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## Foreword of the Vice-President of the SAO

Dear readers,

The year 2012 was not simple for the SAO. The annual report which you hold in your hands is our message about the way we dealt with our main mission, i.e. the audit of state assets and financial resources, in terms of compliance with legal provisions and more importantly in terms of economical, efficient and effective management of these resources and assets.

Yes, in terms of efficiency... In the past year, the amendment of the Supreme Audit Office Act No. 166/1993 Coll. came into force, which stipulates that the audit of efficiency is to be also carried out by the SAO and eventually enables us a complex use and greater extent of performance audit in our audit work.

Apart from that, we acquired an access to data from information systems of public administration. This is an invaluable source of information to us which provides us with analytical tools mainly in the audit planning phase of the SAO.

In this respect, we developed a model *Risk Detection of uneconomical conduct* focusing on public procurement. It is able to calculate a ratio of risk for a particular public procurement from the information system of public procurement. It is one of valuable leads to us which assist in focusing our attention and making our efforts more efficient. In the following period, we will also elaborate on our risk assessment work in other areas.

An exceptional attention was paid to the preparation of the Audit Plan for 2013. It was our intention to aim at the most risky areas and to objectively report to the Parliament and public on our government's management of allotted assets and financial resources, and to provide reliable data for the decision making process of responsible entities.

The Supreme Audit Office shall not only carry out audits, but it shall also lead by example. Our management resulted in savings. We decreased mainly operational costs – with regard to services, utilities or material. Further room for substantial decrease of costs is related to the issue of finding a new SAO headquarters. I am convinced that the effort put into this matter in 2012 shall be rewarded in the near future.

The International Organisation of Supreme Audit Institutions (INTOSAI) achieved an exceptional appraisal for the adoption of UN General Assembly Resolution A/66/209 "Promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening Supreme Audit Institutions". The involvement of the SAO in the international field is also an important activity of the SAO.

The annual report of the SAO for the year 2012 includes all important SAO achievements, describes bodies and organisation of the supreme audit institution, delivers information about international activities of our employees, and last but not least, it reports on the SAO management and auditor's report.

**Miloslav Kala,  
The SAO Vice-President**

# I. Status and Powers of the SAO

## 1. General information about SAO's status and powers

The existence of the Supreme Audit Office (SAO) is directly established in the Constitution of the Czech Republic which guarantees its independence from the legislative, executive and judicial power. The SAO therefore stands for one of the indispensable elements of the parliamentary democracy.

A detailed description of the position, powers, organisational structure and activity of the SAO is amended by the Supreme Audit Office Act No. 166/1993 Coll. Pursuant to this legal provision the SAO audits mainly the management of state property and financial resources collected under the law in benefit of the legal persons, fulfilment of revenue and expenditure items of the state budget and also the management of resources provided to the Czech Republic from abroad.

The statutory bodies of the SAO are the President and the Vice-President, Senates and the Disciplinary Chamber. For to ensure an objective assessment of audited facts and in essential issues related to auditing activities of the SAO, its collective bodies decide – the Board and Senates of the SAO.

The independence of the Supreme Audit Office provides for the SAO not being influenced either by legislative, executive nor the judicial power in planning, preparation and carrying out its audit activity. Apart from its institutional independence, the SAO also has reasonable financial independence. The decisive body in this regard is the Chamber of Deputies of the Parliament of the Czech Republic which approves the State budget, part of which also forms a separate budget heading of the Supreme Audit Office.

Audit activity of the SAO is carried out according to an audit plan. The audit plan after its adoption by the Board of the SAO is submitted for information by the SAO President to the Parliament and the Government of the Czech Republic, and is published in the *SAO Bulletin*. The results of audit activity are audit conclusions which summarise and assess the facts ascertained in the audit. Audit conclusions are adopted by the Board or respective Senates of the SAO.

Within the delegated powers the SAO carries out an audit in compliance with the audit standards of the SAO which build upon the international standards of supreme audit institutions (ISSAI). The SAO carries out a compliance audit which includes legality audit and financial audit, and furthermore a performance audit.

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

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

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

## 2. The Board of the SAO

The SAO Board consists of the President, Vice-President and Board Members. The SAO Board adopts the audit plan, the draft budget submitted to the Chamber of Deputies of the Parliament of the Czech Republic and the closing account of the budget heading of the SAO. The Board also adopts the annual report, the procedural rules of the Board and Senates, disciplinary rules and audit conclusions. The Board decides on appeals contesting rulings on objections filed against audit protocols and on objections to bias.



*The SAO Board members (from left): Mr Antonín Macháček, Mr Jiří Kalivoda, Mr Daniel Reisiegel, Mr Pavel Hrnčíř, Ms Zdeňka Profeldová, Mr Petr Neuvirt, Ms Eliška Kadaňová, Mr Karel Sehoř, Mr Rudolf Kuřa, Ms Jaromíra Steidlová, Mr Miloslav Kala, Mr Jiří Adámek, Mr Rudolf Němeček, Mr Jan Vedral, Mr Zdeněk Brandt*

The SAO Board members carry out audit activity and draw up audit conclusions. They manage the audit process from the warrant issue to the adoption of an audit conclusion. In the following part, there are presented completed audits whose audit conclusions were approved in 2012; incomplete audits are marked in green.<sup>1</sup>

<sup>1</sup> Individual audits are marked by numbers in the Annual Report. These numbers are the same as in the SAO's Audit Plan for the respective year. Audit conclusions and detailed information on finished audits are available in *SAO Bulletins* (in the Czech language only).

Table No. 1: Overview of audits carried out in 2012

SAO Board Member name	Member since	Number of audits managed by the Member until the end of 2012	Overview of audits managed by the Board Member in 2012	
			Completed	Incomplete
Mr Jiří Adámek	25. 4. 2001	31	11/16 11/31	12/18 12/27 12/31
Mr Zdeněk Brandt	3. 5. 2002	29	12/07	12/36
Ms Marie Hošková <sup>2</sup>	17. 9. 1993	52	11/27	-
Mr Pavel Hrnčif	11. 12. 2009	7	11/05 11/19 12/02	12/03 12/19
Ms Eliška Kadaňová	4. 6. 1998	35	11/09 11/33	12/17 12/23 12/29
Mr Jiří Kalivoda	17. 9. 1993	53	10/26 11/15 11/20 11/28	12/21 12/26
Mr Rudolf Kufa	15. 9. 2009	4	11/25	12/24
Mr Antonín Macháček	9. 12. 2005	18	11/07 11/10 11/37	12/13 12/16
Mr Petr Neuvirt	21. 12. 2010	6	11/35 11/38 12/05 12/06 12/10	12/25
Mr Rudolf Němeček	17. 9. 1993	46	11/12 11/18	12/12 12/20 12/33
Ms Zdeňka Profeldová	18. 4. 2002	33	11/08 11/24 11/30* 12/01**	12/22 12/35
Mr Daniel Reisiegel	30. 4. 2010	8	11/11 11/21 11/23 11/36	12/09 12/14 12/28
Mr Karel Sehoř	15. 9. 2009	6	11/13 11/14	12/08 12/11
Ms Jaromíra Steidlová	16. 11. 2006	14	11/29	12/15 12/30
Mr Jan Vedral	25. 4. 2001	34	11/17 11/22 11/26 11/34 12/04**	12/32

**Pozn.:** \*) Audit conclusion from the audit contains confidential information and was not published in the SAO *Bulletin*.

\*\*) Audit conclusions from the audits will be published in the SAO *Bulletin* issue 1/2013.

<sup>2</sup> Ms Marie Hošková retired pursuant to the Supreme Audit Office Act upon reaching the retirement age on 12 July 2012.



### 3. The management of the SAO

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



*From left: Mr Radek Haubert, assigned to manage the administrative department; Ms Zuzana Čandová, the Director of Security Department, assigned as an acting Director of President's Office; Mr Miloslav Kala, Vice-President; Ms Alena Fidlerová, the Secretary of the SAO Board; Ms Ladislava Slancová, the Director of Internal Audit Department; Mr Stanislav Koucký, the Senior Director of Audit Section*

## II. Assessment of Audit Work Undertaken in 2012

### 1. Audit Plan for 2012

The objective of the SAO audit plan, as the document forming the basis for SAO's audit work, which is approved each financial year in compliance with the law<sup>3</sup>, is to fulfil the SAO's statutory responsibilities, and, at the same time, ensure that the expected benefits of the various audits are achieved. This was also the case of the audit plan for 2012.

The audits scheduled under the audit plan for 2012 were based to a decisive degree on the results of the SAO's own audit and analytical work; it also takes into account the input that the SAO received from the Parliament of the Czech Republic<sup>4</sup>. When drawing up the audit plan, the SAO looked to its strategies, the currency and the social and financial importance of the audit work, and the risks that it saw in the various areas of the state's financial management. The following are examples of some of the areas that showed signs of problems: implementation of state budget (SB) revenues, management of ICT expenditures<sup>5</sup>, costs of certain organisations, expenditures in important state investment and subsidy programmes, utilisation of resources from the EU budget, public procurement, and reliability of data reported in connection with the implementation of reforms in the accounting of the state.

The audit plan for 2012 contains 36 audits and was approved by the SAO Board on 24 October 2011. During 2012, one audit was cancelled<sup>6</sup>; therefore, a total of 35 audits were commenced in 2012. The audits covered the following key areas of scrutiny by the SAO:

- state budget revenues and other financial operations, e.g., revenues from penalties imposed by the various financial authorities and registry courts; revenues from performance-based and time-based road tolls;
- state's subsidy policy, e.g., financial resources of the state allotted to non-governmental, non-profit organisations; financial resources of the state designated for anti-drug policy;
- management of state assets and other financial resources, e.g., financial resources used to execute ICT projects at the Ministry of Agriculture; financial resources expended on purchasing certain commodities in connection with the centralised procurement project; financial resources related to the creation of the Labour Office of the Czech Republic and to the preparation and execution of information system projects for the payment of social benefits;
- management of financial resources provided to the CR from abroad, e.g., financial resources earmarked for the execution of the *Integrated Operational Programme*; financial resources earmarked for the implementation of the operational programmes *Technical Assistance*, *Human Resources and Employment*, and *Research and Development for Innovations*;
- important investment programmes and operations, e.g., financial resources earmarked for the development and renewal of the material and technical fit-out of university hospitals; financial resources for the construction of motorways and dual carriageways; fulfilment of the conditions of the industrial cooperation programmes (offsets) in connection with certain public contracts;
- closing accounting of the state budget headings, e.g., closing account of the state budget heading *Ministry of Agriculture* for 2011; closing account of the state budget heading *Ministry of Labour and Social Affairs* for 2012.

<sup>3</sup> In compliance with Sections 13 and 17 of Act No. 166/1993 Coll., on the Supreme Audit Office.

<sup>4</sup> Instructions from the bodies of the Chamber of Deputies and Senate of the Parliament of the Czech Republic in the framework of Audit No. 12/35 - *Creation of the Labour Office of the Czech Republic and management of assets and financial resources of the state budget and the European Union related to the creation and operation of such office and to the preparation and implementation of projects in the area of information systems for payment of social benefits.*

<sup>5</sup> ICT - information and communication technology.

<sup>6</sup> Audit No. 12/34 - *Closing account and financial statements of the Czech Social Security Administration for 2012, which are submitted as supporting documentation for the closing account of the state budget heading "Ministry of Labour and Social Affairs" was cancelled by a resolution of the SAO Board on 24 September 2012.*

Appendix No. 1 provides a more detailed overview of the various audits, including the respective timetable. In compliance with the timetable, the individual audits were conducted progressively over the course of 2012. Depending on the commencement dates and duration of the audits, the deadlines for completion, i.e., approval of the audit conclusions, are planned for 2012 and 2013. For this reason, the results of certain audits were already used in this annual report.

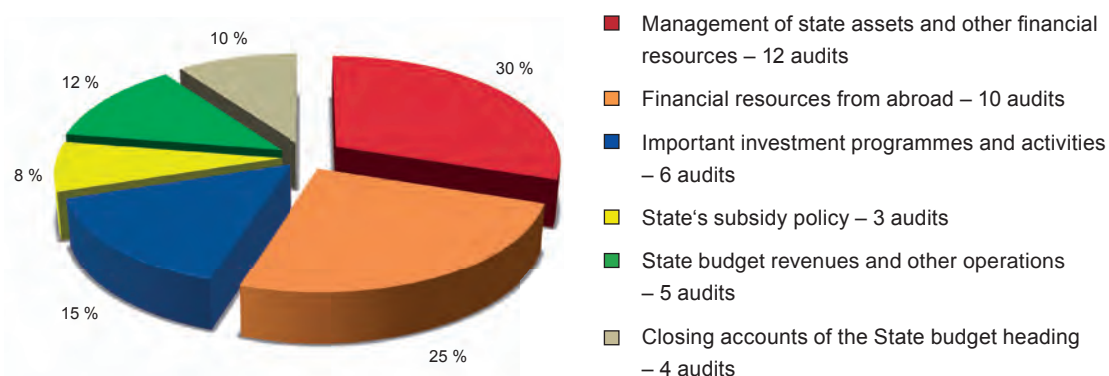
In 2012, the SAO obtained four audit requests from the Parliament of the Czech Republic and the Government of the Czech Republic, of which two were included in the audit plan for 2012.

## 2. Results of Audits in 2012

The results of the audit work set out in this chapter are based on the assessment of the audit findings from 40 completed audits, the conclusions of which were approved in 2012. One of the audits was started in line with the audit plan for 2010, 32 in line with the audit plan for 2011 and 7 in line with the audit plan for 2012. Compared to 2011, when a total of 32 audits were completed, this is a 25% increase in the number of concluded audits. The increase in the number of completed audits, and, thus, the increase in the SAO's audit work, is also documented by the fact that 361 entities and buildings were audited with regard to state property and financial resources, which number is 55 more than in 2011.

Appendix No. 2 provides an overview of the audits completed in 2012. Graph No. 1 shows the structure of audits according to their predominant focus.

**Graph No. 1: Focus of audits with Audit Conclusions approved in 2012**



The mentioned graph shows that the greatest number of audits concerned the management of state assets and other financial resources and financial resources from abroad. The significant increase in the number of completed audits compared to the year before pertained chiefly to the audit of financial resources from abroad, especially due to the increase in the number of audits of the regional operational programmes.

As confirmed by the audit results summarised hereinbelow, the fundamental systemic shortcomings in the operations of certain auditees lies in their poor approach to using state assets and financial resources in an economic, effective and efficient manner. The SAO's audit findings confirm that this is a long-term problem, the causes of which lie particularly in the failure of auditees to observe established rules and the ineffectiveness of their control systems. The auditees often only take a formal approach to their responsibilities. No direct or effective measures to remedy discovered errors are imposed. Due to serious systemic shortcomings, the state does not fulfil its role effectively in certain areas.

The following are examples of the most serious systemic shortcomings in the operations of certain auditees:

- shortcomings in the effective collection, administration and audit of taxes and tax arrears;
- failure to observe the law and internal control procedures when supporting export;

- failure to observe the rules of subsidy schemes and ineffectiveness when granting subsidies;
- conclusion of contractual relationships under clearly unfavourable terms and conditions for the state;
- arbitrary awards of contracts and unclear specification of the kind and amount of required work, subsequently resulting in a large amount of extra work;
- improper awarding of public contracts in the form of negotiated procedure without publication leading to cost inefficiency;
- uneconomical approach to the use of external advisory, legal and consultancy services;
- failure to observe the principles and rules of programme financing;
- failure of management and control mechanisms in the preparation and execution of important investment projects;
- increased occurrence of shortcomings in the management and control system in place for programmes co-financed from EU resources;
- unreliability of data reported by the state in connection with the implementation of accounting reforms.

Compared with the year before, the results of the audits completed in 2012 prove that similar systemic shortcomings still exist in the state's management efforts. The long-unsatisfactory state thus underscores the seriousness of the most important findings in the various areas of scrutiny.

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

The area of revenues and other financial operations of the state budget has long been a key area of scrutiny by the SAO. In 2012, five audits were conducted in this area. These audits focused on the following:

- state budget revenues (Audit No. **11/07** focused on the administration of value added tax in connection with the importation of goods from third countries, Audit No. **11/21** on record-keeping and accounting of tax incomes and related costs and revenues, receivable and payables, and Audit No. **12/01** on state budget revenues from fines imposed by the various financial authorities and registry courts);
- other operations of the state budget (Audit No. **11/09** focused on state financial assets and Audit No. **11/11** on financial resources provided to the Czech Export Bank, a.s., from the state budget and on this bank's management of financial resources guaranteed by the state).

**The need to cover state expenditure and efforts to reduce the state deficit – especially when tax revenue collection expectations are not being fulfilled despite an increase in tax rates – also place special emphasis on ensuring the effectiveness of the tax collection and tax arrears administration system and on the detection of tax evasion and fraud. At this time, it needs to be ensured that information is reliable and that conditions that allow inspections to be carried out and decisions made quickly by the appropriate authorities are in place. As shown by the data from the *Report on Implementation of the State Budget for the First Half of 2012* published by the Ministry of Finance, the volume of VAT arrears, for example, has increased by almost CZK 21 billion since 2010.**

**The SAO focuses systematically on identifying weaknesses and reserves in the collection of state budget revenues. In the area of tax revenues, the SAO, in the past year, verified in Audit No. 11/07 the administration of VAT in connection with the importation of goods from the third countries and found that there are serious systemic shortcomings in this area:**

- The VAT administration system was unable to detect cases of failure to report VAT from the importation of goods and from subsequent taxable supply, and factually pursued entities only ex-post when they could no longer be contacted. At the same time, VAT administrators failed to respond with sufficient flexibility to fraud related to failure to report VAT from the importation of goods and related taxable supply. Tax evasion became possible when the amendment to

the Value Added Tax Act<sup>7</sup>, which came into force on 1 January 2005, eliminated advance VAT payments, where payers paid VAT to the customs authorities when importing goods and then cleared the VAT in their tax return, because non-taxed goods could now be placed on the market. Neither legislation nor the approach taken by the affected administrative bodies failed to respond to this change sufficiently.

The difference between the VAT base reported in tax returns according to the records kept by the tax authorities and the value of imports according to the records kept by the customs authorities totalled **CZK 445 billion** in the period from 2008 to 2010. From the audit sample of 304 payers, a total of 115 payers did not report a tax base of more than **CZK 6.8 billion** in their tax returns for the period from 2008 to 2010 and did not declare the corresponding tax. The General Financial Directorate and the General Customs Directorate failed to ensure that the tax offices received complete and accurate data on domestic imports; the tax offices did not use the data provided to them sufficiently for tax administration purposes. Although import data and tax return data were maintained in electronic form, automated comparison of this data was not introduced, even though this would have contributed substantially to identifying payers not declaring VAT. To improve the efficiency of the tax offices, the SAO recommended that VAT returns be submitted electronically by VAT payers.

