **357** ICT projects with a total planned investments value of **CZK 24.8 billion**.

Despite the considerable progress made in coordinating spending on public administration ICT, one weakness is that ICT projects are not submitted to the Division of the eGovernment Chief Architect by state firms – the National Agency for Communication and Information Technologies, State Treasury Shared Services Centre and CENDIS established by the Ministry of Transport – even though the combined value of public contracts awarded by these state firms in 2017 alone exceeded CZK 2 billion.

The amendment of Act No. 365/2000 Coll., which put in place the right conditions for effective coordination of the development and expansion of eGovernment across public administration, can be described as beneficial.

3.2 Research, development and innovation – making targeted support for basic research more effective requires evaluation of the qualitative results of research and stronger links to other phases of the innovation process

Research, development and innovation (RDI) is an important driver of economic growth and competitiveness enabling the advancement of the knowledge economy, with a view to achieving sustainable development and economic prosperity. That is why expenditure on RDI is one of the five priorities of the *Europe 2020* strategy.

²⁷ Amendment effective from 1 July 2017.

The SAO has long focused on scrutinising expenditure and performance in RDI. Last year the SAO followed up its previous audit of support for applied research²⁸ with audit no. 16/19 targeting support for basic research provided through the Czech Science Foundation (“the Foundation”). The SAO checked whether the provided support fulfilled the tasks and goals defined by national conceptual documents, whether the project selection process was transparent and whether the Foundation monitored and assessed the impacts of this support. The audit also compared the standard of basic research in the Czech Republic with other European countries.

The audit results show that the Foundation provided more than CZK 15 billion in support for RDI from 2011 to 2015, but did not monitor the quality of the results achieved, either by field or overall. The Foundation was therefore unable to assess the overall impacts of the support. International comparison of quality indicators, however, shows that the Czech Republic lags behind the European average in terms of the quality of basic research. The reasons could include the facts ascertained by the audit: specifically, the insufficient implementation of national conceptual materials when tying basic research to the application of research findings, insufficiently transparent project selection and the considerable bureaucracy of the support system. The SAO’s other conclusions were as follows:

- Although the Foundation was tasked with participating in ensuring that basic research was linked to the subsequent phases of the innovation process, the Foundation did not monitor, evaluate and systematically support these links. The Foundation did not support oriented basic research in order to support areas with better follow-up potential and with greater potential for application of results. Instead of concentrating part of the support on defined strategic fields that can contribute to the CR’s improved competitiveness, it gave precedence to spreading out the support evenly across all five fields of basic research. Given the existence of limited funds, its approach was inconsistent with the national conceptual documents and with the Foundation’s own internal materials. The audit also identified circumstances in some public tenders that negatively affected the transparency of project selection. In contravention of the law, the Foundation altered the conditions of a tender that had already been announced, which could have advantaged certain applicants. The SAO also found that the presidium of the Foundation decided to provide support to other projects than those proposed by the “discipline committee” on the basis of project assessment that was the outcome of expert discussion and adversarial assessments by external assessors, including international assessors. The administrative work resulting from addenda to contracts with support beneficiaries was also considerable, resulting in the delayed disbursement of support.

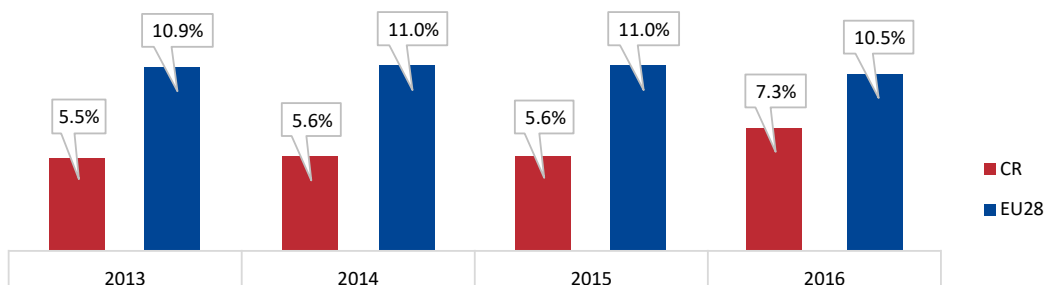
The Czech Republic falls short of the European average in the quality of basic research. It lags behind in indicators measuring the quality of publications that are almost the sole output of basic research and the measure of the success of their authors. The Czech Republic is also relatively unsuccessful at obtaining grants from the European Research Council.

The most relevant factor when comparing the quality of basic research is the standard of publications, as publications are almost the sole output of basic research. The indicator of the share of total scientific publications that are among the top 10% most cited publications worldwide²⁹ can serve as an indicator of the quality of publications. As Chart 12 shows, the Czech Republic lags far behind the EU average in this indicator.

²⁸ Audit no. 15/27 – *State funds earmarked for special-purpose support of research and development within the budget chapter of the Technology Agency of the Czech Republic*; the audit conclusion was published in volume 4/2016 of the SAO Bulletin.

²⁹ According to this indicator of the Innovation Union Scoreboard monitored by the European Commission.

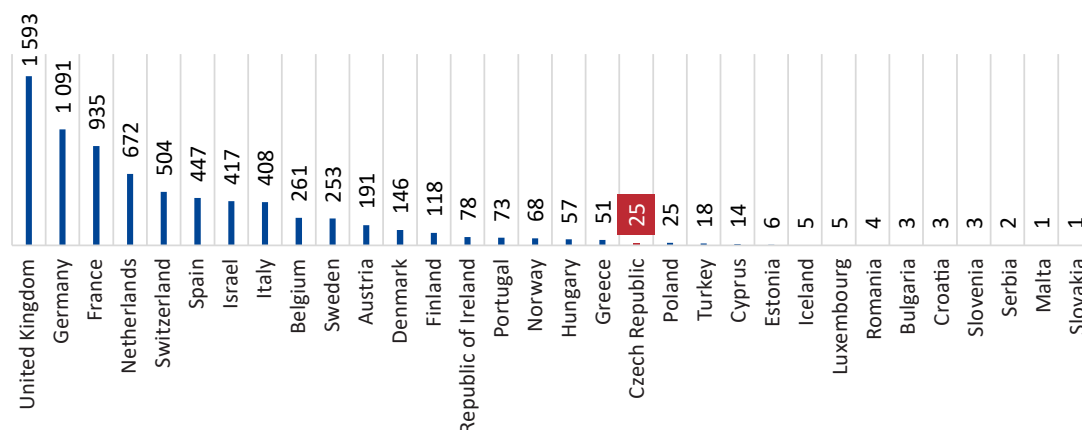
Chart 12: Comparison of the CR and EU average – share of total scientific publications that are among the top 10% most cited publications worldwide



Source: Innovation Union Scoreboard for 2013, 2014, 2015 and 2016.

In 2007 the European Commission set up the European Research Council (“ERC”) as the first pan-European grant agency for financing frontier research³⁰. Compared with other countries, the Czech Republic is not particularly successful at gaining ERC grants. The following chart presents a comparison.

Chart 13: Number of grants obtained from the ERC from 2007 to January 2017 by country



Source: European Research Council, number of grants as at 12 January 2017.

Recommendations

Based on the results of the audit, the SAO recommended the following to the Czech Science Foundation:

- monitor, assess and systematically support the linking of basic research grant projects to other phases of the innovation process;
- target support at oriented basic research;
- ensure that the assessment criteria specified in tender documentation are the same as the assessment criteria stated in assessment protocols and create written, verifiable records of the assessment of all assessment criteria;
- monitor and assess the quality of results overall for all supported projects.

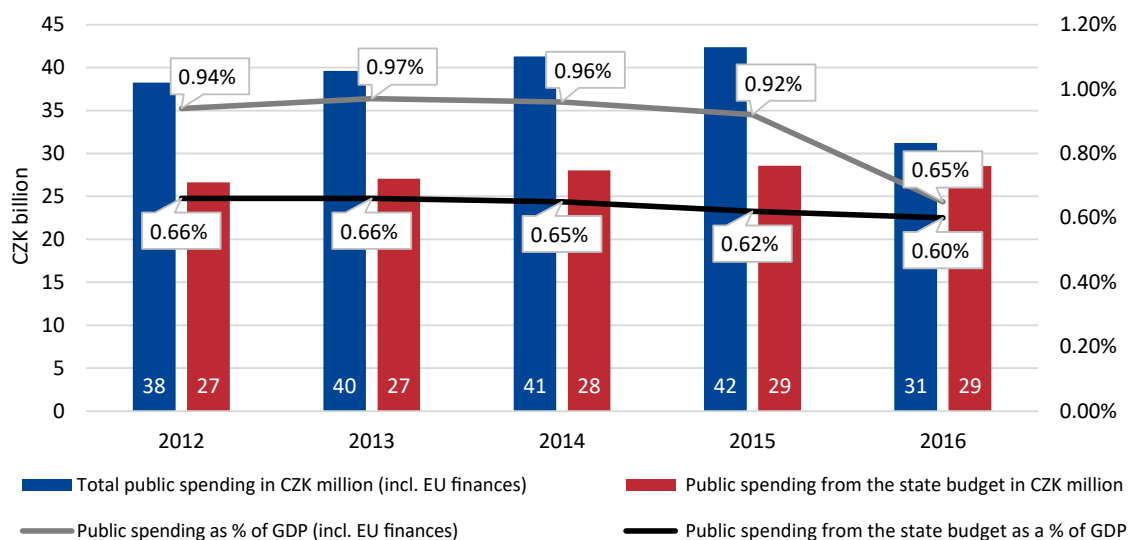
³⁰ Frontier research is research at the furthest reaches of human knowledge regardless of whether it is basic research or applied research. It is original research, often disciplinary in nature, making use of new, unconventional methods and approaches, with a clear ambition to go beyond the boundaries of current knowledge. Projects are risky but can significantly influence the given field, shifting its boundaries or opening up entirely new research perspectives or directions.

Even though the Foundation disagreed with the conclusions of the audit and the material for discussion of the audit conclusion by the Czech government was submitted with a dissenting opinion, the Foundation adopted some remedial measures designed to forge closer links between basic and applied research and eliminate weaknesses in project assessment and administration. For example, the Foundation and the Technology Agency of the Czech Republic entered into a cooperation agreement whereby the Technology Agency will make use of excellent assessments of projects by the Foundation as credits for its own assessment and the Foundation will monitor the application potential of the best supported projects. The new system should be put into practice in 2018.

One important step in the SAO's opinion is that, following up the updated *National Policy of Research, Development and Innovation for 2016–2020*, in 2017 the government approved new rules for funding and assessing the results of research, development and innovation³¹. These rules should be a fundamental precondition ensuring that research activities are dependent less on the quantity of results and more on their quality. That is in line with the findings and recommendations from previous SAO audits. The new assessment system will be rolled out gradually over the coming three years.

Other factors also influence the achieved overall performance of RDI. In its opinion issued on the state closing account for 2016 the SAO pointed out that the CR mainly lags behind in the results of applied research and cooperation between the public and private sectors. In addition, the share of GDP accounted for by public spending on RDI has been falling in the CR since 2014, so the government's target of public spending on RDI equalling 1% of GDP has not been achieved. As Chart 14 shows, public spending on RDI accounted for just 0.65% of GDP in 2016. In this context the SAO has drawn attention to the need to make support more effective. Even with a GDP share of total spending on R&D comparable to the EU average, the CR fails to attain even the average innovation performance. The CR's innovation performance ranking has not changed since 2010, as the CR again occupied 13th place out of 28 EU countries in 2016³².

Chart 14: Expenditure on RDI in the years 2012–2016 and its share of GDP



Source: State closing accounts for 2012–2016.

³¹ The government approved the *Methodology for Assessing Research Organisations and Assessing Programmes of Special-purpose Support for Research, Development and Innovation* in resolution no. 107 of 8 February 2017.

³² According to the European Commission's innovation performance indicator; see http://ec.europa.eu/growth/industry/innovation/facts-figures/scoreboards_cs.

The share of GDP accounted for by public spending on RDI has been falling in the CR since 2014 and the government's target of public spending on RDI equalling 1% of GDP has not been achieved.

One important step in the SAO's opinion is that in 2017 the government approved new rules for financing and assessing the results of research, development and innovation, which should be a fundamental precondition ensuring that research activities are dependent less on the quantity of results and more on their quality.

3.3 Transport – achieving the goals of transport policies requires effective legislative tools to speed up the preparation of construction projects

Transport infrastructure, its condition and further development, are essential for ensuring the sustainable development of the Czech Republic. The SAO focuses its audit work on problems linked to transport infrastructure maintenance, modernisation and construction, trying to identify the main causes for the unsatisfactory state of affairs and help push through effective measures to rectify it. The CR has long lagged behind in terms a number of the goals and measures of government policy. That is why the SAO regards audit work in this area as crucial.

In 2017 the SAO completed audits scrutinising:

- interoperability on existing railway lines (audit no. [16/16](#));
- the construction, modernisation and renovation of motorways (audit no. [17/05](#));
- the acquisition and operation of the system for charging tolls for road use (audit no. [17/10](#)).

The audit of motorway construction (audit no. [17/05](#)) confirmed the SAO's previous findings concerning the failure to fulfil government policy plans for motorway construction, with construction projects experiencing delays mainly caused by lengthy authorisation proceedings for projects. The inordinately long time it takes to prepare construction projects has got even longer in the past five years, which has a negative impact on the efficiency of spending relative to the benefits of the projects whose completion is delaying. Effective legislative measures to speed up construction project preparation have not been adopted yet in the CR, however, so the CR is losing a lot of time.

- The SAO assessed that the existing pace of construction does not guarantee that the target of completing the motorway network by the envisaged deadline, i.e. **2,073 km** of motorways in 2050, will be achieved. In the previous audit no. [12/18](#)³³ the SAO stated that the original plans even specified that the motorway network should be completed as early as in 2010³⁴. Approx. **25 km** of motorway would have to be completed per year on average to meet the deadline of 2050, but on average just **16 km** was opened for use in the years 2013–2017. The main cause of the slow pace of construction was problems obtaining planning permission and building permits, mainly because the ownership-related preparations had not been completed and participants in the proceedings repeatedly contested decisions and appealed and exploited other procedural options during the proceedings. In the preparation of motorway construction projects, the time between obtaining approval as regards environmental impact and obtaining a building permit has on average been **13 years**, i.e. four years more than the figure arrived at in the previous audit no. [12/18](#). The measures the MoT adopted in response to the previous audit have not helped shorten the preparation time for construction projects. The SAO assessed that a realistic expectation for the years 2018–2020 is that just 7 new sections of motorway measuring **52 km** will be completed in consequence of the slow process for planning permission and construction permits; that makes just **17 km** a year on average, i.e. almost a third less than is required to meet the deadline.

³³ The audit conclusion from audit no. [12/18](#) – *Funds earmarked for the construction of motorways and high-speed roads* was published in volume 3/2013 of the *SAO Bulletin*.

³⁴ According to the conceptual material *Proposal for the Development of Transport Networks in the Czech Republic up to 2010*, approved by government resolution no. 741 of 21 July 741, the motorways and high-speed roads network was supposed to be completed between 2000 and 2010.

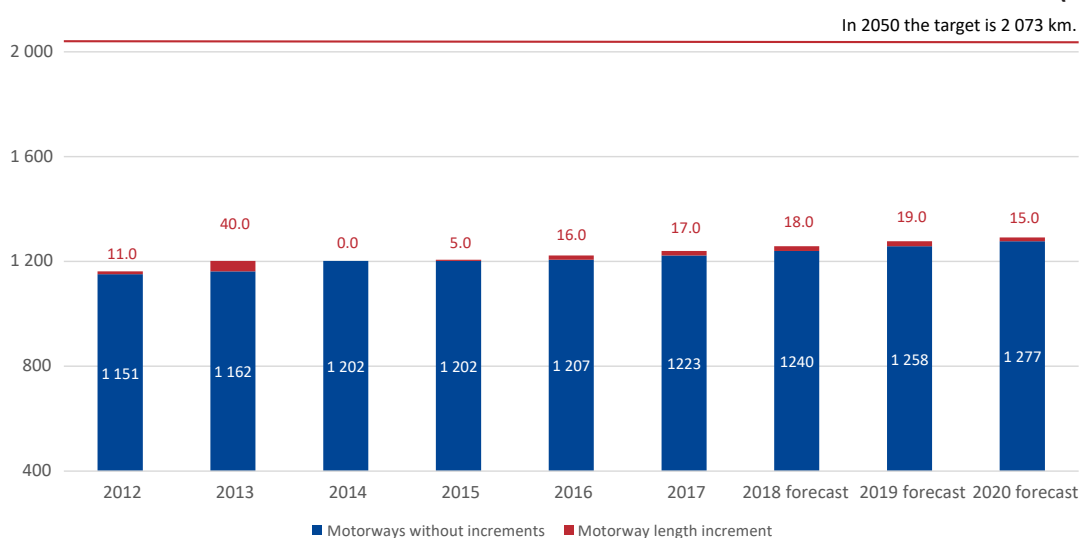
Effective legislative measures to speed up road construction project preparation have not been adopted yet in the CR, however, so the CR is losing a lot of time. One example of a huge delay in executing necessary construction projects is the Hradec Králové – Smiřice section of the D11 motorway, where the preparatory work had already been going on for 21 years at the time of the audit.

Although the MoT drew up a legislative intention for an act on linear construction projects in October 2014 that was intended to speed up the transport infrastructure preparation process considerably, the ministry subsequently withdrew it from the government's legislative council in January 2015 on the grounds that the MoRD was preparing an amendment of the Building Act³⁵ that would have the same effect. The amendment that takes effect from 1 January 2018 did not fulfil the MoT's expectations, however, so in August 2017 the MoT drafted an amendment of Act no. 416/2009 Coll.³⁶, which is going to be discussed with other government departments³⁷. The legislative process has not been completed yet.

The CR still does not have a law that would prevent construction projects being deliberately blocked and speed up the construction permit process, EIAs and the buy-up of affected land.

The development of the total length of the motorway network in 2012–2020 is shown in Chart 15. Annual increments of new sections of motorway have long been low. The current state of preparation of new sections of motorway does not suggest that the rate of development will increase before 2020.

Chart 15: Total length of the motorway network and lengths of new sections of this network, 2012–2020 (km)



NB: The chart also includes sections of former high-speed roads.

Source: Information from audit no. 17/05.

The Czech Republic remains below the EU average in the field of transport infrastructure. That is evident from the indicator of motorway network density relative to the area of the country, for example: in 2014 the CR had a motorway network density of **9.8 km per 1,000 km²**, while the average for EU Member States (27) was **16.8 km per 1,000 km²**.³⁸ Even after including high-speed

³⁵ Act No. 183/2006 Coll., on zoning proceedings and the building code (the Building Act).

³⁶ Act No. 416/2009 Coll., on speeding up the construction of transport, water, energy and electronic communications infrastructure.

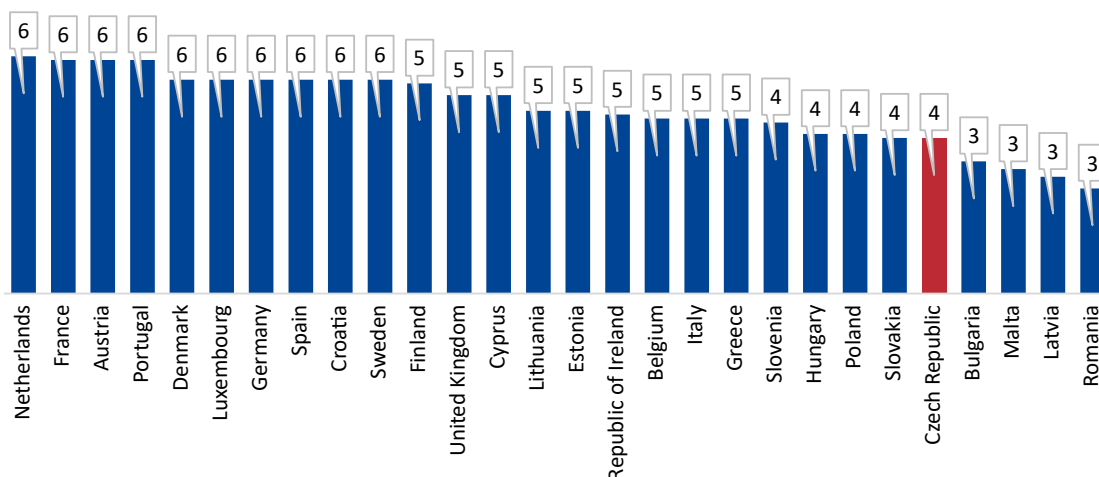
³⁷ The preparation of the amendment was not finished by the end of 2017; the MoT expects legislative process to start in 2018; see <https://www.mdcz.cz/Media/Media-a-tiskove-zpravy/Shoda-napric-politickymi-stranami-Musime-rychle-n>.

³⁸ *Country Report Czech Republic 2017*, European Commission.

roads and motorways forming part of the motorway network up to 2017, the network density indicator in 2017 of **15.7 km per 1,000 km²** would fall below the EU average in 2015. The CR lags far behind neighbouring Germany (**36.2 km per 1,000 km²**), for example, and even behind certain other EU countries like Slovenia (**38.1 km per 1,000 km²**), Croatia (**23.2 km per 1,000 km²**) and Hungary (**20.3 km per 1,000 km²**)³⁹.

The quality of the road network in the CR is also very poor. According to the World Economic Forum, the CR was in 24th place out of the 28 EU Member States; see Chart 16.

Chart 16: Quality of the road network in EU countries according to the road quality index



Source: World Economic Forum, Quality of Roads, Global Competitiveness Index 2017–2018 (scale of 0–7, where 0 is worst and 7 best).

In its audits of motorway building the SAO has long paid attention additionally to the issue of the costs of motorway construction and has exerted pressure for reducing these costs, which has had a positive impact on unit prices. The greater exploitation of a competitive environment in award procedures for building contractors has had a major impact on reducing the cost of building new sections of motorway. The attention that the SAO pays to unit prices has also contributed to improvements. The Roads and Motorways Directorate of the CR (“RMD”) still has room for improvement in its checking of valuations, however.

- In audit no. **17/05** the SAO assessed that there had been a pronounced price reduction in motorway building compared to the prices ascertained by the previous audit no. **12/18**, specifically from **CZK 340 million** to **CZK 152 million** per km. Comparing the prices of construction work and the valuation of selected items of building work has shown that construction was not significantly overpriced or underpriced. The average price of **CZK 6,870/m²** was comparable to the average price of **CZK 6,882/m²** in four European Union Member States⁴⁰. There was an improvement in the number of bidders in award procedures, which ranged from 9 to 12. The valuation of building work items, which should be a tool for assessing construction project prices and a way of ensuring economical execution and specifying envisaged values in award procedures to select building contractors, remains a persisting shortcoming. Construction prices were **33% to 55%** lower than the envisaged value in award procedures to select contractors.

In connection with funding for transport infrastructure development, the SAO looked at the collection of tolls and the efficiency achieved by the toll system in audit no. **17/10**. The SAO stated that in the electronic toll system (“ETS”) the MoT was not fulfilling conceptual plans or

³⁹ Eurostat; Motorways and Total land cover indicator; data from 2015.

⁴⁰ Figure from European Court of Auditors Special Report 5/2013: *Are EU Cohesion policy funds well spent on roads?* The report assessed the prices of 24 express-road and motorway investment projects in Germany, Greece, Poland and Spain. The costs were converted using an exchange rate of 25.65 CZK/€.

tasks imposed by the government on the basis of previous toll audits (audits nos. 11/13⁴¹ and 12/12⁴²). Between 2007 and 2016 the MoT did not have a clear concept for charging tolls or an objective analysis of the options for the EST. It selected a new supplier after a considerable delay, as a result of which it was forced to extend the contract with the existing supplier until 2019. The original contract and its addenda also contained ineffective and uneconomical expenditure. The SAO also found the following:

- The MoT implemented the ETS from 2007 to 2016 with fundamentally different parameters than it had specified in the option approved by the government in 2004. Tolls were levied on just **185 km** of 1st class roads instead of **1,562 km**, for example. As early as in 2012 the MoT had been tasked by a government resolution⁴³ with launching the preparation of measures to commence the award procedure for an ETS operator after 2016. The SAO repeatedly flagged up the alarming situation. However, it was not until 2015 that the MoT started to tackle the problem resulting from the selection of a supplier for 2006–2016, which consisted in the fact that the MoT did not possess the necessary copyright on the ETS. This delay put the MoT in a situation where it extended the contract with the existing supplier for a further three years, i.e. to the end of 2019, in contravention of the Act on Public Procurement⁴⁴. An open tender is only taking place for the 2020–2029 period.

The SAO also checked whether the economic benefits expected from the launch and operation of the tolls system had been achieved after ten years. From 2007 to 2016 the total cost of rolling out and operating the tolls system reached over **CZK 24 billion**, while the MoT collected **CZK 78.5 billion** in tolls. The average total cost ratio of the tolls system was thus approx. **31%**. The operating costs ratio, i.e. not including the cost of acquiring the ETS, works out at **24%**. The SAO judges the achieved cost effectiveness to be unjustifiably poor compared to other countries. In Austria, for example, the equivalent system had a cost ratio of **12%**. The cost ratio is also influenced by ineffective or unjustified expenditure, e.g. for acquisition of a satellite interface that was never used because of a change in concept, or for public relations work or asset replacement, which the SAO found to have cost over **CZK 1 billion** in total up to 2019.

The SAO drew attention to errors in the management and coordination of the development of railway infrastructure when it audited how the MoT and Rail Track Administration (“RTA”) were proceeding when introducing railway systems that are supposed to ensure safe and uninterrupted operation on Czech railway lines for various trans-European rail system operators, i.e. interoperability on existing lines (audit no. 16/16). As a result of these errors, the introduction of the rail track systems in question is behind schedule and is not taking place systematically. In addition, a sufficiently competitive environment is not in place when selecting contractors. These deficiencies could have negatively influenced the economy, efficiency and effectiveness of expenditure.

- One benefit of the trans-European rail system that is composed of a radio-communication system (GSM-R) and European Train Control System (ETCS) is supposed to be safe and uninterrupted train operation by various operators in the trans-European rail system. Even though **CZK 4.3 billion** was spent on the two systems in the audited period of 2009–2015 alone in the CR, the MoT did not lay down any binding timetable or financial plan for the launch of the systems. It merely worked on the basis of the remote deadline of 2030, or 2050, by when the system is supposed to be operational in the CR. It decided on an ad hoc basis about the various system projects, without any evident coordination with other projects. The MoT did not draw up a set of indicators enabling it to evaluate the effectiveness and efficiency of spending on project financing and the degree to which the projects’ expected benefits were

⁴¹ The audit conclusion from audit no. 11/13 – *Funds spent on constructing and operating the road toll collecting system in the Czech Republic* was published in volume 2/2012 of the *SAO Bulletin*.

⁴² The audit conclusion from audit no. 12/12 – *Incomes from the motorway toll and from time coupons (time-framed charge for using roads) including related expenditures* was published in volume 2/2013 of the *SAO Bulletin*.

⁴³ Czech government resolution no. 492 of 4 July 2012, *regarding the SAO audit conclusion from audit no. 11/13 Funds spent on constructing and operating the road toll collecting system in the Czech Republic*.

⁴⁴ Act no. 137/2006 Coll., on public procurement.

delivered. It paid no attention to the fact that launch of the ETCS system was severely delayed. According to the plan from 2007, this system was supposed to be operational on **1,332 km** of track by the end of 2016, whereas the actual figure was just **22 km**. What is more, the Rail Track Administration failed to ensure that the selection of project contractors for the GSM-R system took place in a competitive environment, giving rise to an effective monopoly for one contractor, which can impact on how economical the interoperability projects are.

Recommendations

Based on the results of audit no. **16/16**, the SAO mainly recommend that the reasons for the failure to attract more bidders for public contracts for the GSM-R system should be analysed and the options for improving the competitive environment when awarding projects should be assessed. Based on the results of the audit the RTA should draw up an analysis of the existing award conditions of public tenders for building GSM-R infrastructure, focusing on ruling out any restrictions on rival technologies. The MoT stated that it has now put in place reliable supervision for current tenders for projects.

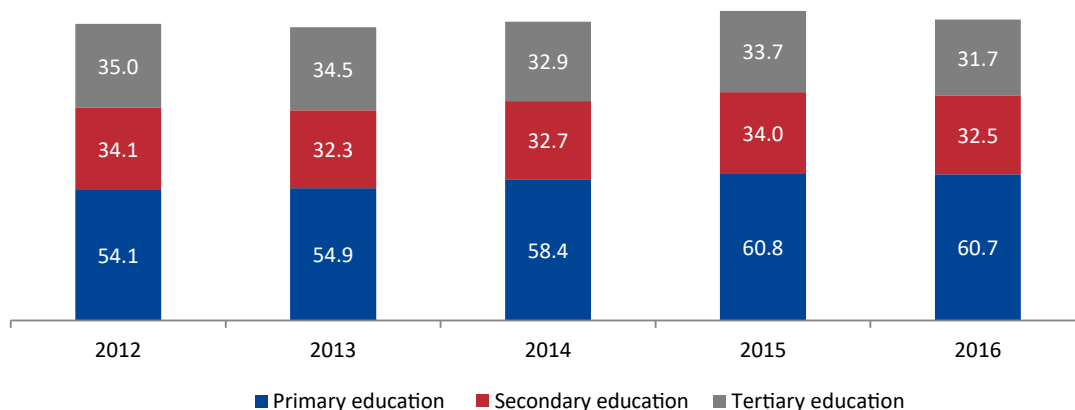
Audit no. **17/05** shows that the effective development of the motorway network mainly requires the adoption of effective legislative measures to speed up construction project preparation; this mainly means simplifying and speeding up the procedure for issuing planning permission and building permits. It is also necessary that the RMD put in place an effective tool for checking and assessing building prices and prescribing their envisaged values in award procedures to select building contractors.