**Closely tied to the proper collection and proper administration of state revenues is the work of the pertinent public authorities in the area of record-keeping, reporting, inspecting and collecting such revenues, as well as checking the obligations of accounting entities. The results of the SAO audits show, however that with respect to record-keeping and accounting of tax revenues and related expenditures, the financial directorates and the tax offices had shortcomings in the effective checking of data and in the accounting of receivables. The SAO also had to mention the unsatisfactory state in the publication of financial statements and the procedure taken by the tax and judicial authorities when checking the fulfilment of statutory obligations of accounting entities and imposing fines for breaches of such obligations. It is apparent that in certain areas, the potential of the public administration information systems is not used sufficiently to increase work efficiency.**

- As part of Audit No. **11/21**, the SAO found that, in the period 2008-2010, the *Automated Tax Information System* (Automatizovaný daňový informační systém - ADIS) was not set up to allow the financial directorates to carry out simple direct checks of the accounting of receivables, payables, costs and revenues, and payments by comparing the value generated in the accounting documents with the values recorded in ADIS in the respective month. It was only due to the SAO audit that the General Financial Directorate undertook in January 2012 to supplement the criteria that could be selected in ADIS for the more effective and explicit audit of data related to the accounting of tax revenues at the tax offices and financial directorates. Furthermore, the financial directorates erred in their accounting when, in the period 2008-2010, they reported a lower balance on the *Receivables from the collection of taxes and customs duty* account than reality by accounting for the balance of arrears and over-payments on this account instead of receivables. For example, as at 31 December 2010, the balance of receivables, compared to reality, was in fact lower by **CZK 14.5 billion**. Accounting for the difference between tax arrears and over-payments resulted in the state of these receivables in the balance sheet to be reported in a negative "net" amount at three financial directorates in 2010. The financial directorates also did not carry out an itemised inventory of receivables and payables; therefore, it was not possible to determine whether the recorded state of assets and liabilities corresponds to reality.
- During Audit No. **12/01**, which focused on the activities of the tax offices and registry courts in connection with the imposition of fines for violation of the Accounting Act and on maintenance of the collection of documents at the registry courts, it was discovered that the enforcement of fines imposed by the tax offices and the registry courts is insufficient and that a systematic

<sup>7</sup> Act No. 235/2004 Coll., on value added tax.



review of the completeness of the collection of documents is required. The SAO discovered that the tax offices did not take into account all findings from tax audits showing breaches of the Accounting Act when imposing fines. They did not even use information from the publicly accessible collection of documents to carry out checks of whether accounting entities publish financial statements in compliance with the Accounting Act and the annual reports. The registry courts, being the administrators of the Commercial Register and other public registers, did not conduct regular checks of the completeness of the collection of documents. At the same time, the SAO discovered the unsettling fact that out of 529,000 accounting entities, **428,000** entities, i.e., **81%**, did not publish financial statements in 2010. However, in the audited period, the mentioned authorities imposed only **4,500** fines totalling **CKZ 51.6 million**. The SAO called attention to the fact that current legislation does not impose the obligation on the regional tax authorities or registry courts to carry out regular checks of the completeness of the collection of documents. The SAO also recommended that the tax authorities be authorised to forward financial statements to the registry courts for inclusion in the collection documents, as financial statements form a mandatory annex to the tax return.

**Audit No. 11/09 called attention to shortcomings in the records of state assets in the form of state financial assets (SFA)<sup>8</sup> and in the budgeting and maintenance of the accounting of the heading *Operations with state financial assets (OSFA)*.**

- Beginning in 2008, SFA have gradually become part of the assets reported in the balance sheet of the Ministry of Finance (MoF) as financial assets and receivables. As capital participations and receivables are similar to the assets managed by the administrators of other state budget headings, there is no longer a need to include all these assets in SFA. The SAO again recommended reassessing this category of assets and leaving only those parts that have a specific purpose of use. In a substantial part of the expenditure items of the OSFA, there were no real expenditures, only transfers to other state budget headings through budgetary measures that have long been used in the OSFA heading as an instrument to finance the expenditures of the other budgetary headings. Furthermore, in 2009 and 2010, “extraordinary” subsidies, which in fact created a hidden budget reserve for the MoF, were provided from the SFA. In this respect, the SAO stated that the investment of financial resources of the nuclear and pension accounts by way of the purchase of government bonds had the nature of a “quasi-investment”.

**The SAO, in the past period, focused not only on revealing reserves in the effectiveness of the collection of state budget revenues, but also on other operations that are closely tied to the implementation of state budget revenues and expenditures. One such area is state export aid, which should function as a standard pro-growth and anti-crisis instrument with a quick return on the resources spent. For this reason, the SAO, in Audit No. 11/11, examined the provision and financing of export loans and other activities related to the support of export financing by the Czech Export Bank, a.s. (CEB) and discovered fundamental failures showing violations of the law as well as internal and control procedures, and the existence of risks for the expenditure side of the state budget; doubts were also raised about the effectiveness of the subsidies provided:**

- For example, the SAO discovered that in the case of nine business transactions, the CEB should not have allowed **CZK 8.2 billion** to be drawn from a credit framework of CZK 13.2 billion. In six of these cases, where the credit amounted to **CZK 4.2 billion**, the CEB did not act prudentially, as it released this amount even though the approved conditions precedence had not been fulfilled, thereby violating the Act on Banks<sup>9</sup>. Should the credit not be paid back, there is the risk that no insurance indemnity will be paid out and used to settle the CEB’s receivables from debtors with credit. In two other cases, the CEB should not have released credit amounting to **CZK 3.8 billion**

<sup>8</sup> State financial assets include financial resources, capital participations, securities and receivables set out in Section 36 of Act No. 218/2000 Coll., on budgetary rules and on amendments to certain related acts (the Budgetary Rules); according to the records, SFA amounted to more than CZK 300 billion as at 31 December 2010.

<sup>9</sup> Act No. 21/1992 Coll., on banks.

to debtors, as the credit agreements or addenda thereto were concluded under different terms and conditions than approved by the supervisory board, whereby the CEB violated its statutes. In one case, where it released **CZK 239 million**, it should not have provided the credit because it was not a permitted CEB product. The state of seven out of nine examined business transactions confirmed problems on the part of debtors with paying back the credit.

Doubts were elicited also by the choice of companies that received the credit. For example, of the **CZK 143 billion** that the CEB provided to more than a hundred applicants in 2005-2011 to support export, **CZK 19.5 billion** (i.e., 13.6%) was awarded to two companies alone. During the process of verifying business transactions for credit purposes, the CEB repeatedly made serious errors. External audit reports showed that in the case of one business transaction, the share of a sub-contractor with its registered office in a so-called tax haven increased to more than 40% of the value of the credited contract. The question thus is whether this case can be legitimately deemed one of support of Czech export. This was not clear even in other reviewed cases. Serious errors were also ascertained at the MoF as the decisive shareholder of the CEB. For example, in 2010, the MoF lent CEB **CZK 1.7 billion** from financial resources earmarked for payment of the state budget deficit for 2009, not for loans, thereby violating the law<sup>10</sup>.

## 2.2 The state's subsidy policy, management of state assets and other financial resources

### 2.2.1 The state's subsidy policy

In 2012, the SAO completed three audits that scrutinised the provision, utilisation and application of financial resources intended for the following:

- supporting activities in the area of youth and sports of handicapped (Audit No. **11/24**);
- certain health care programmes (Audit No. **11/25**);
- protection and reconstruction of cultural monuments (Audit No. **11/38**).

**Financial resources intended for subsidies comprise a significant part of state budget expenditure each year. At a time of big cuts in public finances, it is alarming that the SAO is repeatedly discovering systemic failures of the ministries, as the programme administrators and subsidy providers, in administration, management, assessment and control activities. Poorly set terms and conditions for utilising subsidies unwittingly support projects that show from the onset that there is a risk that their purpose will not be fulfilled. The SAO calls attention to cases where ministerial departments repeatedly violated the programme rules they themselves created. The errors in question are not formal, but a continuing trend, where in numerous cases, subsidies are provided without prior assessment of the economy, effectiveness and efficiency of the supported projects. Another negative feature is the failure to set up a method for assessing the benefits or to set the criteria for assessing the effectiveness of programmes as well as the failure of internal control mechanisms. The above situation is documented by the following audit findings:**

- Audit No. **11/24** discovered shortcomings connected to the provision of subsidies for youth-related activities. The Ministry of Education, Youth and Sports (MoEYS), for example, provided ineffective subsidies for the reconstruction of the Sádka central club belonging to the civil association AMAVET Praha. Financial resources of almost **CZK 5 million** were used to repair grounds that have been deteriorating for dozens of years, although it was clear that the subsidy would be unable to help stop the deterioration, as the estimated costs of repairs of the building and surroundings would exceed **CZK 80 million**. The SAO also considered ineffective the provision of funds to the civic association SOVA Praha, which received **CZK 1 million** for the

<sup>10</sup> Act No. 214/2009 Coll., on the government bond programme to settle part of the budgetary deficit of the state budget of the Czech Republic for 2009 and on amendment to Act No. 218/2000 Coll., on budgetary rules and on amendment to certain related acts (the Budgetary Rules).

reconstruction of a cottage. The cottage, however, served the needs of children for no more than four weeks per year and was rented out commercially the rest of the time. Furthermore, neither in the programmes nor in the decisions to grant subsidies did the MoEYS set the condition of sustainability of the property that received the subsidy for its repair; alternatively, it allowed the investment resources to be used for maintenance and repairs of a non-investment nature. The fact that certain beneficiaries received further subsidies in subsequent periods despite failing to fulfill all terms and conditions is a testament to the shortcomings in the efforts of the MoEYS to check observance of the terms and conditions stipulated in the decisions to grant subsidies.

- In Audit No. **11/25**, the SAO stated that the Ministry of Health (MoH) did not respect the time schedule of subsidy proceedings set by the government, specifically when granting subsidies from programmes supporting projects aimed at improving the conditions and quality of life of handicapped and chronically ill patients. For example, in 2011, some subsidy beneficiaries waited for the MoH's decision on the subsidy until July, although the MoH should have made the decision no later than in February. The MoH also completely underestimated the public administration controls of subsidised projects, when it only checked how the money was used in 2 out of 501 projects worth **CZK 164 million**. It therefore only checked **0.5%** of the total amount of subsidies.
- In Audit No. **11/38**, which focused on the *Programme for the Regeneration of Urban Monument Reserves and Urban Monument Zones* (the Regeneration Programme), the SAO called attention to the overall lack of consistency of the system for the provision of financial resources in the relationship among the Ministry of Culture (MoC), as the provider, self-government territorial units, as the aid beneficiaries, and the owners of the cultural monuments. The inconsistency of the system is due in particular to the fact that the MoC also provided assistance for the reconstruction of cultural monuments in a form not permitted by the law<sup>11</sup>, i.e., in the form of a subsidy. Furthermore, the MoC did not set the method to be used to calculate savings from the contribution that is to be returned to the provider, nor did it carry out an assessment of the social effectiveness of the use of state aid, despite the fact that it itself had incorporated the use and mandatory monitoring of effectiveness criteria in the Regeneration Programme rules. It is alarming that similar systemic shortcomings were discovered by the SAO thirteen years ago in Audit No. **99/19**<sup>12</sup>. From a comparison of the results of the audits conducted, it is apparent that discovered shortcomings have not been remedied. This situation shows the need to amend the Regeneration Programme rules.

The following is an example of a breach of the rules on the provision of contributions under the Regeneration Programme for saving buildings for cultural and educational use or other publicly beneficial activity to natural persons and non-profit organisations: The MoC provided a subsidy of **CZK 965 thousand** for the reconstruction of a building. The owner of the building (a limited liability company) received these funds although he had stated in the application that the building would become a casino.

**As the programme administrators and subsidy providers do not perform their managing, controlling and methodological activities properly, the risk of the possible misuse of subsidies by the beneficiaries is compounded. Even the public administration checks that the provider is neglecting to perform is playing its part; this then leads to the subsidy beneficiaries failing to observe the stipulated terms and conditions. The following are examples of the most egregious errors on the part of the subsidy beneficiaries:**

- When conducting Audit No. **11/24**, the SAO discovered that almost a third of the scrutinised beneficiaries failed to observe the purpose for which a subsidy was granted, thereby breaching budgetary discipline. For example, one civic association in 2009 received **CZK 500 thousand** to build a camp kitchen. Using these funds, it not only built a kitchen, something that the subsidy

<sup>11</sup> Act No. 20/1987 Coll., on state monument care, allows the provision of aid in the form a grant.

<sup>12</sup> The conclusion of Audit No. 99/19 - *State budget resources provided for the Programme for the Regeneration of Urban Monument Reserves and Urban Monument Zones* was published in issue 1/2000 of the *SAO Bulletin*.



was intended for, but also rooms for accommodation and connections to utilities mains. By doing so, it also violated the construction act.

- As part of Audit No. **11/25**, the SAO called attention to the fact that certain subsidy beneficiaries, at variance with the terms and conditions set out in the decisions to grant a subsidy, did not request the MoH to change the structure of the budget costs of the project, nor did they submit originals of documents proving payment of other personnel costs. Shortcomings were discovered even in bookkeeping, when the beneficiaries, at variance with the conditions in the decision to grant a subsidy, did not keep separate accounting for received and used subsidies.
- An important finding made in connection with Audit No. **11/38** was an error by the City of Tábor, which had paid out contributions totalling **CZK 3.1 million** to the owners of cultural monuments for the reconstruction purposes without obtaining documentation showing that the entities concerned fulfilled the co-payment condition. When clearing the granted contributions, the City of Tábor failed to ensure that the various entities observed their financial interests and, at the same time, did not obtain documentation proving that reconstruction work was actually carried out, thereby also breaching budgetary discipline.

### 2.2.2 Management of state assets and other financial resources

In 2012, twelve audits aimed at scrutinising the management of state assets and financial resources were completed. These audits focused on the following:

- Management of certain organisational units of the state and allowance organisations (Audit No. **11/10** on allowance organisations falling under the Ministry of Foreign Affairs; Audit No. **11/23** on the Ministry of the Interior, Audit No. **11/30** on the Ministry of Finance<sup>13</sup>, Audit No. **12/05** on organisations in the state budget heading *Office of the President of the Republic*; and Audit No. **12/07** on certain psychiatric sanatoriums);
- Management of state enterprises (Audit No. **10/26** on the state-owned enterprise Lesy ČR and Audit No. **11/28** on the state enterprise Vojenské lesy a statky ČR) and Administration of railway freight transport (Audit No. **11/31**);
- Management of certain state funds in Audit No. **11/33**, specifically the State Housing Development Fund (SHDF), State Environment Fund (SEF), State Cultural Fund (SCF) and State Fund of the Czech Republic for the Support and Development of Czech Cinematography;
- Review of the costs of activities at certain ministries as part of Audit No. **11/34**;
- Review of certain projects (Audit No. **11/08** at the Ministry of Education, Youth and Sports on preparation and implementation of state school-leaving examinations, and Audit No. **12/04** on implementation of ICT projects at the Ministry of Agriculture).

**The results of the audit work carried out by the SAO demonstrate persistent serious shortcomings in the management of state assets. The most frequent errors pertain in particular to concluding contractual relationships under clearly unfavourable conditions for the state, especially in the case of leasing or renting assets. The rights of the state are not sufficiently enforced and defended; there are serious cost inefficiencies and private sector interests prevail over public interests. Numerous shortcomings were discovered in the past year:**

- When conducting Audit No. **10/26**, the SAO discovered that the Ministry of Agriculture (MoA), as the founder of the state enterprise Lesy ČR (LČR), failed to assess how the members of the supervisory board defended the interests of the state during supervisory board meetings and did not identify the basic issues pertaining to the strategy and further development of the enterprise, as required by the State Enterprise Act<sup>14</sup>. The MoA was not aware that the CEO of the state

<sup>13</sup> The conclusion of Audit No. 11/30 - *financial resources expended on consultation, legal and advisory services from state budget heading 312 - Ministry of Finance* was not published. The conclusion is classified under the security regime RESTRICTED, in compliance with Act No. 412/2005 Coll., on the protection of classified information and on security capacity, as amended.

<sup>14</sup> Act No. 77/1997 Coll., on state enterprise.

enterprise was at the same time the chairman of the board of directors of a company whose corporate purpose was in certain areas identical to the corporate purpose of LČR, a situation that the State Enterprise Act does not allow. LČR, in cooperation with the MoA, executed an exchange of more than 1000 ha of an integrated tract of forest in the Radějov Game Park, which is located in a protected landscape area, with a natural person for land scattered over nine cadastral territories across the Czech Republic, a transaction that was disadvantageous for the state. With this transaction, LČR and the MoA advanced a private individual's interests over public interest. As regards the leasing of property, the SAO further discovered that Lesy ČR paid **CZK 810 thousand** for office furnishings to a private tenant, despite the fact that the total value of these furnishings amounted to only **CZK 191 thousand**.

- In Audit No. **11/10**, the SAO discovered that Štiřín Chateau, an allowance organisation of the Ministry of Foreign Affairs (MoFA), despite the fact that the law does not allow for it, concluded a financial leasing agreement for the acquisition of a vehicle in conjunction with an agreement on the subsequent transfer of this item into the ownership of the state, thereby breaching budgetary discipline<sup>15</sup>. Once all payments are made, the costs of acquiring the vehicle will exceed the vehicle price specified in the agreement by **CZK 394 thousand**.
- In Audit No. **11/23**, the SAO discovered numerous errors by the Ministry of the Interior (MoI) in its handling of real estate when concluding lease agreements. For the MoI, with regard to frequent relocation, it is disadvantageous to conclude lease agreements for a definite period of time of more than five years, as the conclusion of such agreements may lead to rent being paid even when the premises are no longer in use. This has occurred in a number of cases. For example, in one such case, the MoF terminated a lease agreement, concluded for an eight-year period, after three years and paid the landlord **CZK 2.7 million** as compensation for early termination and as a reimbursement for the costs spent refurbishing the leased premises. The MoI also erred as a lessor, when, for example, it did not agree the possibility to withdraw from an agreement should the lessee fail to fulfil his obligations duly and on time. The SAO discovered systemic shortcomings also in the planning and organisation of real estate repairs and maintenance.
- In Audit No. **11/31**, the SAO discovered that the state, via the Railway Infrastructure Administration (RIA), paid **CZK 11.9 billion** in 2008 for assets belonging to Czech Railways (CR), although CR had obtained such assets free of charge five years earlier. An additional **CZK 41 billion** was paid out by the state in the period 2005 to 2011 for payables that had passed on to the RIA from the former state enterprise CR, although revenues from the management of the assets transferred from the state enterprise CR should have been used for this purpose.
- In Audit No. **11/33**, focused on the management of certain state funds, the SAO discovered shortcomings in the way the rights of the state were defended. For example, in 2005, three days prior to the stipulated date on which a building was to be officially put in use, where failure to meet this deadline would allow the SCF to exercise its entitlement of a penalty of **CZK 200 million**, the Ministry of Culture concluded an addendum to the agreement that extended the deadline by a year and reduced the contractual penalty to **CZK 38 million**. When concluding agreements, the SHDV, e.g., undertook in 2006 to pay rent in full until the end of 2020 in case of early termination of a lease as a "contractual penalty", although rent amounted to more than **CZK 5 million** per year. The SAO also revealed that the SEF did not discover a shortfall of **CZK 2.8 million** until 2010, although this shortfall demonstrably arose in previous years. The SHDV did not enforce damages from persons who were materially liable and wrote off the missing assets from the asset records.