The shortcomings identified in the electronic tolls system (audit no. **17/10**) show that the MoT should adopt a unified concept for charging for the use of roads and thus eliminate the significant risk of possible changes to the ETS parameters negatively impacting on the effectiveness of the ETS.

3.4 Education – improving the quality of the education system requires the adoption and use of systems for measuring the quality of results and the corresponding means of financing

The development of education as a fundamental precondition for steering the CR towards the knowledge economy and boosting its competitiveness is one of the permanent priorities of the SAO's audit work. In its work the SAO focuses on money the state spends on putting in place the conditions of the educational system and on whether the state is able to use this money efficiently. The success of a society is largely contingent on good results from the education system, and the Czech government has included a number of its intentions among its strategic goals, e.g. under the *Education Policy Strategy of the Czech Republic up to 2020*. At European Union level, the CR undertook to set national targets to contribute to achieving the objectives of the *Europe 2020* strategy.

This field is also significant in terms of state expenditure, as total spending on education exceeds **CZK 120 billion** per year; see Chart 17.

Chart 17: Public spending on primary, secondary and tertiary education (CZK billion)

Source: *Education Development Yearbook 2006/07–2016/17*. The chart contains data at 2015 fixed prices.

In 2017 the SAO completed two audits dealing with money spent on:

- the advancement of education in the CR (audit no. [16/13](#));
- replacement and development of the material and technical resources of public universities (audit no. [16/31](#)).

In audit no. [16/13](#) the SAO focused on systems and tools for evaluating the quality of educational courses and the results of the education system. The tools involved are as follows: checking the results of children in the 5th and 9th years of primary school, the common part of the school-leaving exam and uniform admission exams to secondary schools. The SAO concluded that the tools did not contribute to the efficient achievement of the education system's strategic goal, which was improving the quality of education. Nevertheless, the MoEYS spent CZK 1.2 billion on preparing and implementing the evaluation tools between 2011 and 2016. The SAO also found the following:

- The MoEYS did not introduce annual blanket checking of the results of 5th year and 9th schoolchildren in line with the Long-term Plan for Education and Development of the Education System 2011–2015, even though it developed an information system to this end, including a mobile phone app. It thus spent the sum of more than **CZK 116 million** on the information system ineffectively, and **CZK 5.5 million** of that amount spent on developing the mobile phone app was spent inefficiently. In the same period there was an absence of regular feedback on the knowledge attained by all schoolchildren at the node points of basic education. In the subsequent Long-term Plan for the Development of the Education System 2015–2020 ("Long-term Plan 2015–2020") the MoEYS' checking was narrowed down to a representative sample of schoolchildren at four-year intervals. In the audit, the SAO also focused on the system for funding regional education and stated that the system of schools financing on a per-pupil basis did not take into account the quality of education provided by various schools, as the currently valid Long-term Plan 2015–2020 envisages. The MoEYS provided subsidies worth roughly **CZK 80 billion** per year out of the state budget for the provision of primary and secondary education. Nor does the regional schools funding reform being drawn up (which should be in effect from the 2018/2019 academic year) by the MoEYS make allowance for quality. Schools' management are thus not motivated to improve the quality of the education provided.

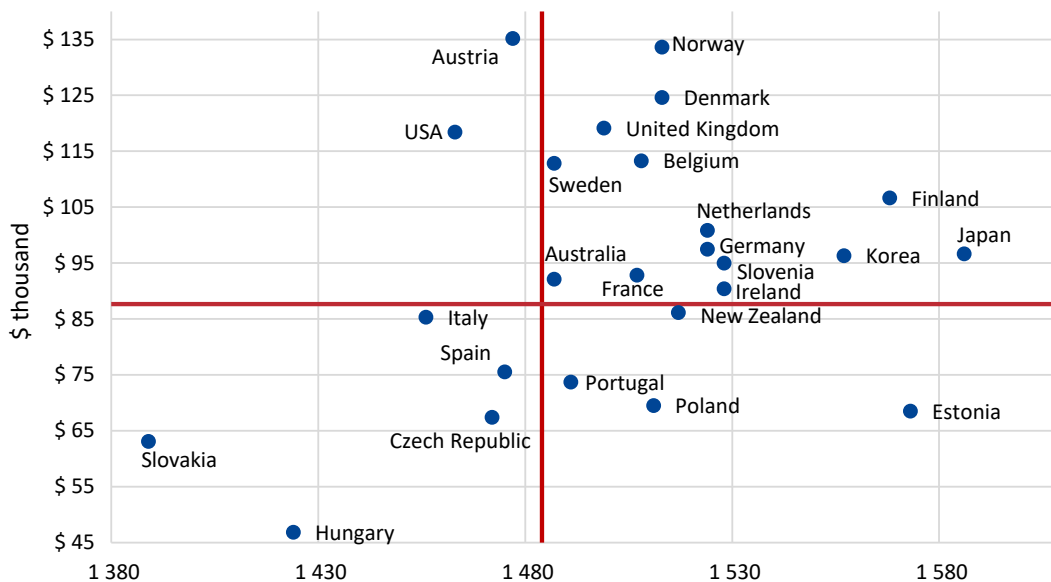
According to the White Paper⁴⁵, comparing the results attained in the various areas of the education system, including comparisons with abroad, makes it possible to obtain the objective information necessary for effective management and decision-making by all participants in the

⁴⁵ Strategic document entitled *National Programme for the Development of Education in the Czech Republic*, approved by Czech government resolution no. 113 of 7 February 2001.

education system, including pupils and parents. According to the international PISA⁴⁶, the CR's education standard falls near the average. Schoolchildren's basic skills have deteriorated in terms of long-term results.

This assessment looks at mathematics, reading and science skills among fifteen-year-old schoolchildren in three-year cycles. From the perspective of comparing the latest PISA results (2015) and the average amount of public money spent on the education of a child from the age of 6 to 15 (see Chart 18), the CR falls below the average of selected OECD countries in terms of both results and public spending per pupil. One example of efficient education from this perspective can be found in Estonia, where spending per pupil is on the same level as in the CR but whose PISA results are among the best in the OECD.

Chart 18: Cumulative expenditure on the education of a pupil from 6 to 15 (USD thousand, converted for purchasing power parity) relative to PISA 2015 results (points scored) in selected OECD countries



NB: The red axes denote the featured OECD countries average on the chart.

Source: OECD data: <https://www.oecd.org/pisa/pisa-2015-results-in-focus.pdf>, <http://www.oecd.org/edu/eag2017indicators.htm>. Chart by the SAO.

Pupils' worsening results and rising failure rates in the school-leaving exam influence the rate of early-leaving. At the time when the national targets intended to contribute to the objectives of *Europe 2020*⁴⁷ were set in 2010, the CR scored **4.9%** on the "proportion of early leavers" indicator. That figure gradually worsened, reaching **6.2%** in 2015⁴⁸. The CR thus failed to hit the set national target in 2015. Yet the primary reason for increased early leaving is not the introduction of the common part of the school-leaving exam from the 2010/2011 academic year, which prescribes a standard for pupils' skills, but the problematic quality of the education being provided.

⁴⁶ PISA (*Programme for International Student Assessment*) tests 15-year-old pupils in mathematics, reading and science skills. This is an OECD activity. The current testing results are accessible at <http://www.oecd.org/pisa/pisa-2015-results-in-focus.pdf> and more results can be found at <https://www.oecd.org/pisa/keyfindings/>.

⁴⁷ One of the goals of *Europe 2020* is to reduce the early-leaving rate to below 10%. Czech government resolution no. 434 of 7 June 2010 set an even more stringent target of 5.5%.

⁴⁸ See http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=t2020_40.

Tools for assessing the quality of educational courses and the results of the education system did not contribute to the efficient achievement of the education system's strategic goal, which was increasing the quality of education.

Recommendations

Based on the audit results, the SAO recommended that the MoEYS take measures to ensure that spending on regional education is efficient. In this context, it is necessary first and foremost to introduce and make use of tools for assessing the quality of education that give feedback on the quality of provided primary and secondary education both for the MoEYS and schools and for the public.

Further to these findings, the MoEYS is preparing, in conjunction with the Czech Schools Inspectorate ("CSI") and as part of the reform of regional schools financing, tools for measuring the quality of education in schools to provide feedback to schools and their founding organisations. Other measures the MoEYS adopted consist in making thorough use of the created information system for feedback on attained educational results and generally in enshrining the use of evaluation tools in strategic documents.

The efficiency of the execution of the programme to provide for the needs of public universities as regards their material and technical resources was scrutinised in audit no. 16/31. The SAO stated that the programme was not based on clearly defined conditions and was not executed in line with originally defined requirements. Crucially, the MoEYS, as the programme's administrator, set merely general goals for the programme, did not perform regular evaluation of the programme and did not regularly assess the efficiency of spending. Throughout the duration of the programme, the MoEYS consequently does not know whether the programme's goals are being achieved or how the execution of the programme is helping improve the overall state of the material and technical resources of public universities. The SAO also found the following:

- Although the MoEYS planned to provide **CZK 13.8 billion** to public universities under the programme, the universities had only drawn down **CZK 5.7 billion**, i.e. **42%**, by the end of the originally specified period of 2011 to 2016. The low drawdown could result in projects that do not meet the economy, efficiency and effectiveness requirements being selected and implemented. In the programme's documentation the MoEYS merely set four general goals and no qualitative parameters, thus violating the relevant legal regulation⁴⁹. The system of goals and parameters does not make it possible to monitor and evaluate the efficiency of spending. The MoEYS did not regularly evaluate the goals of the programme, giving rise to a risk that the final assessment of the programme will be merely formal. The MoEYS selected some projects that were not ready in time for support – for example, they lacked realistic parameters of a building, no studies had been drawn up or project documentation was missing. For example, the MoEYS included in the programme a project to build the headquarters of the Czech Institute of Informatics, Robotics and Cybernetics at a cost of **CZK 1 billion**, even though this project had not featured among either the specific or general objectives of the programme. In addition, this project did not comply with some of the rules necessary for obtaining support: for example, the Czech Institute of Technology did not have the project documentation in its final form, any materials to underpin a qualified calculation of the building costs or completed planning permission at the time when the public tender was announced. The SAO stated that proceeding in this manner meant that the fundamental principles of programme financing were flouted for this project. The insufficient readiness of individual projects then makes it necessary to prolong the programme further.

⁴⁹ Decree No. 560/2006 Coll., on state budget participation in funding asset replacement programmes.

Throughout the execution of the programme for the development of the material and technical resources of public universities, the MoEYS did not know whether the goals were being achieved or how it was helping improve the overall state of affairs.

Further to the identified shortcomings, the MoEYS made changes for the follow-on programme from 2018: it undertook to set milestones for assessment of the implementation of the programme, to introduce regular record-keeping of binding indicators and parameters for the programme and to set mandatory deadlines by when the adequate preparedness of a project must be proved.

In its opinion on the state closing account for 2016, the SAO also drew attention to other important objectives the government had set in the field of improving education:

- The government undertook to prepare a long-term strategy for the advancement of education and that a National Educational Council (“NEC”) would be set up as a platform for expert discussion, formulating key focuses of the advancement of the education system and tackling current issues in education. An extensive amendment of the Schools Act⁵⁰ was approved in April 2016. Although the establishment of the NEC was proposed in the draft amendment, it was not mentioned in the final version of the amendment and the National Educational Council was not set up. The SAO stated that the findings in audit no. **16/13** confirm that an umbrella organisation to tackle questions and key focuses in education would be highly desirable.
- Another government objective was to change the system for funding regional education. For that reason the MoEYS drew up an amendment of the Schools Act⁵¹ that entered into force in April 2017 and is supposed to eliminate disparities in the pay of teaching staff and the different funding of the same fields. The new funding system will take effect on 1.9.2018. In audit no. **16/13** the SAO concluded that the change in the funding of regional education still failed to make allowance for the quality of the education provided and thus does not motivate school management to improve it.
- The National Reform Programme focused on evaluating progress towards the national goals set under the *Europe 2020* strategy in the field of education – ensuring that at least **32%** of the population aged between 30 and 34 have tertiary education. As of 31.12.2016 the figure for the CR was **32.8%**, so the goal set for *Europe 2020* was achieved. It must be stressed, however, that the Eurostat database showed that the CR was in the sixth lowest position in the number of university-educated citizens aged 30–34, **6.3 percentage points** behind the EU average of **39.1%** (and almost **26%** behind the country with the highest proportion of university-educated citizens). The rate of growth of the proportion of university-educated citizens in the 30–34 age group was higher in the CR than the EU average, however.

3.5 Sport – efficient support for the development of sport requires a knowledge of what is needed and transparent decision-making in line with the goals of supporting sports facilities

State support for sport plays an important role: it is intended to help put in place the right conditions for the improvement of both physical and mental health, social relations and the achievement of improved performance at both recreational and the top competitive level. The SAO focuses its audit work mainly on the provision and use of funding for putting in place the right conditions for implementing the state’s policy and fulfilling the goals of the various subsidy programmes. In 2017 the SAO completed audit no. **16/20**, in which it scrutinised how the MoEYS, as the main provider, awarded subsidies for the development and renewal of the material and technical resources of sport and physical education from 2013 to 2015. The subsidies were intended to ensure sports

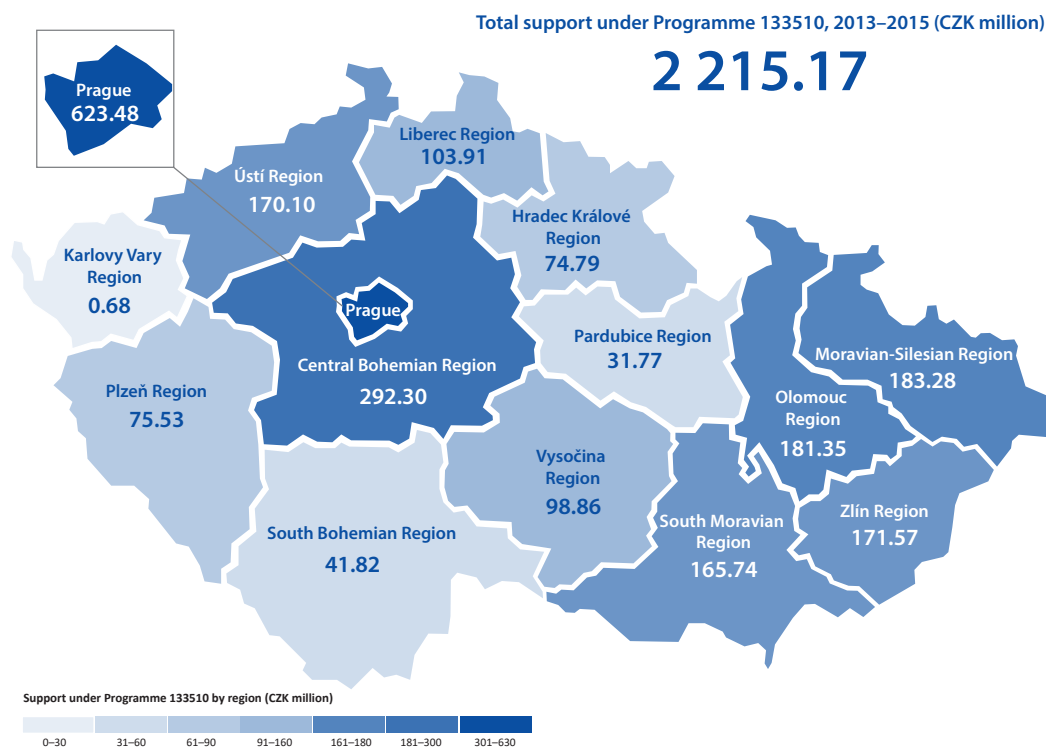
⁵⁰ Act no. 178/2016 Coll., amending Act No. 561/2004 Coll., on pre-school, primary, secondary, higher technical and other education (the Schools Act), as amended, and Act No. 200/1990 Coll., on misdemeanours, as amended.

⁵¹ Act no. 101/2017 Coll., amending Act no. 561/2004 Coll., on pre-school, primary, secondary, higher technical and other education (the Schools Act), as amended.

facilities are accessible and improve their technical conditions for both the public and sportspeople representing the country.

The following diagram shows how the overall support amount provided from 2013 to 2015 was distributed between regions.

Figure 1: Distribution of support by region (CZK million)



Source: MoEYS information.

The SAO assessed that the MoEYS distributed state budget funds earmarked for supporting the material and technical resources of sport in a non-transparent manner and created unequal conditions for subsidy applicants. It was not clear how projects were selected for support. The MoEYS failed to demonstrate how and even whether it assessed applications according to the declared criteria. Yet the MoEYS provided a total of CZK 2.2 billion between 2013 and 2015. The programme moreover lacked specific and measurable indicators that would make it possible to judge whether the programme's goals were being achieved. Other findings were as follows:

- When administering subsidy applications the MoEYS did not discard those that did not satisfy the conditions for inclusion in the programme and provided funding for projects whose purpose conflicted with the programme's goals. In several cases it also accepted non-compliance with the binding conditions on which the subsidies were provided to beneficiaries. Out of a sample of 35 audited projects subsidised to the tune of **CZK 518 million** in total, for example, 12 applications were submitted after the prescribed deadline (subsidies worth **CZK 316 million**); in 14 cases the time when the applications were submitted was not documented (subsidies worth **CZK 100 million**); and in 30 cases the project files did not contain the required documents (subsidies worth **CZK 482 million**). In 2013 and 2014 the MoEYS subsequently included projects where support was not applied for in the standard procedure. The MoEYS did not possess a full overview of sports facilities in the CR, which was a major hindrance to taking effective steps to monitor the intention to widen the range of existing sports facilities available with a view to evening out regional disparities. This uneven coverage is borne out by the amount of subsidies per capita, which ranged from **CZK 2** in the Karlovy Vary region to **CZK 495** in Prague. The SAO also audited selected subsidy beneficiaries,

where it identified shortcomings in the selection of contractors, payment for work before it was done and failure to comply with binding deadlines and technical parameters for projects. Supervision work by the MoEYS was inadequate: it only performed on-the-spot inspections for a subsidy of **CZK 2.4 million** at eight organisations.

Based on the audit, one notification of suspicion of a crime was filed with the law enforcement authorities and six notifications were filed with tax administrators concerning violations of the conditions on which state budget funds were provided to beneficiaries.

In the SAO's view, it is paramount that after the SAO's audit the MoEYS adopted measures to make the system for providing subsidies for sports infrastructure more transparent and to strengthen the internal control system so that the established rules are not flouted. In view of the inadequate supervision by the MoEYS at subsidy beneficiaries pointed out by the SAO, the MoEYS will set up a separate audit department in its sport and youth section.

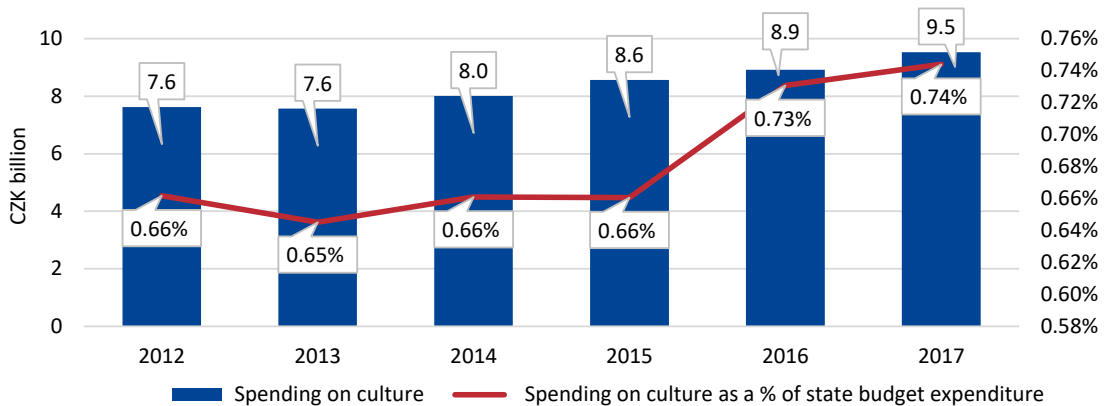
As a follow-up to the results of previous SAO audits in the field of support for sport⁵², an amendment of Act No. 115/2001 Coll., on support for sport, was adopted. Its principal objective is to make the provision of support for sport out of public funds transparent. The SAO welcomes the fact that the Act, effective from 1 January 2017, defined specific areas that may receive state support, put in place uniform rules and provided detailed information that will make it possible target support for sport more efficiently in future. In addition, by mid-2018 the MoEYS should set up a public register of sports facilities, which should contribute towards more efficient spending of public money on improving sports infrastructure.

In the SAO's view, it is paramount that after the SAO audit the MoEYS adopt measures to make the system for providing subsidies for sports infrastructure more transparent and to strengthen the internal control system.

3.6 Culture – long-term underfunding has a negative impact on achieving goals in the form of swift and efficient conservation of cultural monuments

The state has a duty to care for the preservation of cultural heritage and its integration into the contemporary life of society and to put in place the right socio-economic conditions to help foster art and conserve and protect cultural heritage sites. The government's intention is to move closer to a one per cent share of state budget expenditure on culture as a public service; this is not being achieved, despite systematic increases in spending on culture. As Chart 19 shows, despite the gradual increase in culture's share of state budget expenditure this share was still just **0.74%** in 2017.

⁵² Audit no. 13/23 – *State budget finances earmarked for the funding of sport centres supporting sports and fitness in the Czech Republic* (audit conclusion published in volume 1/2014 of the *SAO Bulletin*) and audit no. 14/04 – *State budget funds provided for selected programmes of state budget indicator – General Sports Activity* (audit conclusion published in volume 1/2015 of the *SAO Bulletin*).

Chart 19: Expenditure on culture and its share of state budget expenditure (CZK billion, %)

Source: MONITOR information website.

NB: Expenditure reported under section 33 – *Culture, Churches and Media* not including sub-section 333 – *Activities of Registered Churches and Religious Societies*, sub-section 334 – *Media* and paragraph 3362 – *Activities of the Central Organ of State Administration in the Field of Media* was included in expenditure on culture.

The number of heritage sites in the CR is constantly growing. Around 120 new cultural heritage sites are declared in the CR every year, and in 2016 the total number was 40,705. The MoC contributes to their conservation through eight programmes. In audit no. 17/01 the SAO focused on one of them, the *Architectural Heritage Conservation Programme*, which is intended to conserve and renovate heritage sites such as castles, palaces and monasteries. As the *Architectural Heritage Conservation Programme* contributes to salvaging cultural heritage sites in critical disrepair, the SAO estimated the expected costs of saving them and concluded that the condition of cultural heritage sites would not improve without increased funding.

- In this audit the SAO mainly learnt that throughout the programme's existence (22 years) MoC had not updated and quantified the goals that are supposed to be achieved from the provided support. In addition, the generally defined goals make it impossible to specify precisely the benefits gained from the expenditure. From 2013 to 2016 the MoC spent over **CZK 648 million** on **915 projects** for the renovation of cultural heritage sites under the programme. During that period the MoC was only able to satisfy approx. 26% of the applicants' total financial requirements. The unsatisfied requirements for conservation and renovation of cultural monuments thus amounted to **CZK 1.8 billion** during that period. The lack of available funding resulted in projects being divided up into smaller projects; in some cases the time required for the completed renovation of sites was as much as 15 years, which resulted in a low number of newly included projects. The division of projects also prolonged the repair time and caused secondary costs to rise. In the case of the repair of the façade of the Church of the Transformation of Our Lord on Tábora Mountain, for example, secondary costs increased by more than **CZK 1.6 million**, which was **23%** of the total repair cost between 2009 and 2015.

Long-term underfunding of the Architectural Heritage Conservation Programme meant that the work on the conservation of cultural heritage sites lasted over 15 years in some cases. This duration of cultural heritage site conservation is inconsistent with the principal goal of swift and efficient renovation.

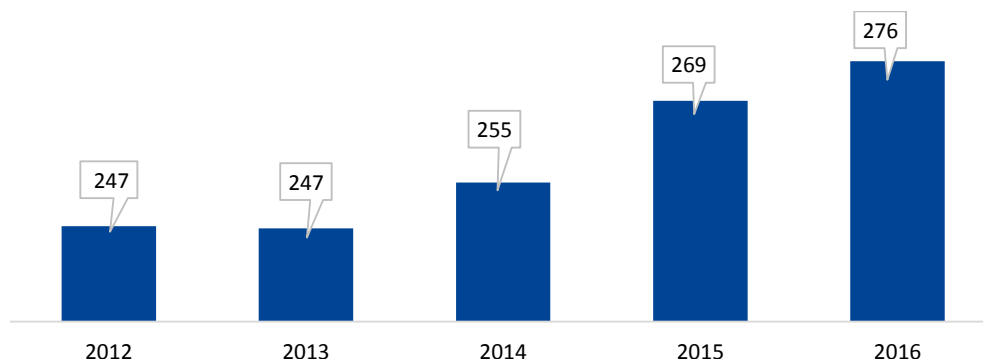
Recommendations

Based on the identified circumstances and shortcomings, the SAO proposed that the MoC should primarily adopt measures to update and quantify the goals and indicators with regard to the current state of cultural heritage sites, to unify conditions for beneficiaries and evaluate the benefits delivered by the money spent. Given the traditional interest in this programme and the envisaged increasing of the funding available, the SAO expects that the MoC will take measures to improve the state of affairs and that the programme will continue to be one of the main pillars of the conservation and renovation of cultural heritage sites. It should be pointed out that some of the shortcomings were identified in a similar audit in 2011⁵³.

3.7 Healthcare – transparent purchasing of medicines and medical equipment is a fundamental precondition of the efficient and economical use of public health insurance funds

High levels of expenditure, social importance and the current situation in healthcare are reasons why the SAO has devoted long-term and systematic attention to healthcare. The SAO's audits do not merely scrutinise health insurance companies and financial management by state hospitals and other state medical facilities, but also electronisation in the healthcare department. The SAO's principal endeavour is to discover possible room for improvement in state healthcare organisations' financial management, detect the causes of the unsatisfactory state of affairs and provide medical organisations with recommendations to make their work more efficient. Public spending on healthcare has been rising since 2013, as Chart 20 shows⁵⁴. Spending was **CZK 276.2 billion** in 2016, with the cost of acute care reaching **CZK 147 billion**.

Chart 20: Public expenditure on healthcare 2012–2016 (CZK billion)



Source: Healthcare yearbooks for 2013, 2014, 2015 and 2016.

The SAO conducted three audits in this field in 2017. Two of them (audits nos. **16/18** and **17/03**) targeted the electronisation of healthcare⁵⁵ (results presented in section II.3.1 of this report) and one (audit no. **16/28**) examined how the costs of three selected university hospitals are covered.

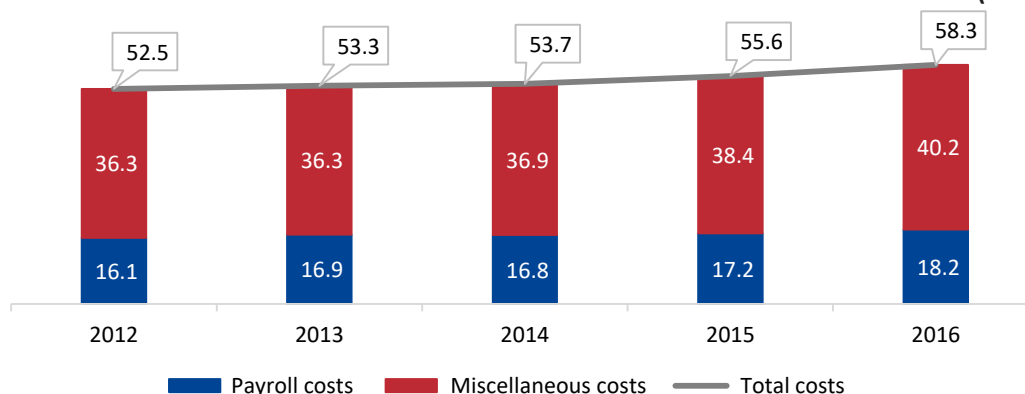
As Chart 21 reveals, the total costs of university hospitals and selected hospitals falling directly under the MoH⁵⁶ are on a rising trend, amounting to **CZK 58.3 billion** in 2016. Staff costs and other costs have been rising.

⁵³ The audit conclusion of audit no. 11/38 – *Funds from the state budget provided for preservation and renewal of cultural property* was published in volume 3/2012 of the *SAO Bulletin*.

⁵⁴ The data apply to 189 acute care hospitals.

⁵⁵ The audit conclusion from audit no. 16/18 – *Management of state property and funds allotted to the State Institute for Drug Control* was published in volume 3/2017 of the *SAO Bulletin* and the audit conclusion from audit no. 17/03 – *Health information systems within the administration of organisational units of the state in the health department* was published in volume 1/2018 of the *SAO Bulletin*.

⁵⁶ All university hospitals, the Na Bulovce, Na Homolce and Thomayerova hospitals.

Chart 21: Payroll, miscellaneous and total costs of hospitals falling directly under the MoH 2012–2016 (CZK billion)

Source: MONITOR information portal, State Treasury Integrated Information System.

The results of SAO audits show that there is significant room for improvement in hospitals' financial management. The SAO has long drawn attention to fundamental shortcomings in university hospitals' financial management, particularly when purchasing medicines and medical equipment and from the perspective of both the method of purchasing and different prices. Audit no. 12/23⁵⁷ had already drawn attention to different prices billed for identical medicines and items of medical equipment and paid by various selected university hospitals. In response to that audit the government instructed the health minister to evaluate all the mechanisms affecting the pricing of medicines and medical equipment, to take appropriate measures and to address the causes of the insufficient use of the procedures laid down by the Act on Public Procurement when purchasing these items. In addition, the Committee on Budgetary Control of the Chamber of Deputies of Parliament asked the health minister to provide it with information on the measures taken to rationalise the purchasing of medicines and medical equipment.