**The basic criteria of proper financial management and control of operations carried out by state organisations are economy, effectiveness and efficiency. Based on the audit results, it can be said that responsible persons often fail to assess operations according to these criteria or assess them only formally. The situation is similar on the various levels of financial**

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

management, whether it has to do with the purpose for which certain organisations exists, their operating costs or expenditure on the level of projects or programmes, as discussed in the other sections hereof. The following are the findings from the audits concluded in this area in 2012:

- In Audit No. **11/08**, which focused on the preparatory work on the state school-leaving examinations, the SAO found shortages in the application of the mentioned criteria. Although preparation and implementation of state school-leaving examinations have cost the Czech Republic more than **CZK 1 billion**, the MoEYS has not even established the basic assumptions for assessing achievement of the stipulated objectives of reforming state school-leaving examinations; furthermore, when managing the subordinate Centre for Ascertaining Education Results (CERMAT), it did not act in a way that would ensure that the spending would be carried out as economically, efficiently and effectively as possible. CERMAT, in the tender to equip the management and oversight centre, did not proceed in the most economical way possible, as at the time of concluding the agreement and even by the end of the SAO's audit, it did not know the final price of the contract. It purchased the system for **CZK 360 million**, although the agreement was concluded for four academic years. After that, CERMAT will be obliged to pay other costs related to removal of software and deletion of data from the borrowed hardware and other costs necessary to guarantee the new school-leaving examination logistics on top of the annual operating costs. Implementation of the school-leaving examinations also contained other elements that were burdened by a lack of effectiveness and efficiency. For example, determining the number of non-mandatory subjects without assessing their cost and actual usability led, in the case of certain subjects, to high costs of executing one examination. Another example is the production of a part of the examination documentation that, with regard to the configuration of the logistical model, remains unused.
- In Audit No. **11/31**, the SAO demonstrated that financial resources were spent by the RIA uneconomically, ineffectively and inefficiently in the area of passenger car operation, business trips and security for unfinished premises. For example, RIA headquarters spent on average CZK 80 thousand per year per car on repair and maintenance, which was **241% more** than at the other RIA departments under scrutiny. RIA headquarters also rented some of the cars. In the period 2009-2011, it paid **CZK 3 million** on rent, which was based on the number days of use. The RIA, for example, paid **CZK 830 000** for 436 days of rent, although the vehicle was only used 146 days. The RIA then purchased four of the rented vehicles for **CZK 2.4 million**, although having previously paid rent of **CZK 2 million** for their use. The disadvantageousness of such purchases is demonstrated, for example, by the fact that the total cost of renting one of the vehicles and its subsequent purchase exceeded the actual price of the vehicle by **CZK 477,000**, i.e., by **53%**.
- In Audit No. **11/33**, which was focused on four state funds and their management efforts, the SAO demonstrated that certain state funds more or less did not fulfil their original mission. For example, the SCF, in the period 2006-2011, did not grant a single subsidy for cultural projects although that is its primary mission under the law. Current legislation does not place emphasis on having the funds generate sufficient revenues (own resources); therefore, the funds did not depend on state subsidies, which should only be an exceptional source of revenues. The law also defines only broadly the use of the money from the funds. In the controlled period, with respect to all of the funds that provided assistance, the form of subsidisation that was predominantly used did not ensure returns on resources for assistance in future years. For this reason, the SAO recommended weighing the benefit of the various state funds and then either merge some of them or eliminate them completely. The SAO further recommended reassessing the legislation related to the state funds, assessing how own financing sources are ensured, and assessing the areas to be financed by the funds. It also recommended laying down detailed terms and conditions for the provision of assistance and setting up the required control mechanisms for management of the fund.

**A review of public contracts is part of most audits aimed at the management of state assets, especially in the area of acquisition or repair of assets. Observing the Public Procurement Act<sup>16</sup> and demonstrating the necessity of a contract are among the basic conditions that ensure the cost-effectiveness of the auditees' activities. According to the findings of the SAO in this area, the most frequent error is the ineffective division of a public contract into two or more independent contracts to avoid a tender, as they are now considered small-scale contracts.**

- In Audit No. **10/26**, the SAO discovered that Lesy ČR breached the Public Procurement Act when purchasing vehicles for company management and in the case of the contract for the auctioning off of non-essential real estate. For example, when purchasing two Audi A6 passenger cars for **CZK 2.6 million** excluding VAT, it divided up the subject of one public contract into two, which it then awarded as small-scale public contracts. Furthermore, in negotiated procedure without publication (NPWP), it purchased six Audi A4 passenger cars and one Audi A6 passenger car for **CZK 5.4 million** without VAT. In the case of a public tender for the auctioning off of non-essential real estate belonging to Lesy ČR, it did not conclude the agreement on the provision of services in compliance with the offer submitted by the winning bidder. At variance with the proposal submitted in the offer, the agreement contained in particular the right of the supplier to terminate the agreement by notice at no penalty. Although the maximum performance deadline expired during the audit, the subject of the agreement was not executed even by the date of completion of the SAO audit.
- In Audit No. **12/05**, the SAO made another finding in the area of public contracts, when, e.g., the Prague Castle Administration divided the subject of a public contract for the restoration of two buttresses of St Vitus Cathedral and the related winding staircase into two separate public contracts. When executing the *Prague Castle Archive* project, it divided the subject of the public contract into seven separate public contracts.
- In Audit No. **12/07**, the SAO called attention to shortcomings in the awarding of small-scale public contracts. For example, when awarding two small-scale public contracts for the supply of windows, including replacement, the Havlíčkův Brod Psychiatric Sanatorium increased the number of windows through ten addenda, until it managed to increase the original price of the works by **186%**. Furthermore, the psychiatric sanatorium breached the principles of transparency and equal treatment when it concluded with the bidder for the public contract who bid the lowest price a contract for works in which the price of the works did not correspond to the offer and was in fact **CZK 70 000** higher than that offered by the bidder who placed second.
- In connection with Audit No. **11/31**, the SAO called attention to insufficient legislation on awarding below-the-threshold contracts in cases where the contracting authority is the RIA. This organisation is both a public and sector contracting authority; as such, when awarding public contracts it has to proceed according to the law only in the case of above-the-threshold public contracts. The SAO recommends changing the pertinent legal regulations so that the RIA is subject to the rules applicable to public contracting authorities when awarding below-the-threshold public contracts.

**In recent years, the state has spent a significant share of resources on public ICT contracts<sup>17</sup>. These contracts are to a great degree awarded in the form of NPWP. This is an area in which the SAO sees significant risks of cost ineffectiveness, restriction of competition and discrimination. As part of Audit No. 12/04, which focused on the execution of ICT projects**

<sup>16</sup> Act No. 137/2006 Coll., on public procurement.

<sup>17</sup> An analysis of the data obtained from the public contract information system shows that in the period of 2009 to the first quarter of 2013, the ministries alone awarded above-the-threshold public contracts totalling approx. CZK 55.5 billion, of which ICT contracts comprised 25% of the amount of all above-the-threshold public contracts. The ratio of ICT contracts to all above-the-threshold public contracts awarded in negotiated procedure without publication was almost one to two (49%). In the field of ICT, above-the-threshold contracts worth CZK 10.5 billion, i.e., 77% of public contracts in this area, were awarded through negotiated procedure without publication.

**at the MoA, these risks were confirmed when the SAO discovered shortcomings in excess of CZK 1 billion:**

- When reviewing the implementation of ICT projects labelled collectively as “MoA Network Integration” (these projects were carried out by the MoA based on a framework agreement on the provision communication infrastructure services of public administration systems or the respective implementing agreement and the addenda to this agreement), the SAO found serious systemic shortcomings. The MoA, for example, did not justify the need to implement the “MoA Network Integration” project, did not have an investment plan, implementing study or economic assessment drawn up, did not know the method or the scope of the services to be provided, and did not have a detailed itemised budget. It allowed the supplier to define the project architecture and the price only after signing an addendum to the agreement. The SAO deems very serious the violation of the Public Procurement Act<sup>18</sup> committed by MoA especially when awarding public contracts in the form of NPWP, setting discriminatory selection criteria and dividing up contracts into small-scale contracts. It thereby restricted competition, limited the number of possible bidders, and, at the same time, groundlessly eliminated the possibility to achieve more advantageous prices for the contracts. In 2005-2011, the MOA thereby concluded an addendum to the implementing agreement for **CZK 500 million**, two agreements related to “MoA Network Integration” services for **CZK 442 million** and an agreement on qualitative parameter monitoring services for **CZK 143 million**. It acted uneconomically when acquiring software. For example, it purchased a software application for **CZK 4 million** that it never used and did not make use of a free SAP licence, buying it later for **CZK 300,000**. By its uneconomical approach, the MoC breached budgetary discipline at the same time. Very serious shortcomings were discovered by the SAO in the financial controls conducted by the MoA, when, for example, it did not carry out a preliminary financial audit before entering a contractual commitment to spend **CZK 2.4 billion**. It thereby breached the Act on Financial Control<sup>19</sup>.

**In connection with the assessment of economy, efficiency and effectiveness, it should be mentioned that organisations managing assets and financial resources of the state spend substantial amounts on various consultancy, advisory, legal and other services. For example, this item amounted to CZK 1.3 billion in the state budget in 2011 alone. Already in previous annual reports, the SAO called attention to the uneconomical behaviour of auditees in this area. Just a random check shows that millions have been spent on advisory services on unimplemented PPP projects or on unwarranted or economically disadvantageous legal services. As the SAO discovered in 2012, the use of these services is not always based on demonstrated benefits or chosen based on an economical or transparent contract award procedure:**

- In Audit No. **11/31**, the SAO called attention to the uneconomical conduct of the RIA when concluding agreements on the provision of legal services. Based on a framework agreement, it signed 26 such agreements in the period 2009-2011, of which 11 were concluded without justification by the RIA with the bidder who offered the highest fee, i.e., of **CZK 4800** per hour. This bidder thus collected almost 75% of all financial resources paid out based on this framework agreement, i.e., **CZK 17.4 million**.
- As the SAO discovered when conducting Audit No. **11/34**, the Ministry of Justice (MoJ) paid almost **CZK 25.5 million** on advisory services related to the execution of a PPP project for the construction of a prison, with such project being subsequently terminated. By comparing the various unit costs of services paid by the MoJ, MoA and MoC, the SAO further discovered that the hourly fee for English lessons paid for by the MoJ was 25% higher in 2010 than at the other audited ministries, and the price of one page of technical text paid by the audited ministries was

<sup>18</sup> Act No. 40/2004 Coll., on public procurement, or, effective 1 July 2006, Act No. 137/2006 Coll., on public procurement.

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



higher than the average price for these services published by the Czech Statistical Office; in the case of the MoJ, this was two-fold in some cases.

- The MoA acted uneconomically even in the case of ICT services. In Audit **12/04**, the SAO discovered that the MoA spent a total of **CZK 51 million** on advisory services although it did not make use of the output thereof at all. It paid **CZK 3 million** for other ICT services without a legal reason.

**In its annual reports, the SAO each year calls attention to shortcomings in bookkeeping and in the stocktaking, reporting, valuation and recording of assets. Certain auditees did not act in compliance with the appropriate legal regulations, as shown by the following examples:**

- Audit No. **11/10** found that all four audited allowance organisations of the MoA did not act in compliance with accounting principles and did not maintain accurate and complete accounting. In the period 2009-2010, no audited allowance organisation carried out stocktaking fully in compliance with the appropriate provisions of the Accounting Act<sup>20</sup>.
- In Audit No. **11/23**, the SAO discovered that the MoI did not account for the acquisition and sale of real estate according to the accruals principle. In the case of land and buildings, the MoI did not carry out stocktaking in compliance with the Accounting Act, as it did not ascertain the actual state of its assets. The MoI's bookkeeping in the 2010 accounting period could thus not be deemed conclusive.

## 2.3 Management of other financial resources

The SAO devotes systematic attention to important investment programmes and state projects. In 2012, the SAO conducted a total of six audits, in which it scrutinised the financial resources of the state earmarked for the following:

- care of national cultural treasure (Audit No. **11/05**);
- development of material and technical fit-out of certain departments (Audit No. **11/12** - Police of the Czech Republic, and Audit No. **11/37** - public universities);
- transport infrastructure (Audit No. **11/13** - procurement and operation of the toll collection system, Audit No. **11/14** - construction and maintenance of cycling infrastructure, and Audit No. **11/16** - construction of the Prague ring road).

**From the long-term point of view, the conceptual, management and control efforts of programme administrators are failing. The programmes are often poorly prepared, are not based on a long-term or clear concept, are not based on actual needs and priorities, time parameters or even real sources of financing. Specific and assessable objectives and the effects that should be attained are not set. During execution, the programmes are fundamentally changed or new programmes are commenced even though the original programmes have not been completed and their results assessed. Some programmes thus end up being only a formal means for the financial coverage of various projects classified on the basis of operative decisions of administrators, and thereby belie the basic principles and rules of programme financing. A frequent result is uneconomical, ineffective and inefficient use of state financial resources. The long-running state of failure to observe the basic principles and rules demonstrates that the responsible persons are not able to deal with the situation and the state is not fulfilling its function.**

**The following emerged from the audits completed in 2012:**

- In connection with Audit No. **11/05**, the SAO discovered that the *Programme for the Care of Natural Cultural Treasure* was not sufficiently prepared by the MoC and during its execution, significant material, financial and scheduling changes occurred. The financial costs of the various projects estimated by the investors formed the basis for determining the financial requirements

<sup>20</sup> Act No. 563/1991 Coll., on accounting.

of **CZK 10.3 billion**. These estimates were overvalued, as the price offers of bidders for the executed projects were substantially lower. The MoC did not update its financial requirements even though the construction of the new National Library in Prague in Letná Park worth **CZK 1.9 billion** was cancelled and the reduction of the construction work at the National Museum should have led to a reduction in costs of about **CZK 0.5 billion**. The date of completion of the programme was extended from 2014 to 2017. In addition to material changes, the reasons for the extension also included shortcomings in preparations and when awarding public contracts as part of the reconstruction of the National Museum and cancellation of the tender procedure for a depository in Hostivař. By the end of 2010, the MoC had utilised less than 10% of the total amount intended for the programmes, which was dealt with in part by a transfer of resources to a different programme.

- The SAO discovered a similar situation when conducting Audit No. **11/12**. The MoI did not have a long-term concept in which the material needs of the Police of the Czech Republic (PCR) would be set out. The scrutinised programme for the replacement of assets did not create a strong material, scheduling and financial framework for implementing PCR needs and was changed according to momentary priorities and amount of financial resources. Fundamental changes were made to the programme, which led to the proportion of funding from the state budget to increase from **CZK 11.5 billion** to **CZK 18.9 billion**. The programme has not been completed and its implementation was extended from the original five years (2003-2007) to 2013. Furthermore, at the same time, the MoI commenced another materially identical programme in 2009 with a contribution from the state budget of **CZK 3.3 billion**, which should also end in 2013.

The overall lack of clarity as regards the needs of the Police of the Czech Republic is exemplified by the fact that the PCR has not been able to specify its passenger vehicle requirements since the establishment of its regional directorates in 2009. Instead of the originally planned 3200 automobiles, it purchased 3500 because it had not utilised all of the funds from the programmes. Some of the newly purchased passenger cars, however, were not scheduled for use or were not used at all. On the other hand, the required reconstruction of the air service building was not commenced, despite its state of disrepair, high priority and value of material and technology. Insufficient preparations were discovered in six construction projects, which led to additional work worth approx. **CZK 21 million** having to be performed.

- In Audit No. **11/14**, the SAO discovered that at the Ministry of Transport (MoT), the national cycling strategy, as the main conceptual document, did not contain a quantification of the necessary costs and expected benefits; the implementation procedure was not set up, a monitoring system was missing, and a system of indicators allowing assessment of the effectiveness of the realisation of this cycling strategy was not created. Nevertheless, in the reviewed period of 2007-2011, **CZK 792.3 million** from the State Transport Infrastructure fund (STIF) was spent on the construction and maintenance of cycling infrastructure, a further **CZK 47.8 million** from the national programmes managed by the Ministry of Regional Development (MoRD), and it is not possible to enumerate the support from EU programmes, as they are not monitored separately. Support for the development of bicycle transport is not sufficiently coordinated and is provided from various sources under different conditions. The spending of public resources in an economic, effective and efficient manner was not sufficiently ensured or monitored. The MoT, MoRD and STIF did not assess the benefits of the executed projects. Routing options and construction and technical options were not required as a standard even in the case of projects requiring extensive investment. The SAO recommended a number of measures to ensure that the MoT performs coordination, methodological and assessment activities, including valuations of projects based on their societal and economical benefits.
- In Audit No. **11/37**, the SAO discovered that the objectives of programmes for equipping schools with material and technology, with the MoEYS being the manager of such programmes, were set generally and the projects did not contain an evaluation of the expected effectiveness of the expended resources. The termination of the programme aimed at Charles University was

extended from 2007 to 2013 and the contribution from the state budget was increased by **CZK 1.3 billion**. In the framework of this programme, the MoEYS supported the sale of two buildings for **CZK 372 million**, for which it has still not released the funds necessary for reconstruction and repair. As at the date of completion of the audit, the buildings had not been used for a year and a half already. Completion of the programmes aimed at public universities was extended from 2007 to 2012 by increasing financial requirements from **CZK 10.4 billion** to **CZK 16.8 billion**, with the contribution from the state budget being increased by **CZK 6.1 billion**. The shortcomings were also discovered with respect to the subsidy beneficiaries. They erred especially in the early phases of the projects and even when awarding public contracts. For example, at Palacký University in Olomouc, due to the lack of preparedness of a project, insufficiently drawn up design documentation and errors on the part of the contracting authority in the award procedure for internal fit-out, the deadline for completion of the project was extended by three years and spending from the state budget increased by **CZK 553.4 million** compared to original estimates. The MoEYS did not make schools promise to use the assets purchased from subsidies for the purposes for which the subsidies were provided, operate them duly and not transfer them to some other entity.

**The state, as the investor, also makes errors when preparing and implementing certain important operations and projects. The SAO had discovered shortcoming in all phases of this process, from creation of the investment plans to the final results. There are many cases where the original plans were not fulfilled and fundamental time, material and economical discrepancies arose between plans and reality, mainly due to failure to observe set rules and regulations and due to the low interest of state organisations in finding economic, efficient and effective solutions.**

**A basic condition for the cost-effective implementation of operations and projects is observance of the rules for awarding public contracts. The results of audits, however, repeatedly show that shortcomings are still prevalent in this area. The most frequent ones include the ambiguous specification of the amount and kind of work required, which leads to the creation of a large amount of extra work and the use of negotiated procedure without publication, even though the extra work exceeded the statutory amount of 20%. The negative impact on cost-efficiency is also caused by the insufficient specification of the anticipated price of the contract, failure to use pricing directives and a breach of the prohibition to discriminate against bidders.**

**This situation can be documented by a number of examples:**

- In Audit No. **11/13**, the SAO discovered that the MoT drew up tender documentation for a supplier of a toll collection system (TCS), which discriminated against bidders offering satellite technology. The contracting authority's approach when awarding the public contract thus was not the most economical way to carry out the project. Not even the requirement that the TCS has to be built as open, so that the supplies of various suppliers based on public contracts could be used for its further expansion, was adhered to. The Road and Motorway Directorate of the Czech Republic (RMD) provided expert opinions on public contracts awarded under NPWP expanding the original subject of the works, and it ensued from these opinions that the services and supplies may be arranged by the TCS supplier only. This is at variance with the requirement of building an open system. The total price for the supply of the TCS and provided services amounted to **CZK 28 billion** at the time that the SAO's audit was completed. The original price was thus higher by **CZK 5.9 billion**, i.e., by 26.7%, of which **CZK 4.8 billion** (81.1%) was an increase in the supply of the TCS and related services by which the original scope of performance was expanded and which have no bearing on the amount of tolls collected.

The choice of microwave technology did not allow the MoT's plan to be fulfilled in full, i.e., to have tolls apply to 2 995 km of motorways, dual carriageways and first class roads. By 30 September 2011, tolls applied to 1 361 km of roads, i.e., only **52.7%**. The economic parameters attained during the operation of the toll system for the period 2007-2010 did not attain the level of the



expected investment plan parameters<sup>21</sup>. According to costs of the system to date, the operation of the tolls system in the Czech Republic is more expensive than in Germany or Austria. It will be possible to assess the economic parameters more objectively only once the entire project is completed, i.e., in 2017. By the end of 2011, the MoT had not adopted specific decisions on the method of operating the current system after 2016 or any specific solutions on how next to expand the current TCS. Under these circumstances, there is the risk that the objectives set out in the currently valid updated *Transport Policy of the Czech Republic*, i.e., to apply tolls to the entire network of motorways, dual carriageways and first class roads, will not be achieved.

- In Audit No. **11/16**, the SAO discovered that neither the preparation nor the construction of the Prague ring round (PRR) was based on a binding transport network development concept that would, in connection to realistic sources of financing, stipulate priority sections for construction of the motorway and road network. This also led to funds being spent on updating already draw up documentation. For example, the costs of modifying documentation required for land-use planning decisions on PRR structures not yet built amounted to **CZK 238 million**. The MoT did not have binding requirements for financial resources to build the PRR or a deadline for completion. Originally, it should have been built by the end of 2008 at **CZK 48.2 billion**. At the time of the audit, however, only 41 km of the total 83 km was in operation and completion is expected around 2020 at **CZK 106.8 billion**. As part of land-use planning and building proceedings, often lasting more than 10 years, the affected municipalities and interest groups demanded the construction of structures that did not directly relate to the ring road but were nevertheless paid from the funds reserved for the PRR. The costs of one such structure were **CZK 1.2 billion**.

The ring road construction projects were not sufficiently prepared and were modified a number of times during their execution. This results in extra work, carried out even without contractual amendments and before being approved by the responsible RMD employee. In the case of one construction project, extra work amounting **CZK 4.1 billion**, i.e., 91% of the original price, was assigned and executed without a tender and without contractual safeguards. As a result of the changes, even unexpected property settlements occurred, such as the expropriation of a fuelling station for **CZK 300 million**. In this case, the RMD changed the original solution, where the flyover junction should not have affected the service station on the land of a different owner, to have two branches of the junction located on the property of this owner. The review of the PRR construction revealed a dysfunctional system of checks of whether the prices of the construction projects are warranted, a lack of effective instruments for such checks, and practically zero motivation on the part of the RMD to deal with the cost of the construction projects. In a total of nine cases, the RMD violated the Public Procurement Act, thereby breaching budgetary discipline totalling **CZK 5.7 billion**.

**The SAO calls attention to the negative consequences of the having suppliers being responsible for carrying out the investor's engineering work. It is apparent that the transfer of the investor's key activities to suppliers without a demonstrable economic benefit for the state does not ensure economic, effective and efficient use of state resources, as shown by the following example from Audit No. 11/05:**

- Although the National Library of the Czech Republic (NL) and the National Museum (NM) had their own investment department for the performance of the investor's engineering work, these activities were carried out with the consent of the MoC by an external company based on a mandate agreement. After paying **CZK 3.1 million**, the NL terminated the agreement after one year because it did not agree with the proposed extra work; since then, it had been organising the construction itself using its own employees. The NM concluded a mandate agreement with a project manager for **CZK 47 million**. The subject of the project manager's work was also work related to the organisation of a public contract, consultation with the contractor and inspection of the contractor's work, i.e., activities that have a substantial influence on construction costs. The

<sup>21</sup> Cost and cost-efficiency.

NM thus made use of a manager without assessing the economic benefit of such cooperation. For example, **CZK 2.7 million** was paid for the drawing up of building permit documentation for the former Federal Assembly building, of which **CZK 1.4 million** was designated for the project manager for arranging the documentation.

## 2.4 Financial resources from abroad

The SAO places special importance on scrutinising resources provided to the Czech Republic from abroad. During 2012, a total of 10 audits were completed whose priorities were focused on management of the financial resources provided to the Czech Republic from the EU budget. Financial resources from the EU represent the most important source not only from the point of view of support, but also from the point of view of the scope of coverage of the various areas of development of the Czech Republic. In the past year, audits focused on resources provided to the Czech Republic through:

- the regional operation programmes of the cohesion regions North-East, South-West, Moravia-Silesia and Central Bohemia for the stabilisation and development of rural and urban areas or for the integrated development of the territory (Audits Nos. **11/18**, **11/19**, **11/20**, **12/06**);
- the *Rural Development Programme* for the improvement of the quality of life in rural areas (Audit No. **11/15**);
- the operational programme *Education for Competitiveness* for initial education (Audit No. **11/17**);
- the European funds intended to fulfil the objective of common EU immigration and asylum policy (Audit No. **11/27**);
- the *European Social Fund* and the operational programme *Prague - Adaptability* for projects carried out in the Capital City of Prague (Audit No. **11/35**);
- *Integrated Operational Programme* (Audit No. **12/02**) for the provision of national support for the use of potential cultural heritage;
- the operational programme *Environment* for the reduction of industrial pollution and industrial risk (Audit No. **12/10**).

The other three audits (Audit Nos. **11/08**, **11/14** and **11/16**), during which projects co-financed from EU resources were scrutinised, are, with regard to their predominating focus on management of state assets and important investment programmes, discussed in the pertinent parts hereof (Section 2.2.2 and 2.3).

**The implementation of programmes co-finance from the EU budget generally shows a greater occurrence of shortcomings. The SAO has demonstrated this repeatedly a number of years in a row. Persistent shortcomings in the control and oversight systems in particular increase the risk of expenditures being assessed as not sufficiently economic, effective or efficient during their certification and payment. We can give the following examples of this:**

- During Audit No. **11/17**, which focused on the priority axes *Initial Education* of the operational programme *Education for Competitiveness* (OPEC), the SAO assessed that the MoEYS set up a system for evaluating project applications that from the very onset of the programme carried a high degree of the risk that project evaluation would be subjective and bidders would be treated unequally. In May 2011, the MoEYS changed the system for assessing criteria, but this caused this risk to become even greater. A part of the selection criteria used to select the projects was not assessed and approved in advance by the OPEC monitoring committee, which fact threatened the eligibility of project costs approved based on such criteria. For the above reason, the ineligible costs that arose represent a discrepancy that could reach hundreds of millions of crowns.
- In Audit No. **11/35**, which focused on resources spent via the operational programme *Prague - Adaptability* (OPPA) on projects executed in the Capital City of Prague, the SAO identified the risk of insufficient independence of audits and recommended changing the system under which the Municipal Council of Prague (MCP) provides financial resources to its various departments while acting as the auditor, i.e., it audits itself. Even the European Commission identified the risk of

insufficient independence of auditors of operational programmes, including a lack of supervision over them. The MCP set conditions for utilising OPEC resources that allow the support of target groups that do not have any connection to the eligible region, i.e., without a relationship to the Capital City of Prague, resulting in the risk that a significant part of OPEC expenditure will be found to be ineligible upon an audit by the EU.

- The results of Audit No. **12/02**, in which the SAO examined the implementation of the *Integrated Operational Programme (IOP)*, showed that the MoRD did not ensure the independence of the appointed auditor, as the audit was carried out by the audit department of the MoRD, which is also the managing authority for the IOP.

**A review of the instruments for securing the economic, effective and efficient management of programme expenditures shows that monitoring indicators related to output, results and impact are poorly set up; this, in turn, does not allow for the objective assessment of the benefits of individual projects and the programme as a whole. Frequent are even cases where the project selection criteria are set up very broadly and the selection of projects is carried out with a lack of transparency and at variance with the criteria in the programme documents. Violation of regulations leads to the creation of ineligible costs. This situation is documented by the following cases:**

- In Audit No. **11/15**, the SAO, when reviewing the *Urban Development Programme*, found shortcomings at the MoA and State Agricultural Intervention Fund (SAIF) in the set up of monitoring indicators at the project level and in the mechanism for selecting projects for financing. Output and result indicators set out in subsidy applications and in payment requests were set up as statistical indicators that did not reveal the quality of the projects and the expediency of expended funds. Also, the way that checks of the adequacy of expenditure were set up was not sufficient or able to ensure that the paid out project costs were in compliance with the principles of economy, effectiveness and efficiency. Errors were ascertained even in the way administrative checks of public contracts, project scoring and expenditure eligibility were carried out, with ineligible expenditure totalling **CZK 8.3 million**.
- The MoEYS – with respect to the priority axis *Initial Education* of the OPEC, which was examined as part of Audit No. **11/17** – set the objectives of the reviewed priority axis so generally that it was not possible to assess the effectiveness of the resources spent. Up to the time of completion of the audit, the MoEYS had not draw up even one evaluation study assessing the achievement of the global objectives of the programme, even though the first evaluation should have been completed in 2008. The setup of the monitoring indicator system and even the monitoring conducted by the managing authority itself had such shortcomings that it will not be possible to objectively assess the actual impact of the intervention. The MoEYS, during selection and subsequent approval of four projects, did not observe the principles of transparency, equal treatment and non-discrimination. This breach of European regulations when providing subsidies has resulted in a breach of budgetary discipline, in this case totalling **CZK 56.2 million**. With respect to the vast majority of individual projects, the MoEYS made use of the possibility to apply a simplified manner of reporting expenses through templates composed of unit costs stipulated for each key activity. In the case of five templates, however, the unit price stipulated was not reasonable, as it included meal allowances four times higher than anticipated by the Labour Code. Furthermore, at variance with European regulations, the MoEYS stipulated unit prices in 11 key activity templates in a way that could not be retroactively verified.
- In Audit No. **12/02**, the SAO discovered that the MoRD did not set the corresponding monitoring indicator for measuring the achievement of one of four specific objectives, thereby not acting in line with the principle of correct financial management. Furthermore, the stipulated indicators only provided the minimum amount of information necessary for it to be possible to assess the economy, effectiveness and efficiency of spending and to monitor on a continuous basis the achievement of programme objectives. When assessing acceptability and evaluating projects,

the MoC, as the intermediate body, acted at variance with the OP programme document and with EU regulations, as it even supported projects that identified the risk of the existence of unlawful public assistance. Although both ministries had known about the risks of the incompatibility of the assistance with the common market at least since 2008, they did not provide notification of the planned public assistance or of a change to existing assistance. The MoC, at variance with the criteria set out in the IOP programme document, even supported two projects that did not fulfil the conditions of transnational or national importance, thereby wrongly reimbursing expenses of **CZK 185 million**. The audit results also showed that utilising allocated financial resources in the scrutinised area of intervention is substantially falling behind and there is thus the danger that they will not be utilised in full.

- When conducting Audit No. **12/10** aimed at the financial resources intended to reduce industrial pollution and environmental risks in the framework of the operational programme *Environment* (OPE), the SAO discovered that the Ministry of Environment (MoE) will have difficulty quantifying the benefit of the supported projects through the result and output indicators set out in the decisions to grant a subsidy, as they do not testify to the actual effective use of OPE funds to reduce pollution in the Czech Republic. Projects usually executed by private entities, where the output of such projects is the creation of pollution information systems or software instruments in connection with serious accidents, are also subsidised, and the users for whom these projects are being prepared are for the most part public authorities and local governments. During the audit, no specific negotiations or agreements on the future use of these instruments by the anticipated users were presented.

**The effectiveness of the control system has an influence on how the subsidy beneficiaries observe the stipulated conditions. The SAO is, therefore, discovering errors especially there where the managing authority and intermediate body act only formally, do not focus on all project implementation phases and entirely underestimate the need for on-site inspections. Aid beneficiaries most often violated the Public Procurement Act, failed to fulfil project objectives and requested reimbursement of ineligible costs. Some contracts were awarded in a way that did not comply with the principle of equal treatment and preferred bids that were not the most economical, as shown by the following findings:**

- In Audit No. **11/27**, focused on resources intended to fulfil the objectives of the common immigration an asylum policy, the SAO discovered that the beneficiaries violated the Public Procurement Act and expenditure eligibility rules. For example, when awarding one public contract, the Refugee Facility Administration of the Ministry of the Interior did not cancel a contract even though not even one of the assessed bids fulfilled all of the contracting authority's requirements and awarded it to the bidder who came in second place with a higher price. In another public contract for the procurement of new passenger cars, it set specific technical parameters that created an unwarranted obstacle to competition and at the same time breached the discrimination prohibition. The extent of the total discovered shortcomings qualified as ineligible costs thus amounted to **CZK 2.9 million**.
- When conducting Audit No. **11/35**, the SAO discovered that the Capital City of Prague, in the role of subsidy beneficiary, violated the Public Procurement Act, as it did not eliminate from a tender a bidder who did not fulfil the required qualification conditions and set the various assessment criteria in such a way that three out of four criteria were not able to assess the economic benefit of the various offers. The bidder who was not eliminated was selected as the supplier of a contract expected to be worth **CZK 18.8 million**.

**The high number of the above shortcomings can be documented also by the findings of audits of certain regional programmes. Programme implementation suffers from shortcomings chiefly in terms of objectivity in assessing projects and the uniformity and transparency of the approach to applicants, and from numerous errors made by subsidy beneficiaries when awarding public contracts and reimbursing ineligible costs, including paying for work and supplies not provided. The above is documented by the following examples:**

- In Audit No. **11/18**, the SAO, for example, discovered substantial shortcomings in the valuation of individual projects by the Regional Council of the cohesion region North-East (RC NE). The technical quality of projects, which had a 40% share on the resulting project evaluations, was assessed by only one external expert in the second and ninth round of calls for the submission of applications. Based on the opinion of such expert, the RC NE approved 100 projects with subsidies worth **CZK 3 billion**. The regional council thereby breached the “four-eye rule”, i.e., that projects should be assessed by two independent experts. Assessment of need and relevance of projects, which also comprises a 40% share of the resulting evaluation, was carried out by a six-member committee of experts. Its members, however, allocated points to various projects without giving a reason. The valuation was thus subjective and factually unreviewable.
- Similarly, during Audit No. **11/19**, the SAO discovered that the Regional Council for the cohesion region South-West (RC SW) did not ensure the objective assessment of projects, as the financial managers did not conduct the assessment separately and independently of each other. As a result, the assessment results were the same at all levels. The RC SW did not set the rules for carrying out checks of extra work and failed to discover breaches of terms and conditions, as the project was not physically completed until after the stipulated deadline. It was discovered with respect to two projects that the RC SW, during its checks, did not discover prior to reimbursing costs that the subsidy beneficiaries included ineligible costs among eligible costs. The RC SW imposed levies and fines for breach of budgetary discipline only ex-post. It was discovered that even other aid beneficiaries violated the Public Procurement Act and claimed ineligible costs. The audit carried out by RC SW was thus not able to guarantee with respect to the reviewed sample of projects that the financed projects and reported costs were in all respects in compliance with the requirements of EU regulations and with the requirements of internal legal regulations.
- During Audit No. **11/20**, the SAO discovered that in the case of a number of projects, audits conducted by the Regional Council of the cohesion region Moravia-Silesia (RC MS), especially in terms of the substantive execution of projects, failed. In addition to the shortcomings discovered in the case of RC MS, the SAO discovered by an on-site inspection at the subsidy beneficiaries that the subsidies were used to pay for work and supplies that either did not relate to the subject of the project or were not even executed. The SAO also called attention to a number of cases where the expected purpose of the executed projects was not fulfilled. For example, the degree to which modernised sporting grounds were used was only 27% of the estimate provided in the project application in the first year and only 20% the year after.
- With respect to the Regional Council of the Cohesion Region Central Bohemia (RC CB), the SAO, in its Audit No. **12/06**, discovered fundamental errors in the project selection system, which was not set up in compliance with the principles of economy, efficiency and effectiveness. In the case of certain valuation criteria for the selection of projects, the RC CB did not even stipulate the minimum number of points a project was to receive in order to succeed. Thus, it was possible to also approve projects with an unclear budget or a time table that could not be met. When carrying out adjustments of planned expenditures, the RC CB did not act transparently or uniformly with regard to subsidy applicants and breached the stipulated deadlines for signing subsidy agreements or the addenda thereto. In numerous cases, the SAO called attention to the failure of the checks conducted by RC CB with respect to subsidy beneficiaries, especially checks on how public contracts were awarded and how projects were executed in terms of substance. The SAO sees the absence of ex-post on-site checks at the beneficiaries to be a serious shortcoming along with the failure to arrange for proper and uniform reporting of project costs. With respect to beneficiaries, the SAO discovered fundamental shortcomings in the selection of suppliers and in the effectiveness and economy of the execution of projects. For example, a subsidiary beneficiary, when building a nursery school, selected an offer in tender proceedings that was more than **CZK 1 million** more expensive than the lowest offer. However, the RC CB imposed a contractual financial adjustment only in the amount of **CZK 88 thousand** on the subsidy beneficiary who spent more than CZK 1 million uneconomically.



## 2.5 Audit of closing accounts of state budget headings

Every year, the SAO financial audits seek to verify the reliability of the data of financial statements and financial reporting submitted as the basis for the closing accounts of the most significant state budget headings. At the same time, it verifies whether the auditees proceeded in line with the relevant legal regulations when compiling the closing accounts for the headings.

Fulfilment of the objectives of financial audits were, however, marked by fundamental shortcomings in connection with the implementation of new accounting regulations in connection with public finance accounting reforms commenced on 1 January 2010. With respect to audits that pertained to the 2010 or 2011 accounting period, it was not possible to verify the reliability of data of the financial statements; therefore, the objective of some of the audits concluded in 2012 was to verify that the books were kept in compliance with legal regulations.

In 2012, two financial audits were completed, the objective of which was to issue a standpoint on the financial statements:

- audit No. **11/26** - *2011 financial statements and financial reporting of the Czech Social Security Administration*
- audit No. **11/29** - *Closing account of the state budget heading "Ministry of Education, Youth and Sports" for 2011*

and two legality audits (i.e., without issuance of a standpoint on the financial statements):

- audit No. **11/22** - Financial statements of the Ministry of Defence as at 31 December 2010
- audit No. **11/36** - Financial statements of the Ministry of Labour and Social Affairs as at 31 December 2010.

These audits verified the data included in the financial statements of the auditees for the mentioned periods. According to the data in the financial statements, assets amounted to **CZK 795 billion**, expenditure totalled **CZK 613 billion** and revenues totalled **CZK 374 billion**. According to the data in the auditees' financial statements for assessing budget implementation, revenue amounted to **CZK 364 billion** and expenditure totalled **CZK 526 billion**.

**The SAO, when conducting audits, runs across facts again and again that indicate serious shortcomings in documentation serving to process the closing accounts of the state budget headings. Inaccuracies are discovered both in the financial statements (FS) and in the examined financial reporting.**

**The inaccuracy of the financial statements relate to the fact that auditees did not maintain their books in a correct, complete and conclusive manner in accordance with the Accounting Act and other regulations. As shown by the audits completed in 2012, the auditees repeatedly committed many systemic errors in connection with their bookkeeping:**

- The auditees did not account for facts that were the subject of accounting in the relevant period in terms of time and substance, for example when the Ministry of Defence (MoD) accounted for the liquidation of fixed assets in the amount of **CZK 22.9 million**, the lease of Gripen fighter planes for **CZK 2.8 billion** and financial resources added to the NATO military budget in the amount of EUR 9.4 million, i.e., **CZK 235 million**, in the wrong period (Audit No. **11/22**); and the Czech Social Security Administration (CSSA) accounted for **CZK 118.8 million** worth of fines imposed on employers with respect to insurance premiums in the wrong accounting period (Audit No. **11/26**).
- The accounting entities did not observe the specified content of the FS items, when, for example, the CSSA accounted for sickness insurance premiums of the self-employed in the amount of **CZK 321.4 million** on the incorrect revenue account and incorrectly reported in the balance sheet asset items worth **CZK 18.4 million** as unfinished fix tangible assets, although such assets were already eligible for use (Audit No. **11/26**). In the notes to the FS, the MoEYS incorrectly reported long-term contingent payables of **CZK 108.3 million** that had no relation to EU resources and did not pertain to instruments co-financed from abroad (Audit No. **11/29**).