Despite all the measures the MoH was instructed to take, audit no. 16/28 found that Na Homolce Hospital, Ostrava University Hospital and Pilsen University Hospital were buying medicines and medical equipment directly from manufacturers or selected distributors without any award procedure and, in most cases, without any contractual basis. In many cases the hospitals did not proceed according to the public procurement legislation⁵⁸ when purchasing between 2014 and 2016.

- In 2014–2016 these hospitals bought medicines worth more than **CZK 5.5 billion** without any award procedure, buying items worth over **CZK 2.7 billion** (i.e. 52%) directly from manufacturers or distributors, and in most cases without any kind of contractual basis. The same was true for medical equipment worth almost **CZK 4.1 billion** that the hospitals bought without any award procedure. Of that amount, Na Homolce Hospital bought medical equipment worth **CZK 2.6 billion** almost exclusively through its subsidiary without any award procedure and on the basis of the “in-house exemption” under the Act on Public Procurement. These purchases were effected even though the hospital was tasked by the health minister in 2014 with winding up the subsidiary that handled all economic and commercial activities for the hospital and bringing these activities back under the hospital. The SAO found that Na Homolce Hospital had performed this task only partially by the end of 2016. The SAO also drew attention to significant differences in the prices of identical medicines and items of medical equipment paid by the university hospitals. In many cases the price differences were pronounced: for medicines, for example, the average differences in the prices of the same medicine were around 50%. The prices of medicines and medical equipment were also influenced by financial bonuses provided by suppliers. The SAO was unable to ascertain their actual price after factoring in the

⁵⁷ The audit conclusion from audit no. 12/23 – *Funds spent by selected university hospitals on their operational costs* was published in volume 3/2013 of the *SAO Bulletin*.

⁵⁸ Act No. 137/2006 Coll., on public procurement; Act No. 134/2016 Coll., on public procurement.

financial bonuses because of the way the hospitals included the bonuses in their accounting. Yet the bonuses ranged **from CZK 127 to 491 million** between 2014 and 2016 for the audited hospitals and had a significant impact on their financial results. The payment of these bonuses and what the hospitals did with them is the subject of an ongoing investigation by the Supreme Public Prosecutor's Office in Prague.

Over three years, hospitals bought medicines for CZK 5.5 billion and medical equipment for CZK 4.1 billion without any award procedure.

In many cases the purchasing system is non-transparent and inconsistent with the principles of efficient and economical use of public funds.

Recommendations

Based on the purchasing shortcomings identified and because the MoH does not have a unified concept for the management and development of directly run hospitals, the SAO made the following recommendations:

- **To the Ministry of Health:**
 - pay attention to the development strategies drawn up by hospitals;
 - draw up your own concept for the development of directly managed organisations, including the development of hospitals' material and technical resources;
 - comprehensively address the issue of bonuses, the system of payments for healthcare, and the process for pricing and paying for medicines and medical equipment.
- **To hospitals:**
 - purchase medicines and medical equipment in a transparent manner;
 - report specially charged medicines and specially charged material to health insurance companies in acquisition prices;
 - if bonuses are to remain part of hospitals' financial management, incorporate them into award procedures for the purchase of medicines or medical equipment.

To conclude, it can be said that the applied system of purchasing without award procedures brings high risks, is usually in contravention of the Act on Public Procurement and is non-transparent practice that goes against the principles of efficient and economical use of public funds. The SAO states that it is reasonable to assume that public tenders and central purchasing would allow hospitals to buy medicines at lower prices. The audit showed clearly that there is room for reducing prices.

3.8 Security – putting in place the necessary material conditions for the Police of the CR is negatively influenced by a lack of clarity regarding requirements, unsecured sources of financing and a formalistic approach to the execution of the relevant programmes

One of the organisations responsible for internal security is the Police of the CR. Optimal staffing and appropriate material and technical resources that meet the needs of a modern security corps are fundamental preconditions of the proper working of the police force. Asset development and replacement are handled through the funding of asset replacement programmes.

The SAO regularly focuses its attention on significant investment programmes right across the spectrum of ministries and state institutions. Violations of the fundamental principles and rules of programme financing are a long-term problem. Programmes are often not based on clearly defined needs as specified in conceptual or strategic documents and there are often significant changes to the technical, financial and time parameters of programmes during their execution. Those are reasons why programmes are often not an effective tool for achieving the

envisaged goals and ensuring the greatest possible efficiency of expenditure on programme financing. The SAO detected similar shortcomings in 2017 in audit no. 17/07: after assessing investments to ensure the Police of the CR had full operational capacity, the SAO stated that the programmes for the development and replacement of the material and technical resources of the Police of the CR insufficiently provided for its requirements. The SAO identified the lack of funding earmarked for this area in the MoI budget, the lack of clarity on requirements and the formalistic approach by the MoI to the programme financing system as the reasons. In this audit the SAO found the following:

- From 2012 to 2015 the MoI provided **CZK 5.8 billion** in state budget funds for the development and replacement of the material and technical resources of the Police of the CR under seven similarly targeted and overlapping programmes. As a result of long-term underfunding, the difference between secured and unsecured state budget funds in the documentation of programmes for the years 2016 to 2020 was approximately **CZK 11.4 billion**. The replacement and acquisition of the necessary assets, including the execution of important investment projects, were therefore postponed till later years, e.g. the purchase of large-capacity helicopters. The implementation of older programmes was not based on clearly defined needs for material resources, as the concept of the development of the Police of the CR up to 2020 was not approved by the government until 2017. The biggest hindrance to achieving programme goals in the present day is the absence of uniform systematisation and standardisation of the assets of the Police of the CR. The systematisation of police vehicles from 2008 no longer matches either the current needs or the current structure of the force, for example. This shortcoming was already pointed out by the SAO in an audit from 2012 (audit no. 11/12⁵⁹).

In addition, the re-evaluation of the tasks and priorities of the Police of the CR meant that the MoI often modified the technical, financial and timing parameters of certain programmes. Selected investment projects were consequently postponed. One example is the unsatisfactory condition of Hangar D at Prague Ruzyně Airport⁶⁰, which the SAO had already drawn attention to in audit no. 05/21⁶¹ and again in audit no. 11/12. The unsatisfactory state of affairs remained unchanged by the time of the completion of audit no. 17/07, even though assets worth several billion Czech koruna are kept in the hangar. Certain other shortcomings pointed out by the SAO in previous audits, such as the prolonging of the implementation time of programmes or the insufficient preparation of construction projects, had not been eliminated by the audit's completion date.

The MoI did not prepare certain programmes for the development and replacement of the material and technical resources of the Police of the CR in a way ensuring they helped achieve the expected goals and guaranteed the maximum possible efficiency of spending.

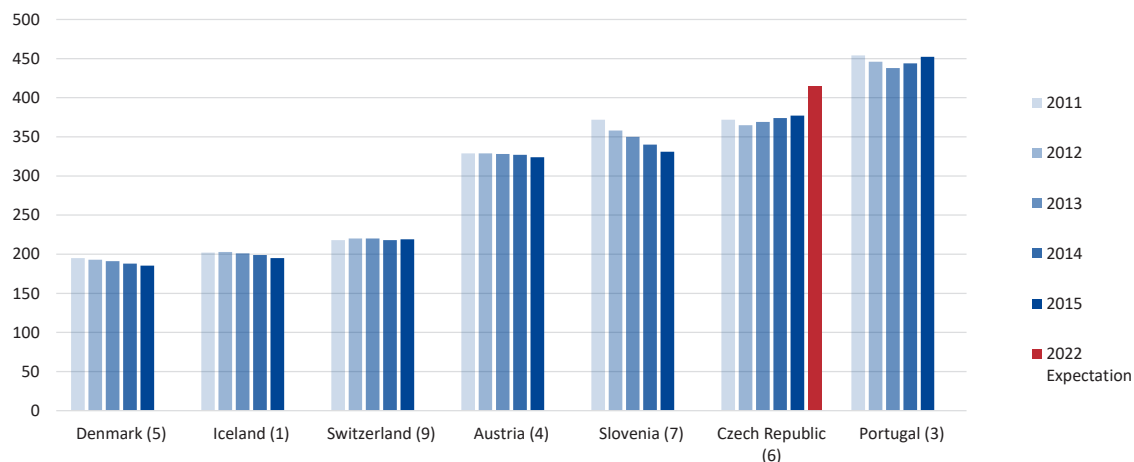
The security situation in the CR can be rated positively and the CR is in a good position when compared to other countries. According to the Global Peace Index 2017 ("GPI")⁶², the CR is the sixth safest country in the world. The security issue is complex, however, and entails more than just police services. As far as police services are concerned, of the top seven safest European countries according to the GPI ranking the CR in 2015 had the second highest number of police officers per 100,000 inhabitants and the second largest expenditure on police services as a proportion of GDP. Only Portugal had higher scores in these indicators. The following chart gives an interesting view of Eurostat data on the total number of police officers in the countries in question.

59 The audit conclusion from audit no. 11/12 – *Funds earmarked for the renewal of the material-technical base of the Police of the Czech Republic* was published in volume 2/2012 of the *SAO Bulletin*.

60 This is the main airbase of the Police Air Service.

61 The audit conclusion from audit no. 05/21 – *Management of state property and funds earmarked for aeronautic equipment of the Air Police of the Czech Republic* was published in volume 2/2006 of the *SAO Bulletin*.

62 See <http://visionofhumanity.org/app/uploads/2017/06/GPI17-Report.pdf>.

Chart 22: Development of the number of police officers per 100,000 inhabitants in selected countries according to the GPI ranking 2011–2015

NB: The figure in brackets is the country's GPI ranking. The data for the CR does not include civilian employees.

Source: Eurostat (updates as of 16 October 2017 and 6 September 2017 – number of inhabitants); Czech government resolution no. 428 of 5 June 2017, *on the Concept of the Development of the Police of the Czech Republic up to 2020*.

The chart reveals that the number of police officers has grown in the CR since 2012 compared to the majority of the selected European countries. The SAO points out that the planned increase in the number of police officers makes it necessary to provide suitable material conditions for their work. As the SAO found, however, neither the management nor the design of the audited programmes for the development and renewal of the material and technical resources of the Police of the CR is consistent with this condition. In this context, the MoI is due to submit to the government a comparative study of the police forces of Central European states in the first quarter of 2018. The study will analyse whether the planned increase in the number of police officers up to 2022 is in line with trends in European countries.

Recommendations

Based on the shortcomings identified, the SAO formulated recommendations for the MoI, mainly concerning the updating of programmes, approval for the systematisation and standardisation of assets, defining the priorities of programme goals and regularly assessing programmes. In addition, the unsatisfactory condition of Hangar D at Prague Ruzyně Airport needs to be resolved. The SAO made almost identical recommendations both in the aforementioned previous audits and in many audits targeting other departments' investment programmes.

3.9 The environment – the process of clearing up old environmental hotspots has long been slow and ineffective; the state still does not know the extent of these hotspots and does not have a clear-up timetable and financial plan

The main objectives of the state's policy on the environment are to ensure a healthy, high-quality environment for its citizens, to contribute to the efficient use of all resources and to minimise the negative environmental impacts of human activity. The importance of efficient protection of the environment has made it the focus of systematic attention from the SAO.

In 2017 the SAO completed two audits in this field, targeting:

- the implementation of measures in waste management (audit no. [16/23](#)),
- the system for clearing up old environmental hotspots (audit no. [17/04](#)).

The clear-up of environmental hotspots (“hotspots”) that pre-date privatisation has long been a considerable financial burden on the state. The expenditure of billions of Czech koruna and the unsatisfactory progress in the clear-up of hotspots are reasons why the SAO pays systematic attention on this area. Ever since the year 2000, a number of audits (audits nos. **00/05**, **15/11** and **09/08**)⁶³ have drawn attention to systemic shortcomings, most of which regrettably persist, as borne out by the results of an audit done in 2017.

In audit no. 17/04 the SAO rated the hotspot clear-up process as slow and not particularly effective. The state has long failed to secure sufficient funding for fulfilling its clear-up commitments enshrined in environmental contracts. The MoF bases its estimate of the utilisation of funds solely on guarantees, but that amount does not express the real financial requirement for clearing up hotspots. Consequently, the MoF does not know the cost of completing the entire process. This is resulting in a gradual decrease in the funds in a special account⁶⁴. If this trend continues, the MoF will not be able to pay for its commitments in future.

- From the start of the process in 1991 to the end of 2016, almost **CZK 61 billion** was paid out of state finances, i.e. from the special account, on hotspot clear-up, with **CZK 11.7 billion** of that amount paid in the audited years 2011–2016. As Chart 23 shows, this expenditure has been falling sharply in the last five years. 154 out of the total of 325 environmental contracts were not completed. In the case of **52** of them the clear-up work was not even begun, while the contracts for **47** were concluded in the years 1994–1997 and clear-up is necessary. Since the “eco-contract”⁶⁵ was scrapped, the MoF has not taken effective steps to speed up the entire hotspot clear-up process, according to the SAO.⁶⁶ If the process as a whole is not sped up, there is a real risk that those who acquired privatised property, or their legal successors, will take legal action against the state for the length of time it is taking to clear up old environmental hotspots, with a possible impact on the state budget. In addition, the MoF long used the special account to pay expenditure for protective salvage drawdown that merely maintained or slightly improved the state of affairs but did not definitively clear up the hotspot. This expenditure on 26 localities amounted to almost **CZK 340 million** as at year-end 2016.⁶⁷ One example of ineffective and uneconomical clear-up procedure is the Ostramo lagoons, where clear-up work has been going on for 20 years, in which time the MoF has spent **CZK 2.8 billion**, even though the technical solution for completing the clear-up work, the amount of money still required and the completion date were not known at the time of the audit. In connection with this clear-up project the MoF paid **CZK 136 million** for technical equipment that has never been used. Inadequate state supervision over the disposal of extracted and processed sludge from the Ostramo lagoons mean that further spending will be required, estimated at least **CZK 40 million**.

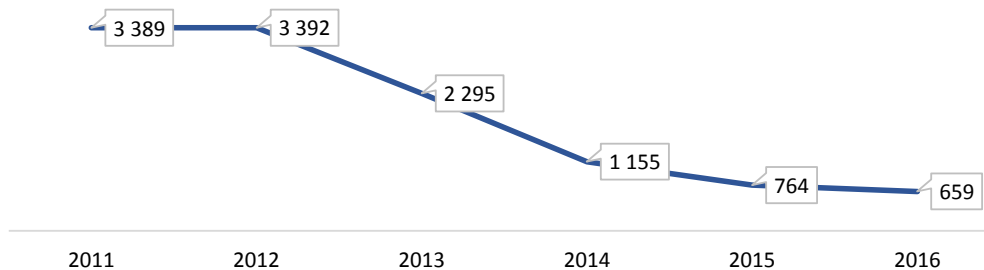
⁶³ The audit conclusion from audit no. 00/05 – *Financial resources transferred from the National Property Fund for dealing with environmental harms* was published in volume 4/2000 of the *SAO Bulletin*; the audit conclusions from audit no. 05/11 – *National Property Fund resources provided for disposal of old ecological burdens* was published in volume 1/2006 of the *SAO Bulletin* and no. 09/18 – *Funds earmarked for rehabilitation of old environmental burdens* were published in volume 2/2010 of the *SAO Bulletin*.

⁶⁴ The MoF is the contracting organisation for public contracts for the execution of measures to clear up environmental hotspots and the expenditure in question comes out of the *special account for funds from the proceeds of the sale of privatisation property and from profits from the state's interests in commercial companies*.

⁶⁵ The public contract referred to as *Clear-up of Certain Environmental Hotspots that Pre-date Privatisation*, which the MoF, as the contracting organisation pursuant to Act no. 137/2006 Coll., on public contracts, published in December 2008 on the basis of a government-approved concessions project, envisages that the project will be executed by one contractor. The MoF cancelled the award procedure in January 2012.

⁶⁶ The SAO drew attention to the slowdown in the environmental hotspots clear-up process in audit no. 09/18.

⁶⁷ Expenditure on protective pumping in 26 localities which the MoF identified on the basis of an analysis done in March 2014 and where protective pumping had not been completed by the date of the analysis.

Chart 23: MoF expenditure on environmental hotspot clear-up 2011–2016 (CZK million)

Source: MoF – regular semi-annual information for members of the Czech government on the state of contracts and drawdown of funds from the MoF's privatisation proceeds.

This and other audits by the SAO to date (audits nos. **15/21** and **16/07**)⁶⁸ have shown that the state still does not know the extent of environmental hotspots and does not have a timetable and financial framework for their clear-up. The timetable is merely estimated and may change, e.g. due to unexpected influences or re-evaluation of the target values of various parameters. Paying for the clear-up of hotspots out of a privatisation account carries the risk that the account's incomes will not be sufficient, because they are mainly dependent on dividends paid out by the firm of ČEZ, a.s. In some localities the clear-up process takes longer than expected, which results in additional costs. Another problem surrounds the ownership of recultivated land for further use.

Under the current conditions the MoF will not be able to complete the environmental hotspot clear-up process. It does not know how much money will be needed to complete it and the method of financing from a privatisation account presents a risk of a funding shortfall.

Last year, the SAO also focused on waste management as part of its long-term monitoring of environmental expenditure policy. The fundamental conceptual documents underpinning waste management are Waste Management Plans of the CR, whose objectives are pursued through OPE 2007–2013 and OPE 2014–2020. In this area, the SAO targets its audit work at whether and how the provided support, or projects, contributed to achieving the goals of the Waste Management Plans. Achieving the goals of the Waste Management Plans to reduce the quantity of biodegradable communal waste in landfills appears the most problematic. In 2017 the SAO completed audit no. **16/23**, in which it scrutinised whether funds provided for waste management delivered the expected results and whether the MoE monitored and evaluated the benefits of support for waste management in the CR.

The audit results revealed that the MoE executed a total of 4,015 waste management projects under OPE 2007–2013 with total eligible expenditure of almost CZK 19 billion. By the time the audit was completed, however, the MoE had not assessed what benefits were delivered; indeed, the inappropriately designed indicators make this assessment hard to perform. It is therefore not clear how the provided money helped improve the state of waste management and achieve the goals of the Waste Management Plans. Even though the MoE put in place better indicators for assessing the capacity of facilities being built for the new OPE 2014–2020 programming period, the indicators do not allow regular assessment of the benefits of the supported projects. The SAO also found the following:

- The CR did not meet the target of the Landfill Directive⁶⁹ for 2013 of landfilling **50%** of biodegradable communal waste compared to the quantity from 1995; progress to date also shows there is a risk that another target of the directive, namely landfilling just **35%** of this waste in 2020, will not be achieved. The utilisation of finances under OPE 2014–2020 is

⁶⁸ The audit conclusion from audit no. 15/21 – *Funds earmarked for recultivation in the locality of Most and Chabařovice lakes* was published in volume 3/2016 of the *SAO Bulletin* and the audit conclusion from audit no. 16/07 – *Funds earmarked for mitigation of the impacts of mining activities of the DIAMO state-owned enterprise* was published in volume 1/2017 of the *SAO Bulletin*.

⁶⁹ Council Directive 1999/31/EC, on the landfill of waste.

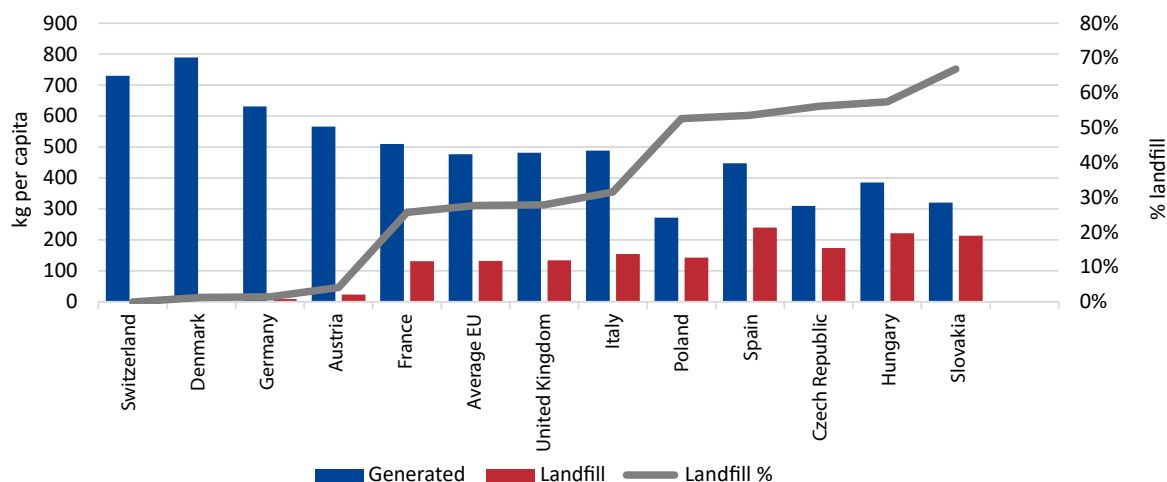
behind schedule, with just **1.61% (CZK 141 million)** of the total allocation drawn down by the completion of the audit. The MoE moreover does not know the capacities of the facilities necessary for achieving this goal or the cost involved. In addition, the MoE has not yet resolved the issue of reporting statistical data for waste management, as it uses different data sources and methodologies from those of the Czech Statistical Office for reporting waste generation figures in the CR. This was a significant reason for the Commission’s refusal to fund the construction of large new facilities for the energy use of waste in the CR from EU funds (mainly incinerators).

The CR did not meet the target of the Landfill Directive for 2013 of landfilling 50% of biodegradable communal waste compared to the quantity from 1995; progress to date also shows there is a risk that another target of the directive, namely landfilling just 35% of this waste in 2020, will not be achieved.

The SAO had already flagged up fundamental systemic shortcomings in this field in audit no. **10/14**⁷⁰ in 2011. These shortcomings mainly concerned assessment of the benefits of support under OPE 2007–2013, including the design of indicators, and the system for monitoring projects’ impacts in relation to the goals of the Waste Management Plans. Even though the government instructed the environment minister to implement 12 measures to remedy the identified shortcomings in response to that audit, many of the shortcomings persist.

According to Act No. 185/2001 Coll., on waste, and the Waste Management Plan of the CR 2015–2024, landfilling of communal waste should end in 2024. According to Eurostat data⁷¹ from 2014, the Czech Republic landfilled **56.1%** of communal waste, whereas the European Union average was **27.7%**. Switzerland and Germany generated almost double the amount of communal waste, but Switzerland did not use landfilling at all and Germany used landfill for just **1.4%**. Poland and Hungary were on roughly the same level as the CR. The share of landfill in Slovakia was larger.

Chart 24: Volume of communal waste in 2014 (kg per capita, % landfill)



Source: Eurostat.

Based on the results of the audit, the MoE will evaluate the benefits of executed OPE 2007–2013 projects with regard to the objectives of the *Waste Management Plan 2015–2024* by the end of 2018. In addition, it will prepare an amendment of Decree No. 321/2014 Coll., on the extent and manner of ensuring the separation of communal waste components, which will focus on increasing the collection of biodegradable communal waste, in particular by introducing year-round collection in municipalities. It is possible that the decree will consider introducing other measures.

⁷⁰ The audit conclusion from audit no. 10/14 – Funds earmarked for measures regarding waste disposal was published in volume 2/2011 of the SAO Bulletin.
⁷¹ The Eurostat data differ from those of the MoE, which give a proportion of 48.3%.

3.10 Regional development – funding projects to support cooperation between municipalities must be predicated on necessity and ensuring the created outputs can be put to use

One of the state's key roles is to improve the quality of life of its citizens in rural areas as well as of those in big cities. Support for regional development in the CR is usually implemented through European funds. Two of the most important questions the SAO sought an answer to in this area were whether the state genuinely gets what it needs in return for the support and whether implementing supported projects genuinely results in the required improvements.

In 2017 the SAO completed two audits of regional development, targeting:

- support for regional development under the Leader initiative via rural development programmes (audit no. [16/14](#));
- support for the development of cooperation between municipalities and of local partnerships (audit no. [16/32](#)).

The results of both audits made it possible for the SAO to state that support for regional development and support for cooperation between municipalities and the development of local partnerships is uncoordinated and mutually competing. Under various projects and sources of funding, a whole series of strategies are created for local development. The results of the SAO's work revealed the following findings:

- **project selection and approval overlooks the need to demonstrate that the project outputs are necessary for the target groups;**
- **not enough is done to ensure that the created strategic documents are applied; what is more, the documents give no information about progress in regional cooperation and the actual benefit is not known;**
- **subsidy providers do not monitor and evaluate the use and impact of interventions on regional development;**
- **drawdown is tied solely to project implementation and not to achieving the declared goals/impacts.**

The implementation of projects thus designed may fully utilise the funding/allocations, but ultimately it is impossible to evaluate the projects' actual benefit, i.e. whether the desired change in the state of affairs is achieved.

- Subsidies provided in the 2007–2013 programming period ("PP 2007+") under the *Rural Development Programme 2007–2013* ("RDP 2007+") and the LEADER initiative were meant to improve quality of life in rural areas through a strategy of involving local entities in local development. In audit no. [16/14](#) the SAO found that the MoE, as the RDP 2007+ managing authority, did not put in place optimal conditions for utilising subsidies that would take into account necessity, effectiveness and economy and did not adequately monitor projects being implemented and did not assess what the actual benefit of projects worth roughly **CZK 4 billion** was. In addition, the MoA also announced an extraordinary round of receipt of subsidy applications for the implementation of cooperation projects, but this round was not carried out in line with the 3E principles of economy, efficiency and effectiveness. The MoE lowered the requirements for these projects' quality and outputs, i.e. methodologies and experience sharing. The principal purpose was to provide local action groups with funding to cover payroll costs and overheads (payroll costs accounted for **80%** of subsidies) at a time when local action groups were in financial difficulty. The SAO also pointed out that the monitoring indicators put in place by local action groups and their target values often provided no relevant information regarding the effectiveness of the provided support. These were quantitative technical indicators such as quantity, area etc. that were not linked to the qualitative goals of RDP 2007+

measures and the effectiveness of support. Local action groups committed errors in project administration. In many cases it was found that local action groups assessed and selected projects in a non-transparent manner.

- The results of audit no. **16/32** revealed that the MoLSA and MoI provided **CZK 619 million** to the Union of Towns and Municipalities of the CR and Association of Local Governments for improving inter-municipal cooperation under the *Human Resources and Employment* operational programme (“OP HRE”) and in two similarly focused projects: inter-municipal cooperation⁷² and local action groups (“LAGs”)⁷³. The SAO found that the MoLSA and MoI approved projects even though the beneficiaries had not demonstrated their necessity. One of the main reasons for approved inter-municipal cooperation projects, for example, was to make full use of the allocation of the ending 2007+ programming period. The ministries provided support under OP HRE without coordination for projects that competed against one another in the field of cooperation between municipalities. The projects’ principal goals, i.e. supporting cooperation between municipalities and developing local partnerships, could not be measured or had no defined time scale, in consequence of which the projects’ benefit and impact cannot be assessed. The two projects had the same sub-goal: creating local development strategies. This gave rise to **258 strategies** and **176 action plans** based on the strategies. Applying strategic documents is not binding, so there is a considerable risk they will not be used. The subsidy providers moreover do not monitor or evaluate the use and benefit of the strategies created, so they do not judge the effectiveness of the provided support. The SAO audit also found personnel links at the level of members of implementation teams for devising strategies and found identical passages in a number of documents of the projects’ text outputs. **If the projects merely deliver dead strategies that nobody will execute, it is fair to say that the funds were not spent effectively.** A questionnaire-based survey done by the SAO using a sample of municipalities found that almost half the respondents do not consider the documents created under the projects beneficial or do not know about them and do not use them.

The distribution of subsidies from the LEADER initiative to support community-led local development (“CLLD”) in the present 2014–2020 programming period (“PP 2014+”) is even more complicated, demanding and long-winded than in PP 2007+ because of the multi-fund approach and the involvement of more entities in implementation. Drawdown is badly behind schedule: no finances were drawn down from the European Structural and Investment Funds (“ESIF”) during the first three years of the current programming period. According to the SAO, there is a risk that there will not be a sufficient number of high-quality projects to ensure the effective and full utilisation of the programmes’ allocations by the end of the programming period.

One crucial recommendation by the SAO concerns ensuring that new entities involved in implementation, i.e. the MoRD, MoLSA and MoE, leverage the experiences of the MoA and SAIF with the administration of LEADER projects from PP 2007+. This can eliminate the risk that errors will be repeated, according to the SAO. The following table compares the basic characteristics of the audited programming periods:

⁷² Systemic support for the development of inter-municipal cooperation in the CR in the context of the territories of the administrative wards of municipalities with extended competence.

⁷³ LAGs as a municipalities cooperation tool for the effective working of authorities.

Table 2: Comparison of the 2007+ and 2014+ programming periods

| | 2007–2013 programming period | 2014–2020 programming period |
|---|--|--|
| Number of LAGs (approved/standardised) | 112 | 182 |
| Authority responsible for LEADER/CLLD | MoA | MoRD |
| Source of funding | RDP 2007+ | IROP, RDP, O PEnv, OP Emp ⁷⁴ |
| Start of drawdown of subsidies from European funds | 2008 2 nd year of programming period | 2017 4 th year of programming period |

In response to the results of audit no. 16/14 and the SAO's recommendations, the MoA and SAIF adopted corrective measures for the *Rural Development Programme 2014–2020 (RDP 2014+)* and for the activities of LAGs in the 2014–2020 programming period. The SAO regards most of the adopted measures in the MoA department as sufficient. It points out, however, that in addition to the MoA, a role is played in community-led local development by the MoRD, MoLSA and MoE, which were not audited. The findings of this audit are therefore meaningful for the MoA, but also for the other involved departments, and most notably for the MoRD as the CLLD coordinator. The SAO considers it important that its audit findings are not restricted to the MoA/SAIF but are transferred to the new implementation entities. The SAO therefore recommends that the government coordinate this process.