- The auditees did not maintain complete accounting. For example: the MoLSA did not maintain complete accounting in the area of accounting for transfers of territorial budgets to benefits and transfers to social services providers; the MoLSA also did not account for revenues from dividends from shares or assets that the MoLSA is in charge of managing in the amount of **CZK 155 million** (Audit No. **11/36**).
- The audited accounting entities accounted for facts that were not subject to accounting. For example, the MoD, when carrying out changes in the records of assets, did not correctly account for costs and revenues in the amount of approx. **CZK 812 million**, even though the assets were not consumed, liquidated or manufactured at its own cost (Audit No. **11/22**).
- The auditees incorrectly applied new accounting methods, for example when the MoLSA did not account for provisions to receivables (Audit No. **11/36**).
- The auditees did not introduce systems that would properly ensure that stocktaking takes place in full. For example, the MoEYS did not implement a system ensuring complete stock-taking according to the Accounting Act. The MoEYS did not take stock of intangible assets and did not demonstrate the correctness of the final balance on the account on which it records advances provided for transfers, or the correctness of the final balance of the account on which it records long-term contingent payables in relation to the EU budget (Audit No. **11/29**). In the same way, the MoD, committed systemic inaccuracies in the stocktaking of assets, as the stocktaking did not reveal that assets worth **CZK 17.3 million** were incorrectly classified. Furthermore, when taking stock, the MOD did not discover that it recorded in its accounting real estate that it was not responsible for managing and, conversely, did not record buildings and land that it was responsible for managing (Audit No. **11/22**).

The financial statements in most cases also show systemic and repeatedly ascertained shortcomings. In the statements for assessing budget implementation, errors were identified when examining the correctness of the classification of revenues and expenditures according to the various paragraphs and items of the budgetary structure<sup>22</sup>. For example, MoEYS, did not sort financial resources received based on collective requests for the transfer of resources from the EU operational programmes to the state budget in the amount of **CZK 26.3 million** correctly, as it did not differentiate whether the funds were investment or non-investment in nature (Audit No. **11/29**).

**The possibility to respond to the reliability of data in the financial statements for 2011 was limited by the state of accounting regulations and the possibility to assess the correctness of their application. In the case of organisational units of the state, some provisions of valid legal regulations were not clear, comprehensible or complete or clearly applicable in 2011, especially in the area of liquidation of fixed assets, minor fixed assets and the depreciation reserves related thereto and in the area of pre-financing of expenditures that should be covered by resources from the EU budget.**

- Audit No. **11/29** identified and enumerated **CZK 26.6 billion** in this area, which is an amount that exceeds the stipulated significant threshold ten-fold. As the accounting and reporting rules for organisational units of the state for 2011 were not clear, comprehensible or complete in their entirety to allow in all cases an assessment of the correctness or incorrectness of their application in the accounting and reporting of the MoEYS in 2011, and as the MoEYS did not perform stocktaking in the scope stipulated by accounting regulations, the SAO could not provide a statement on the reliability of the financial statements of the MoEYS as a whole.

**The SAO, as part of its accounting audits, made other findings:**

- When checking wage costs as part of Audit No. **11/26**, it was discovered that some CSSA employees were recorded in the ARES system in 2011 as both employees and self-employed persons, without the employer consenting to this. With regard to the nature of the employees'

<sup>22</sup> According to Decree No. 323/2002 Coll., on budgetary composition.

classification, there is the risk that such employees could misuse the data they had access to for the purposes of their personal enterprise. The CSSA's internal control system did not minimise this risk.

The SAO again recommended changing legal regulations in the area of enforcement deductions from pensions. For example, in 2011, the CSSA enforced pension deductions of **CZK 1.4 billion**, with all of the costs related to this being taken from the state budget<sup>23</sup>. Current legislation does not allow reimbursement of costs to be claimed from a liable party. A change in legal regulations would ensure a more economical use of resources from the state budget.

- The MoD and the MoLSA breached budgetary discipline when they did not pay funds in the amount of **CZK 2.6 million** and **CZK 120 million**, respectively, to the state budget (Audit No. **11/22** and Audit No. **11/36**, respectively).

### Support of good accounting practice

The reform related to accounting entities in the public sector that began on 1 January 2010 was besieged by numerous difficulties, which hampered the implementation of new accounting regulations. Relatively substantial amendments to legal and other regulations concerning accounting and reporting also took place in 2011. The amendment to the Accounting Act and its implementing regulations, including their amended wording, were issued very shortly before they came into force, thereby resulting in the same situation as in the previous year.

Although legal regulations on accounting and reporting with regard to certain accounting entities<sup>24</sup> were amended during 2012, a conceptual framework for reporting is still missing. It can only be inferred indirectly, from a host of provisions of various accounting regulations. However, a conceptual framework should, in addition to providing definitions and key terms, state the purpose and objective of reporting, how this objective can be achieved and who are the users of the financial statements. The absence of a conceptual framework and a clear definition of basic terms thus lead to the inconsistent application of accounting regulations and, in the end, to reporting of incomparable information and to the impossibility to assess the reported balances of certain accounts or even the reliability of the financial statements as a whole.

**The results of the audits and the analysis of ÚFIS<sup>25</sup> data show the most important area that was affected in 2011 by ambiguities and difficulties in the application of accounting regulations and that, at the same time, had an important impact on data reported in the financial statements was in the case of organisational units of the state (OUS) so-called transfers, especially subsidies regulated by Czech accounting standard No. 703 - Transfers (CAS No. 703). With respect to these entities, the SAO identifies the following problematic areas:**

- accounting for off balance sheet data related to transfers
- accounting for resources that the ministries provide as advances to beneficiaries for direct utilisation to specified bank accounts maintained at banks<sup>26</sup>
- identification and reporting of transfers provided in previous years

<sup>23</sup> The SAO called attention to this fact already in Audit No. 09/30 - *Expenses paid by the Czech Social Security Administration in the state budget heading "Ministry of Labour and Social Affairs" on pension insurance benefits for 2009*. The conclusion was published in issue 2/2010 of the *SAO Bulletin*.

<sup>24</sup> Selected accounting entities are organisational units of the state, state funds according to the budgetary rules, Property Fund of the Czech Republic, self-governing territorial units (municipalities and regions), voluntary confederations of municipalities, regional councils of cohesion regions, allowance organisations and health insurance companies.

<sup>25</sup> The applications of the state accounting and financial information presentation system (systém účetních a finančních informací státu - ÚFIS) operated by the Ministry of Finance provide active user access to certain data pertaining to state accounting and financial information from the *Central System of State Accounting Information (Centrální systém účetních informací státu - CSÚIS)* and guarantee publication of the financial statements of organisational units of the state pursuant to Section 21a of Act No. 563/1991 Coll., on accounting, as amended. Information is available to the public on an annual basis beginning with 2010.

<sup>26</sup> Pursuant to Section 16(2) of Act No. 218/2000 Coll., ministries may provide certain subsidies and refundable financial assistance to beneficiaries in the form of advances transferred to selected banks based on agreements concluded with such banks and the MoF.



- accounting for financial settlement of received subsidy refunds on the settlement account of the MoF
- accounting for subsidies that should be covered by resources from the EU budget

**The area assessed as the most risky in terms of expenses reported in the financial statements was the area of accounting for subsidies that should be covered from the resources from the EU budget in the framework of so-called pre-financing from the state budget resources.**

Effective from 2011, the term “foreign transfer agent”, which pertains to accounting units of the OUS-type only, was introduced in CAS No. 703. In addition to the role of agent, this accounting standard also set out the roles of the so-called transfer provider and recipient. Certain accounting procedures were set out for these roles by this standard; however, no accounting procedures were set out for pre-financing.

Although the nature of accounting cases was similar, the audits conducted and analyses performed showed that the ministries perceived their role differently in the case of pre-financing of transfers that should be covered from the EU budget. However, the choice of role (foreign transfer agent or transfer provider and recipient) has a substantial impact on the financial statements, as shown by Table No. 2.

**Table No. 2: Influence of the accounting unit’s role on figures reported in Balance sheet and Profit and loss statement while providing transfer (according to CAS 703)**

Accounting unit’s role – budgetary organization – while providing transfer	Balance sheet		Profit and loss statement
	Reported only in Balance sheet	Increase of total assets and liabilities because of accounting unsettled transfer prepayments and estimated accounts payable/receivable	Expenses and revenues reporting
Provider and receiver	No	Yes	Yes
Abroad transfer intermediary	Yes	No	No

Audit No. 11/29 showed that while the MoEYS accounted for foreign transfers as the agent, other OUS accounted for these transfers as providers and recipients. As a result, similar accounting cases were reported in the balance sheets and profit and loss account entirely differently, which led to an entirely different portrayal of the subject of accounting. As already mentioned, the SAO, for these reasons, could not provide a statement on the correctness of certain data related to the accounting of transfers.

**In conclusion, the SAO states that in 2011, accounting units of the OUS-type took a substantially different approach when accounting for transfers; therefore, the data reported in the financial statement are mutually incomparable. For this reason, the SAO called attention to the risk that using data from the financial statements issued by organisational units of the state that provide transfers covered by resources from abroad may lead to a distortion of information, especially when compared and aggregated or used for statistical purposes. For this reason it is desirable for accounting regulations in this area to clearly formulate accounting procedures.**

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

In 2012, the SAO submitted to the Chamber of Deputies of the Parliament of the Czech Republic its *Opinion on the Draft State Closing Account of the Czech Republic for 2011* and its *Opinion on the Report on Implementation of the State Budget Process for the First Half of 2012*<sup>27</sup>. The SAO based

<sup>27</sup> The SAO submits this standpoint in compliance with Section 5 of Act No. 166/1993 Coll., on the Supreme Audit Office.

its opinions on the state closing account (SCA) on the audit conclusions and other findings from its audit and analytical work.

In its *Opinion on the Draft State Closing Account of the Czech Republic for 2011*, the SAO calls attention to negative developments in connection with the public budget, where the growth of mandatory expenditures that are not accompanied by growth in the SB greatly limit the possibility of carrying out sustainable fiscal policy. In this connection, the SAO calls attention to the negative influence of the increasing volume of arrears of taxable revenues, especially VAT, on the overall implementation of SB revenues. It further calls attention to the fact that the volume of expenditure on old-age pension benefits is not covered by revenue from insurance premiums, which increases the overall SB deficit. The opinion on the state closing account also contains findings from the SAO's audits focused on the effective and economical use of state resources and assets, including specific breaches of the appropriate regulations. The findings from financial audits conducted with respect to the SB headings and from audits of the utilisation of resources from the EU budget are maintained separately. In connection with the utilisation of resources from the EU, the SAO called attention to the increasing number of project-related errors leading even to the suspension of payments by the European Commission and, thereby, a decrease in the utilisation of resources. This fact is then reflected in the current higher share of financing of projects from the SB, which has a negative impact on the SB deficit. The SAO also warns against the fast growing dynamic of the state budget, which can no longer be offset by privatization revenues. It further reiterates that the resulting balance of the management of the SB does not provide information about the state's management and believes it necessary that the SCA also contain data about all government assets and liabilities.

In the *Opinion on the Report on Implementation of the State Budget Process for the First Half of 2012*, the SAO points out that reporting is not entirely transparent in terms of the development of state financial assets and liabilities and that the development of SB revenues is negative. The SAO calls attention to the fact that this report insufficiently analyses the causes behind the non-implementation of the SB revenues and that legislative measures in the area of tax revenues has not brought about the anticipated effect. The SAO further recommends that the report contain information about measures that the government is taking or will take in the area of tax revenue arrears. Just as in the case of the opinion on the SCA for 2011, the SAO calls attention to the risks of failure to maintain the budget deficit in connection with the implementation of projects financed from resources from the European Union.

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

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

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

In 2012, the CBC discussed a total of ten of the SAO's audit conclusions. Audit conclusions are usually discussed by the CBC in the presence of SAO representatives and representatives of the auditees. For every audit conclusion, the CBC adopts a resolution acknowledging the audit conclusion in question. If an audit conclusion has already been discussed by the Czech Government, the CBC acknowledges both the audit conclusion in question and the opinion of the concerned Government

department on the audit conclusion. Resolutions often state the identified shortcomings and, at the same time, instruct the Government, or the Ministry or Minister in question, to remedy the state of affairs or (if appropriate) to submit additional materials (concepts, reports, a list of remedial measures, etc.). Appendix 3 hereto gives an overview of audit conclusions discussed by the CBC in 2012 and a summary of the resolutions adopted.

The Government of the Czech Republic discussed a total of 52 of the SAO's audit conclusions in 2012. The SAO sends audit conclusions to the Prime Minister, who passes them on to the relevant Ministry for an opinion. The audit conclusion and the Ministry's opinion are then discussed at a session of the Government in the presence of the President or Vice-President of the SAO. The Government adopted a resolution acknowledging each audit conclusion as well as the opinion or information provided by the ministry concerned. In most cases, these resolutions had a section issuing instructions; there was often also a deadline by which the minister concerned had to inform the Government about the implementation of remedial measures. In three cases, the Government suspended discussion of the audit conclusions and completed the discussion at one of its other sessions. Appendix 4 hereto provides an overview of audit conclusions discussed by the Government in 2012 and a summary of the measures imposed.

## 2.8 Cooperation with law enforcement authorities

In 2012, the SAO, based on the findings from the audits, filed, in accordance with Section 8(1) of the Criminal Code, four notifications testifying to the fact that a crime could have been committed. In one audit, the notification pertained to the conduct of seven auditees.

A criminal complaint was lodged based on serious shortcomings discovered by Audit No. **10/26** in connection with examination of the management of state assets and provided financial resources with respect to the auditee Lesy České republiky, a state enterprise.

The subject of another criminal complaint related to serious shortcomings in the course of preparation and execution of the construction of the ring road around the Capital City of Prague discovered at the auditee Road and Motorways Directorate of the Czech Republic in Audit No. **11/16**.

Based on the facts from the findings from Audit No. **11/33** at the auditee State Environmental Fund of the Czech Republic, a criminal complaint was lodged due to the suspicion of a breach of the obligations connected to the management of property, specifically negligence with respect to the discovered shortfall.

Another criminal complaint was lodged based on facts ascertained as part of Audit No. **11/20** and pertained to the conduct of seven audited persons, specifically the Regional Council of the cohesion region of Moravia-Silesia and six beneficiaries - the municipalities of Český Těšín, Odra, Orlová, Rychvald, Frýdek-Místek and Opava. The subject of the complaint was payment of ineligible costs to the subsidy beneficiaries by the regional council. This concerns the reimbursement of payments of supplies that were not carried out or were not part of projects.

In 2012, the law enforcement authorities requested cooperation from the SAO in a total of six cases (compared to four in 2011). Based on these requests, the SAO provided audit material from 29 audits and the Vice-President of the SAO relieved 13 employees from their confidentiality obligation pursuant to Section 23 of the SAO Act for the reason of important state interests.

### III. Financial Evaluation of Audit Work

#### 1. Summary financial evaluation of audits

Each year, the SAO monitors the summary financial evaluation of audits by means of an indicator of the overall volume of audited state funds, assets and liabilities. This indicator is first and foremost an informative piece of data that indicates the total extent of audited state budget revenue and expenditure items, state assets and liabilities, funds provided to the Czech Republic from abroad and other funds (e.g., CEB and SFA resources and extra-budgetary finances of state funds). It can be substantially affected by the number of audits, the subject and objective of the audits, and the length of the audited period.

The audits, whose audit conclusions were approved in 2012, scrutinised funds and assets totalling **CZK 315 billion**<sup>28</sup>. The financial significance of this volume was affected first and foremost by the volume of the assets and financial resources scrutinised as part of the CEB audit, VAT administration related to third-country imports, four state funds and Lesy ČR.

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

Based on the discovered facts, the SAO notifies the appropriate tax administrators about discovered shortcomings stated in the audit reports and related to the auditees' tax obligations. Specific audit findings may be used by the appropriate tax administrator to commence proceedings that may lead to a ruling to collect illegitimately used funds or impose fines.

Under its duty to notify the relevant financial authorities, regional councils of the cohesion regions or the Capital City of Prague, a total of **57** notifications concerning state budget expenditure or territorial budgets were sent out in 2012, and the total amount of the funds related to these notifications (including financial audits) amounted to **CZK 6.7 billion**.

Compared to previous years, this is an extraordinary increase in shortcomings in the management of public funds, which indicates a breach of budgetary discipline, which is exemplified by the number of sent notifications as well as by the total funds related to these notifications<sup>29</sup>. The largest amount was related to a notification of a breach of budgetary discipline in the amount of **CZK 5.7 billion** in connection with the implementation of the ring road around Prague.

<sup>28</sup> Data from audits focused on reviewing the closing accounts of the state budget headings are not included in the total amount (see Section 2.5 hereof). Financial resources assessed during the audit of strategic and conceptual materials are also not included, nor are the total amounts of resources of programmes assessed during audits of the activities of their administrators or intermediate bodies. In the area of state budget revenues, tax revenues as recorded and accounted for are not included in the volume of audited financial resources.

<sup>29</sup> For example, in 2011, a total of 26 notifications were sent based on the results of audits, with the amount of financial resources indicated in the sent notifications totalling CZK 404 million.

## IV. Evaluation of Other Activities

### 1. Other SAO activities related to audit work

In 2012, a proposed government amendment to Article 97 of the Constitution of the Czech Republic was discussed by the Chamber of Deputies of the Parliament of the Czech Republic. The amendment aims to expand the remit of the SAO, especially with regard to the possibility to scrutinise the management of the assets of legal persons of a public nature and local governments. Submitted along with the government amendment was the related draft amendment to Act No. 166/1993 Coll., on the Supreme Audit Office (*Parliamentary Journal* Nos. 351 and 352). The comments that the SAO made to the government proposals were presented during the meetings of the committees of the Chamber of Deputies that were responsible for dealing with these proposals. Both draft amendments were approved by the Chamber of Deputies; however, the related hearing in the Senate of the Czech Parliament was not completed in 2012.

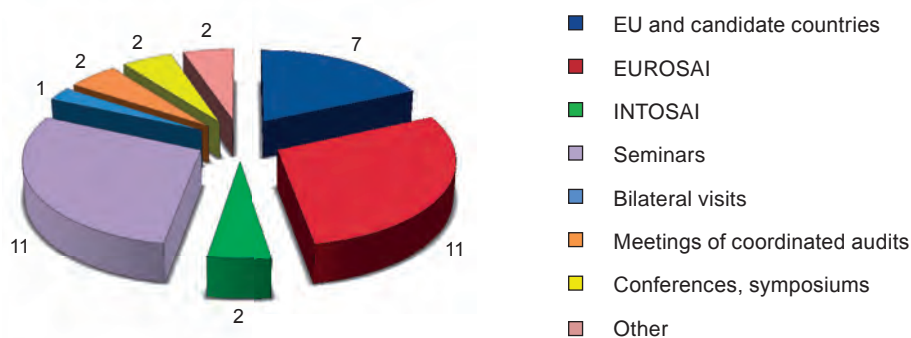
In an inter-departmental consultation process conducted pursuant to the *Government's Legislative Rules*, the SAO gave its opinion on draft legislation that concerned it as an organisational unit of the state or fell within its competence. In 2012, the SAO obtained a total 139 legislative drafts. The SAO presented specific comments, stemming primarily from audit findings, on 37 drafts. Particular attention was paid to the proposed constitutional law on budgetary responsibility, the draft amendment to the Act on Budgetary Rules and the draft amendment to the Act on Budgetary Rules for Territorial Budgets as well as the drafts of the related implementing regulations to the Act on Budgetary Rules and the Accounting Act.