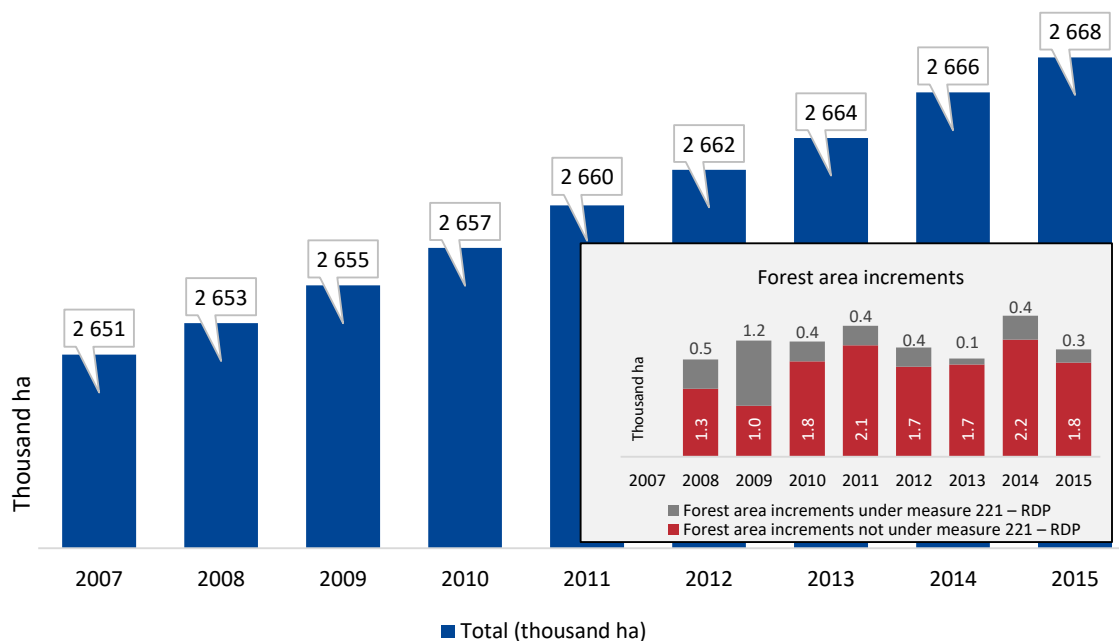
The MoA did not adequately monitor and evaluate the actual benefit of projects worth approx. CZK 4 billion that were meant to improve quality of life in rural areas in line with local development strategies.

The MoLSA and MoI provided funds worth approx. CZK 619 million for two projects which targeted inter-municipal cooperation but whose necessity was not sufficiently demonstrated. A questionnaire-based survey done by the SAO using a sample of municipalities revealed that almost half the respondents do not regard the documents created under the projects as beneficial and do not use them or even know about them.

3.11 Forestry – not setting limits on eligible expenditure and a 100% subsidy rate present a risk for the economy, efficiency and effectiveness of the use of public funds

Another area the SAO paid attention to in 2017 was support for forestry. The area of forest land in the CR is constantly growing. At the end of 2015 forests covered **34%** of the total area of the country, which is slightly below the EU average (**37.6%**). As Chart 25 shows, the total area of forest land in the CR was **2.651 million hectares** in 2007. In 2015 the figure was **2.668 million hectares**⁷⁴, an increase of approx. **17,200 ha** between 2007 and 2015.

⁷⁴ Report on the State of Forests and Forestry of the CR in 2015.

Chart 25: Area of forest land, including annual increments of forested land from 2007 to 2015 (ha thousand)

Source: RDP 2007+ annual reports; reports on the state of forests and forestry in the CR for 2007 to 2015; ex post evaluation of RDP 2007+.

In audit no. **17/06** the SAO focused on forestry in terms of both national and European subsidies. It examined the goals and conditions of forestry support provided by the MoA under RDP 2007+, RDP 2014+ and national subsidy programmes.

Under the two rural development programmes the MoA spent over CZK 2 billion by the end of 2016 without putting in place a subsidy provision system ensuring the funds were used economically. The biggest risk of uneconomical and inefficient spending of public money came from the fact that the MoA did not set eligible expenditure limits for most project measures under RDP 2007+. There were therefore no financial ceilings on the support paid out to applicants. At the same time, the rate of subsidy for some measures was 100%, so beneficiaries were not required to contribute their own funds to their projects.

- Such relaxed conditions for support provision made it possible for beneficiaries to implement projects with no regard for the principle of economy. The SAO found, for example, that one subsidy beneficiary built five wild animal observation structures at an average cost of **CZK 306,000** per structure under two projects. There were significant differences in the prices for repairing forest tracks. The SAO compared the prices per metre for repairing forest tracks in two projects of one beneficiary and paid for out of various RDP 2007+ sub-measures. Where an eligible expenditure limit was set, the repair was done for approx. **CZK 3,000** per metre of track; where there was no limit, repairing one metre of track cost over **CZK 13,000**. These were adjoining sections of one track with the same beneficiary, however. In the case of the sub-measure concerning the clear-up of damage after natural disasters the MoA did not define precisely how the applicant was supposed to demonstrate the existence of damage and its magnitude. The SAO also drew attention to the fact that the goals of non-project forestry⁷⁵ measures under RDP 2007+, in which merely tens of applicants participated, were not achieved.

⁷⁵ Non-project forestry measures are subsidy measures where the applicant can claim a subsidy if it satisfies the defined conditions linked to the size of forest area.

The biggest risk of uneconomical and ineffective spending of public money came from the fact that the MoA did not set eligible expenditure limits for most project forestry measures under RDP 2007+ throughout the programming period.

Where an eligible expenditure limit was set, the repair of a forest track was done for approx. CZK 3,000 per metre of track; where there was no limit, repairing one metre of track cost over CZK 13,000.

Recommendations

The state of affairs in forestry support induced the SAO to propose a number of recommendations the MoA should implement in order to improve things. For RDP 2014+ the SAO recommended defining criteria taking into account the necessity and quality of projects, setting eligible expenditure limits and putting in place a basic subsidy rate lower than 100%. The SAO also recommended that for financial contributions towards forestry businesses the MoA should ensure the *National Subsidies IS* is functional and draw up more detailed instructions for regional authorities to check the financial contributions. Last but not least, it recommended that the MoA go ahead with the *National Programme for the Protection and Replacement of the Forest Tree Gene Pool* even after it ends in 2018, mainly in order to maintain continuity in the fulfilment of international commitments and protecting the Czech Republic's gene pool of forest trees.

4. Institutional management

The SAO's audit and analysis work is not restricted to major expenditure policies: the SAO also scrutinises management of institutions, which covers a broad spectrum of activities linked to the institutions' financial management, governance and audit. The management of state property and state finances used by state institutions to cover their operations and fulfil their prescribed tasks are an important focus of the SAO's audit work. The SAO's audits also pay considerable attention to public procurement, where particular attention is devoted to compliance with the rules and principles of public procurement with a view to ensuring economical use of public funds. The management of finances provided to the CR from abroad, and mainly from the EU budget, is another very important area the SAO focuses on every year in its audits. In addition, the SAO has long sought to assess and judge the reliability of accounting and financial data that are a necessary condition of sound financial management by the state.

4.1 There is room for cost optimisation in the financial management of institutions when purchasing services and using real estate

One constant focus of the SAO's audit attention is the audited entities' management of state property and finances. The SAO has long sought to systematically draw public institutions' attention to those areas of their financial management where it sees significant room for savings when utilising budgetary expenditure. Seven audits dealing with this issue were completed in 2017, focusing on:

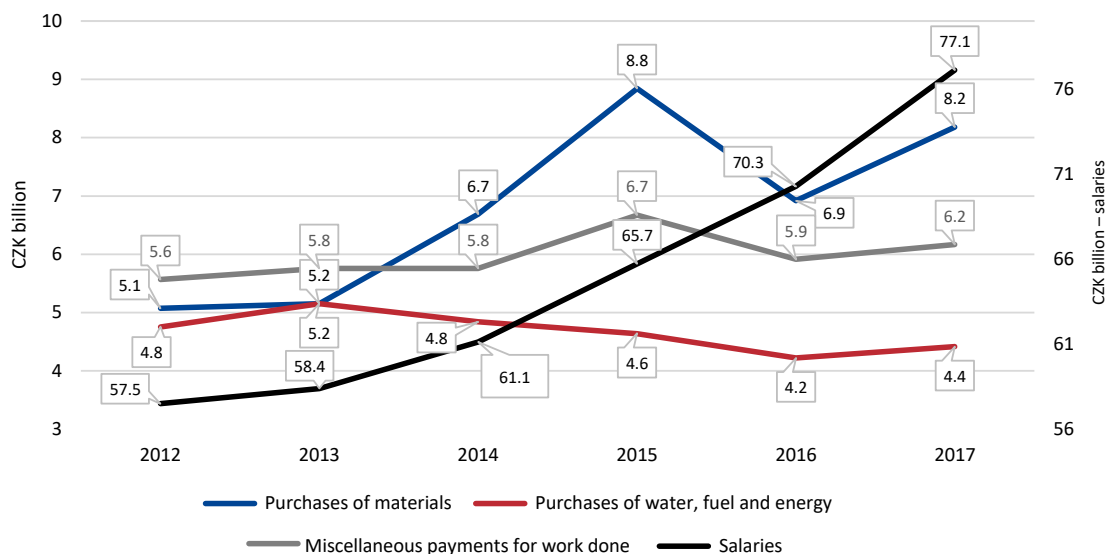
- the financial management of selected organisational components of the state and contributory organisations (audit of the National Theatre in audit no. [16/15](#); audit of the State Institute for Drug Control in audit no. [16/18](#); audit of the Roads and Motorways Directorate in audit no. [16/22](#); and audit of the National Security Authority in audit no. [16/24](#));
- spending on the assets and operation of the Czech National Bank in audit no. [17/11](#);
- coverage of the costs of the work of selected administrators of state budget headings in audit no. [16/27](#) and in selected hospitals in audit no. [16/28](#)⁷⁶;

⁷⁶ The results of this audit are presented in section II.3.7.

In this field in 2017 the SAO focused mainly on expenditure linked to the operation of state organisations and administration of state property. The state closing account for 2016 shows that a total of **CZK 81.3 billion** was spent on salaries and other payments for work done in 2016, with salaries accounting for **CZK 74.9 billion** of that, a year-on-year increase of **CZK 4.8 billion** or 6.8% more than in 2015. This increase was mainly driven by adjustments to pay tariffs in connection with the introduction of “state service”. At the same time, the biggest year-on-year spending increases were on repairs and maintenance (up **CZK 506 million**) and travel expenses (up **CZK 165 million**). Miscellaneous payments for work done amounted to **CZK 6.4 billion**, a year-on-year fall of **CZK 735 million** or 10.3%. There was also a year-on-year decrease in non-investment purchasing and related expenditure, which were down by **CZK 17.1 billion** in total, i.e. by 14.7%. Other falls were registered in expenditure on purchases of services (down **CZK 2.1 billion**); purchases of material (down **CZK 1.9 billion**); spending linked to non-investment purchases, contributions, reimbursements and gifts in kind (down **CZK 1.1 billion**); and expenditure on purchases of water, fuel and energy (down **CZK 425 million**).

The development of selected items of non-investment expenditure by ministries in 2017 does not confirm the positive reductions. As Chart 26 shows, all the selected spending items of ministries increased from 2016. The chart shows clearly that pay increased more than any other expenditure category under scrutiny. The year-on-year increase is progressive, averaging at **6.1%** a year since 2012. Other scrutinised purchasing again grew in 2017 after a fall in 2016, with the biggest fluctuations affecting purchasing of material. By contrast, the amount paid for water, fuel and energy has been almost unchanged over the long term.

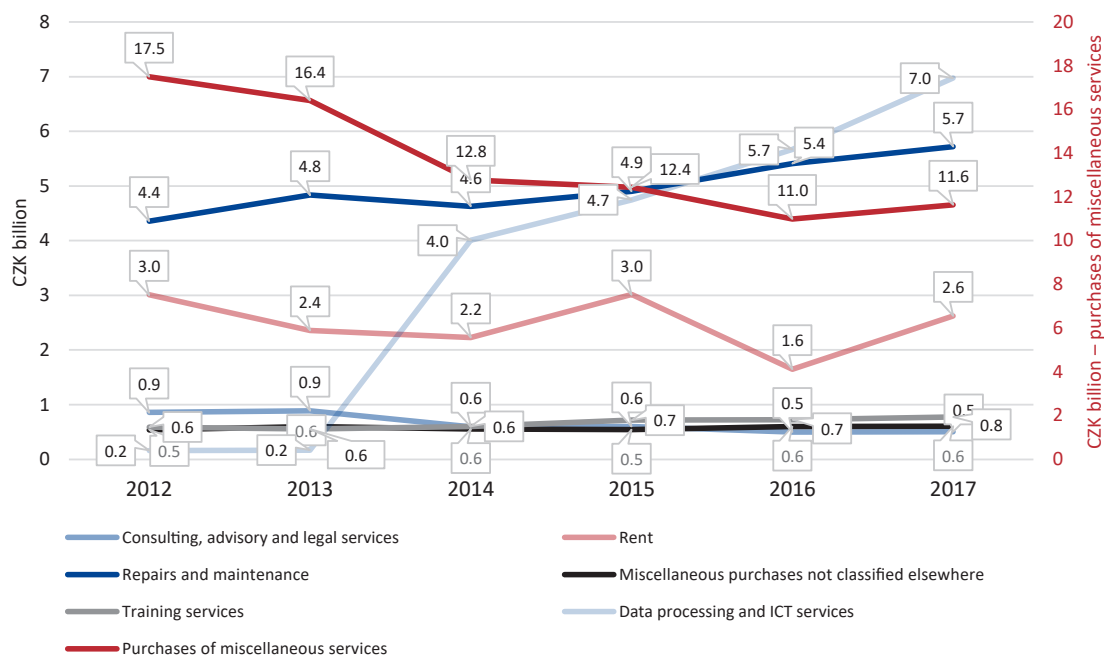
Chart 26: Selected items of non-investment expenditure by ministries 2012-2017 (CZK billion)



Source: STIIS.

Purchases of services form part of ministries’ non-investment purchases. Chart 27 shows how spending on purchases of selected types of services has evolved. It is clear that expenditure on data processing and services linked to information and communication technologies have registered pronounced and continual annual increases. After regular year-on-year falls, in 2017 expenditure on buying other services displayed the first weak growth since 2012. Expenditure on consulting, advisory and legal services grew slightly in 2017 after falling since 2012. Spending on training services and purchases not classified elsewhere have long remained almost unchanged. One interesting expenditure item is rent which, after a sharp fall in 2016, bounced back to slightly above its five-year average.

Chart 27: Ministries' expenditure on selected services 2012–2017 (CZK billion)



Source: STIIS.

Based on the results of the following audits done in 2017 and in line with the long-term endeavour to recommend improvements in the financial management of state institutions, the SAO concluded that an improvement is visible in the audited state institutions listed below as regards compliance with the law. The lower number of violations of the law in this area and more effective and economical use of property are evidence of this. The results of the following audits completed last year make this clear:

- In audits nos. **16/24** and **17/11** the SAO detected only a few minor shortcomings in expenditure on acquisition of property and on operations by the National Security Authority and Czech National Bank respectively; these shortcomings were minor in terms of both frequency and gravity. In these audits the SAO also scrutinised the implementation of measures to correct shortcomings identified by previous audits (audits nos. **04/16**⁷⁷ and **04/35**⁷⁸). The SAO was able to declare that the adopted measures had led to positive changes in these audited entities' financial management. The Czech National Bank, for example, adopted corrective measures concerning 21 points of the previous SAO audit and incorporated them into its internal regulations. In audit no. **16/22** the SAO examined how audited entities responded the results of its audit work. In this audit the SAO focused on the implementation of measures to eliminate shortcomings identified by the previous audit no. **12/31**⁷⁹, which confirmed that the Roads and Motorways Directorate did not use property effectively and economically and reduced the proceeds from this property, with particular regard to the operation of passenger cars and lettings of land. The Directorate eliminated these shortcomings, allowing the SAO to declare after its follow-up audit that the audited entity's management of property had improved. Finances spent on legal services, where certain problems persisted, were an exception to this, however.

⁷⁷ The audit conclusion from audit no. 04/16 – State property and state budget funds earmarked to cover the work of the National Security Agency was published in volume 1/2005 of the SAO Bulletin.

⁷⁸ The audit conclusion from audit no. 04/35 – Expenditure on acquisition and functioning of assets in the Czech National Bank was published in volume 4/2005 of the SAO Bulletin.

⁷⁹ The audit conclusion from audit no. 12/31 – State property and funds delegated to the state-funded organisation Roads and Motorways Directorate was published in volume 3/2013 of the SAO Bulletin.

The SAO has long monitored the expense of selected services, not just in terms of its magnitude but, above all, in terms of effectiveness and economy. In doing so, the SAO has detected a positive trend of falling expenditure, but there is still room for improvement. One example was the follow-up audit no. 16/22 targeting the financial management of the Roads and Motorways Directorate, in which the SAO found that the cost of legal services had been falling every year since 2013: in 2015 the cost was CZK 59 million lower than in 2013, i.e. 49% lower than what the SAO found in its previous audit no. 12/31, when these costs were rising. The SAO also identified the following shortcomings, however:

- Between January 2013 and September 2016 the General Directorate of the Roads and Motorways Directorate spent a total of **CZK 291 million** on legal services, mostly under implementation agreements linked to a master agreement from 2007. In cases such as unresolved court disputes these implementation agreements are justified, but in some cases there is a risk of uneconomical spending. Even though the Roads and Motorways Directorate took on extra staff in its legal division and even outsourced legal advisors for day-to-day activities which could have handled by its own employees. These included drawing up internal regulations and specimen documents for the organisation or standard administration of public contracts. To this end it made use of implementation agreements linked to the master agreement from 2007, which was only valid up to 2010, with hourly rates ranging from **CZK 3,500** to **CZK 4,800**. The SAO had criticised these contracts in a previous audit. The Roads and Motorways Directorate was supposed to rectify this by March 2014, but that only happened at the end of 2016, when the organisation entered into three new master agreements with hourly rates over **60%** lower than those in the 2007 master agreement.

There continues to be considerable room for optimising the state's costs in the use of real estate. That requires effective and efficient administration and use of real estate, however. One of the Czech government's priorities⁸⁰ was to introduce central records and administration of all the state's real estate, which was supposed to lead to rationalisation of the real estate portfolio and optimisation of its use. Audit no. 16/26 focused on expenditure earmarked for the operation and use of state-owned real estate. Its results demonstrated that the state does not have a real estate administration strategy and that at central level there is no overview of all state real estate in use. Although the *Central Register of Administrative Buildings* exists, in 2015 it covered just 6% of state-owned buildings⁸¹.

- In audit no. 16/26 the SAO concluded that the right conditions for effective and efficient spending on the administration of real estate used by the state were not in place. According to CRAB data, state institutions spent **CZK 3.4 billion** on the management of over three thousand administrative buildings in 2015. Two systemic shortcomings that affected the entire issue of the administration, operation and use of real estate were the lack of a strategy defining needs and measurable goals in this area and the new legislation that separated powers and responsibilities for the use of property. The authorities participating in the administration, operation and use of buildings were thus unable to take decisions on a conceptual basis, and the existing CRAB did not help them make improvements in this regard.

Based on the values of key performance indicators in CRAB the SAO stated that neither the average floor space per state employee between 2012 and 2016 nor overheads per square metre of total area were reduced and the rate of occupation of buildings did not increase. By contrast, the United Kingdom of Great Britain and Northern Ireland, for example, has defined an overall state strategy for the administration and ownership of real estate. With the help of the appropriate tools and adopted measures, the average floor space per employee was reduced by 2.6 m² (i.e. by 20%) between 2010 and 2016 in the United Kingdom, for example.

- In audit no. 16/22 the SAO concluded that from the perspective of economy the Roads and Motorways Directorate has not satisfactorily resolved the detachment of offices in

⁸⁰ According to the Czech government's programme declaration of 12 February 2014.

⁸¹ Data from the "state property map" was used for all state-owned buildings.

Prague, which are located in several buildings, three of which the Directorate rents. It paid **CZK 45 million** in rent for these in 2015. Yet the Directorate is authorised to use land in Prague 4 – Michle that covers **19,870 m²** and is available for erecting its own head office on (one third would be enough for the Directorate's requirements). According to analysis the Directorate commissioned, the return on building a new head office on this land would be 9 years. In this context the SAO discovered that the Directorate had negotiated with the Office for Government Representation in Property Affairs regarding the location of its employees and that after the Office had notified it that it did not possess a suitable administrative building the Directorate began to discuss its intention to build its own head office with the MoT. The situation had not been resolved by the completion of the audit, however.

- One problem the SAO identified in audit no. **16/26** is that CRAB does not make it possible to differentiate whether unused spaces are on a single floor or in various parts of a building and whether a building is fit for use or needs refurbishment. Some state institutions have proposed erecting new buildings because of a shortage of suitable spaces for their employees.

Recommendations

Based on the shortcomings identified in audit no. 16/22 and in the interests of economical expenditure, the SAO recommended that the Roads and Motorways Directorate:

- adopt measures to minimise the outsourcing of standard activities that can be done by its own employees;
- assess the need for implementation agreements linked to the 2007 master contract on an individual basis;
- come to a swift decision regarding its workplaces in Prague, possibly building a new head office, and how idle land will be dealt with.

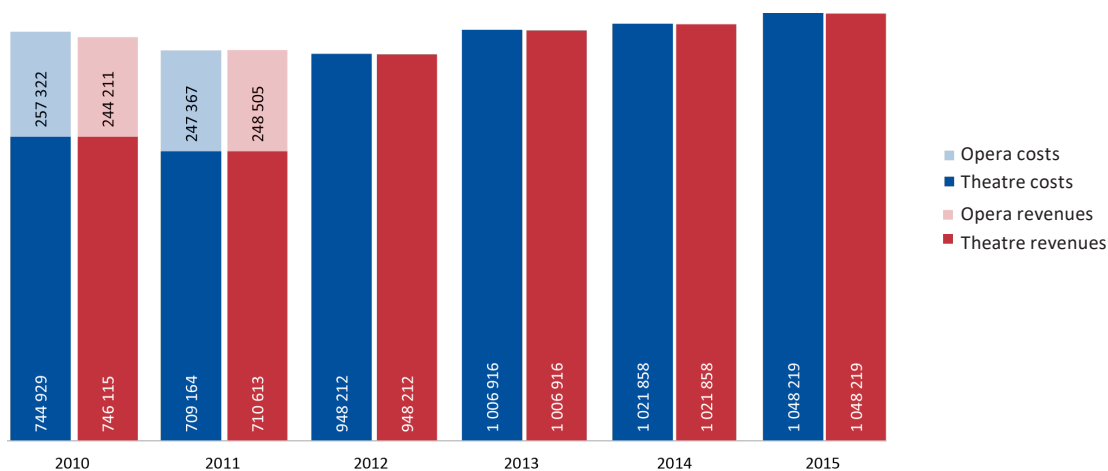
In response to the SAO's recommendations, the Directorate took measures to enable it to judge the need for the existing implementation agreements on an individual basis and to incorporate a request for a special-purpose subsidy to fund its own building into the draft budget for 2018 or medium-term outlook for 2019–2020.

The shortcomings identified in audit no. **16/26**, targeting the operation and use of state-owned real estate, also made it necessary for the SAO to point out that the CR has decentralised administration of state-owned real estate, i.e. there is a separation of powers and responsibilities between those who are responsible for effective and economic use of real estate (heads of state institutions) and those who decide on any changes to how the real estate is used and managed (the Czech government, governmental or regional "dislocation commissions"). Further to this finding, the SAO recommended defining the powers and responsibilities of the authorities involved in decision-making on the management and use of real estate.

In 2017 the SAO also flagged up a case where an attempt to save money and optimise costs by merging two public institutions had the opposite effect and did not contribute to more efficient financial management. It is generally the case that merging organisations should be preceded by rigorous analysis that should prove that the step is beneficial. In addition to the merger of the National Theatre and Prague State Opera ("the Theatre" and "the Opera"), in audit no. 16/15 the SAO also scrutinised the Theatre's management of state property in the years 2013 to 2015.

- In this audit the SAO concluded that the transformation of the Opera had not delivered the declared cost savings that the MoC had mainly expected in the economic area. In the first year after the Theatre and the Opera were merged, i.e. in 2012, there was a slight reduction of **0.87% (CZK 8.3 million)** in total costs, but that was followed by increases in both the costs of activities and total costs, which amounted to over **CZK 1 billion** in 2015. What is more, the Theatre did not monitor the total costs of the transformation. The SAO discovered, however, that at least **CZK 1.4 billion** was spent on preparing the transformation. The following chart shows the evolution of total costs and revenues of the Opera in 2010 and 2011 and of the Theatre from 2010 to 2015.

Chart 28: Evolution of total costs and revenues of the Prague State Opera in 2010 and 2011 and of the National Theatre from 2010 to 2015 (CZK thousand)



Source: audit conclusion from SAO audit no. [16/15](#).

Costs of activities across all state budget headings amount to hundreds of billion Czech koruna every year. In general it can be concluded that there is considerable room for economy, efficiency and effectiveness of spending in such high sums, as well as potential savings, as the examples below reveal. That is why the SAO scrutinises and will continue to scrutinise selected costs of activities. Last year the SAO again drew attention to major differences between state organisations in items of current purchases of material and services, which indicated what a considerable effect central purchasing of certain standardised items could have. The SAO continues to stress scrutiny of unit prices, which makes it possible to compare organisations and look for possible optimal solutions and opportunities for achieving lower prices. This fact is borne out by the results of the following audits.

- In audit no. [16/27](#) the SAO compared unit prices for purchased services and found considerable differences. The price of an English lesson for the State Office for Nuclear Safety (“SONS”) was half what the Industrial Property Office (“IPO”) paid (CZK 254 and CZK 550 respectively). The prices for daily cleaning per 100 m² ranged from CZK 816 at the IPO to CZK 1,548 at the Office for Personal Data Protection (“OPDP”). And the unit price for an hour’s work by a security guard ranged from CZK 82 at the IPO to CZK 121 at the OPDP.
- In audit no. [16/28](#) the SAO compared the prices of identical items of medical equipment and exposed considerable differences in the prices the audited hospitals paid for them. The price of a particular component for a full joint replacement in 2015, for example, ranged from CZK 1,500 to CZK 4,300, while the price of a cardioverter ranged from CZK 227,000 to CZK 311,000.

Major differences between state organisations in items of current purchases of material and services indicate what a considerable effect central purchasing of certain standardised items could have.

In audit no. [16/18](#) the SAO drew attention to a systemic shortcoming in how the work of the State Office for Nuclear Safety is funded through the creation and drawdown of a reserve fund from off-budget resources. By law the Office collects reimbursements for expenditure on expert work, which reached almost CZK 1.6 billion in the years 2013–2015. These are off-budget finances from which the Office creates a reserve fund, from which it transfers finances to its revenue account by means of budgetary measures and then uses that money to cover its activities. This arrangement has no basis in the generally binding legal regulations, however. The identified systemic shortcoming

significantly changes the view of the accounting unit’s financial situation. The Office has repeatedly negotiated with the MoF on how to resolve this shortcoming and clarify how off-budget resources are to be accounted for.

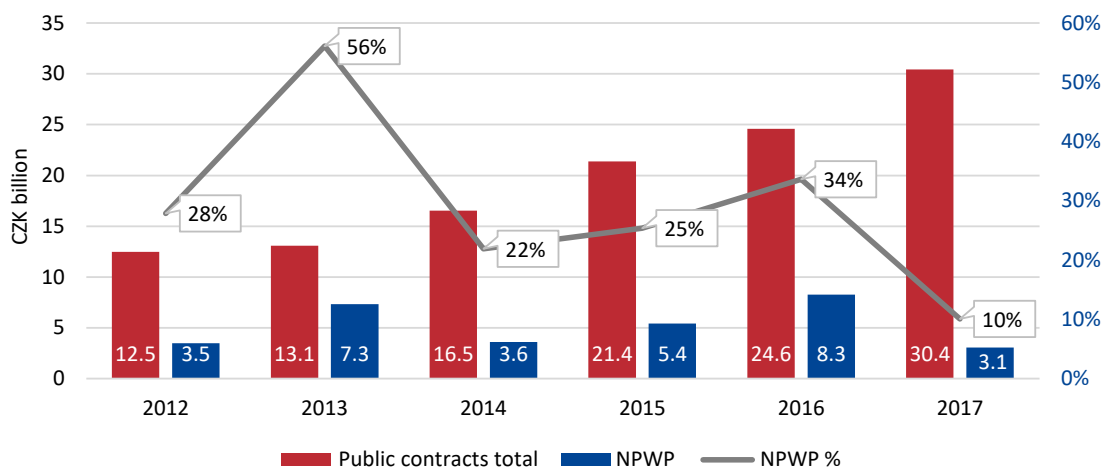
To conclude, it is fair to say that, despite partial improvements in state institutions’ financial management in certain areas, the SAO still sees room for further reductions in state spending, e.g. in the efficient and effective administration and use of state-owned real estate.

4.2 Public procurement – low transparency has a negative impact on the economy of spending

A significant portion of public expenditure is channelled through public contracts and here the SAO sees considerable potential for savings and improved transparency. This fact is the reason why a substantial amount of the SAO’s audits scrutinise the public procurement process. The CR still struggles with low transparency in public procurement. It is fair to say that the total volume of public contracts has increased in the past years, according to ministries’ data, but the proportion of contracts awarded in the non-competitive environment of negotiated procedure without publication far exceeded the EU average, which was around 5%⁸² in 2014–2016. NPWP accounted for 22–34% of Czech ministries’ public contracts in the same period. The fall in the share of NPWP to 10% in 2017 can be rated positively.

The total volume of public contracts awarded by ministries exceeded **CZK 30 billion** in 2017. Chart 29 shows how the volume of public contracts has grown. There is a clear trend of increasing volume of ministries’ public contracts published in the public procurement bulletin, averaging twenty per cent per year. Contracts awarded under NPWP do not display any marked trend. 2017 brought both the lowest share of the total value of public contracts accounted for by NPWP and the lowest absolute volume.

Chart 29: Number and share of public contracts awarded under NPWP relative to the total number of public contracts awarded by ministries 2012–2017



Source: *Public contracts information system, SAO chart.*

The SAO regards the award of public contracts without open economic competition, either by direct purchase or under NPWP, as one of the most serious shortcomings. The results of the SAO’s audits conducted in 2017 drew attention to these non-transparent procedures by certain state organisations that restrict the competitive environment and do not guarantee that economic advantages will be delivered.

⁸² Own calculation based on Commission statistics; see http://ec.europa.eu/internal_market/scoreboard/performance_per_policy_area/public_procurement/index_en.htm.

- Audited university hospitals purchased medicines worth more than **CZK 5.5 billion** without any award procedure between 2014 and 2016. More than **CZK 2.7 billion (52%)** of that amount involved purchasing directly from manufacturers and selected distributors of non-registered medicines in the context of extraordinary imports. The details of this non-transparent purchasing are presented in section II.3.7 (audit no. **16/28**).
- By the completion of the audit, the Centre for Ascertaining the Results of Education (“the Centre”) had not awarded a public contract in the proper manner for data centre operation services and telecommunications infrastructure for state school-leaving exams. It secured the services under a contract that arose out of NPWP that was not awarded in accordance with the Act on Public Procurement. The SAO judged this conduct of the Centre to be a violation of budgetary discipline. From November 2014 to September 2016 the Centre spent a total of **CZK 83 million** on services under the contract (audit no. **16/13**).
- The Coordination Centre for Departmental Healthcare Information Systems procured two medical registers worth a total of **CZK 24 million** under a framework agreement with five contractors, even though the delivery of these registers went beyond the framework agreement and should have been procured by public contract (audit no. **17/03**).
- In 2016 the MoT used negotiated procedure without publication to prolong contracts with the existing electronic toll system contractor by three years in contravention of the law. By leaving in the contract certain activities that are unjustified according to the SAO, e.g. activities concerning asset replacement worth at least **CZK 252 million** or activities concerning public relations costing **CZK 58 million**, the MoT was responsible for the fact that the economy and effectiveness of the operation of the electronic toll system from 2017 to 2019 was compromised (audit no. **17/10**).

Awarding public contracts under NPWP restricts the competitive environment and does not guarantee that economic advantages are delivered.

The SAO also drew attention to other constantly recurring incorrect procedures and non-compliance with the public procurement rules, be they failing to create a sufficiently competitive environment in award procedures or the self-serving division of the subject of a public contract into smaller lots that can be awarded under the below-the-threshold or small-scale contracts procedure.

These wrong procedures are documented by the following examples:

- When scrutinising the award of a public contract with a price of **CZK 683 million** for building infrastructure for the GSM-R system, the SAO found that the selection of contractors did not take place in a competitive environment, as an effective single-contractor monopoly was created, which can have a negative impact on the economy of the project as a whole. This may have been caused by certain requirements and technical conditions defined by the Rail Track Association in the contract documentation (audit no. **16/16**).
- The State Office for Nuclear Safety divided up a public contract for the purchase of motor vehicles with an expected value of almost **CZK 2 million**. In addition, in the public contracts for passenger cars it specified the kind of technical parameters that corresponded to one specific brand and type of vehicle. The Office thus procured thirteen passenger cars for almost **CZK 4 million**. When purchasing English tuition services the Office for Personal Data Protection concluded contracts directly with specific services providers at a total cost of **CZK 961,000** (audit no. **16/27**).
- The Roads and Motorways Directorate divided up the subject of a public contract for consulting services linked to the toll system into 12 separate small-scale contracts. It thus concluded 12 contracts with one law firm without any award procedure; the hourly fee was **CZK 3,500** (audit no. **16/22**).

In general, it is fair to say that sufficient competition is a precondition for the effective working of the public contracts market and a sufficient number of bids makes it possible to achieve favourable prices for contracting organisations. This fact is confirmed by the SAO's positive findings from audit no. 17/05, as mentioned in section II.3.3.

4.3 Management of funds provided to the CR from abroad – major drawdown delays may lead to the loss of the performance reserve

During 2017 the SAO completed four audits focusing primarily on the management of finances provided to the CR from abroad. In all cases the audits concerned finances provided out of the European Union budget.

The following audits of EU finances focused on support for rural development and agriculture:

- support for regional development under the LEADER initiative via the rural development programmes (audit no. 16/14);
- support for the development of cooperation between municipalities and of local partnerships (audit no. 16/32).
- support for forestry (audit no. 17/06)⁸³.

The SAO's key audit in this area was audit no. 16/12, targeting the single methodological environment.

In the previous programming period 2007–2013 the CR began to struggle with a lower rate of drawdown of the Cohesion Policy allocation from the third year of the period. The CR lagged further and further behind other EU Member States, as a result of which part of the allocation was decommitted, i.e. withdrawn for good, by the European Commission. The pronounced drawdown shortfall was only eliminated in 2015, i.e. in the final year of eligible expenditure. Even so, according to estimates to date the CR irrevocably lost approx. CZK 20 billion⁸⁴, mainly under operational programmes ("OPs") managed by the MoEYS and MoE.

If we compare the state of drawdown from the European Structural and Investment Funds at the end of the fourth year of PP 2014+⁸⁵ with the same period of the previous programming period⁸⁶, the CR is in a worse position; see Chart 30. The relative drawdown values are always correlated to the total allocation for the given programming period to ensure maximum objectivity⁸⁷. Yet the values achieved in PP 2014+ are moreover positively influenced by the high rate of drawdown under RDP 2014+, whose funding source⁸⁸ is also included among the ESI funds, unlike in the previous programming period. The main factor in the high rate of drawdown under this programme is "claim-based payments" disbursed under RDP 2014+, and not the implementation of project measures.

⁸³ Information on this audit is presented in section II.3.11.

⁸⁴ According from *Information on the State of the Closure of the 2007–2013 Programming Period*, ref. 75/18, submitted to the Czech government on 7.2.2018.

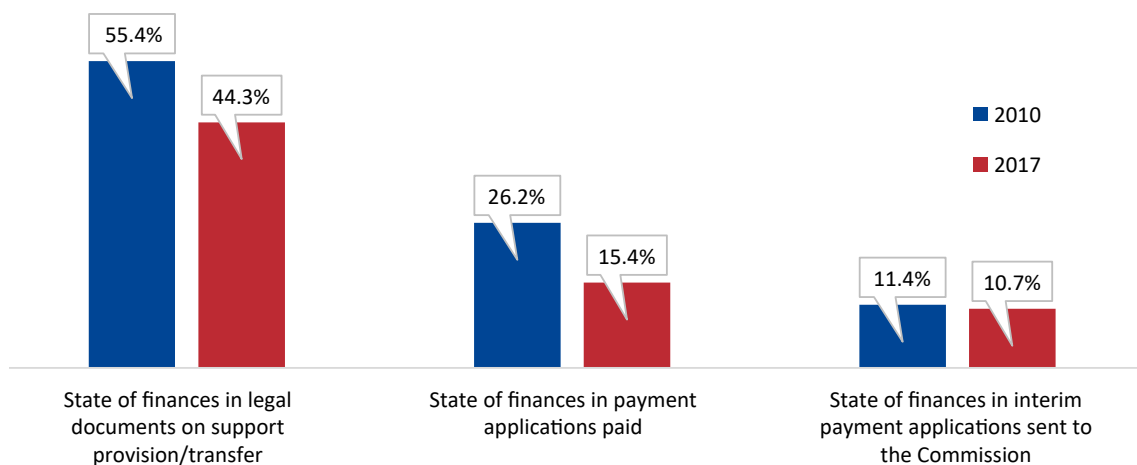
⁸⁵ *Monthly Information on the Implementation of the ESI Funds in the Czech Republic in the 2014–2020 Programming Period, December 2017*, MoRD, Najuary 2018, data valid as of 8 January 2018.

⁸⁶ *Monthly Monitoring Report on the Course of Drawdown from the Structural Funds, Cohesion Fund and National Sources in the 2007–2013 Programming Period, December 2010*, MoRD, 21 January 2011, data valid as of 5 January 2011.

⁸⁷ In the 2014–2020 programming period the MoRD monitors the rate of drawdown relative to the main allocation, i.e. the total allocation minus the performance reserve of CZK 32.6 billion (converted using current koruna/euro rate).

⁸⁸ *European Agricultural Fund for Rural Development*.

Chart 30: Comparison of the state of utilisation of EU finances in the CR in December 2010 and December 2017, expressed as a percentage of the total allocation for the programming period in question

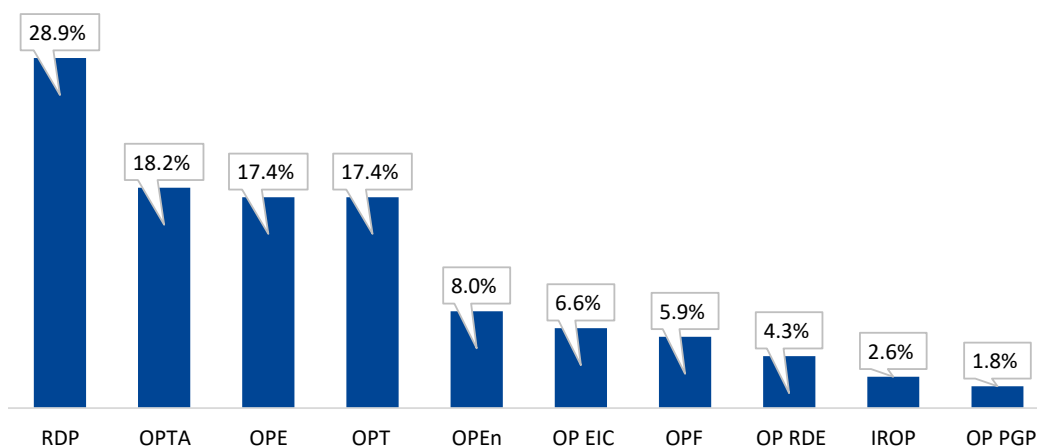


Source: MoRD Monthly Monitoring Report for the 2007–2013 Programming Period, December 2010; MoRD Monthly Monitoring Report for the 2014–2020 Programming Period, December 2017.

NB: Chart by the SAO.

Although this comparison is influenced by an approx. half-year delay in the European Commission’s approval of programming documents, this delay affected other EU Member States as well. Yet it is evident from data published by the Commission in January 2018 that the CR belongs in the bottom third of Member States in terms of the ratio of concluded legal documents on support provision. The main reason for the CR falling behind the majority of EU Member States is the lengthy process of selecting and approving projects for funding. According to payment applications sent to the European Commission, just **10.7%** of the EU funding allocation for the 2014–2020 programming period had been utilised by 31 December 2017. The extremely slow drawdown of the allocations for individual operational programmes is shown in Chart 31: OP Prague Growth Pole and IROP are among the least successful OPs.

Chart 31: Drawdown of EU finances in PP2014+ in applications for interim payments sent to the Commission in terms of the share of the total allocation for individual OPs



Source: MoRD Monthly Monitoring Report for the 2014–2020 Programming Period, December 2017.

NB: The figures are correlated to the main allocation in PP2014+, i.e. the total allocation without the performance reserve.

The delay in drawdown of the allocation by the various OPs could result in failure to meet the milestones set for the CR for 2018, which could ultimately lead to the loss of the performance reserve up to overall level of CZK 36.2 billion.

In audit no. 16/12 the SAO scrutinised how the MoRD sought to put in place a single methodological environment between 2011 and 2016. The SAO stated that the long process of assessing and approving projects is one of the problem factors negatively affecting drawdown of the allocated finances in the 2014–2020 period. The amount of time specified by the MoRD for applications approval was “without undue delay”. Yet the average duration of application approval was 198 days, according to the SAO’s findings, with the total duration of application approval ranging from 7 to 474 days. The creation of a single methodological environment was supposed to be one of the steps towards improving the conditions for utilising European subsidies.

- The SME represents a set of rules and procedures for the providers of support from the EU that is intended to improve the management of European money, improve transparency and cut the red tape associated with obtaining support. The common methodological rules governing the procedure for distributing European subsidies, which cover approx. 2,500 pages, are neither uniform nor enforceable. The MoRD did not put in place any oversight over compliance with the binding rules, which is essential if they are to be enforceable. According to the SAO’s assessment, this state of affairs does not put in place the right conditions for making processes transparent and for clarifying the rules governing the provision of support from the European Structural and Investment Funds.

The MS2014+ information system for monitoring the ESI Funds is a tool for applying these rules. The MoRD defined the requirements for the system’s functionalities in merely general terms, which resulted in the cost of developing the system exceeding the costs of acquiring it. And the system is still being developed, at considerable cost. Up to August 2016 the MoRD spent CZK 880 million on the SME, CZK 872 million of which was spent on the acquisition, development and operation of the MS2014+ IS. By comparison, CZK 917 million was spent over eight years on monitoring systems used in previous periods (2001–2009). The funding of the MS214+ IS is also problematic, as discrepancies and subsequent financial corrections caused the EU to reduce its support from the planned 85% to 57%. Its operation, development and maintenance have been fully covered out of the state budget since 2016.

As mentioned above, this audit also showed that drawdown continues to be slower than in the previous PP 2007+.

Based on its systematic audit work in the field of Cohesion Policy, the SAO draws attention to facts it flagged up in previous audits (e.g. in audits nos. 14/24, 15/06, 16/01)⁸⁹ and again in audits nos. 16/14, 16/32 and 17/06. These are repeated deficiencies such as general formulation of the goals of programmes and projects, shortcomings in the approval process and inadequate assessment of the benefits of executed projects. The selection and approval of projects pays insufficient attention to whether their necessity is demonstrated and makes insufficient use of the outputs generated when project activities are completed.

The implementation of projects thus designed may fully utilise funds/allocations, but ultimately it is impossible to evaluate the projects’ actual benefit, i.e. whether the desired change in the state of affairs is achieved. The long-term recurrence of these findings means that the SAO regards them as a significant systemic shortcoming in the management of public funds in the CR.

The slow pace of drawdown of allocated finances in the 2014–2020 programming period presents a risk that a situation may arise towards its end where frantic efforts to utilise the allocated finances result in the 3E principles being overlooked in project selection.

⁸⁹ The audit conclusion from audit no. 14/24 – *EU and state budget funds provided for settlement of expenditures of national projects within the Operational Programme Education for Competitiveness* was published in volume 3/2015 of the SAO Bulletin; the audit conclusion from audit no. 15/06 – *State budget funds and EU structural funds for financing of operational programmes with regard to projects’ sustainability* was published in volume 1/2016 of the SAO Bulletin; and the audit conclusion from audit no. 16/01 – *EU and state budget funds earmarked for financing of interventions within the Operational Programme Enterprise and Innovation with the focus on fulfilment of objectives* was published in volume 1/2017 of the SAO Bulletin.

According to the results of the SAO's audit work, the causes of the CR's falling behind the majority of EU Member States in PP 2014+ are high levels of bureaucracy, complicated implementation of certain OPs and, above all, the lengthy process for selecting and approving projects for funding.

4.4 Reliability of data for financial management – major shortcomings in accounting continue to impact on the reliability of information for monitoring and managing public funds

The purpose of regularly checking reported data on financial management by the state and its components is to acquire summary information on the data's reliability and also to help ensure the accuracy (i.e. reduce error rates) of data reported by audited accounting units, as these data are used to monitor and manage public finances. 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.

In 2017 the SAO checked the reliability of data for monitoring and managing public finances and completed the following three financial audits:

- Audit no. **16/25** – Closing account of the state budget heading of the Ministry of Industry and Trade for 2015, its financial statements and data for 2015 submitted for the assessment of fulfilment of the state budget for 2015;
- Audit no. **16/29** – Closing account of the state budget heading of the Ministry of Labour and Social Affairs for 2016, its financial statements and data for 2016 submitted for the assessment of fulfilment of the state budget for 2016;
- Audit no. **17/08** – Closing account of the state budget heading of the Ministry for Regional Development for 2016, its financial statements and data for 2016 submitted for the assessment of fulfilment of the state budget for 2016.

During the financial audits, closing account data from the audited entities for the given periods was checked. According to these data, their total assets amounted to **CZK 96.5 billion** net; total costs were **CZK 81.5 billion**; and total revenues were **CZK 40.6 billion**. In addition, data from statements for assessing the implementation of the budget were checked. The audit scrutinised income totalling **CZK 14.3 billion** and total expenditure of **CZK 26.6 billion**.

In audits nos. **16/25** and **17/08** the SAO found shortcomings regarding compliance with the legal regulations when the closing accounts were compiled: some information did not match the data in financial reports for the audited period or data in the accounts or financial statements compiled as at balance-sheet date. In some cases, incorrect numerical and substantive data were found as a result of, for example, incorrect calculations, incorrect entries or incorrect transfers from the materials of the relevant divisions or subordinate organisations.

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. These audits again detected significant shortcomings that compromised the reliability of data that can be used for monitoring and managing public finances:

- **Audited accounting units did not keep their accounts correctly.** The MoIT, for example, failed to record as advance payments transfers provided from national sources amounting to **CZK 15.7 billion** and earmarked for financial settlement. The MoIT also incorrectly accounted for short-term contingent receivables from transfer pre-financing worth **CZK 3.9 billion** even in cases which did not involve any transfer to other entities but the consumption of finances co-funded by the EU (audit no. **16/25**). In addition, the MoLSA did not enter the loss of a holding in E.ON SE in 2016 at the correct time, which impacted on the financial statements.

The holding in E.ON SE worth **CZK 890 million** was incorrectly discarded from the MoLSA's accounts in 2015, which could have had a significant impact on financial statements for the Czech Republic for 2015 (audit no. **16/29**). The MoRD valued shares in Českomoravská záruční a rozvojová banka, a.s., acquired free of charge in 2014 and 2015 as shares of the bank's profits, at their nominal value instead of their replacement price, and incorrectly posted these revenues from profit shares on account 401 – *Equity of the accounting unit* instead of account 665 – *Revenues from fixed financial assets*, which undervalued the balance of accounts group 06 – *Fixed financial assets* by **CZK 310 million**, overvalued the balance of account 401 – *Equity of the accounting unit* by **CZK 198 million** and undervalued the profit/loss account by **CZK 508 million**. For a long time, the MoRD also incorrectly applied the accounting method for asset depreciation: in some cases it did not write off all assets, it did not account for some calculated write-offs and, conversely, accounted for some write-offs twice. The errors in the selected cases were quantified at **CZK 145 million** and impacted on the accuracy of the reported balances of long-term depreciated assets accounts, namely 401 – *Equity of the accounting unit* and 551 – *Depreciation of fixed assets* – and of the profit/loss account between 2011 and 2016 (audit no. **17/08**).

- **Audited entities' accounts were incomplete.** The MoIT, for example, failed to account for monies that it was authorised to manage and were kept in bank accounts with Českomoravská záruční a rozvojová banka, a.s., and one commercial bank, thus undervaluing the financial statements in the balances of asset accounts in account group 24 – *Miscellaneous bank accounts* – by **CZK 1.9 billion**. The MoLSA failed to account for long-term contingent liabilities from concluded contracts, which impacted on the reported balances of off-balance-sheet accounts included in the notes to the financial statements as at 31st December 2016, specifically by undervaluing the balance of account 974 – *Long-term contingent liabilities from other contracts* by at least **CZK 628 million** (audit no. **16/29**). The MoRD did not account for short-term or long-term contingent liabilities from issued subsidy provision decisions under national subsidy programmes, or for long-term contingent liabilities consisting in contributions to international organisations. In this context it undervalued the balances of accounts 916 – *Miscellaneous short-term contingent liabilities from transfers* and 954 – *Long-term contingent liabilities from foreign transfers* by **CZK 38 million** and **CZK 27 million** respectively (audit no. **17/08**).
- **The MoLSA failed to provide evidence-based accounting.** Repeated accounting software changes and the insufficient transfer of the individual balances of accounts and insufficiently detailed and complete accounting meant that it was unable to generate conclusive inventory lists in accordance with the Act on Accounting and the implementing decree. The MoLSA could not demonstrate what items made up the balances on the accounts of receivables, which represent **96%** of total assets, and payables, which represented **77%** of liabilities. No documentary inventory was performed for **61%** of the balances of accounts of contingent (off-balance-sheet) receivables and almost all balances of contingent (off-balance-sheet) liabilities. The fact that the MoLSA failed to provide evidence-based accounting substantially impeded the ability to assess the reliability of its financial statements.
- As part of its audit of accounting (audit no. **16/25**), the SAO found that in 2015 the MoIT had kept the use of finances to support small and medium-sized enterprises off the balance sheet. As at 31 December 2015, bank accounts with Českomoravská záruční a rozvojová banka, a.s., contained finances of the CR totalling almost **CZK 2 billion**, money the MoIT was authorised to use. In contravention of the Act on Accounting and Act No. 219/2000 Coll. the MoIT did not include this money and the use thereof during 2015 in its accounts. It failed to perform an inventory of this money and did not report it in the financial statements.

As regards legality audits, the SAO completed two in 2016:

- Audit no. **16/03** found that the MoF's reported data on contingent liabilities were marred by problems with the application of the legislation and by accounting errors. The identified scale of the problem amounted to **tens to hundreds of billion Czech koruna**. In addition, the MoF did not create or report in the financial statements any provisions and did not reduce the value of certain assets, even though the audit identified reasons to do so. The identified scale of the problem amounted to **hundreds of billion Czech koruna**. The upshot is that data on the state of the MoF's assets and liabilities are distorted. The SAO also found that in the past the MoF had in some areas concluded contracts based formally on provided guarantees in a way allowing it to avoid reporting greater government debt.
- Audit no. **16/17** found inaccuracies in the MoFA's accounts worth a total of **CZK 2.7 billion**, most of them the result of incorrect accounting for transactions by embassies, contingent liabilities from transfers and money for financing embassy advance payments.

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 utility of summary accounting statements for the Czech Republic as a whole.

In addition, the SAO scrutinised statements for assessing the implementation of the budget at selected audited entities. The SAO also found the following inaccuracies:

- In 2015, for example, the MoIT, under a subsidy provision decision, provided an operator on the electricity market with a total subsidy of **CZK 15.7 billion** in accordance with Act No. 165/2012 Coll.⁹⁰. However, it classified this in terms of the sectoral arrangement of the budget composition under category 2161 – *Activities by a central organ of state administration in the energy, industry, construction, trade and services sector*, even though this paragraph concerns the MoIT's own activities. Consequently, the MoIT overvalued the said budget category by the said amount and undervalued budget category 2115 – *Energy savings and renewables*. The numerical sequences in this area, which is linked to public support, are thus encumbered with the said error (audit no. **16/25**). The MoLSA incorrectly classified expenditure on data processing and services linked to information and communication technologies as items of budget category 5169 – *Purchases of miscellaneous services* and 5171 – *Repairs and maintenance* with a total value of **CZK 143 million**, even though, under the applicable budget composition this type of expenditure should be entered in budget category 5168 – *Data processing and services linked to information and communication technologies* (audit no. **16/29**). The MoRD incorrectly classified expenditure of **CZK 7 billion** in the form of subsidies provided to regional councils of cohesion regions, local self-governing units and contributory organisations under budget category 3691 – *International cooperation in the field of housing, communal services and spatial development*, even though the expenditure did not take the form of contributions to international organisations or spending on international seminars and similar international cooperation events (audit no. **17/08**).

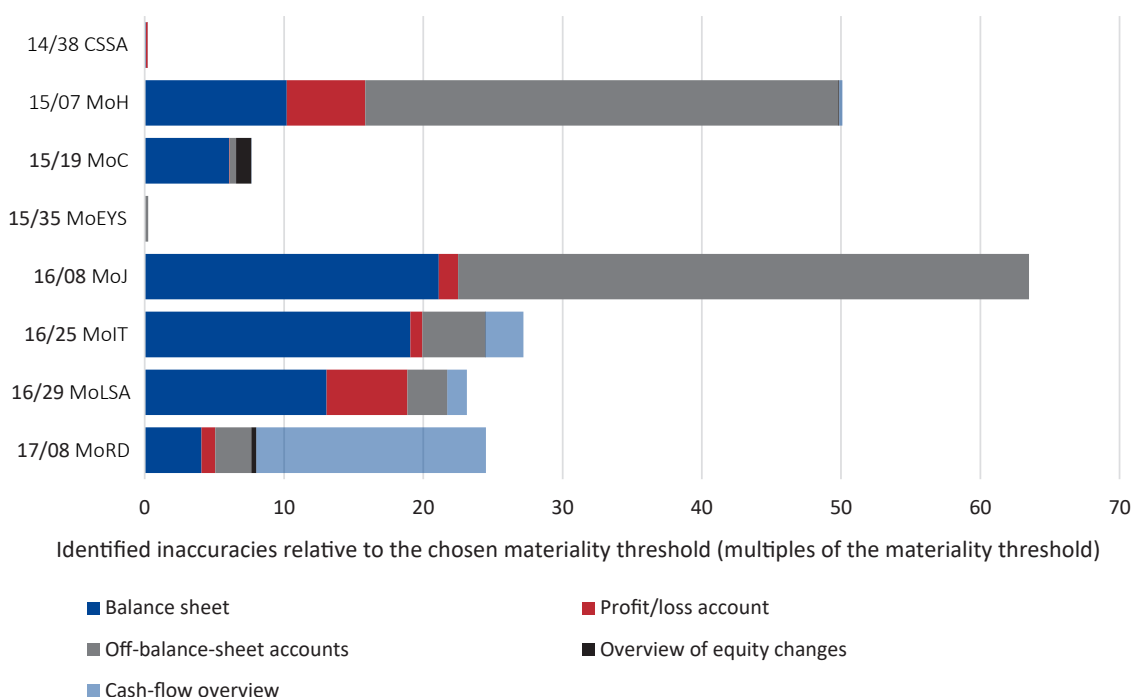
The significant errors detected do not merely affect the accuracy and thus also the informational value of data in accounting statements issued by the audited entities: they can also affect the utility of consolidated accounting statements for the Czech Republic as a whole. The identified inaccuracies in financial statements are transposed into closing accounts, which are thus marred by inaccuracies in some cases.

The audit conclusions from audits nos. **16/03** and **16/17** were discussed by the Czech government in 2017. The responses of the MoF and MoFA 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.

⁹⁰ Act No. 165/2012 Coll., on supported sources of energy and amending certain acts.

In the last three years the SAO has scrutinised reporting in a total of ten state budget headings; in eight cases this involved auditing financial statements. Some headings were subjected to financial audit for the first time; others had been audited several times before. The following Chart 32 presents an evaluation of the identified inaccuracies in the various parts of financial statements with regard to materiality⁹¹, as defined for the purpose of judging the reliability of audited entities’ financial statements. The presented data show that audits of the CSSA and MoEYS, which are among the key entities in the country where the SAO has regularly performed financial audits, came out best. It is therefore reasonable to state that systematically repeated audits contribute to more accurate reported data.

Chart 32: Identified inaccuracies’ relation to the selected materiality threshold (multiples)



Promoting good accounting practice

The SAO believes that the reform of the state’s accounting that was formally begun in 2010:

- 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 consolidating data for the state as a whole.

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 the SAO’s opinion, the fact that there is still no conceptual definition of basic accounting terms such as assets, costs, revenues, etc., is one of the most important problems.

The SAO appreciates the fact that during 2017 annual financial statements were compiled and published for the CR for the financial year 2016, which makes it possible to make full use of the information that can be garnered from accounts for the management of the state as a whole. These are the first annual financial statements for the CR containing data not just for all the selected accounting units but also for other accounting units that form part of the consolidated whole of

⁹¹ Assessment of the reliability of financial statements is based on materiality (i.e. the value of inaccuracies that can reasonably be expected, either individually or in sum, to influence economic decisions by users of the financial statements). In line with best practice, the materiality threshold is usually set at approx. 2% of the value that most best represents the nature of the accounting unit. This might be net assets or total costs, for example.

the CR (in particular commercial corporations in which selected accounting units have ownership interests, or public research institutions). The consolidated whole of the CR thus comprises more than 18,000 accounting units. The data reported for the state are marred by inaccuracies, however, deriving from errors in the financial statements of the consolidated entities.

The SAO's audit work helps identify systemic risks and typical problems in the reporting of data, 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. This is a process designed to ensure that reliable data exist for the purposes of documenting sound management of public funds.

III. Financial Evaluation of Audit Work

1. Overall financial evaluation of audits

Overall financial evaluation of audit work is performed every year via the indicator of the total volume of audited finances, assets and liabilities. This indicator 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). The level of this indicator is influenced by the number of audits, their focus and the duration of the audited period.

The total volume of finances and property scrutinised in audits whose audit conclusion was approved in 2017 was **CZK 147 billion**. This does not include data from audits targeting the closing accounts of state budget headings (see section II.4.4).