### 2. International cooperation

International cooperation in 2012 concentrated mainly on activities within the European Organisation of Supreme Audit Institutions (EUROSAI) and on the exchanging the knowledge and experience of SAO staff at international seminars devoted to special audit topics. Bilateral cooperation primarily took place with the Supreme Audit Institutions of Germany, Slovakia, and Switzerland.

SAO representatives attended a total of 38 events abroad. Most of these events comprised activities in the framework of EUROSAI, which corresponds to the SAO's role in the management of Team 3 for the knowledge sharing gained through the EUROSAI Strategic Plan. In addition to the aforementioned seminars, trips were also undertaken with respect to activities and negotiations with the SAIs of the EU Member States and candidate countries. The main topics of discussion included awarding public contracts, the fight against corruption, performance audits, audit of EU resources and environmental audits. Graph No. 2 shows the structure of business trips abroad made by SAO representatives.

**Graph No. 2: Number and focus of business trips abroad by SAO's representatives in 2012**





A pivotal international cooperation event was the SAO's participation in the Governing Board of EUROSAI, where the Vice-President of the SAO informed the board about the efforts of Working Group 3 for knowledge sharing (this group was created by the EUROSAI Strategic Plan and it is chaired by the SAO) and on the fulfilment of various tasks focused also on improving the utilisation of the results of the work of the various SAIs as well as EUROSAI and INTOSAI working groups and committees; improving cooperation in auditing within EUROSAI and INTOSAI; support for cooperation with INTOSAI and its regional groups; and improvement of cooperation with external partners.



*Participants of the EUROSAI Governing Board*

Each year, the SAO takes part in the meetings of Competent National Audit Bodies of NATO Member States (CNAB), at which the annual report of the International Board of Auditors for NATO is discussed. In 2012, the SAO acted as the chair for the CNAB meeting.

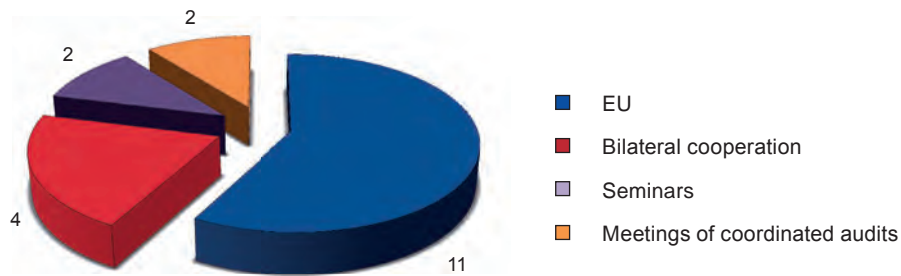
Another important event was the annual meeting of representatives of supreme audit institution of the Visegrad Group, Austria and Slovenia (V4+2), which took place in Hungary in September. The main points of the meeting included the role of an audit in increasing environmental awareness, the independence of the supreme audit institutions and contributions related to the current development of the EU and planned joint audits within V4+2.



*Participants of the V4+2 meeting*

The annual meeting of the Contact Committee of the supreme audit institutions of the European Union and European Court of Auditors (ECA), which took place in Portugal in October, was devoted to the role of the supreme audit institutions in connection with the preparation of the long-term financial framework for the period 2014-2020 and the experience of SAIs with conducting audits in areas responding to the development of the financial and economic crisis in the EU.

In 2012, the SAO organised 19 international events in the Czech Republic. Graph No. 3 shows the structure of the international events organised by the SAO.

**Graph No. 3: Number and focus of international events organised by the SAO in 2012**

It is clear from the graph that the greatest number of events pertained to cooperation within the EU, including the ECA audit missions.

In 2012, the SAO organised two international seminars. The first took place in April with the support of a group associating the ECA and the supreme audit institutions of the accession, candidate and potential candidate countries for entering the EU and with the support of the organisation SIGMA. It focused on the quality of audit work and the primary topics were aimed at the role of supervision over audits, subsequent reviews of audits, and implementation of internal quality management standard for SAI. The seminar was attended by more than 40 people from 18 organisations and institutions.



*Participants of the Audit Quality Seminar*

Another seminar organised by the SAO took place in September under the auspices of, and was financially supported by, EUROSAI and focused on the use of audit software. The seminar was attended by almost 70 people from 26 European supreme audit institutions, the European Court of Auditors and, in the role of observers, also the representatives of the international organisation ASOSAI, which associates the SAIs of Asian countries. The seminar was focused on the procurement, implementation and utilisation of information systems for management and assessment of audits and on using software instruments during audits.



*Participants of the Seminar on Application of Software Tools in Audit*

In terms of bilateral cooperation, the President of the supreme audit institution of Switzerland visited the SAO to discuss cooperation of the EUROSAI Knowledge Sharing Working Group, which is chaired by the SAO, and the IT Working Group, which is chaired by the SAI of Switzerland. Furthermore, both institutions discussed the possibility of a joint audit. The SAO was also visited by the President of the supreme audit institution of Hungary - the main topics of the meeting were communication and utilisation of IT. Traditionally, the meeting of the ambassadors of EU countries in the Czech Republic took place. In November, the SAO was visited by a member of the European Court of Auditors, who acquainted the SAO representatives with the ECA's *Annual Report on the Implementation of the 2011 EU Budget*. During this meeting, a presentation was given on the ECA audit entitled *Audit of Managing and Controlling Systems in Member States - Audit Authority*. In December, the Director-General of the European Anti-Fraud Office met with the SAO.

Seven audit missions of the European Court of Auditors took place in 2012, with a representative of the Supreme Audit Office attending as an observer. In addition to cooperation on audit missions, the SAO mediated or directly provided information to the European Court of Auditors based on various questionnaires, surveys and information requests.

Cooperation with the German SAI continued on audits concerning the awarding of public contracts and related issues of corruption with a focus particularly on transport infrastructure projects and structural engineering. In 2012, preparations were commenced for international cooperation between the SAO and the SAI of Poland in the form of a parallel audit, the subject of which is a review of the operational programme *Cross-border Cooperation between the Czech Republic and Polish Republic*. This audit will commence in 2013.

### 3. SAO activities in respect of the public

#### 3.1 Publishing activities

The *SAO Bulletin* (Volume XX) was published in four quarterly issues appearing at the end of each calendar quarter. Approved audit conclusions, one piece of information on termination of an audit whose conclusion contains classified information, the Annual Report for 2011, amendments and changes to the Audit Plan, and the Audit Plan for 2013 were published in these issues. The outputs of individual audits were also regularly placed on the SAO web site.

In June 2012, the SAO published the **2012 EU Report - Report on EU Financial Management in the Czech Republic**. The primary intent of the report is to provide comprehensive information about the SAO's audit findings related exclusively to revenues and expenditures of the European Union budget in the Czech Republic and place them in the context of the issue of financial relations as part of implementation of the priorities of the various EU policies. The data and information contained in the report pertain in particular to the 2011 calendar year, or the 2010 calendar year in those cases where more current data has not been officially made available. *EU Report 2012* is based in particular on the findings set out in the approved audit conclusions of the SAO published in 2011 and early 2012 in the various parts of the *SAO Bulletin*. At the same time, it works with numerical information and commentary obtained from the various departments of the Ministry of Finance and the Ministry of Regional Development or information from the annual reports of the European Court of Auditors for 2010 and information from the financial report of the European Commission on the EU budget for 2010. *EU Report 2012* is intended not only for institutions responsible for financial management of funds from the EU budget, but also for professionals from the Czech Republic and abroad.

In 2012, the SAO also issued the *Opinion on the Draft State Closing Account of the Czech Republic for 2011* and the *Opinion on Implementation of the State Budget of the Czech Republic for the First Half of 2012*.



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

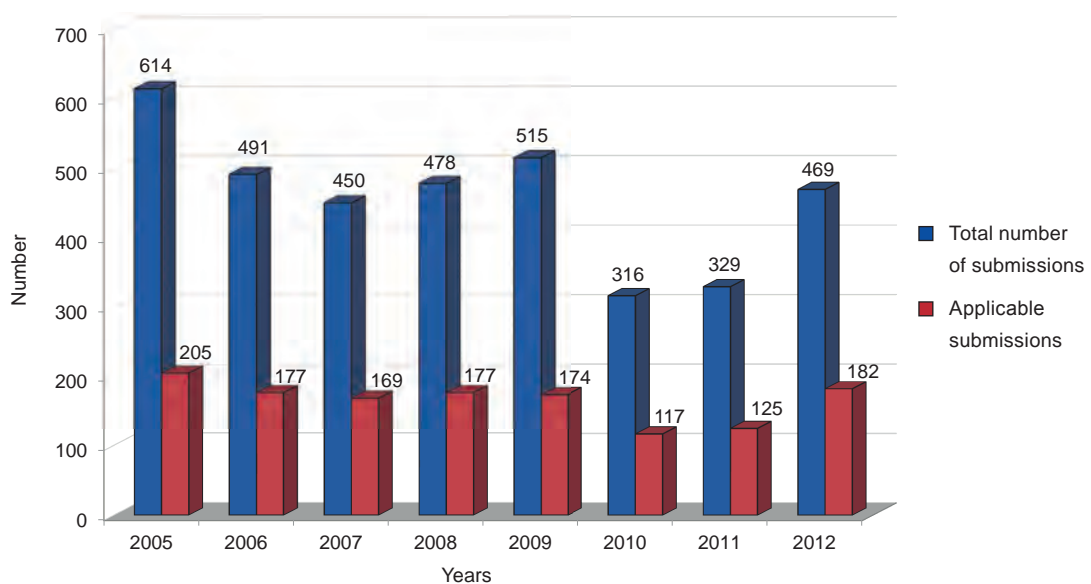
Pursuant to Section 18 of Act No. 106/1999 Coll., on free access to information, as amended, the SAO publishes an annual report on its activities in the area of provision of information under this Act.

In 2012, the SAO received a total of 11 requests for information under the Act on Free Access to Information. The requesting parties were interested in information about the audits conducted by the SAO, about the contractual relationships of the SAO and its approach to awarding public contracts and information about employee remuneration. Two requesting parties, once acquainted with the formalities of filing and processing requests under Act No. 106/1999 Coll., withdrew their requests and the SAO answered their questions outside the scheme of the Act. The SAO issued a decision on rejection of a request related to employee remuneration. Protection of privacy and personal data were the reasons for the rejection of this request. The SAO's response to this query was in an "anonymised" form outside the scheme of the Act. The SAO deferred two requests, as the requested information did not pertain to the SAO's purview (information about a different entity and information about the work of the law enforcement authorities related to the findings from Audit No. 10/26). In 2012, an appeal was not lodged against any decision rejecting a request and no complaints pursuant to Section 16a of the Act were filed. All of these requests were handled by the statutory deadlines.

### 3.3 Submissions from citizens

In 2012, the Communications Department of the SAO registered 469 written submissions (requests, complaints, enquiries, etc.) from citizens and institutions. Submissions related to areas in the purview of the SAO serve as a supplementary source of information for materially relevant audits in progress and for preparing the audit plan. In 2012, the SAO received 182 such usable input, i.e., 39% of the total number of such submissions. The submissions that could be used mainly concerned management of state budget resources by the various departments and ministries, awarding of public contracts, financing the construction of roads and the provision and use of subsidies from national sources and European funds.

**Graph No. 4: Overview of the total number of submissions and their practical use for audits in 2005-2012**



## 4. Management of finances allocated to the SAO budget heading in 2012

### 4.1 Implementation of the mandatory indicators of the SAO budget heading

The budget of heading 381 - *Supreme Audit Office* was approved by Act No. 455/2011 Coll., on the state budget of the Czech Republic, for 2012.

**Table No. 3: Implementation of mandatory indicators of the budget in 2012 (CZK thousand)**

Indicator	Approved budget (a)	Budget after changes (b)	Implementation (in %) (d/b)	Final budget (c)	Actual state (d)	Implementation (in %) (d/c)
<b>Aggregate Indicators:</b>						
Total income	466	466	227.44	-	1 059.86	-
Total expenditure	512 331	512 481	91.44	513 930	468 618.59	91.18
<b>Specific indicators:</b>						
Income	466	466	227.44	-	1 059.86	-
Expenditure covering performance of SAO's tasks	512 331	512 481	91.44	513 930	468 618.59	91.18
<b>Cross-sectional indicators:</b>						
Employees' pay and other payments for work performance	239 004	239 004	97.09	239 651	232 059.08	96.83
Mandatory insurance premiums paid by the employer	81 262	81 262	97.68	81 262	79 374.01	97.68
Transfer of Cultural and Societal Needs Fund	2 187	2 187	98.63	2 187	2 157.08	98.63
Pay of employees with fixed duration or temporary employment contract	218 700	218 700	98.63	218 700	215 707.66	98.63
Expenditure kept in the information system of programmed financing EDS/SMVS in total	48 965	48 965	87.85	55 979	43 018.17	76.85

#### Income

Revenue amounted to CZK 1 059.86 thousand, i.e., 227.44% compared to the approved budget and the budget after changes.

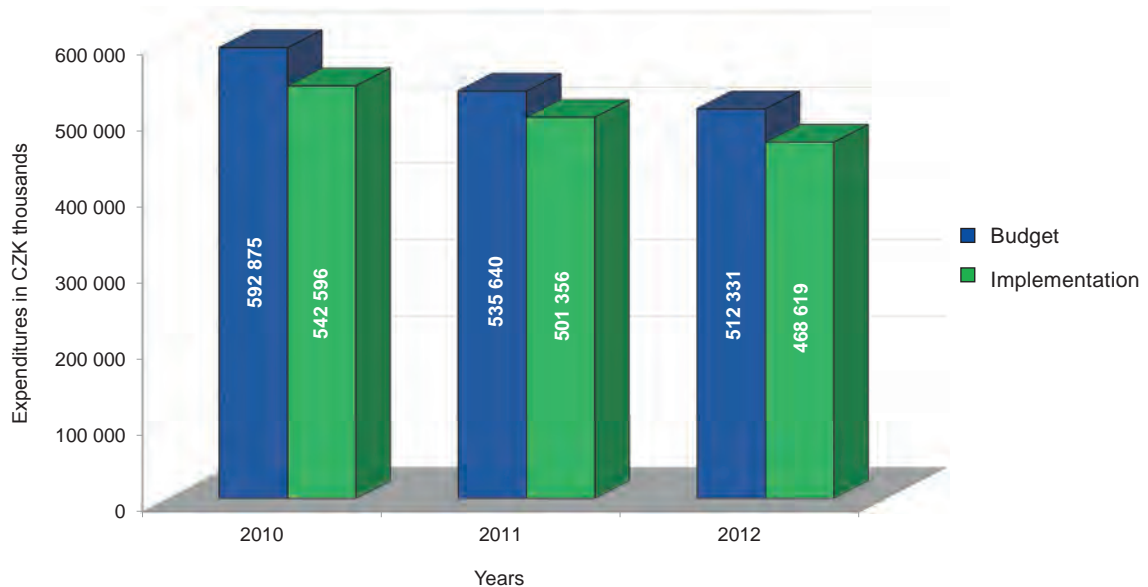
#### Expenditure

Total expenditure amounted to CZK 468 618.59 thousand, i.e., 91.74% of the approved budget and 91.44% of the budget after changes. The biggest share comprised expenditure on salaries and related expenses (66.92%). 91.18% of the final budget of CZK 513 930 thousand was implemented.

**All binding indicators of the budget heading SAO were observed in 2012.**

Graph No. 5 provides an overview of the expenditures of heading 381 - *Supreme Audit Office* for 2010 to 2012. From 2010 to 2012, the approved budget fell year-on-year by 9.65% and 4.35%. In 2010, two bindings of expenditures to funds totalling CZK 29 710 thousand took place; in 2012, one binding of expenditures to funds totalling CZK 7 312 thousand took place.

**Graph No. 5: Overview of expenditure under the budget heading 381 – *Supreme Audit Office* – and its implementation for 2010-2012**



#### 4.2 Claims from unused expenditure

As at 31 December 2012, the balance of claims from unused expenditure totalled CZK 112 545.66 thousand.

#### 4.3 Expenditure and assets replacement programmes

Budget funds were allocated to the implementation of Programme 18101 – *Development and Renewal of Material and Technological Resources of the Supreme Audit Office as of 2011*, namely to information and communication technology and asset replacement. A total of CZK 43 018.17 thousand was spent.

#### 4.4 Information about external audits of the SAO

In 2012, one external audit was conducted at the SAO. The Prague Social Security Administration conducted an audit of the fulfilment of sickness insurance and old-age pension insurance obligations and payment of social security and state employment policy contributions. The results of the audit were without reservations.

#### 4.5 Mandatory audit

The annual financial statements of the SAO were, in accordance with Section 33(3) of Act No. 166/1993 Coll., on the Supreme Audit Office, as amended, audited by an auditor. According to the auditor's statement, "*the financial statements and financial reports give a true and fair view of the assets and liabilities of the Supreme Audit Office as at 31 December 2012, the costs and revenues and its economic result, and the income and expenditure for the year ending 31 December 2012, in accordance with the Czech accounting regulations*"

## 4.6 Audit of the SAO's business management

In 2012, the work of the audit group of the Audit Committee of the Chamber of Deputies of the Parliament of the Czech Republic, which was appointed in accordance with Section 33(2) of Act No. 166/1993 Coll., on the Supreme Audit Office, to audit the Supreme Audit Office's management of state assets including state budget resources approved for heading 381 - *Supreme Audit Office*, was revived. The SAO cooperates with the audit group and provides documentation and correspondence requested by this group. Based on a resolution of the Audit Committee, on 15 November 2012, the audit of SAO's business management was extended to 30 June 2013 and a new period for the audit of the SAO's business management was defined as the period from 1 January 2005 to 31 December 2011.

## 5. Internal audit

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

The internal audit department's activities were carried out based on the Internal Audit Plan for 2012, which was approved by the SAO President and included a total of four internal audits.

The internal audits focused on:

- utilisation of operating expenses of the SAO for 2011
- activities threatening the SAO's operations
- the level of the SAO's internal regulations and their compliance with generally valid regulations
- functioning an effectiveness of the SAO's internal control system

The results of the audits completed in 2012 were discussed with the senior staff of the departments audited. Direct, specific and deadline-linked measures were adopted in respect of all the shortcomings found during the audits. The implementation of the adopted measures is monitored and assessed regularly by the internal audit department.

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

As part of its works, the Internal Audit Department provided consultation and methodological assistance in the following areas in particular:

- managing risks
- awarding public contracts
- concluding contractual relationships
- personnel
- asset records
- implementing measures

## 6. SAO headquarters

As the lease agreement in the current TOKOVO building is set to expire on 30 September 2013, the SAO has been focusing intensively on the issue of relocating its headquarters.

The priority was to relocate to a state-owned building. The government relocation committee has repeatedly stated, however, that the government does not have any free buildings in the Capital City of Prague.