The indicator of the total volume of audit finances, property and commitments does not include finances assessed at system level only. That means, for example, audits of strategic and conceptual materials and audits of programme finances where the work of their administrators or intermediate bodies are scrutinised. The value of these finances in audits completed in 2017 amounted to **CZK 914 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 penalty being imposed for a breach of budgetary discipline.

35 notifications from 18 audits were sent to the appropriate tax administrators in 2017 as part of the SAO's notification duty. The total financial loss quantified in these notifications amounted to almost **CZK 175 million**. The biggest aggregate amount of **CZK 35 million** was reported on the basis of the results of an audit to scrutinise the provision, drawdown and use of state finances expended by the Ministry of Education, Youth and Sports for the development and renewal of the material and technical resources of sport and physical education (audit no. **16/20**).

IV. Assessment of Other Activities

1. Cooperation with the law enforcement authorities

In 2017 the SAO filed one notification of circumstances indicating the commission of a crime pursuant to Section 8 (1) of the Criminal Code and based on findings from one audit.

Based on shortcomings identified by audit no. **16/20**, the notification was filed with regard to one audited entity concerning the unauthorised provision of subsidies from the state budget.

In its notification the SAO stated that the aforementioned conduct by the audited entity could have constituted the crimes of breach of trust and abuse of office.

The law enforcement authorities requested the SAO's cooperation in **11** cases in 2017. Further to these requests the SAO provided audit materials from **12** audits. In 2017 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

In interdepartmental consultation processes 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. In 2017 the SAO received 149 draft legislative changes and other materials linked to legal regulations for assessment. The SAO issued specific comments, mainly based on findings from its audit work, regarding 45 drafts.

The most important pieces of draft legislation the SAO issued comments on in 2017 included:

- a government draft legislative intention for an act on lobbying, submitted by the minister for human rights, equal opportunities and legislation;
- a government draft legislative intention for an act on the territorial administrative arrangement of the state, submitted by the Ministry of the Interior;
- a government draft act on personal data processing, which was submitted by the Ministry of the Interior and adapts Czech law to the directly applicable Regulation of the European Parliament and Council (EU) 2016/679, on the protection of natural persons with regard to the processing of personal data and on the free movement of such data and repealing Directive 95/46/EC (known as the GDPR).

The SAO's comments on these drafts were mostly accepted by the submitting entities, but the drafts were not submitted to the government for discussion by the end of 2017.

The SAO also issued specific comments on draft amendments of implementing decrees on the budgetary rules and on the Act on Accounting submitted by the Ministry of Finance. The SAO also played an active role in the consultation process regarding a revised version of the *National Strategy for the Protection of the European Union's Financial Interests*, organised by the Ministry of Finance. In addition, comments were issued on materials submitted by the Ministry for Regional Development and linked to the application of Act No. 134/2016 Coll., on public procurement, with particular regard to the working of electronic marketplaces for public administration and the use of the *National Electronic Tool*.

As regards draft acts commented on by the SAO in previous periods, Act No. 325/2017 Coll., amending Act No. 153/1994 Coll., on the intelligence services of the Czech Republic, as amended, and other related acts, passed into law. The adopted act also includes an amendment of Act No. 166/1993 Coll., which governs the exemption from the ban on other activities for the President, Vice-President and members of the SAO and allowing members of the SAO Board, where appropriate, to work in the independent audit body established under the amendment of the Act

on the Intelligence Services of the Czech Republic.

Another act adopted in 2017 was Act No. 367/2017 Coll., amending Act No. 218/2000 Coll., on the budgetary rules and amending certain related acts (the Budgetary Rules), as amended, and other related acts. The Act contains detailed rules for the process for providing subsidies and refundable financial assistance out of the state budget. It entered into effect on 1 January 2018.

In its seventh electoral term, however, the Chamber of Deputies of Parliament of the CR did not complete the debate of a government draft act amending Constitutional Act No. 1/1993 Coll., the Constitution of the Czech Republic, as amended, and of a draft act amending Act No. 166/1993 Coll., on the Supreme Audit Office, as amended, and other related acts (parliamentary prints 947 and 948). These draft acts broaden the SAO's competence to include audit of the management of public finances and finances provided out of public budgets, and management of the property of legal persons part-owned by the state or a self-governing territorial unit. Nor did the Chamber of Deputies complete the debate of a draft act submitted by a deputy and amending Act No. 166/1993 Coll., on the Supreme Audit Office, as amended (parliamentary print 1087), which sought to establish the institute of an SAO remuneration code to be issued by the SAO President after approval by the Committee on Budgetary Control of the Chamber of Deputies.

Additionally, a government draft act on the management and control of public finances (parliamentary print 1001) that was to regulate the management and control of public finances in connection with directly applicable EU regulations and replace Act No. 320/2001 Coll., on financial control in public administration and amending certain acts (the Act on Financial Control), as amended, was not adopted (the Chamber of Deputies failed to override the Senate's rejection of the draft).

3. International cooperation

The SAO's international cooperation in 2017 focused mainly on activities in the context of the EUROSAI, INTOSAI, Contact Committee and European Court of Auditors working groups. Bilateral cooperation took place mainly with the Supreme Audit Institutions /SAIs/ of Germany and Slovakia.

An important event was the election of the Czech SAO presiding EUROSAI for the years 2020-2023. In the meantime, the SAO President will be the Vice-President of this international organization.

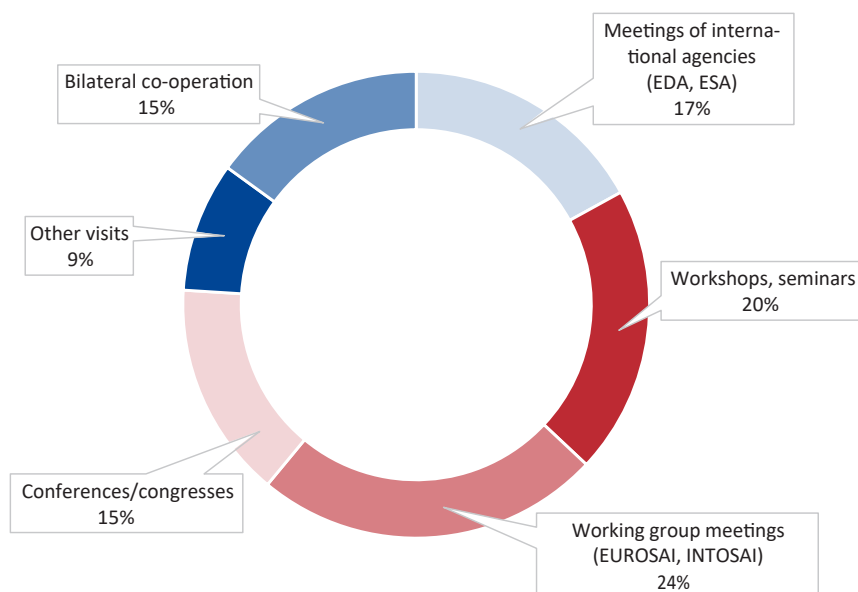
Another important international activity of the SAO is the continued cooperation with the European Space Agency (ESA) in the provision of external audit. Since 1st October 2017, the SAO has been presiding over the ESA Review Committee.

In September 2017, the SAO's cooperation with the European Defense Agency (EDA) was discontinued; this cooperation lasted for three years (audits for the years 2014-2016).

SAO representatives participated in a total of 59 events abroad, with the largest part of these trips being the meetings of the EUROSAI, INTOSAI and Contact Committee working groups to which the SAO is a member of (together 14 events). SAO representatives' participation in workshops and seminars also accounted for many of the trips abroad (together 12 events).

An overview of the foreign trips of SAO representatives in 2017 shows Chart no.33.

Chart 33: Number and focus of SAO representatives' trips abroad in 2017.



In 2017 an important international activity of the SAO was the cooperation with the German Bundesrechnungshof (BRH). At the end of 2016, the SAO President approved a parallel audit of the SAO and BRH for value added tax on e-commerce⁹².

The working teams of both SAIs met in 2017 twice. The first meeting took place at the beginning of May in Bonn, where representatives of the SAO presented the concept of e-commerce VAT audit proposed by the SAO. Both sides also discussed the proposed points of joint bilateral audit.

The second meeting of SAO and BRH experts took place in mid-October in Prague. At the meeting, the presentation of the audit findings and the identification of basic problem activities were discussed.



Working meeting of experts of the Czech SAO and German BRH for parallel VAT audit in the field of e-commerce in Prague

Another important event was the termination of the bilateral cooperation between the Czech SAO and the Slovak SAO in the field of excise duties.

In mid-January 2017, a final meeting to the parallel audit was held in Prague, where the final version of the joint final report was drafted. This report contains the results of the parallel audits completed in 2016⁹³.

In May, the SAO President met with the President of SAI of the Slovak Republic, Karol Mitřík.

The Joint Final Report on the Results of Parallel Audits of Excise Tax Administration in the Slovak Republic and the Czech Republic was signed, which informs about the progress and the result of the international cooperation of these SAIs in the parallel audits focused on the administration of excise taxes in 2012-2015.



Presentation of the joint final report on excise tax audit

In May, the X EUROSAI Congress was held in Istanbul, Turkey, where the Czech SAO was elected EUROSAI Chair for the years 2020-2023. In 2020, the SAO will hold the XI EUROSAI Congress and within the next three years it will lead this organization. The President of the SAO will thus act as the President of EUROSAI. The Czech Presidency wants to contribute to a more effective functioning of this important organization. The main vision for the SAO presidency is the 3C Project - communication, cooperation, comparison.

The Congress also adopted a new EUROSAI strategic plan for 2017-2023. This document reflects the experience gained from the implementation of the previous strategic plan and the results of EUROSAI's self-assessment. The new plan focuses on combining past activities of EUROSAI, related to sharing of knowledge, information and experience, with new activities designed to strengthen relations between audits institutions. The plan defines two new strategic goals - professional cooperation (SG1) and capacity development (SG2). Implementation of the strategic plan will be for the next three years in the hands of Turkish SAI, which is now chairing EUROSAI. The SAO will lead the Professional Co-operation Group in 2017-2020 and will hold the post of the First Vice-President of EUROSAI.



X Congress of EUROSAI in Istanbul

At the beginning of June, a ceremony was held in Belgrade on the tenth anniversary of the establishment of the Serbian SAI. The SAO President was invited to participate as the EUROSAI leader. Other important participants in the event, Radoslav Sretenović, President of SAI Serbia, Tzvetan Tzvetkov, President of SAI Bulgaria, and Milan Dabović, President of SAI Montenegro.

Representatives of the Czech SAO, SAI Poland and SAI Turkey, who formed the so-called EUROSAI Co-ordination Team, met at the first joint meeting in July in Krakow, where they set the principles for the functioning of the co-ordination team and its working groups. The aim of the new strategic plan is to create a EUROSAI that will respond promptly to the specific and diverse needs of each SAI and adapt its available resources to the current needs and expectations of its members.

In July, the Vice-President of the SAO, Zdeňka Horníková, together with the members of the Control Committee of the Chamber of Deputies of the Parliament of the Czech Republic/KV/ went on a business trip to Indonesia. During their trip, negotiations were held with representatives of the Parliament and the Audit Board of the Republic of Indonesia (SAI of Indonesia). In addition to the activities of the KV and the SAO, the training and presentation of the SAIs' audit conclusions in the parliaments of both countries were also discussed. The programme also included a visit to the Training Centre and the Regional Center of the SAI of Indonesia, and meetings with members of the SAI's Regional Services in Yogyakarta.



Visit of Vice-President Horníková to Indonesia

At the invitation of SAI President Albania, Bujar Leskaje, the President of the SAO visited the Albanian SAI's headquarters in Tirana in August 2017. One of the main points of the programme was the discussion of the possibilities for cooperation between the two organizations. The program also included a lecture by the SAO President at the Academy of Sciences of Albania on the future of audit and on SAO's future. The event was attended by employees of SAI Albania and the wider professional public. The conclusion of the visit of the SAO President to Albania was a meeting with the President of the Republic of Albania, Illiro Meta.

The annual 20th meeting of SAI leaders of V4 + 2 countries (Czech Republic, Hungary, Poland, Slovakia + Austria and Slovenia) took place in September in Spišská Nová Ves, in Slovakia. Representatives of Belarus and Moldova participated as observers. The agenda of the meeting was traditionally devoted to the SAI V4 + 2 cooperation on quality audit, SAI analytical work and the use of all available tools and techniques to analyse data in connection with the Sustainable Development Goals, and the Benchmarking Information Exchange Project (BIEP). The SAO representatives presented up-to-date progress of the BIEP project, the results of its annual pilot phase and, in particular, proposed further steps to help attract further SAIs to work together.



Meeting of the SAI V4+2, Spišská Nová Ves (Slovakia)

In September, the 15th Steering Committee meeting of the INTOSAI Working Group on Environmental Audit (INTOSAI WGEA) took place in Washington, DC. The main objective of the meeting was to present draft project plans for the programming period 2017-2019, exchange of experience in the field of auditing, cooperation between INTOSAI WGEA and other INTOSAI working groups and organizational issues of the working group in this programming period. The SAO presented the Green City - Sustainable Urban Development Project, which was approved by the Steering Committee. Further meeting of the INTOSAI WGEA Steering Committee will be held in Prague in November 2018.



INTOSAI WGEA 15th Steering Committee meeting

A major event was also the October meeting of the Contact Committee of the Heads of Supreme Audit Institutions of the European Union at the European Court of Auditors (ECA) in Luxembourg, combined with the celebration of the 40th anniversary of ECA's existence. The topic of the meeting was to restore citizens' confidence in the Supreme Audit Institution. The discussion focused, among other things, on the OECD publication *Confidence and public order: How good governance can help restore public confidence*. Also, innovative products and opportunities for communicating with stakeholders were presented to enhance confidence in national government institutions. SAI Presidents attended the so-called in-camera meeting, further pilot novelty by the Contact Committee, which allowed them to discuss at an informal level on how the Supreme Audit Institutions affect the challenges facing the European Union and whether we are ready to respond to them. The SAO presented the BIEP project and called on the EU Member States to cooperate on a project of international comparison within the European Union.



The Contact Committee meeting of the Heads of SAIs in Luxembourg

In November, the SAO President was invited to visit the Bulgarian SAI. The meeting discussed some issues of BIEP, open data, EUROSAI databases and the requirements and interests of the Bulgarian SAI, which both parties would like to address during our EUROSAI Presidency. The Bulgarian side also proposed a possible cooperation on a twinning project for SAI Macedonia.

The SAO President, together with his adviser, also attended the conference to celebrate the 40th anniversary of signing of the Lima Declaration and the 7th International Anti-Corruption Conference in Lima, Peru, in December. At the Lima Declaration signing conference, Peer Reviews aimed at assessing the independence of the SAI were presented together with reports and statistics comparing the independence of various regional INTOSAI organizations, and information on providing SAI support for capacity-building and exchange of experience.



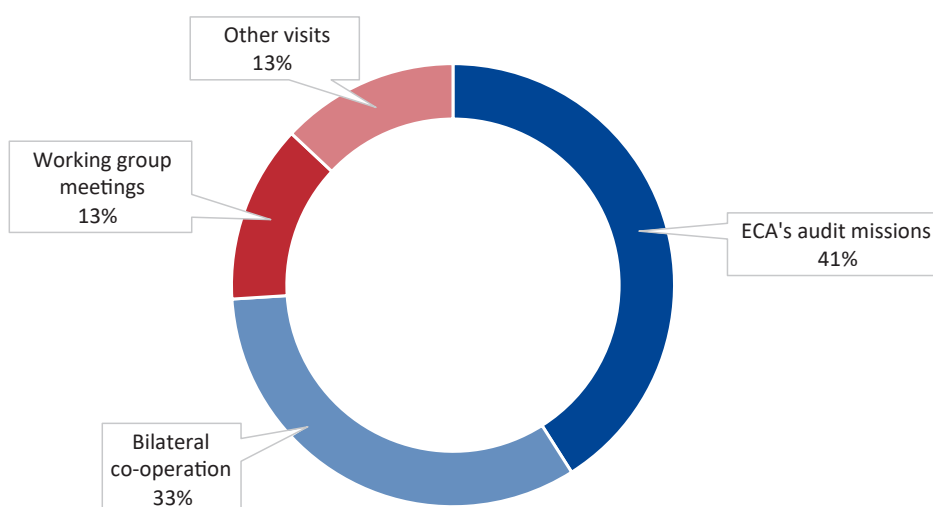
40th anniversary celebration of the signing of the Lima Declaration, Lima (Peru)

In December, the SAO representatives took part in a business trip to Bratislava. The SAO is involved in the process of self-assessment of SAO SR as the external quality assessor of this evaluation. The members of the Slovak team of self-evaluation presented colleagues from SAO CR suggestions for evaluating individual areas, including the design of a point assessment.

Also, the *Self-Assessment Plan of SAO SR* was discussed according to the PMF methodology and the Czech side was recommended to update it so that it contains all the elements recommended by the PMF methodology.

In 2017, the SAO was also active in organizing international events in the Czech Republic. Out of a total of 24, most of them took place in co-operation with the ECA (10 events) and activities at a bilateral level (8 events) were also frequent.

Chart 34: Number and focus of international events organized by the SAO in 2017



The regular annual meeting of the SAO President with Ambassadors of European Union countries and representatives of the Ministry of Foreign Affairs and Representation of the European Commission took place in January. The President of the SAO mentioned here mainly the constantly developing processing of data being obtained from public sources and their analysis. He also introduced guests to the BIEP international project.



Meeting of Ambassadors of EU countries and representatives of the Ministry of Foreign Affairs at the SAO

At the end of April, a meeting of representatives of the SAO, the Parliament of the Czech Republic, ministries and representatives of foreign SAIs called Sustainable Energy Challenges was held under the auspices of the Audit Committee and the Environmental Committee of the Czech Chamber of Deputies in the Chamber of Deputies.

At the meeting, the SAO presented two publications focusing on energy audit, which the SAO issued in 2010 and 2016 as part of its activity for the INTOSAI WGEA.



Presentation of SAO Publications in the Chamber of Deputies

Another important event was the first meeting of INTOSAI WGFACML subgroup 2 in Prague in May, led by the Supreme Audit Institution of Germany, BRH. The task of this subgroup is to create a guideline for “Audit of Corruption Prevention in Public Procurement “.



Meeting of the INTOSAI WGFACML Working Subgroup in Prague

In November, the SAO held under the auspices of EUROSAI an international seminar on joint audits performed by SAIs. The seminar was attended by representatives from 20 SAIs, members of EUROSAI, the European Court of Auditors and the IDOS (INTOSAI Development Initiative). At this seminar, the SAO presented the just completed parallel audit of excise taxes with SAI of Slovakia as well as the ongoing audit of e-commerce with SAI Germany or proposed joint audits in the field of health care. Further, the participants were provided with information on the BIEP project, EUROSAI auditing database, *the Green City project - sustainable urban development* and information on the EU report.



Participants at the international seminar on joint audits

4. The SAO's work in respect to the public

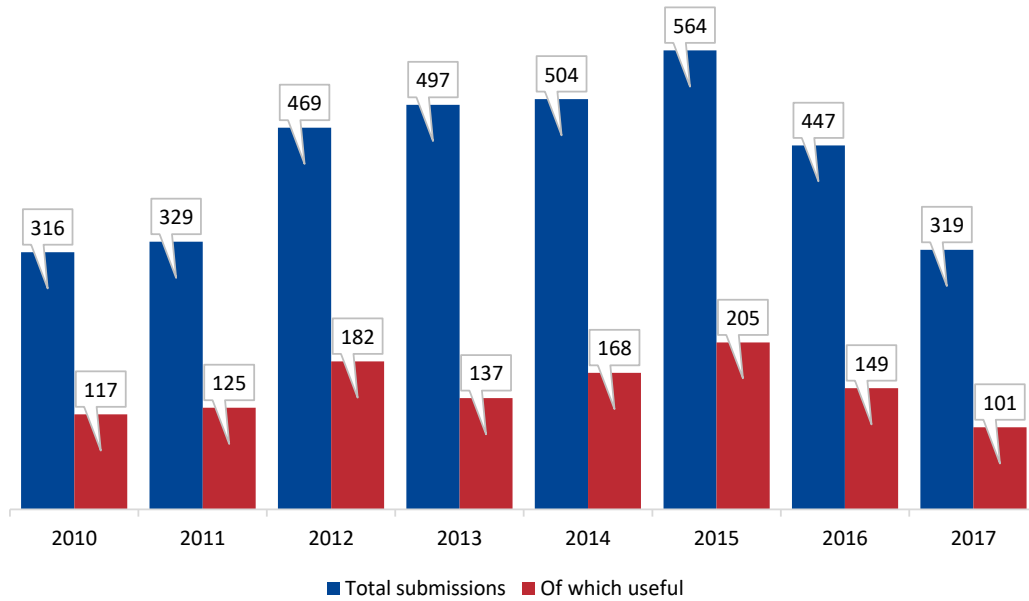
4.1 Provision of information pursuant to Act No. 106/1999 Coll., on free access to information

In 2017 the SAO received 24 written requests for information pursuant to Act No. 106/1999 Coll., on free access to information, as amended ("the Information Act"). It provided the required information in full in response to 12 requests (e.g. information on contractual relations, employees' work positions and results of audit work). In the case of two requests the SAO provided part of the requested information, rejecting part of the request on the grounds of the non-existence of the required information or protection of employees' personal data. After being asked to supplement their requests with particulars required by the Information Act and to specify the extent of the required data, two applicants cancelled their requests and the required information was subsequently provided to them in a manner not governed by the Information Act. The SAO shelved three requests in full and one request in part pursuant to Section 14 (5) (c) of the Information Act, as the required information was not linked to the SAO's competence. Two applicants requested information from the course of audits. In two of these cases the SAO issued a decision to refuse a request with reference to Section 11 (4) (d) of the Information Act, which specifies that information on the preparation, course and discussion of the results of SAO audits is not to be provided. In two cases where the applicants requested hundreds of pieces of information on the SAO's work and workforce the SAO tracked down the required information and notified the applicants of the sum to be paid for the extraordinarily extensive information search; as the sum was not paid within the legal time limit, the SAO shelved these requests in accordance with Section 17 (5) of the Information Act. In 2017 one objection was filed to issued decisions refusing the request; the SAO rejected the objection and confirmed the contested decision. No complaints were filed pursuant to Section 16a of the Information Act regarding the SAO's handling of requests for information. All the requests for information were dealt with within the legal time limits.

4.2 Citizens' submissions

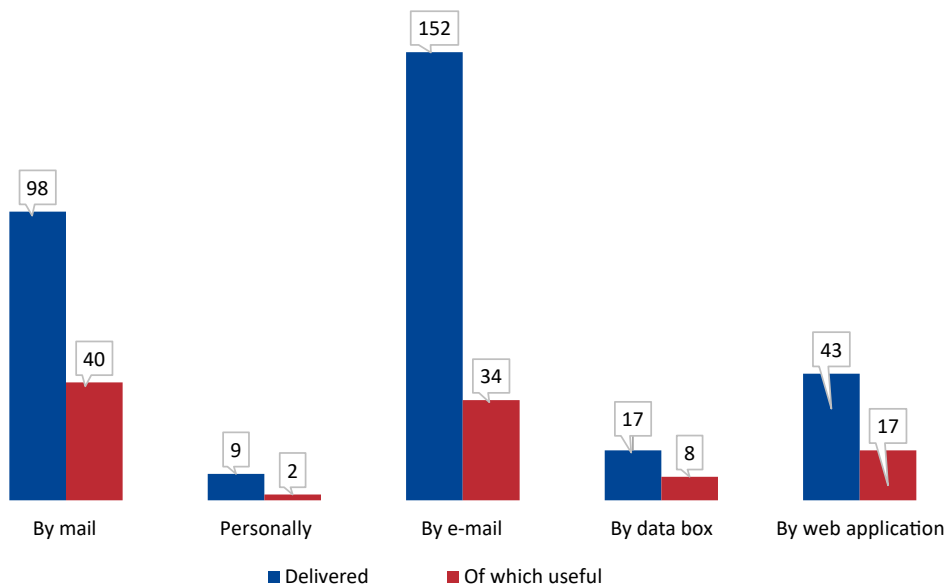
In 2017 the SAO's communication division registered 319 written submissions (suggestions, complaints, requests, enquiries etc.) from citizens and legal entities. The content structure of these submissions remains similar to previous years: they are dominated by submissions of a private-law nature in which citizens draw attention to the conduct of employers in the private sector, for example, or to the provision of various kinds of services. 62 submissions concerned the work of territorial self-governing units, with 10 of these containing information about the possible misuse of special-purpose subsidies; 52 submissions criticised the financial management of territorial self-governing units and organisations established by them, the exercise of autonomous competence and the activities of local government authorities. Submissions containing information about the financial management of state entities, the use of special-purpose subsidies from national sources and European funds, the management of state property and other areas falling within the SAO's audit competence are used as a supplementary source of information when drawing up ideas for the audit plan and in current and related audits. In 2017 the SAO received 101 such external suggestions, i.e. 32% of the total number of registered submissions.

Chart 35: Overview of the total number of submissions and their usability for audit work, 2010–2017



Most of the communication between citizens and the SAO in 2017 was again in electronic format, primarily e-mail. The number of suggestions submitted via the *Write to us* application on the SAO website increased (43 compared to 7 in 2016).

Chart 36: Breakdown of submissions in 2017 by manner of delivery and their usability



5. Management of finances allocated to the SAO budget heading

5.1 Implementation of mandatory indicators of the SAO budget heading

The approved budget of heading 381 - *The Supreme Audit Office* for 2017 was established by Act No. 457/2016 Coll., on the State Budget of the Czech Republic for 2017 and Act No. 232/2017 Coll., Amending Act No. 457/2016 Coll., on the State Budget of the Czech Republic for 2017.

Table 3: Overview of the implementation of defined mandatory indicators in 2017 (CZK thousand)

| | Approved budget | Budget after changes (BC) | Final budget (FB) | Actual | Implementation (BC) in % | Implementation (FB) in % |
|---|-----------------|---------------------------|-------------------|------------|--------------------------|--------------------------|
| Summary indicators | | | | | | |
| Total revenues | 397 | 528 | – | 1 822,24 | 344,91 | 0,00 |
| Total expenditure | 518 778 | 524 238 | 602 790 | 504 122,24 | 96,16 | 83,63 |
| Specific indicators - revenues | | | | | | |
| Total non-tax revenues, capital revenues and received transfers | 397 | 528 | – | 1 822,24 | 344,91 | – |
| In it: | | | | | | |
| • revenue from the EU budget without the common agricultural policy in total | – | 131 | – | 254,84 | 194,05 | – |
| • other non-tax receipts, capital income and total transfers received in total | 397 | 397 | – | 1 567,40 | 394,81 | – |
| Specific indicators – expenditure | | | | | | |
| Expenditure on performance of the SAO's duties | 518 778 | 524 238 | 602 790 | 504 122,24 | 96,16 | 83,63 |
| Cross-cutting indicators | | | | | | |
| Staff pay and other payments for work done | 284 667 | 288 674 | 289 110 | 285 526,70 | 98,91 | 98,76 |
| Obligatory insurance premiums paid by the employer | 96 787 | 98 149 | 98 297 | 96 592,66 | 98,41 | 98,27 |
| Transfer to the cultural and social needs fund | 5 225 | 5 305 | 5 314 | 5 312,48 | 100,14 | 99,97 |
| Salaries of employees only | 261 248 | 265 256 | 265 691 | 265 642,43 | 100,15 | 99,98 |
| Expenditure co-financed in full or in part by the European Union budget without the common agricultural policy in total | – | 263 | 263 | 262,66 | 100,00 | 100,00 |
| In it: | | | | | | |
| • from the state budget | – | 131 | 131 | 131,33 | 100,00 | 100,00 |
| • share of the EU budget | – | 131 | 131 | 131,33 | 100,00 | 100,00 |
| Expenditure held in EDS / SMVS -Programme Financing Information System in total. | 53 650 | 53 650 | 127 423 | 43 157,33 | 80,44 | 33,87 |

Revenues

Revenues amounted to CZK 1,822,240, i.e. 459 % of the approved budget.

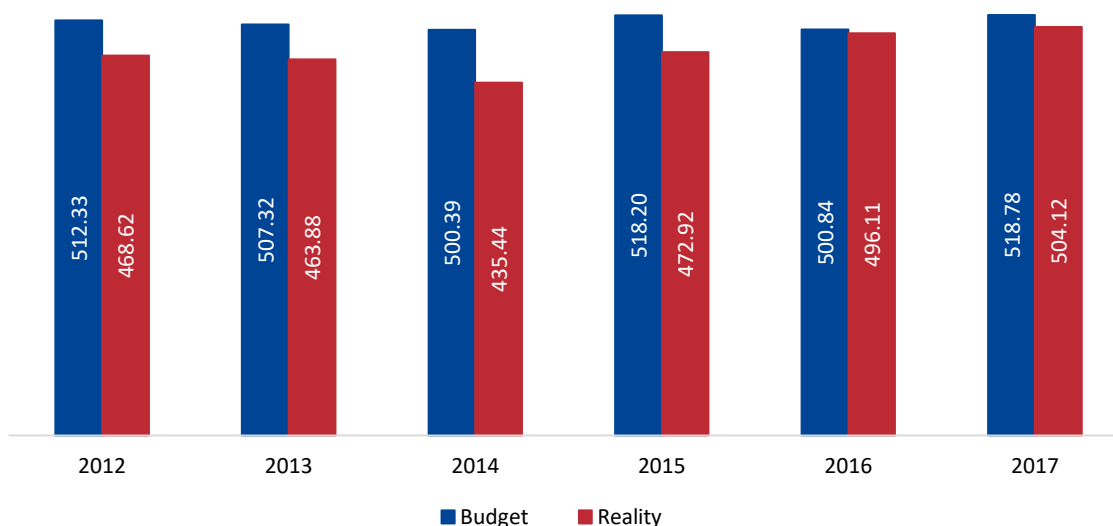
Expenditure

Total expenditure was CZK 504,122,240, i.e. 97,18 % of the approved budget. After pay tariffs were increased from 1 November 2017, the Committee on Budgetary Control of the Chamber of Deputies of the Parliament of the Czech Republic issued resolution no. 658 in October 2017 increasing expenditure by CZK 5,329,456. In connection with the receipt of support for the implementation of the project of *Building and Operating Children's Group of the SAO* under the Operational Programme *Employment*, resolution No. 26 of the Committee on Budgetary Control of the Chamber of Deputies of Parliament of the Czech Republic dated 6 December 2017 approved the budget measure, which increased both revenues and expenditures. On the expenditure side, there was an increase in the indicator of the share of the state budget in the mandatory indicator "expenditure co-financed entirely or partially by the European Union budget without a common agricultural policy in total", by CZK 131,328. The actual utilisation of budgeted expenditure after changes was CZK 524,238,480 (96,16 %). The budget involved claims from unused expenditure, the final budget thus reached CZK 602,261,230 and was drawn at 83.63%. The highest share is spent on salaries and related expenses of CZK 382,174,290. (75.81%).