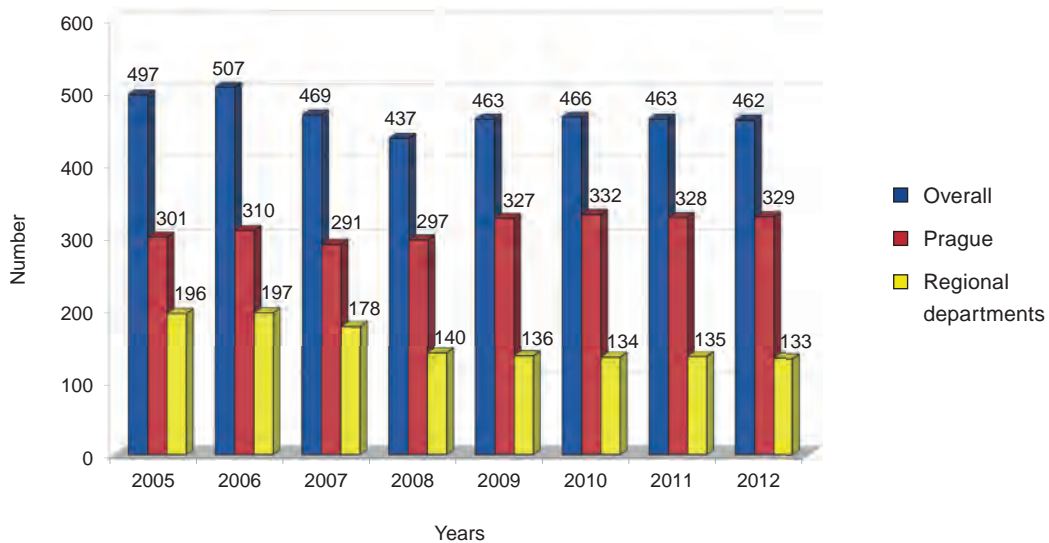
During the year, the possibility to relocate to a state-owned or private building was examined and a real estate market survey was conducted in terms of the possibility to rent or lease. The result of the enquiry procedure related to the purchase of existing real estate will be known in the first quarter of 2013.

## 7. SAO staffing

In 2012, the total SAO workforce was 465<sup>30</sup>, of which 332 staff members were employed in the Audit Section. During 2012, 36 new employees were hired. 34 ended their employment, of which 7 retired or left for medical reasons. The fluctuation rate in 2012 was 5.8%.

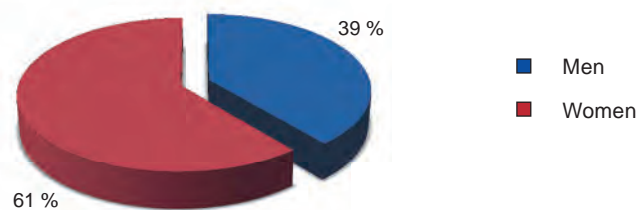
The average number of full time equivalent employees was 462 for 2012; the average number of full time equivalent employees in the audit section was 332 in 2012, i.e., 71.86% of the total average number of full time equivalent employees at SAO in 2012. Graph No. 6 shows development of the average number of SAO employees and employees of Prague and regional departments for the period 2005-2012.

**Graph No. 6: Development of the staff number of the SAO for 2005-2012**

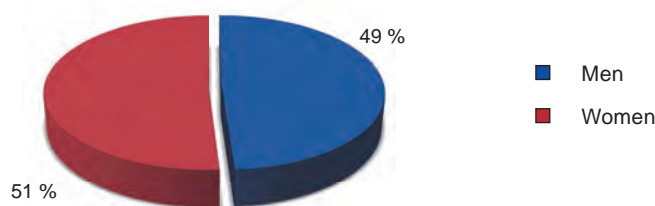


The SAO provides its employees with equal work conditions and job opportunities. Graph No. 7 and Graph No. 8 show, respectively, the proportion of men and women employed at the SAO and in the SAO's management in 2012.

**Graph No. 7: The ratio of men and women employed in the SAO as of 31. 12. 2012 (in %)**



**Graph No. 8: The ration of men and women in managerial positions in the SAO as of 31. 12. 2012 (in %)**

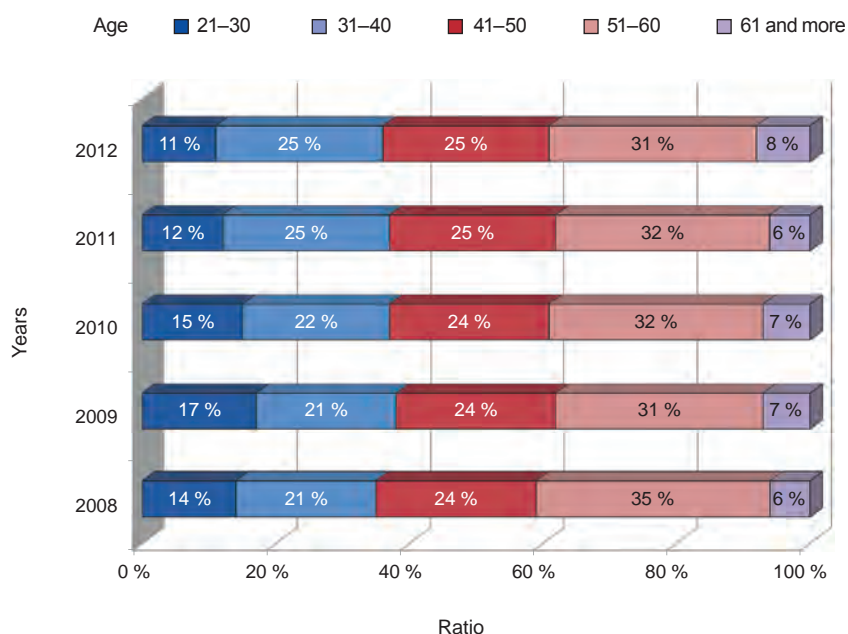


<sup>30</sup> Average number of employees recorded in 2012.



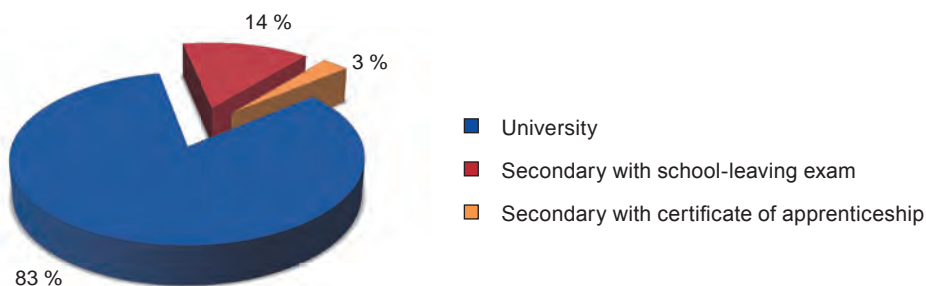
Graph No. 9 shows the age structure of SAO employees as at 31 December 2012, including a comparison with the years 2008 to 2012. The average age of SAO employees in 2012 was 46 years old.

**Graph No. 9: The structure of SAO's employees according to age in 2008-2012 (as of 31. 12. of the given year)**



As at 31 December 2012, 83% of the total SAO workforce had a university education. Graph No. 10 provides an overview of the educational structure of SAO employees as at 31 December 2012.

**Graph No. 10: The structure of SAO's employees according to educational attainment as of 31. 12. 2012**



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

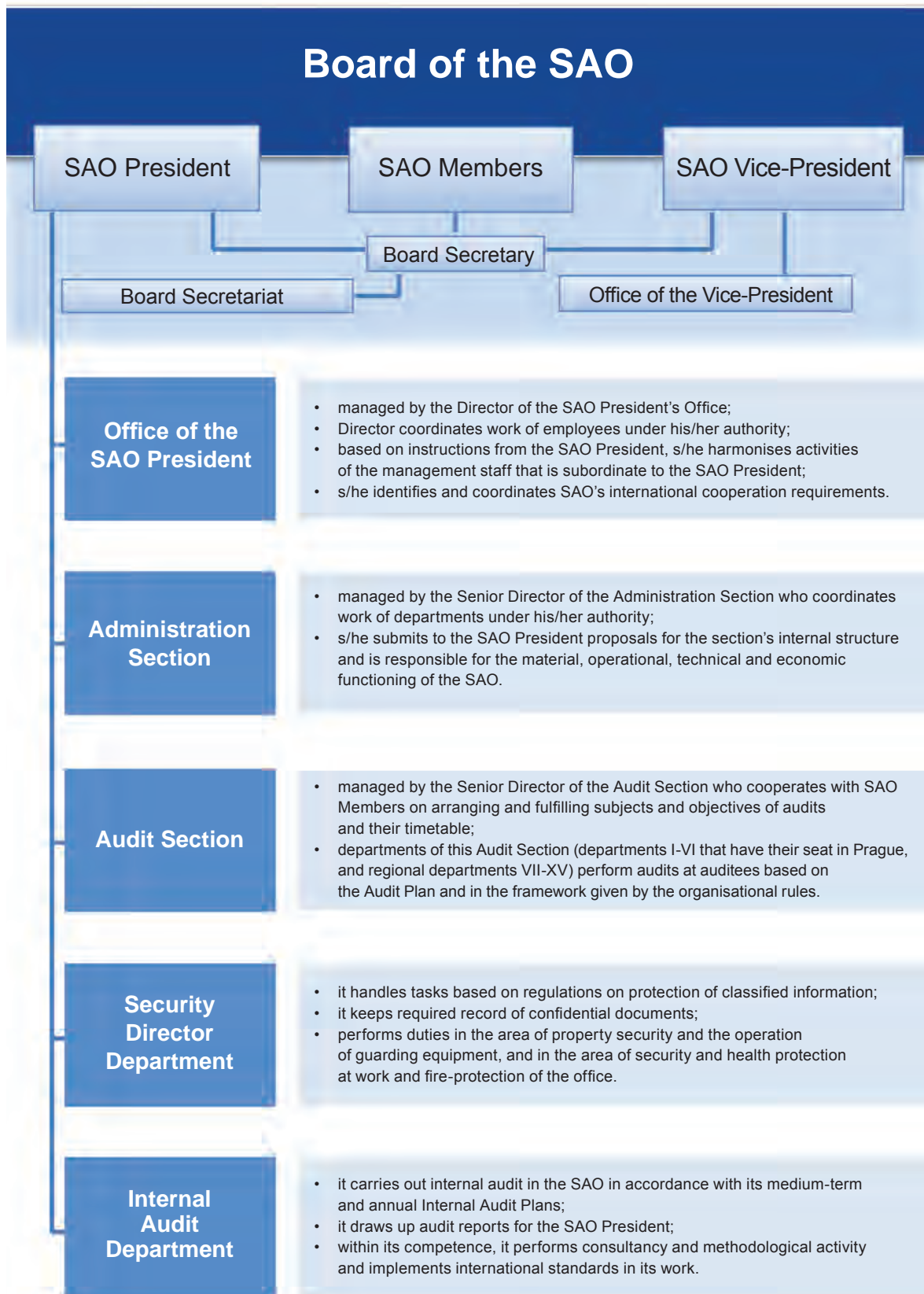
### Training and development

Training and development activities at the SAO in 2012 focused mainly on deepening and improving the professional skills of SAO employees.

The SAO has a functioning induction and professional training system. This system is modified and developed in compliance with the needs of the SAO as well as with the needs of SAO employees.

The objective of systematic training is to prepare SAO employees for their position and in case the skill set required for this position changes.

## 8. Organisational structure of the SAO



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

## Conclusion

In 2012 the SAO Board adopted 40 audit conclusions which is in comparison to 2011 an increase by one quarter of concluded audits. The highest number of audits was related to the management of state property and other financial resources, and furthermore to the management of financial resources provided from abroad.

A key problem from the SAO's point of view is the fact that auditees do not obey the set rules and their control systems are ineffective. This results in their attitude towards economical, efficient and effective management of assets which leads to material system shortcomings in their operations. A way how to deter such conduct of auditees in the future is to work out effective and focused measures for the remedy of ascertained shortcomings. The responsibility of auditees cannot be solely based on a formal approach as the system shortcomings, which were brought to the attention by the SAO, lead to ineffective fulfilment of the state management role.

With regard to the overall economic development and the situation of the management of state assets and financial resources, the SAO focused its activity on selected areas in which it assumed material risks and potential reserves in management, and this with respect to revenues and expenditures, but also to the area of assets management. Among the most serious shortcomings according to the SAO are contract settlement with obviously disadvantageous conditions for the state, purposeful splitting of procurement or uneconomical approach to outsourcing external legal consult services. The SAO also brought to attention the wrongful awarding of procurement in the form of negotiating procedure without publication leading to uneconomical results. The area of public procurement is among those posing a great risk in terms of possible corruptive behaviour. The grounds for uneconomical use of assets in the area of public procurement are breach of procedures and standards during the awarding procedure, suppressing of economic criteria and calculated misuse of legal exceptions.

Fundamental shortcomings were identified with regard to revenues in the effectiveness of administration of certain state receivables. The SAO for example pointed out shortcomings in the effectiveness of administration and collection of tax and tax arrears. With regard to expenditures the SAO pointed out serious instances of uneconomical use of resources in the area of important investment programmes of the state. The SAO considers the breach of subsidy programme rules and inefficiency of subsidy distribution to be a great problem.

The SAO pursuant to its mandate paid attention to audit of EU funds which are drawn by the Czech Republic from the operational programmes. Auditors stated increasing number of shortcomings in the operation of control and oversight system in the programmes co-financed from the EU funds and also breach of programme financing principles and rules.

In the area of financial statements assessment, the SAO repeatedly points out the fact that due to ambiguity of accounting rules, it is not possible to assess the reliability of reported data. Various options of accounting rules application lead to incomparable data and prevent their aggregation or use for statistical purposes.

It is important to stress that inefficient, uneconomical and ineffective use of resources results in substantial losses for the state which would not have to be compensated to disadvantage of other expenditure needs or paid for from additional revenue. In respect of difficult economic situation and increasing state deficit, the demands for proper management of the state gain on importance. Therefore, the SAO shall continuously focus on them with great care.

Audits included in the Audit Plan for 2012							
Audit No.	Subject of audit	Start (month/year)	Audit conclusion submitted for approval (month/year)	Audited area	Heading Administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by
12/01	State income from the fines imposed by territorial financial authorities according to Act on Accounting and by courts in relation to the management of the Collection of Documents	01/12	11/12	Revenues and other financial operations of the SB	MoF, MoJ	Ms Profeldová	SAO Board
12/02	EU and State budget funds earmarked for the <i>Integrated Operational Programme</i>	01/12	10/12	Funds from abroad	MoRD	Mr Hrnčič	SAO Board
12/03	Funds earmarked for the development and renewal of material and technical background of university hospitals	02/12	12/12	Important investment programmes and actions	MoH	Mr Hrnčič	SAO Board
12/04	Management of the state property and state funds allotted to the projects concerning IT and communication technology at the Ministry of Agriculture	02/12	12/12	State property management	MoA	Mr Vedral	SAO Board
12/05	Management of the state property in the state budget chapter the <i>Office of the President of the Czech Republic</i>	03/12	10/12	State property management	OPCR	Mr Neuvirt	SAO Board
12/06	Funds earmarked for the implementation of projects of priority axis <i>Integrated Territorial Development</i> within the <i>Regional Operational Programme of Cohesion Region the Central Bohemia for the period 2007-2013</i>	03/12	09/12	Funds from abroad	MoRD	Mr Neuvirt	SAO Board
12/07	State property and funds allotted to the selected psychiatric hospitals	03/12	12/12	State property management	MoH	Mr Brandt	SAO Board
12/08	Industrial cooperation programmes (offsets) as a tool of economic compensation for the state expenditures incurred in relation to selected public procurement, including tax administration of tax payers participating in the respective audited programmes	03/12	02/13	Important investment programmes and actions	MoD, Mol	Mr Sehoř	SAO Board
12/09	Funds spent on the construction of the information system of the Treasury	03/12	01/13	State property management	MoF	Mr Reisiegel	SAO Board

Audits included in the Audit Plan for 2012							
Audit No.	Subject of audit	Start (month/year)	Audit conclusion submitted for approval (month/year)	Audited area	Heading Administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by
12/10	Funds earmarked for the limitation of industrial pollution and environmental risks	04/12	11/12	Funds from abroad	MoE	Mr Neuvirt	SAO Board
12/11	Funds earmarked for modernization of important railway junctions	03/12	02/13	Important investment programmes and actions	MoT	Mr Sehoř	SAO Board
12/12	Incomes from the motorway toll and from time coupons (time framed charge for using roads) including related expenditures	04/12	02/13	Revenues and other financial operations of the SB	MoT, MoF	Mr Němeček	SAO Board
12/13	EU and state funds earmarked for the realization of the operational programme <i>Technical Assistance</i>	04/12	12/12	Funds from abroad	MoRD	Mr Macháček	SAO Board
12/14	Closing account of the state budget chapter the <i>Ministry of Transport</i> for the year 2011, their financial statements and financial records for 2011	05/12	01/13	Closing accounts of SB headings	MoT	Mr Reisiegel	SAO Board
12/15	Closing account of the state budget chapter <i>Ministry of Agriculture</i> for the year 2011, their financial statements and financial records for 2011	05/12	01/13	Closing accounts of SB headings	MoA	Ms Steidlová	SAO Board
12/16	State property and funds allotted to the state-funded organisation Czech Hydrometeorological Institute	06/12	01/13	State property management	MoE	Mr Macháček	SAO Board
12/17	State budget funds and state property allotted to the Municipal Financial Company, joint-stock company, funds guaranteed by the state and state share in the company	06/12	03/13	State's subsidy policy	GTA	Ms Kadaňová	SAO Board
12/18	Funds earmarked for the construction of motorways and high-speed roads	04/12	06/13	Important investment programmes and actions	MoT	Mr Adámek	SAO Board
12/19	Funds earmarked for the implementation of the operational programme <i>Human Resources and Employment</i>	06/12	03/13	Funds from abroad	MoLSA	Mr Hrnčíř	SAO Board
12/20	Funds collected in accordance with Act on Hazardous Waste Management	07/12	03/13	Management of other funds	MoE	Mr Němeček	SAO Board



**Audits included in the Audit Plan for 2012**

<b>Audit No.</b>	<b>Subject of audit</b>	<b>Start (month/year)</b>	<b>Audit conclusion submitted for approval (month/year)</b>	<b>Audited area</b>	<b>Heading Administrator</b>	<b>Audit conclusion drawn up by a Member</b>	<b>Audit conclusion approved by</b>
12/21	EU and state funds earmarked for the implementation of the operational programme <i>Research and Development for Innovation</i>	07/12	04/13	Funds from abroad	MoEYS	Mr Kalivoda	SAO Board
12/22	State funds provided to non-state, non-profit organisations through the budget chapter the <i>Ministry of the Interior</i>	07/12	03/13	State's subsidy policy	MoI	Ms Profeldová	SAO Board
12/23	Funds spent by selected university hospitals on their operational costs	08/12	04/13	State property management	MoH	Ms Kadaňová	SAO Board
12/24	State property and funds allotted to the Czech Office for Surveying, Mapping and Cadastre and its selected subordinated organizational state bodies	07/12	04/13	State property management	COSMC	Mr Kufa	SAO Board
12/25	State funds provided for programmes on anti-narcotics politics	08/12	05/13	State's subsidy policy	MoEYS, MoH, GOCR	Mr Neuvirt	SAO Board
12/26	State property and funds provided to the state enterprise VOP-026 Šternberk	09/12	05/13	State property management	MoD	Mr Kalivoda	SAO Board
12/27	Funds earmarked for anti-flood prevention programmes	10/12	07/13	Important investment programmes and actions	MoA	Mr Adámek	SAO Board
12/28	Closing account of the state budget chapter the <i>Ministry of Labour and Social Affairs</i> for the year 2012, their financial statements and financial records for 2012	10/12	07/13	Closing accounts of SB headings	MoLSA	Mr Reisiegel	SAO Board
12/29	Funds spent on the purchase of selected commodities in the Ministry of the Interior in relation to the project of the central purchase	11/12	08/13	State property management	MoI	Ms Kadaňová	SAO Board
12/30	Closing account of the state budget chapter <i>Ministry of Education, Youth and Sports</i> for the year 2012, their financial statements and financial records for 2012	11/12	07/13	Closing accounts of SB headings	MoEYS	Ms Steidlová	SAO Board
12/31	State property and funds delegated to the state-funded organisation The Road and Motorway Directorate of the Czech Republic	11/12	08/13	State property management	MoT	Mr Adámek	SAO Board
12/32	Funds spent on the operational costs of selected ministries	11/12	06/13	State property management	MoRD, MoIT, MoE	Mr Vedral	SAO Board

Audits included in the Audit Plan for 2012							
Audit No.	Subject of audit	Start (month/year)	Audit conclusion submitted for approval (month/year)	Audited area	Heading Administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by
12/33	Funds earmarked for the purchase of selected technical equipment and weaponry for land forces and specialized forces of the Armed Forces of the Czech Republic	11/12	08/13	Important investment programmes and actions	MoD	Mr Němeček	SAO Board
12/35	Establishment of the Labour Office of the Czech Republic and management of state budget's and the EU's property and funds related to the establishment and activity of this office and to preparation and implementation of projects in the area of welfare disbursement information systems	11/12	08/13	State property management	MoLSA	Ms Profeldová	SAO Board
12/36	Funds spent on the purchase and operation of the system of data boxes	11/12	07/13	Funds from abroad	Mol	Mr Brandt	SAO Board

**Note:** Audit No. 12/34 – *Financial statements and financial reports of the Czech Social Security Administration for 2012, which are presented as a background information for the closing account of the state budget heading – Ministry of Labour and Social Affairs*, was annulled by the Board's decision on 24. 9. 2012.