In 2017, all the mandatory indicators of the SAO's budget heading were fulfilled.

Chart 37 gives an overview of expenditure in budget heading 381 – *Supreme Audit Office* from 2012 to 2017. Since 2014, the approved budget has been showing a growing trend.

Chart 37: Overview of Expenditure in Chapter 381 - Supreme Audit Office according to the approved budget and implementation of the budget for the years 2012 to 2017.



5.2 Claims from unused expenditure

As at 31 December 2017, the volume of claims from unused expenditure amounted to CZK 240,512,710. In 2017, claims worth CZK 78,551,080 were factored into the budget. As at 1 January 2018, the volume of claims from unused expenditure was reported in the amount of CZK 339,180,030.

5.3 Expenditure on asset replacement programme financing

Budget funds were spent on the implementation of Programme 18101 – *Development and Renewal of 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 43,157,330 was drawn down.

5.4 Information on external audits in the SAO

The audits listed below were performed within the SAO by external bodies in 2017:

- In July 2017, the Czech Environmental Inspectorate carried out an inspection of the Přestavlky - Skalice Wastewater Treatment Plant (WWTP) with the result that the WWTP was properly operated. No exceedances of the limit values “p” and “m” were found beyond the permit for discharges set by Government Decree No. 401/2015 Coll., on indicators and values of permissible pollution of surface water and waste water, the requirements for permits for discharge of sewage into surface waters and into sewers and sensitive areas, as amended.
- In September 2017, the Ministry of Labour and Social Affairs carried out an inspection of the Building and Operating the Child Group project of the SAO funded by the Operational Program Employment. The Protocol on the Inspection performed under the Operational Program “Employment” states that no findings were identified. None of the expenditures were identified as ineligible according to the inspection notice.
- In December 2017, the National Archives closed the inspection of the retention proceedings focused on selected documents in the 1993-2015 period. The inspection revealed deficiencies caused by human error.
- On 13 December 2017, the Trade Union of State Bodies and Organizations carried out a methodical check on the state of health and safety at work in the SAO. The check revealed minor shortcomings regarding the first aid kits. These shortcomings will be removed by the end of March 2018.

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: *“the financial statements present a true and fair view of the assets and liabilities of the Supreme Audit Office as at 31 December 2017 and its expenses, revenues, and profit/loss and receipts and payments for the year ending 31 December 2017 in*

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 organizationally separate from the management and executive structures, functionally independent and subordinate directly to the SAO President.

The annual Internal Audit Plan for 2017 was approved by the SAO President on 27 January 2016. The main materials underpinning the Audit Plan were a summary analysis of the SAO’s risks, including risks identified by internal audit, and the audit universe⁹⁴. The annual plan was also based on the medium-term Internal Audit Plan for the 2016 - 2018 period, the results of audits done in the SAO by external bodies, the results of previous internal audits, the SAO’s senior management

⁹⁴ In line with the International Professional Practice Framework, *audit universe* means a list of all possible internal audits that could be performed in the SAO.

requirements, compliance with obligations under the Financial Control Act and the Cyber security⁹⁵ and capabilities of the Internal Audit Department's capacity.

Based on the approved annual plan and one change⁹⁶ to the Internal Audit Plan for 2017, the Internal Audit Department performed a total of six audits. When compiling the programmes of individual audits and when selecting samples of operations, the SAO focused primarily on setting up management and control mechanisms, and on the state of implementation of the measures taken to address identified weaknesses in internal audits and potential risks in audited areas and their potential impacts.

The internal audits focused on:

- examination of the file service,
- functionality and effectiveness of the internal control system,
- protection of personal data,
- basic duties in the handling of property of the Czech Republic,
- occupational health and safety and fire protection system,
- observance of the relevant provisions of Act no. 181/2014 Coll., on Cyber Security and on Changing Related Acts (Cyber Security Act).

The results of audits completed in 2017 were discussed with senior employees of the audited units. The findings contributed to a more effective functioning of financial management and compliance with the law and with internal regulations, readiness to implement the General Data Protection Regulation (GDPR) and also provided information on how the selected audited systems are set up and whether they are sufficiently functional.

From the perspective of the performed internal audits, there is no indication that the SAO financial statements wouldn't give 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. The approved measures were implemented by responsible employees by 31 December 2017, which was the deadline.

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 2017 the Internal Audit Department:

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

- risk management;
- the conclusion of contracts;
- cyber security;
- property records;
- implementation of measures;
- foreign business trips;

2. organized:

- training of internal auditors;
- the Conference of Audit Committees held on 18 January 2017 at the Headquarters of the

⁹⁵ The Internal Audit Department should examine at least once a year, for example, the effectiveness of the internal control system under Section 30 (7) of Act no. 320/2001 Coll. and to carry out, in accordance with the provisions of Section 3 (1) f) Decree no. 316/2014 Coll. cyber security audit pursuant to Section 15.

⁹⁶ Due to the new staffing of the „internal auditor“.

Supreme Audit Office. This was the third meeting of representatives of main audit institutions of the Czech Republic. The purpose of the conference was to evaluate the roughly annual work of the Audit Committees that both help the company's audit bodies and provide practical assistance to auditors. During the conference, two new publications *Practical Manual for the Audit Committee* and *the Audit Committee's Activity Report* were introduced.

- a conference called *Internal Control System of the Entity*, organized on 5 October 2017 at the seat of the Supreme Audit Office. At this event organized by the Supreme Audit Office, the Czech Institute of Internal Auditors and the Chamber of Auditors of the Czech Republic, representatives of the main audit institutions of the Czech Republic met. From different perspectives, they introduced the subject of internal control and emphasized its importance for the efficient functioning of public institutions and corporations.

3. provided cooperation with the audit firm of AGIS, spol. s r.o., for the purpose of the proper audit of the SAO's annual financial statements for 2017 to the extent necessary to verify the effectiveness of the internal audit system.

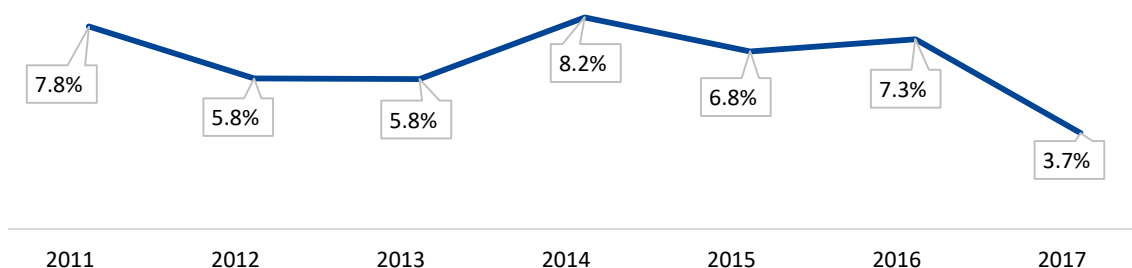
4. analyzed the results of external audits in the SAO.

On 14 February 2018, the SAO President Miloslav Kala received and signed the *Internal Audit Report for 2017*⁹⁷. 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. These findings, however, were not of such a nature as to materially affect the performance of financial management and the functionality of the set internal audit system. They are, however, an aid to improving the quality of the control environment, updating and complying with internal regulations, training of employees, protection of legitimate rights and interests of the Office.

7 SAO staffing

In 2017, the SAO had 461 employees⁹⁸, 322 of whom worked in the Audit Section, i.e. 69.85% of the total registered average number of SAO employees in 2017. 38 new employees were recruited in 2017 and a further 10 returned to work after taking parental leave. 20 employees ended their employment. The fluctuation rate in 2017 was 3.69%. Chart 38 shows how the annual employee fluctuation rate evolved in the SAO from 2011 to 2017.

Chart: 38: Development of the annual employee fluctuation rate of the SAO, 2011–2017



The converted average number of SAO employees for 2017 was 457; the converted average number of employees in the Audit Section for 2017 was 318. Chart 39 shows the converted average number of SAO employees and employees of the Prague and regional departments for the 2008 to 2017 period.

⁹⁷ File no 241/18-NKU70/40/18.

⁹⁸ Average registered workforce for 2016.

Chart 39: Development of the converted average number of SAO employees, 2008–2017

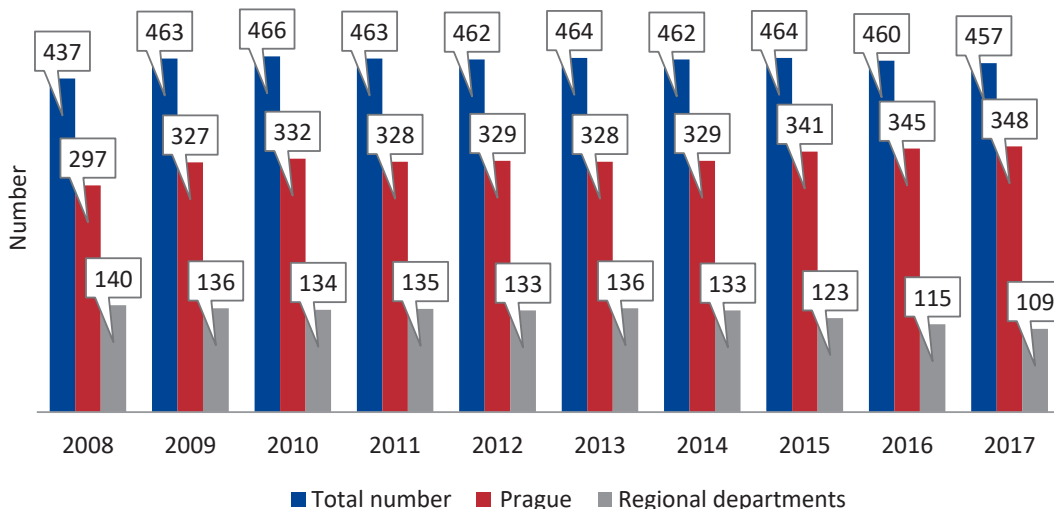
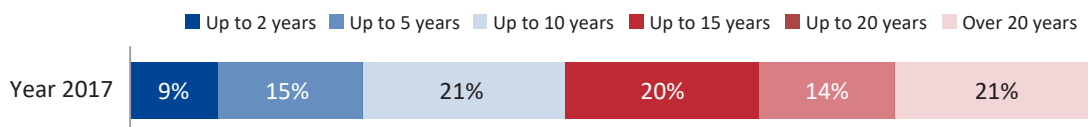


Chart 40 shows the duration of the employment relationship of the SAO as at 31 December 2017. As at that date, 9.13% of the total SAO workforce had been employed with the SAO for less than two years; 21.23% of the total number of SAO employees had passed the 20-year employment milestone.

Chart 40: Duration of the employment relationship at the SAO as at 31 December 2017 (%)



The SAO offers its employees equal working conditions and opportunities. Chart 41 shows the proportion of men and women employed at the SAO in 2017.

Chart 41: Proportion of men and women employed in the SAO in 2017 (%)

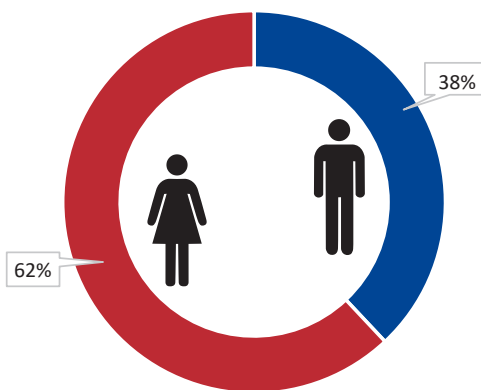
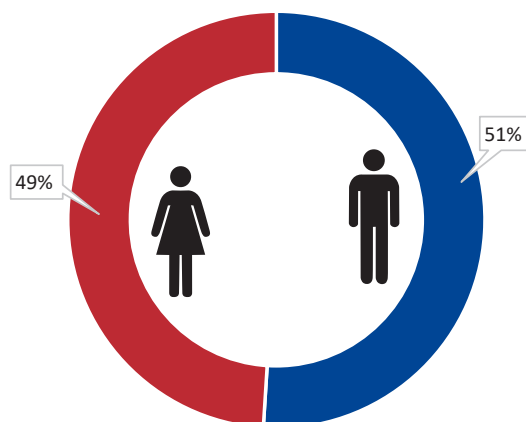


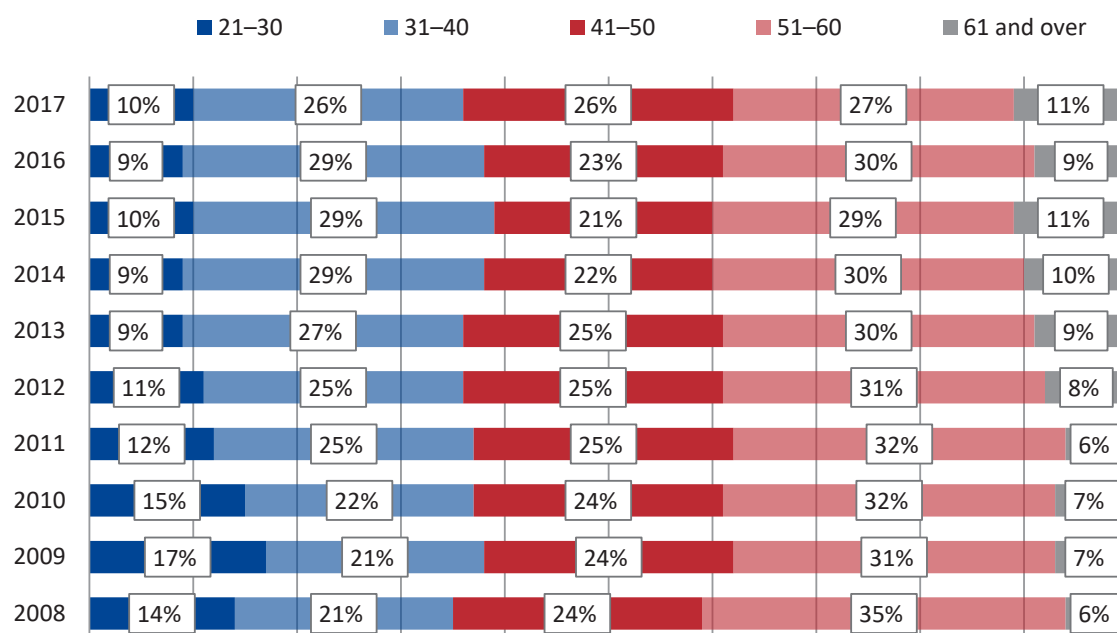
Chart 42 shows the proportion of men and women in management positions in the SAO as at 31 December 2016.

Chart 42: Proportion of men and women in management functions in the SAO, state as at 31 December 2016 (%)



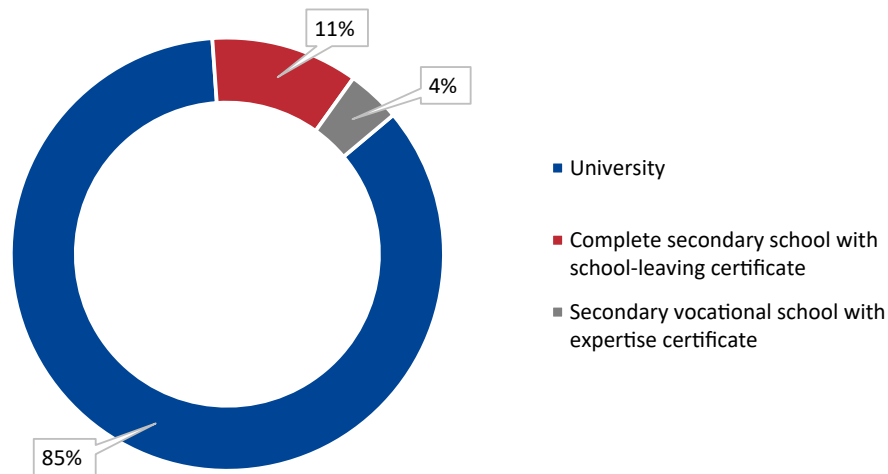
The average age of SAO employees in 2017 was 46. The age structure of the SAO workforce as at 31 December 2017, including a comparison with the years 2008–2016, is shown by Chart 43.

Chart 43: Age structure of SAO employees in the 2008–2017 period (comparison of the states at year-end)



84.63% of the SAO's workforce were university-educated as at 31 December 2017. Chart 44 presents the educational structure of SAO employees as at 31 December 2017.

Chart 44: Qualification structure of the SAO workforce by educational attainment as at 31 December 2017



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 human resources priorities at the SAO. Based on the identified development needs of 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 involving new technologies. Specialist training that improves knowledge in various areas, and above all audit work, is the priority for professional development.

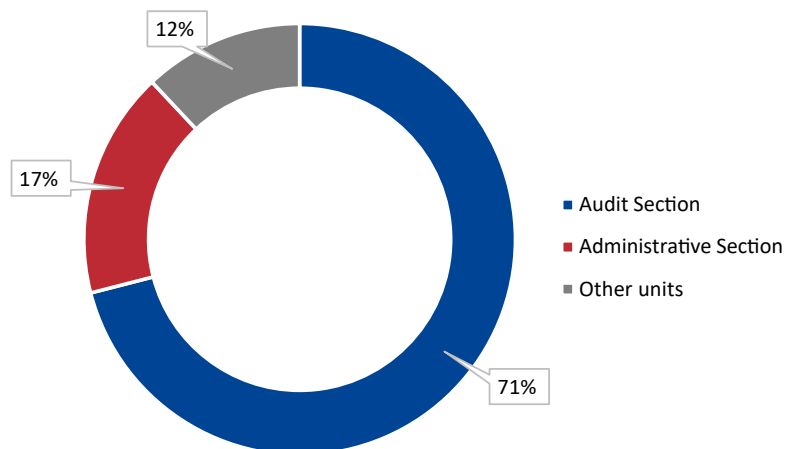
Within the framework of internal educational events, emphasis is placed on training new employees, which takes the form of seminars and lectures on initial education involving new technologies.

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.

The SAO takes care of the systematic and intensive development of employees both in professional areas and in the field of personal development and so-called soft skills, so training focused on employees’ personal growth is an integral part of internal training activities.

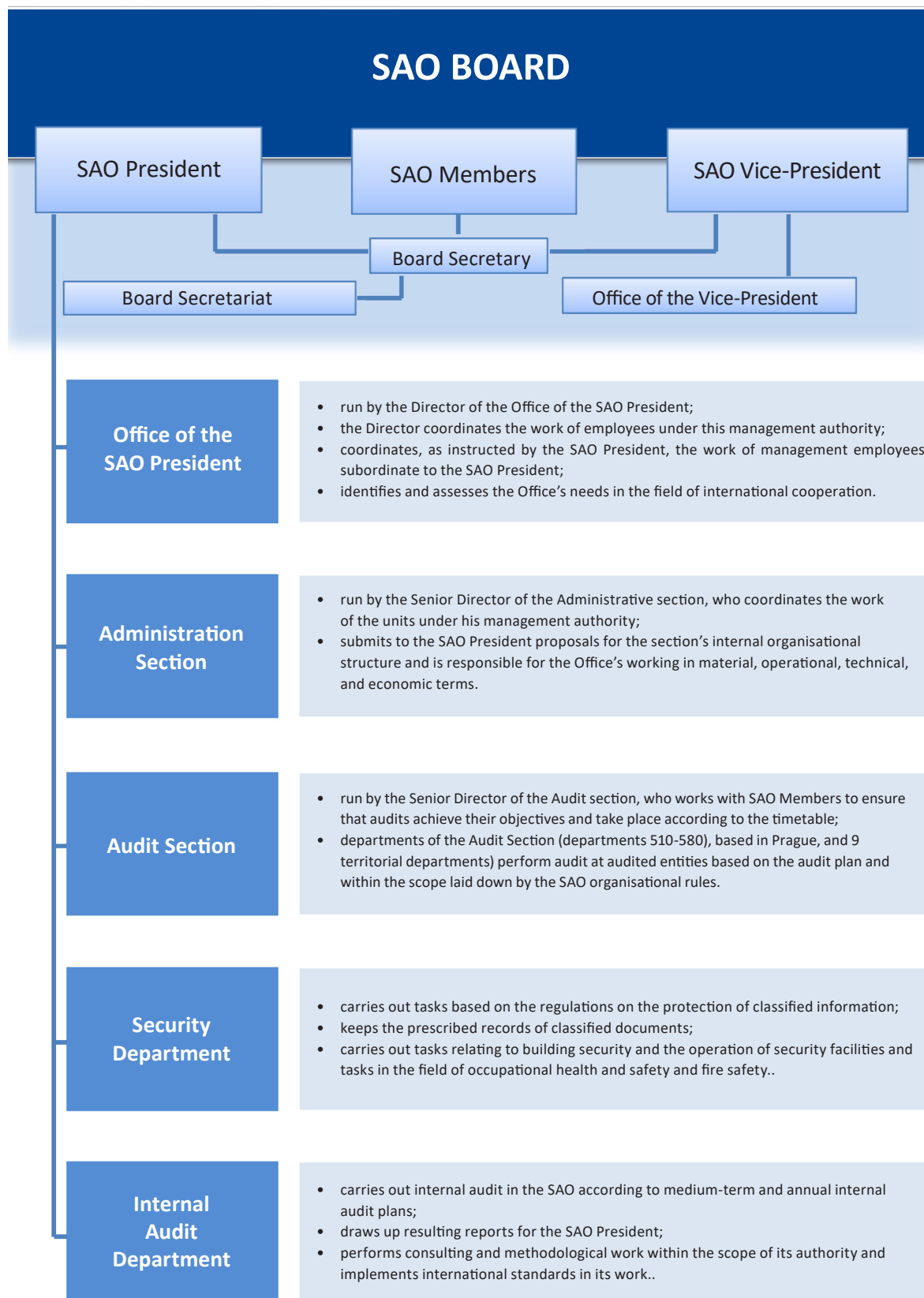
The structure of SAO employee training by unit in 2017 is shown in Chart 45.

Chart 45: SAO employee training in 2017



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).

8 Organisational structure of the SAO



CONCLUSION

In the past year the SAO focused on areas where it saw fundamental risks and room for improvement in the management of state finances and property. SAO audits completed in 2017 covered a number of areas – transport, research and education, the electrification of public administration or healthcare, tax issues and the distribution of European subsidies, for example. The SAO presented answers to the question of the state's progress across a whole range of areas on the basis of 32 completed audits, as well as opinions on the implementation of the state budget, the draft state closing account of the Czech Republic and other outputs.

The past year showed that certain fundamental systemic problems flagged up over the years by the SAO still persist. One of these problems is the complicated and costly tax system that is not only a burden on the state but on taxpayers as well. In addition, fundamental differences remain between the planned budget and the actual state of affairs as regards investment expenditure and revenues and expenditure from the European Union budget. Last but not least, in the electrification of public administration the delivered benefits do not do justice to either the effort or the money invested to date in building eGovernment.

The past year also brought a number of positives, however, with the Czech Republic achieving some progress and improvements in certain areas. The state managed government debt more efficiently; state budget revenues increased; and the budget deficit improved. The SAO registered changes for the better in the financial management of certain state institutions. The very fact that these institutions reduced spending on legal, consulting and advisory services, which the SAO repeatedly drew attention to in various contexts in the past, is positive. The reduction in the cost of motorway building should not be overlooked either. The improved competitive environment and the SAO's long-term pressure for more effective cost checking have impacted on prices.

The regular focus on current and long-term systemic shortcomings, with the emphasis on pointing out room for improvement, and international comparisons giving context to the Czech Republic's progress were some of the reasons for the positive changes. Last year the SAO submitted 63 systemic recommendations concerning the management and supervision of programmes and projects, conceptual and strategic management and other areas. Many of these recommendations have already become or will become the basis for measures adopted by the responsible departments in connection with the SAO's audit findings. Most of the adopted measures are meaningful – last year the government discussed 28 audit conclusions and instructed the audited entities to adopt 220 measures. The SAO rated more than 80% of them as fully or partially appropriate measures for tackling the identified shortcomings or recommendations.



Annex 1 to the SAO Annual Report for 2017

| Audits in the Audit Plan for 2017 | | | | | | | | |
|-----------------------------------|---|-----------------------------|--|-----------------------|--|------------------------------|--|--|
| Audit no. | Subject of audit | Start of audit (month/year) | Audit conclusion for approval (month/year) | Chapter administrator | Audit conclusion written by SAO Member | Audit conclusion approved by | | |
| 17/01 | State funds provided from the Programme of Architectural Heritage Preservation for the preservation and renewal of cultural sights. | 01/2017 | 09/2017 | MoC | Mr Neuvirt | SAO Board | | |
| 17/02 | Support of social housing as a part of the social inclusion policy | 01/2017 | 03/2018 | MoLSA, OoG | Ms Hykšová | SAO Board | | |
| 17/03 | Health information systems within the administration of organisational units of the state in the health department | 01/2017 | 12/2017 | MoH | Mr Kubiček | SAO Board | | |
| 17/04 | Rehabilitation of old ecological burdens originated before privatisation | 01/2017 | 10/2017 | MoE, MoF | Mr Málek | SAO Board | | |
| 17/05 | Construction, modernisation, and reconstruction of motorways | 01/2017 | 11/2017 | MoT | Mr Adámek | SAO Board | | |
| 17/06 | EU and state budget funds spent on forestry support | 01/2017 | 11/2017 | MoA | Mr. Kalivoda | SAO Board | | |
| 17/07 | Development and renewal of material and technical basis of the Police of the Czech Republic | 02/2017 | 11/2017 | MoI | Mr Neuvirt | SAO Board | | |
| 17/08 | Closing account of the state budget chapter Ministry for Regional Development for the year 2016, the financial statements and data for 2016 submitted for the assessment of fulfilment of the state budget 2016 | 02/2017 | 10/2017 | MoRD | Ms Steidlová | SAO Board | | |
| 17/09 | Construction-like activity carried out with a view to modernising and developing the road network in selected regions which was co-funded from EU funds and national resources | 02/2017 | 10/2017 | MoT, MoRD | Mr Málek | SAO Board | | |

| Audits in the Audit Plan for 2017 | | | | | | | | | |
|-----------------------------------|---|-----------------------------|--|----------------------------|--|------------------------------|--|--|--|
| Audit no. | Subject of audit | Start of audit (month/year) | Audit conclusion for approval (month/year) | Chapter administrator | Audit conclusion written by SAO Member | Audit conclusion approved by | | | |
| 17/10 | Purchase and operation of the system for the collection of motorway toll from the road infrastructure use in the Czech Republic | 02/2017 | 10/2017 | MoT | Mr Adámek | SAO Board | | | |
| 17/11 | Expenditures on property purchase and operation of the Czech National Bank | 02/2017 | 11/2017 | - | Mr Hrnčíř | SAO Board | | | |
| 17/12 | Value added tax administration | 04/2017 | 03/2018 | MoF | Mr Kalivoda | SAO Board | | | |
| 17/13 | Management of state property and funds allotted to the National Institute of Public Health, an organisation co-funded from the state budget | 03/2017 | 12/2017 | MoH | Ms Pýchová | SAO Board | | | |
| 17/14 | Management of state property and funds allotted to the National Institute of Mental Health, an organisation co-funded from the state budget | 04/2017 | 12/2017 | MoH | Mr Vedral | SAO Board | | | |
| 17/15 | State funds earmarked for research, development, and innovation | 04/2017 | 06/2018 | OoG, MoEYS, MoA, CAS, MoIT | Mr Neuvirt | SAO Board | | | |
| 17/16 | Programme for care of the national cultural treasures | 05/2017 | 01/2018 | MoC | Ms. Pýchová | SAO Board | | | |
| 17/17 | State funds provided for support of youth and children activities | 05/2017 | 01/2018 | MoEYS | Mr Beznoska | SAO Board | | | |
| 17/18 | Closing account of the state budget chapter Ministry of the Environment for the year 2016, the financial statements and data for 2016 submitted for the assessment of fulfilment of the state budget 2016 | 06/2017 | 02/2018 | MoE | Ms Steidlová | SAO Board | | | |
| 17/19 | Funds spent by selected hospitals on settlement of operating costs | 06/2017 | 04/2018 | MoH, MO | Mr Stárek | SAO Board | | | |



| Audits in the Audit Plan for 2017 | | | | | | | | | |
|-----------------------------------|--|---|--|-----------------------|--|------------------------------|--|--|--|
| Audit no. | Subject of audit | Start of audit (month/year) | Audit conclusion for approval (month/year) | Chapter administrator | Audit conclusion written by SAO Member | Audit conclusion approved by | | | |
| 17/20 | State property and funds allotted to the Fund of Further Education, an organisation co-funded from the state budget | 07/2017 | 04/2018 | MoLSA | Ms Pýchová | SAO Board | | | |
| 17/21 | Administration of legal persons' income tax | 09/2017 | 07/2018 | MoF | Mr Kubiček | SAO Board | | | |
| 17/22 | Implementation of projects within ICT for the Ministry of Labour and Social Affairs | 08/2017 | 05/2018 | MoLSA | Mr Vedral | SAO Board | | | |
| 17/23 | Measures to increase energy efficiency carried out within the priority axis 3 of the operational programme Enterprise and Innovation for Competitiveness 2014-2020 | 08/2017 | 05/2018 | MoIT | Mr. Neuvirt | SAO Board | | | |
| 17/24 | Public procurement within state administration and the use of centralised contracting | 08/2017 | 06/2018 | MoF, MoRD, MoI | Mr Reisiel | SAO Board | | | |
| 17/25 | Funds provided to the Czech Republic from the European Economic Area and Norway Grants | 09/2017 | 04/2018 | MoF, MoI, MoEYS | Ms Hykšová | SAO Board | | | |
| 17/26 | Funds earmarked for the measures of cooperation within the Rural Development Programme CR 2014-2020 | 09/2017 | 05/2018 | MoA | Mr Hrnčíř | SAO Board | | | |
| 17/27 | State property and funds provided for the Czech Post, state enterprise | 09/2017 | 07/2018 | MoI | Mr Kalivoda | SAO Board | | | |
| 17/28 | Financial statements of the Ministry of Finance for 2017 | The audit was removed from the Audit Plan | | | | | | | |
| 17/29 | State property and funds allotted to the operation of the Security Information Service | 10/2017 | 06/2018 | SIS | Mr Stárek | SAO Senate | | | |



| Audits in the Audit Plan for 2017 | | | | | | | |
|-----------------------------------|---|-----------------------------|--|-----------------------|--|------------------------------|--|
| Audit no. | Subject of audit | Start of audit (month/year) | Audit conclusion for approval (month/year) | Chapter administrator | Audit conclusion written by SAO Member | Audit conclusion approved by | |
| 17/30 | Closing account of the state budget chapter Ministry of Defence for the year 2017, the financial statements and data for 2017 submitted for the assessment of fulfilment of the state budget 2017 | 10/2017 | 06/2018 | MoD | Mr Vedral | SAO Board | |
| 17/31 | Closing account of the state budget chapter Ministry of Agriculture for the year 2017, the financial statements and data for 2017 submitted for the assessment of fulfilment of the state budget 2017 | 10/2017 | 06/2018 | MoA | Ms Steidlová | SAO Board | |
| 17/32 | Management of state property and funds allotted to the Ministry of Transport and its selected organisational units of the state | 10/2017 | 07/2018 | MoT | Mr Adámek | SAO Board | |
| 17/33 | Assurance of security for railroad operations and passengers | 11/2017 | 08/2018 | MoT | Mr Adámek | SAO Board | |
| 17/34 | State guarantees and their implementation from the state budget | 11/2017 | 09/2018 | MoF | Mr Reisiegel | SAO Board | |
| 17/35 | Acquisition and restoration of rail track vehicles | 11/2017 | 07/2018 | MoT | Mr Málek | SAO Board | |
| 17/36 | Accounting reform in the public funds sector | 9/2017 | 06/2018 | MoF, CSO | Mr Málek | SAO Board | |



Annex 2 to the SAO Annual Report for 2017

| Overview of audits with approved Audit Conclusion during 2017 | | | | | | | |
|---|---|-----------------------|--|------------------------------|------------------|----------------------------|--|
| Audit no. | Subject of audit | Chapter administrator | Audit conclusion written by SAO Member | Audit conclusion approved by | Date of Approval | Issued in SAO Bulletin no. | |
| 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 | MoF | Mr Reisiegel | SAO Board | 3 April 2017 | 3/2017 | |
| 16/09 | Claims for unused expenditures reported by organisational units of state | MoT, MoRD, MoH, MoA | Ms Pýchová | SAO Board | 16 January 2017 | 3/2017 | |
| 16/12 | Arrangements of unified methodological environment for drawdown of EU subsidy in the programming period 2014+ | MoRD | Mr Vedral | SAO Board | 15 May 2017 | 4/2017 | |
| 16/13 | Funds spent on development of education in the Czech Republic | MoEYS | Mr Stárek | SAO Board | 20 March 2017 | 3/2017 | |
| 16/14 | EU and state budget funds earmarked for support of local development within the Leader initiative via the Rural Development Programme | MoA | Mr Hrnčíř | SAO Board | 13 February 2017 | 3/2017 | |
| 16/15 | Management of state property and funds allotted to the National Theatre, an organisation co-funded from the state budget | MoC | Ms Pýchová | SAO Board | 13 February 2017 | 3/2017 | |
| 16/16 | Funds earmarked for the interoperability on the current railways | MoT | Mr Adámek | SAO Board | 13 February 2017 | 3/2017 | |
| 16/17 | Accounting of the Ministry of Foreign Affairs | MoFA | Mr Reisiegel | SAO Board | 27 February 2017 | 3/2017 | |

| Overview of audits with approved Audit Conclusion during 2017 | | | | | | | | |
|---|--|-----------------------|--|------------------------------|------------------|----------------------------|--|--|
| Audit no. | Subject of audit | Chapter administrator | Audit conclusion written by SAO Member | Audit conclusion approved by | Date of Approval | Issued in SAO Bulletin no. | | |
| 16/18 | Management of state property and funds allotted to the State Institute for Drug Control | MoH | Ms Pýchová | SAO Board | 3 April 2017 | 3/2017 | | |
| 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 | GA CR | Mr Neuvirt | SAO Board | 20 March 2017 | 3/2017 | | |
| 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 | MoEYS | Mr Stárek | SAO Board | 25 April 2017 | 3/2017 | | |
| 16/21 | Income tax administration and the impacts of legislative amendments on the state budget revenues | MoF | Mr Kubiček | SAO Board | 7 August 2017 | 4/2017 | | |
| 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 | MoT | Mr Adámek | SAO Board | 25 April 2017 | 3/2017 | | |
| 16/23 | Funds earmarked for implementation of measures related to waste management | MoE | Mr Hrnčíř | SAO Board | 25 April 2017 | 3/2017 | | |
| 16/24 | Management of state property and funds allotted to the National Security Authority | NSA | Mr Vedral | SAO Board | 15 May 2017 | 4/2017 | | |
| 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 | MoIT | Ms Steidlová | SAO Board | 26 June 2017 | 4/2017 | | |



| Overview of audits with approved Audit Conclusion during 2017 | | | | | | | |
|---|---|-----------------------|--|------------------------------|-------------------|----------------------------|--|
| Audit no. | Subject of audit | Chapter administrator | Audit conclusion written by SAO Member | Audit conclusion approved by | Date of Approval | Issued in SAO Bulletin no. | |
| 16/26 | Expenditures on operations and use of immovable assets including expenditures on ICT support related to administration, operation and maintenance of immovable assets | MoF, MoI | Mr Kubiček | SAO Board | 23 October 2017 | 6/2017 | |
| 16/27 | Funds spent on settlement of operating costs by selected administrators of state budget chapters | SONS, OPDP, IPO | Mr Vedral | SAO Board | 26 June 2017 | 4/2017 | |
| 16/28 | Funds spent by selected hospitals on settlement of operating costs | MoH | Mr Kaliivoda | SAO Board | 23 October 2017 | 6/2017 | |
| 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 | MoLSA | Mr Vedral | SAO Board | 18 September 2017 | 6/2017 | |
| 16/30 | State treasury funds and management of state treasury liquidity | MoF | Mr Reisiegel | SAO Board | 28 August 2017 | 4/2017 | |
| 16/31 | Development and renewal of material and technical basis of state universities | MoEYS | Mr Málek | SAO Board | 24 July 2017 | 4/2017 | |
| 16/32 | EU and state budget funds earmarked for the support of cooperation development between municipalities and local partnership | MoLSA, MoI | Ms Hykšová | SAO Board | 23 October 2017 | 6/2017 | |
| 17/01 | State funds provided from the Programme of Architectural Heritage for the preservation and renewal of cultural sights. | MoC | Mr Neuvirt | SAO Board | 18 September 2017 | 6/2017 | |



| Overview of audits with approved Audit Conclusion during 2017 | | | | | | | |
|---|---|-----------------------|--|------------------------------|------------------|----------------------------|--|
| Audit no. | Subject of audit | Chapter administrator | Audit conclusion written by SAO Member | Audit conclusion approved by | Date of Approval | Issued in SAO Bulletin no. | |
| 17/03 | Health information systems within the administration of organisational units of the state in the health department | MoH | Mr Kubiček | SAO Board | 11 December 2017 | 1/2018 | |
| 17/04 | Rehabilitation of old ecological burdens originated before privatisation | MoE, MoF | Mr Málek | SAO Board | 23 October 2017 | 6/2017 | |
| 17/05 | Construction, modernisation, and reconstruction of motorways | MoT | Mr Adámek | SAO Board | 27 November 2017 | 1/2018 | |
| 17/06 | EU and state budget funds spent on forestry support | MoA | Mr Kaliivoda | SAO Board | 27 November 2017 | 1/2018 | |
| 17/07 | Development and renewal of material and technical basis of the Police of the Czech Republic | Moi | Mr Neuvirt | SAO Board | 13 November 2017 | 6/2017 | |
| 17/08 | Closing account of the state budget chapter Ministry for Regional Development for the year 2016, the financial statements and data for 2016 submitted for the assessment of fulfilment of the state budget 2016 | MoRD | Ms Steidlová | SAO Board | 13 November 2017 | 1/2018 | |
| 17/10 | Purchase and operation of the system for the collection of motorway toll from the road infrastructure use in the Czech Republic | MoT | Mr Adámek | SAO Board | 13 November 2017 | 1/2018 | |
| 17/11 | Expenditures on property purchase and operation of the Czech National Bank | - | Mr Hrnčíř | SAO Board | 27 November 2017 | 6/2017 | |



Annex 3 to the SAO Annual Report for 2017

| Overview of audits whose approved audit conclusions were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2017 | | | | | | |
|---|--------------|-------------|------------------|---------------------|-----------------------|--|
| Committee resolution | Session date | Session no. | Audit conclusion | Government material | Government resolution | Summary of the Committee's resolution |
| 285 | 31 May 2017 | 47 | 14/25 | 1354/15 1063/16 | 154/16 | <p>The Committee I. notes:</p> <p>a) audit conclusion 14/25</p> <p>b) the MoF's opinion on audit conclusion 14/25 as contained in Section III of government material no. 1354/15;</p> <p>c) government resolution no. 154/16;</p> <p>d) the MoF's information on the state of implementation of measures adopted to eliminate the shortcomings referred to in audit conclusion 14/25, as contained in Section II of government material no. 1063/16;</p> <p>II. requests the finance minister to submit to the Committee answers to the questions raised in the debate by 15.6.2017.</p> |
| 284 | 31 May 2017 | 47 | 15/10 | 853/16 488/17 | 987/16 | <p>The Committee I. notes:</p> <p>a) audit conclusion 15/10;</p> <p>b) the MoRD's opinion on audit conclusion 15/10, as contained in Section III of government material no. 853/16;</p> <p>c) government resolution no. 987/16;</p> <p>d) the information on the implementation of government resolution no. 987/16 regarding audit conclusion 15/10, as contained in Section II of government material no. 488/17;</p> <p>II. requests the regional development minister to submit to the Committee a calculation of savings and a quantification of savings for 2016 by 30.6.2017.</p> |
| 283 | 31 May 2017 | 47 | 13/24 | 771/14 344/15 | 1021/14 | <p>The Committee notes:</p> <p>a) audit conclusion 13/24;</p> <p>b) the MoRD's opinion on audit conclusion 13/24, as contained in Section III of government material no. 771/14;</p> <p>c) government resolution no. 1021/14;</p> <p>d) the information on the implementation of government resolution no. 1021/14 regarding audit conclusion 13/24, as contained in Section II of government material no. 344/15.</p> |



| Overview of audits whose approved audit conclusions were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2017 | | | | | | |
|---|---------------|-------------|------------------|---------------------|-----------------------|---|
| Committee resolution | Session date | Session no. | Audit conclusion | Government material | Government resolution | Summary of the Committee's resolution |
| 282 | 31 May 2017 | 47 | 15/08 | 365/16 | 297/16 | The Committee notes: a) audit conclusion 15/08; b) the MoI's opinion on audit conclusion 15/08, as contained in Section IV of government material no. 365/16; c) government resolution no. 297/16. |
| 276 | 30 May 2017 | 47 | 15/24 | 1100/16 | 985/16 | The Committee notes: a) audit conclusion 15/24; b) the MoI's opinion on audit conclusion 15/24, as contained in Section III of government material no. 1100/16; c) government resolution no. 985/16. |
| 275 | 30 May 2017 | 47 | 15/11 | 446/16 | 440/16 | The Committee notes: a) audit conclusion 15/11; b) the MoFA's and Czech Development Agency's opinion on audit conclusion 15/11, as contained in Section IV of government material no. 446/16; c) government resolution no. 440/16. |
| 264 | 20 April 2017 | 46 | 14/10 | 1131/16 1714/16 | 991/16 | The Committee notes: a) audit conclusion 14/10; b) the MoC's opinion on audit conclusion 14/10, as contained in Section IV of government material no. 1131/16; c) government resolution no. 991/16; d) the MoC's information on the state of implementation of measures adopted to eliminate the shortcomings set out in audit conclusion 14/10, as contained in Section II of government material no. 1714/16. |

| Overview of audits whose approved audit conclusions were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2017 | | | | | | |
|---|---------------|-------------|------------------|---------------------|-----------------------|--|
| Committee resolution | Session date | Session no. | Audit conclusion | Government material | Government resolution | Summary of the Committee's resolution |
| 263 | 20 April 2017 | 46 | 14/01 | 1455/14 663/15 | 74/15 | <p>The Committee I. notes:</p> <ul style="list-style-type: none"> a) audit conclusion 14/01; b) the MoC's opinion on audit conclusion 14/01, as contained in Section IV of government material no. 1455/14; c) government resolution no. 74/15; d) the MoC's information on the state of implementation of measures adopted to eliminate the shortcomings referred to in audit conclusion 14/01, as contained in Section II of government material no. 663/15. <p>II. requests the culture minister to submit to the Committee the result of internal audit of the manner in which property is transferred from the MoC to the State Cinematography Fund by 2.5.2017.</p> |
| 251 | 9 March 2017 | 43 | 14/41 | 1459/15 | 299/16 | <p>The Committee I. notes:</p> <ul style="list-style-type: none"> a) audit conclusion 14/41; b) the MoD's opinion on audit conclusion 14/41, as contained in Section IV of government material no. 1459/15; c) government resolution no. 299/16. <p>II. states that:</p> <ul style="list-style-type: none"> a) the MoD implemented the SAO's recommendations arising from audit conclusion 14/41 in a way ensuring that this extremely important facility carried out the following tasks in particular: <ul style="list-style-type: none"> - quarantine of persons, isolation and treatment of patients with highly contagious diseases or suspicions thereof in accordance with the law on the provision of healthcare services; - the fight against biological weapons at a time of extraordinary events or crisis situations; - solutions benefitting the integrated rescue system during peace time (migration, bio-terrorism); - biological defence research; - training and research bases of the military medical service of the Army of the Czech Republic; b) the MoD is taking the measures necessary to implement the SAO's recommendations regarding the completion of the construction of a Biological Protection Centre; <p>III. requests the Czech government to:</p> <ul style="list-style-type: none"> a) instruct the defence minister and health minister to continue to integrate the Biological Protection Centre into the system for protecting the Czech population in the event of highly contagious diseases; b) instruct the defence minister to complete the construction of the Biological Protection Centre by the end of 2022 at the latest. |

| Overview of audits whose approved audit conclusions were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2017 | | | | | | |
|---|--------------|-------------|------------------|---------------------|-----------------------|--|
| Committee resolution | Session date | Session no. | Audit conclusion | Government material | Government resolution | Summary of the Committee's resolution |
| 249 | 9 March 2017 | 43 | 14/10 | - | - | The Committee I. adjourns the discussion of the audit conclusion; II. requests the culture minister pursuant to 39 (2) of Act No. 90/1995 Coll., on the rules of business of the Chamber of Deputies of Parliament of the CR, to attend in person the Committee's session to discuss audit conclusion 14/10. |
| 248 | 9 March 2017 | 43 | 14/01 | - | - | The Committee I. adjourns the discussion; II. requests the culture minister to submit to the Committee written answers to unanswered questions arising out of the discussion at the 41st session of the Committee on 15.12.2016 (see Committee resolution no. 232); II. requests the culture minister pursuant to 39 (2) of Act No. 90/1995 Coll., on the rules of business of the Chamber of Deputies of Parliament of the CR, to attend in person the Committee's session to discuss audit conclusion 14/01. |
| 241 | 26 Jan. 2017 | 42 | 14/20 | 963/15 | 996/15 | The Committee I. notes: a) audit conclusion 14/20; b) the MoI's and MoF's opinion on audit conclusion 14/20, as contained in Section IV of government material no. 963/15; c) government resolution no. 996/15. II. requests the finance minister to submit to the Committee the documents underpinning the finance minister's decision to establish the state firm State Treasury Shared Services Centre by 28.2.2017. |
| 240 | 26 Jan. 2017 | 42 | 15/23 | 1123/16 | 984/16 | The Committee I. notes: a) audit conclusion 15/23; b) the MoT's opinion on audit conclusion 15/23, as contained in Section IV of government material no. 1123/16; c) government resolution no. 984/16. II. requests the transport minister to submit to the Committee a report on the result and course of the tender for a vehicles register by 30.6.2017. |
| 239 | 26 Jan. 2017 | 42 | 15/21 | 884/16 | 989/16 | The Committee I. notes: a) audit conclusion 15/21; b) the MoF's and MoIT's opinion on audit conclusion 15/21, as contained in Section III of government material no. 884/16; c) government resolution no. 989/16. II. recommends that the MoF and MoIT swiftly finalise the Concept of the Territory Ownership Solution and its subsequent use. |



Annex 4 to the SAO annual report for 2017

| Overview of audits whose approved audit conclusions were discussed by the Czech government in 2017 | | | | | | | |
|--|--------------|---------------------------------|-----------|-------------------------------------|--|--|--|
| Government resolution no. | Session date | Ref. no. of government material | Audit no. | Audited entity informed of measures | Measures imposed by the government | | |
| 793/17 | 6 Nov. 2017 | 588/17 | 16/15 | yes | The government instructs the culture minister to see to the implementation of the National Theatre's measures adopted to eliminate the identified shortcomings and prevent them being repeated, as contained in Section IV of material no. 588/17, and to inform the government about their implementation by 28.2.2018. | | |
| 792/17 | 6 Nov. 2017 | 544/17 | 16/14 | no | The government instructs the agriculture minister and the director of the State Agricultural Intervention Fund to implement the measures referred to in the opinion on the audit conclusion, as contained in Section III of material no. 544/17, and to inform the government of their implementation by 30.6.2018. | | |
| 791/17 | 6 Nov. 2017 | 523/17 | 16/17 | no | The government instructs the foreign affairs minister to implement measures regarding the SAO's findings from the audit conclusion, as contained in Section III of material no. 523/17, for the 2018 financial year at the latest and to inform the government about their implementation by 30.6.2019 at the latest. | | |
| 790/17 | 6 Nov. 2017 | 912/17 | 16/18 | no | The government instructs the health minister to implement the measures referred to in the opinion on the audit conclusion, as contained in Section IV of material no. 912/17. | | |
| 789/17 | 6 Nov. 2017 | 1060/17 | 16/12 | no | no instructions | | |
| 788/17 | 6 Nov. 2017 | 850/17 | 16/23 | no | The government instructs the 1 st deputy prime minister and environment minister to implement the measures referred to in the opinion on the audit conclusion, as contained in Section III of material no. 850/17, and to inform the government of their implementation by 30.9.2018. | | |
| 787/17 | 6 Nov. 2017 | 844/17 | 16/22 | no | The government instructs the transport minister to execute the measures referred to in the opinion on the audit conclusion, as contained in Section IV of material no. 844/17. | | |
| 786/17 | 6 Nov. 2017 | 577/17 | 16/16 | no | The government instructs the transport minister to implement the measures referred to in the opinion on the audit conclusion, as contained in Section IV of material no. 577/17. | | |

| Overview of audits whose approved audit conclusions were discussed by the Czech government in 2017 | | | | | | | |
|--|--------------|---------------------------------|-----------|-------------------------------------|---|--|--|
| Government resolution no. | Session date | Ref. no. of government material | Audit no. | Audited entity informed of measures | Measures imposed by the government | | |
| 785/17 | 6 Nov. 2017 | 1161/17 | 16/20 | no | The government instructs the education, youth and sports minister to implement the measures referred to in the opinion on the audit conclusion, as contained in Section III of material no. 1161/17, and to inform the government of their implementation by 31.12.2018. | | |
| 784/17 | 6 Nov. 2017 | 875/17 | 16/13 | no | The government instructs the education, youth and sports minister to implement the measures referred to in the opinion on the audit conclusion, as contained in Section III of material no. 875/17, and to inform the government of their implementation by 31.12.2018. | | |
| 783/17 | 6 Nov. 2017 | 729/17 | 16/03 | no | The government instructs the finance minister to implement the measures referred to in the opinion on the audit conclusion, as contained in Section III of material no. 729/17, and to inform the government of their implementation by 30.6.2018. | | |
| 782/17 | 6 Nov. 2017 | 567/17 | 15/33 | no | The government instructs the finance minister to implement the measures referred to in the opinion on the audit conclusion, as contained in Section III of material no. 567/17, and to inform the government of their implementation by 28.2.2018. | | |
| 781/17 | 6 Nov. 2017 | 545/17 | 16/09 | no | The government instructs the finance minister, the regional development minister and the agriculture minister to implement the measures referred to in the opinions on the audit conclusion, as contained in Section III of material no. 545/17, and to inform the government about their implementation by 31.12.2017. | | |
| 780/17 | 6 Nov. 2017 | 791/17 | 16/19 | no | The government instructs: 1. the President of the Czech Science Foundation to assess the measures referred to in the opinions on the audit conclusion, as contained in Section III of material no. 791/17; 2. the deputy prime minister for science, research and innovation to inform the government about the implementation of these measures by 31.12.2018. | | |
| 779/17 | 6 Nov. 2017 | 935/17 | 16/24 | yes | The government instructs the director of the National Security Authority to implement the measures contained in the opinion on the audit conclusion, as contained in Section IV of material no. 935/17. | | |
| 466/17 | 21 June 2017 | 416/17 | 16/11 | no | The government instructs the labour and social affairs minister to implement measures to remedy and eliminate the shortcomings referred to in the audit conclusion and in the opinion on the audit conclusion, as contained in Section IV of material no. 416/17. | | |



| Overview of audits whose approved audit conclusions were discussed by the Czech government in 2017 | | | | | | | |
|--|---------------|---------------------------------|-----------|-------------------------------------|--|--|--|
| Government resolution no. | Session date | Ref. no. of government material | Audit no. | Audited entity informed of measures | Measures imposed by the government | | |
| 465/17 | 21 June 2017 | 403/17 | 16/06 | no | The government instructs the transport minister to implement the measures referred to in the opinion on the audit conclusion, as contained in Section IV of material no. 403/17. | | |
| 464/17 | 21 June 2017 | 316/17 | 16/10 | no | The government instructs the 1 st deputy prime minister and the environment minister: 1. to implement the measures referred to in the opinion on the audit conclusion, as contained in Section III of material no. 316/17; 2. to inform the government about progress in implementing these measures by 30.6.2018. | | |
| 463/17 | 21 June 2017 | 454/17 | 16/01 | no | The government instructs the industry and trade minister to ensure that the shortcomings identified in the audit conclusion concerning the completed OP Enterprise and Innovation are not repeated and are entirely eliminated while complying with the applicable regulations in the implementation procedures put in place for the current OP Enterprise and Innovation for Competitiveness 2014 - 2020. | | |
| 462/17 | 21 June 2017 | 195/17 | 16/07 | no | no instructions | | |
| 237/17 | 29 March 2017 | 267/17 | 16/08 | yes | The government instructs the justice minister to inform the government by 30.9.2017 about the implementation of the measures referred to in the opinion on the audit conclusion, as contained in Section IV of material no. 267/17. | | |
| 236/17 | 29 March 2017 | 201/17 | 16/04 | no | The government instructs the health minister: 1. to see to the implementation of the measures referred to in the opinion on the audit conclusion, as contained in Section V of material no. 201/17; 2. to submit to the government by 31.1.2018 a report on the implementation of these corrective measures. | | |
| 235/17 | 29 March 2017 | 238/17 | 16/05 | no | The government instructs the defence minister to implement measures to eliminate the shortcomings referred to in the opinion on the audit conclusion, as contained in Section IV of material no. 238/17, to evaluate the implementation of the measures and to acquaint the government with the result of this evaluation by 31. 3. 2018. | | |
| 234/17 | 29 March 2017 | 1706/16 | 15/38 | no | The government instructs the defence minister to implement measures to eliminate the shortcomings referred to in the opinion on the audit conclusion, as contained in Section IV of material no. 1706/16, to evaluate the implementation of the measures and to acquaint the government with the result of this evaluation by 30. 9. 2017. | | |



| Overview of audits whose approved audit conclusions were discussed by the Czech government in 2017 | | | | | | |
|--|---------------|---------------------------------|-----------|-------------------------------------|---|--|
| Government resolution no. | Session date | Ref. no. of government material | Audit no. | Audited entity informed of measures | Measures imposed by the government | |
| 233/17 | 29 March 2017 | 1594/16 | 15/34 | no | The government instructs the defence minister, the agriculture minister and the labour and social affairs minister to implement measures to eliminate the shortcomings referred to in the opinions on the audit conclusion, as contained in Sections IV and VI of material no. 1594/16. | |
| 232/17 | 29 March 2017 | 293/17 | 16/02 | no | The government instructs the interior minister to implement the measures referred to in the opinion on the audit conclusion, as contained in Section IV of material no. 293/17, and to inform the government about their implementation by 31.1.2018. | |
| 231/17 | 29 March 2017 | 1681/16 | 15/36 | no | no instructions | |
| 230/17 | 29 March 2017 | 230/17 | 15/31 | no | <p>The government instructs the 1st deputy prime minister for economics and the minister of finance:</p> <ol style="list-style-type: none"> 1. to implement the measures referred to in the opinion on the audit conclusion, as contained in Section III of material no. 230/17; 2. to implement the recommendations arising out of the audit conclusion; specifically: <ol style="list-style-type: none"> a) to initiate changes to the legislation that would make it possible to enforce the obligation of programme administrators to record in the Subsidies Records System/Administration of State-owned Property IS all finances relating to programme financing and to enforce the obligation of subsidy providers to pass on in good time accurate and complete information on provided subsidies from the state budget of the CR for the purposes of the MoF, the General Financial Directorate and the public; b) to re-assess the existing programme approval process so that programme administrators are made unequivocally responsible for achieving and assessing the efficiency and effectiveness of spending; 3. to inform the government by 28.2.2018 about the performance of the tasks set out above. | |



List of acronyms

| | |
|-----------------|---|
| BIEP | Benchmarking Information Exchange Project |
| CA CR | Customs Administration of the CR |
| CDEP | Central Depository of Electronic Prescriptions |
| CLLD | Community-led local development |
| CR | Czech Republic |
| CRAB | Central Register of Administrative Buildings |
| CSI | Czech Schools Inspectorate |
| CSO | Czech Statistical Office |
| CSSA | Czech Social Security Administration |
| DESI | Digital economy and society index |
| EDA | European Defence Agency |
| EIA | Environmental Impact Assessment |
| ERC | European Research Council |
| ESA | European Space Agency |
| FA CR | Financial Administration of the CR |
| EDS/SMVS | Information system of programmed financing |
| ESIF | European Structural and Investment Funds |
| ETCS | European Train Control System |
| ETS | Electronic toll system |
| EU | European Union |
| GA CR | Grant Agency of the Czech Republic |
| GCI | Global Competitiveness Index |
| GDC | General Directorate of Customs |
| GDP | Gross Domestic Product |
| GSM-R | Global System for Mobile Communications – Railway |
| GPI | Global Peace Index 2017 |
| ICT | Information and communication technology |
| IPO | Industrial Property Office |
| IS | Information system |
| ISTR | Institute for the Study of Totalitarian Regimes |
| ITIS | Integrated Treasury Information System |
| LAGs | Local Action Groups |
| 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 |

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|-----------------|--|
| 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 |
| NEC | National Educational Council |
| NPWP | negotiated procedure without publication |
| NSA | National Security Authority |
| OECD | Organisation for Economic Co-operation and Development |
| OP | Operational programme |
| OPDP | Office for Personal Data Protection |
| PISA | Programme for International Student Assessment |
| PP 2007+ | 2007–2013 Programming Period |
| PP 2014+ | 2014–2020 Programming Period |
| RDP | Rural Development Programme |
| RMD | Roads and Motorways Directorate of the CR |
| RTA | Rail Track Administration |
| SAO | Supreme Audit Office |
| SME | Single methodological environment |
| SONS | State Office for Nuclear Safety |
| UN | United Nations |
| VAT | Value added tax |
| WGEA | Working Group on Environmental Audit |
| WGFACML | Working Group on the Fight Against Corruption and Money Laundering |



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