Overview of audits whose audit conclusions were approved in 2012							
Audit No.	Subject of audit	Audited area	Heading Administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by	Date of approval	Published in SAO Bulletin (Issue/year)
10/26	State property and funds provided to the Forests of the Czech Republic, state-owned enterprise	State property management	MoA	Mr Kalivoda	SAO Board	30. 1. 2012	1/2012
11/05	Funds earmarked for the <i>Programme for the care of the national cultural treasure in the State ownership</i>	Important investment programmes and actions	MoC	Mr Hrnčíř	SAO Board	16. 1. 2012	1/2012
11/07	Value Added Tax administration concerning the import of goods from third countries	State budget revenue	GTA	Mr Macháček	SAO Board	27. 2. 2012	1/2012
11/08	Funds spent on preparations and realization of State A-levels	State property management	MoEYS	Ms Profeldová	SAO Board	22. 2. 2012	1/2012
11/09	State financial assets, especially funds in the Nuclear Account	State budget revenue	SFAO	Ms Kadaňová	SAO Board	16. 1. 2012	1/2012
11/10	Funds and State property under the management of organisations co-financed by the State budget that are under the authority of the Ministry of Foreign Affairs	State property management	MoFA	Mr Macháček	SAO Board	30. 1. 2012	1/2012
11/11	Funds provided to the Czech Export Bank from the State budget; Bank's management of those funds for which the State gives a guarantee; exercise of shareholder rights in the Czech Export Bank by the State	State budget revenue	GTA	Mr Reisiegel	SAO Board	25. 6. 2012	3/2012
11/12	Funds earmarked for the development and renewal of the material-technical base of the Police of the Czech Republic	Important investment programmes and actions	MoI	Mr Němeček	SAO Board	26. 3. 2012	2/2012
11/13	Funds spent on constructing and operating of the road toll collecting system in the Czech Republic	Important investment programmes and actions	MoT	Mr Sehoř	SAO Board	26. 3. 2012	2/2012
11/14	Funds earmarked for the construction and maintenance of the cycling infrastructure	Important investment programmes and actions	MoT, MoRD	Mr Sehoř	SAO Senate	21. 2. 2012	1/2012

Overview of audits whose audit conclusions were approved in 2012							
Audit No.	Subject of audit	Audited area	Heading Administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by	Date of approval	Published in SAO Bulletin (Issue/year)
11/15	Funds earmarked for enhancing the quality of life in the rural areas under the <i>Rural Development Programme</i>	Funds from abroad	MoA	Mr Kalivoda	SAO Board	26. 3. 2012	2/2012
11/16	Funds earmarked for the construction of the ring road around the capital city of Prague	Important investment programmes and actions	MoT	Mr Adámek	SAO Board	16. 4. 2012	2/2012
11/17	EU and State funds earmarked for the priority axis <i>Initial Education</i> under the operational programme <i>Education for Competitiveness</i>	Funds from abroad	MoEYS	Mr Vedral	SAO Board	27. 8. 2012	4/2012
11/18	Funds earmarked for the development of urban and rural areas under the <i>Regional operational programme "Northeast" for the period 2007-2013</i>	Funds from abroad	–	Mr Němeček	SAO Board	27. 8. 2012	3/2012
11/19	Funds earmarked for the stabilization and development of towns and municipalities under the <i>Regional operational programme "Southwest" for the period 2007-2013</i>	Funds from abroad	–	Mr Hrnčič	SAO Board	25. 6. 2012	3/2012
11/20	Funds earmarked for the urban development under the <i>Regional operational programme "Moravia Silesia" for the period 2007-2013</i>	Funds from abroad	–	Mr Kalivoda	SAO Board	25. 6. 2012	3/2012
11/21	Records and accounting for tax revenue and related costs and revenues, receivables and liabilities	State budget revenue	MoF	Mr Reisiegel	SAO Board	2. 5. 2012	2/2012
11/22	Closing account of the State budget heading <i>Ministry of Defense</i> for the year 2010	Closing accounts of SB headings	MoD	Mr Vedral	SAO Board	11. 6. 2012	2/2012
11/23	State property under the management of the Ministry of the Interior	State property management	MoI	Mr Reisiegel	SAO Senate	31. 5. 2012	2/2012
11/24	Funds from the State budget heading <i>Ministry of Education, Youth and Sports</i> that were provided for to support activities in the area of youth and sports of handicapped	State's subsidy policy	MoEYS	Ms Profeldová	SAO Senate	26. 6. 2012	3/2012
11/25	State funds spent on selected health programmes	State's subsidy policy	MoH	Mr Kufa	SAO Board	18. 6. 2012	3/2012
11/26	Financial statements and reports of the Czech Social Security Administration for the year 2011	Closing accounts of SB headings	MoLSA	Mr Vedral	SAO Board	6. 8. 2012	3/2012

Overview of audits whose audit conclusions were approved in 2012

Audit No.	Subject of audit	Audited area	Heading Administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by	Date of approval	Published in SAO Bulletin (Issue/year)
11/27	Funds earmarked for the fulfilment of aims of the EU's common migration and asylum policy	Funds from abroad	MoI	Ms Hošková	SAO Board	4. 6. 2012	2/2012
11/28	State property and funds provided for the Military Forests and Farms of the Czech Republic	State property management	MoD	Mr Kalivoda	SAO Board	6. 8. 2012	3/2012
11/29	Closing account of the State budget heading <i>Ministry of Education, Youth and Sports</i> for the year 2011	Closing accounts of SB headings	MoEYS	Ms Steidlová	SAO Board	6. 8. 2012	3/2012
11/30	Funds spent on consultation, legal, and counselling services that were paid out from the State budget heading No. 312 - <i>Ministry of Finance</i>	State property management	MoF	Ms Profeldová	SAO Board	24. 9. 2012	SET ASIDE
11/31	State property under the management of the Railway Infrastructure Administration	State property management	MoT	Mr Adámek	SAO Board	24. 9. 2012	4/2012
11/33	Funds and State property under the management of several State Funds	Management of other funds	MoC, MoRD, MoE	Ms Kadaňová	SAO Board	16. 7. 2012	3/2012
11/34	Funds spent to cover costs incurred by activities of several Ministries	State property management	MoC, MoJ, MoH	Mr Vedral	SAO Board	25. 6. 2012	3/2012
11/35	Funds from the <i>European Social Fund</i> pre-financed and co-financed by the State budget that were earmarked for projects carried out in the capital city of Prague	Funds from abroad	MoRD	Mr Neuvirt	SAO Board	4. 6. 2012	2/2012
11/36	Financial statements of the Ministry of Labour and Social Affairs as of 31. 12. 2010	Closing accounts of SB headings	MoLSA	Mr Reiesiegel	SAO Board	30. 1. 2012	1/2012
11/37	Funds earmarked for the development and renewal of a material and technical background of public universities	Important investment programmes and actions	MoEYS	Mr Macháček	SAO Board	24. 9. 2012	4/2012
11/38	Funds from the State budget provided for preservation and renewal of cultural property	State's subsidy policy	MoC	Mr Neuvirt	SAO Board	6. 8. 2012	3/2012
12/01	State income from the fines imposed by territorial financial authorities according to Act on Accounting and by courts in relation to the management of the Collection of Documents	State budget revenue	MoF, MoJ	Ms Profeldová	SAO Board	17. 12. 2012	AC is to be published in 2013



Overview of audits whose audit conclusions were approved in 2012							
Audit No.	Subject of audit	Audited area	Heading Administrator	Audit conclusion drawn up by a Member	Audit conclusion approved by	Date of approval	Published in SAO Bulletin (Issue/year)
12/02	EU and State budget funds earmarked for the <i>Integrated Operational Programme</i>	Funds from abroad	MoRD	Mr Hrnčíř	SAO Board	26. 11. 2012	4/2012
12/04	Management of the state property and state funds allotted to the projects concerning IT and communication technology at the Ministry of Agriculture	State property management	MoA	Mr Vedral	SAO Board	17. 12. 2012	AC is to be published in 2013
12/05	Management of the state property in the state budget chapter the <i>Office of the President of the Czech Republic</i>	State property management	OPCR	Mr Neuvirt	SAO Board	12. 11. 2012	4/2012
12/06	Funds earmarked for the implementation of projects of priority axis <i>Integrated Territorial Development</i> within the <i>Regional Operational Programme of Cohesion Region the Central Bohemia for the period 2007-2013</i>	Funds from abroad	MoRD	Mr Neuvirt	SAO Board	15. 10. 2012	4/2012
12/07	State property and funds allotted to the selected psychiatric hospitals	State property management	MoH	Mr Brandt	SAO Board	26. 11. 2012	4/2012
12/10	Funds earmarked for the limitation of industrial pollution and environmental risks	Funds from abroad	MoE	Mr Neuvirt	SAO Board	26. 11. 2012	4/2012

Overview of audits whose approved audit conclusions were discussed by the Committee on Budgetary Control of the Chamber of Deputies of the Parliament of the Czech Republic in 2012					
CBC resolution	Date of session	Audit No.	Government document No.	Government resolution (No./Year)	Summary of CBC's resolution
160	15. 11. 2012	09/29	220/11	306/11	CBC I. acknowledges: a) the information of the deputy director of GHIC Mr Tomáš Červinka, b) AC, c) the opinion of MoH on the AC mentioned in the Government material 220/11, d) the opinion of VZP on the AC mentioned in the Government material 220/11; II. Requests the Minister of Health to review and submit, by 28. 2. 2013, to the CBC report: a) whether GHIC draws down the Prevention fund in an efficient way, b) whether the depreciation of receivables of VZP from the insurance payers for 2000 - 2009 totalling at CZK 19.5 bil corresponds in volume and percentage to the receivables depreciation in the social insurance and tax system, c) whether GHIC has set the procedures for recollection of regressive compensations well, in what volume were these compensations recollecte d in 2007 and 2008 and to what extent GHIC succeeded in their recollection.
153	3. 10. 2012	11/13	471/12	492/12	CBC interrupts the discussion of this point
146	12. 6. 2012	11/02	11/12, 486/12	226/12	CBC I. acknowledges: a) AC, b) the opinion of the MoIT on the AC mentioned in the Government material 11/12, c) the information of the Minister of Industry and Trade on the implementation of measures adopted to remedy and correct the shortcomings mentioned in the AC, mentioned in the Government material 468/12.
140	23. 5. 2012	09/25	1014/10, 542/11	858/10	CBC acknowledges: a) AC, b) the opinion of the on the AC mentioned in the Government material 1014/10, c) the information of the Minister of Health about the implementation of measures adopted to remedy and correct the shortcomings mentioned in the AC, mentioned in the Government material 542/11.
139	23. 5. 2012	09/30	836/10, 269/11	622/10	CBC acknowledges: a) AC, b) the opinion of the CSSA and the MoLSA on the AC mentioned in the Government material 836/10, c) the information of the Minister of Labour and Social Affairs about the implementation of measures adopted to remedy and correct the shortcomings mentioned in the AC, mentioned in the Government material 269/11.
138	23. 5. 2012	09/21	795/10	624/10	CBC acknowledges: a) AC 09/21, b) the opinion of the MoF on the AC mentioned in the Government material 795/10, c) the opinion of the OGRPA on the AC mentioned in the Government material 795/10.
119	23. 2. 2012	10/24	665/11, 803/12	186/12	CBC I. acknowledges: a) AC, b) the opinion of the MoT on the AC mentioned in the Government material 665/11 II. requests the Minister of Transport to a) set the indicators and benchmarks for the evaluation of the programme for procurement and renewal of railway vehicles, b) evaluate the efficiency of the funds spent on the procurement and renewal of railway vehicles.
118	23. 2. 2012	10/22	943/11	206/12	CBC acknowledges: a) AC, b) the opinion of the MoRD on the AC mentioned in the Government material 943/11.
117	23. 2. 2012	10/12	480/11, 690/12	472/11	CBC I. acknowledges: a) AC, b) the opinion of the MoE on the AC mentioned in the Government material 480/11 II. requests the Minister of Environment to submit report on the implementation of the remedial easure to the CBC by 30.6.2012.
115	23. 2. 2012	10/10	610/11, 65/12	485/11	CBC acknowledges: a) AC, b) the opinion of the MoD on the AC mentioned in the Government material 610/11.

Overview of audits whose approved audit conclusions were discussed by the Government of the Czech Republic in 2012				
Government resolution No.	Date of session	Government document No.	Audit No.	Measures imposed by the Government
891/12	5. 12. 2012	1077/12	11/26	Not imposed
890/12	5. 12. 2012	1180/12	11/33	The Government instructs: 1. The Ministers of Regional development and culture to assess the need of update of legal amendments focusing on allocation of own resources, assess sufficiency of financing areas assignment, set a detailed conditions for subsidy provisions inclusive of securing of at least partial return of spent funds, set required control mechanisms for management and carry out substantial division of executive powers within state funds management of their ministries with regard to AC, by 30. 4. 2013; 2. to The Minister of Regional development in cooperation with the Minister of Environment and Minister of Culture to work out an analysis of legal amendments of state funds within their powers with focus on assessment of fundamental criteria of the legal acts which are governing the state funds and assessment of areas with regard to establishing the unification of legal amendments in respective legal acts and assess the areas where differences in legal provisions may be justified. This analysis with suggestions of material changes of legal amendments shall be presented by 30. 9. 2013 to the Legislative Council of the Government for their opinion.
889/12	5. 12. 2012	1152/12	11/17	The Government instructs the Minister of Education, Youth and Sports to implement the measures of MoEYS mentioned in the opinion on the AC.
829/12	14. 11. 2012	1024/12	11/38	The Government instructs the Minister of Culture, to secure a continuous fulfilment of remedial measures mentioned in the opinion on the AC.
828/12	14. 11. 2012	997/12	11/28	The Government instructs the Minister of Defence to implement the measures to eliminate the shortcomings mentioned in the AC, the fulfilment of these measures shall be assessed and the result of this assessment shall be delivered to the Government by 30. 4. 2013.
827/12	14. 11. 2012	987/12	11/34	The Government instructs the Ministers of Justice, Health and Culture: 1. to implement measures to eliminate shortcomings mentioned in the AC and included in opinions on the AC, 2. to inform the Government about the fulfilment of this by 31. 12. 2012.
826/12	14. 11. 2012	844/12	11/25	The Government instructs the Minister of Health: 1. to finish the subsidy procedure for 2013 in the Programme Grant Subsidy and Programme Equal Opportunities for Handicapped according to the AC part II, point 5, appendix of Government's decision No. 92/10, on the Government's rules for subsidy provision from the state budget of the CR to the non-state allowance organisation from the central bodies of state administration, and in the methodical material from 2014 to amend the procedure for subsidy provisions pursuant to the part II of point 5 of the appendix in the decision, 2. to strengthen auditing activity of MoH at the subsidised programmes, mainly the audit at the location of subsidised operations.
825/12	14. 11. 2012	993/12	11/29	The Government instructs the Minister of Education, Youth and Sports to implement measures to eliminate the shortcomings mentioned in the AC part IV of material No. 993/12.
-	14. 11. 2012	1152/12	11/17	Interrupted
824/12	14. 11. 2012	1137/12	11/18	The Government recommends to the president of the Regional Council of cohesion region North-East to continue in the implementation of the measures mentioned in the part III of the material 1137/12 and to inform the Minister of Regional Development about the results.

Overview of audits whose approved audit conclusions were discussed by the Government of the Czech Republic in 2012

Government resolution No.	Date of session	Government document No.	Audit No.	Measures imposed by the Government
823/12	14. 11. 2012	992/12	11/20	The Government recommends to the chairman of the Moravia-Silesia region to continue in the implementation of measures mentioned in the part III and IV of the material 992/12 and moreover pay greater attention to audits of projects and inform the Minister of Regional Development about the results by 31. 3. 2013.
822/12	14. 11. 2012	991/12	11/19	The Government recommends to the chairmans of South-Bohemia and Pilsen regions to continue in the implementation of the measures mentioned in the part III and IV of the material 991/12 and to inform the Minister of Regional Development about the results.
821/12	14. 11. 2012	924/12	10/26	The Government instructs the Minister of Agriculture, the General Director of Lesy ČR and to the advisory board of Lesy ČR to implement the measures to eliminate the shortcomings mentioned in AC and in the opinion on the AC, and to inform the Government about their implementation by 31. 3. 2013.
749/12	10. 10. 2012	905/12	11/24	The Government instructs the Minister of Education, Youth and Sports to implement the measures mentioned in the part IV of the material 905/12.
-	10. 10. 2012	924/12	10/26	Withdrawn from the agenda
-	10. 10. 2012	844/12	11/25	Interrupted
748/12	10. 10. 2012	808/12	11/35	The Government instructs the Minister of Regional Development in cooperation with the Minister of Labour and Social Affairs to implement the findings, mentioned in the AC, at the time of preparation the programming period 2014-2020. The Government recommends, to the mayor of Prague, to implement the measures mentioned in the opinion on the AC.
747/12	10. 10. 2012	836/12	11/22	The Government instructs the Minister of Defence to implement the measures to eliminate the shortcomings mentioned in the AC and in the opinion on the AC, to assess the fulfilment of these measures and to inform the Government about the results by 28. 2. 2013.
746/12	10. 10. 2012	855/12	11/27	The Government instructs the Minister of the Interior to implement the measures to eliminate the shortcomings mentioned in the AC and in the opinion on the AC, assess the fulfilment of these measures and to inform the Government about the results by 31. 1. 2013.
745/12	10. 10. 2012	757/12	11/23	Not imposed
744/12	10. 10. 2012	884/12	11/11	The Government instructs the Minister of Finance: 1. to ensure the implementation of measures mentioned in the opinion on the AC and to inform the Government about their implementation by 31. 3. 2013; 2. to submit draft amendment of the Act No. 58/1995 Coll., on insurance and financing of export with state's subsidy and the addition to the Act No. 166/1993 Coll., on Supreme Audit Office in such a way that the breach of this act's effectiveness is avoided and that this act enables the MoF to carry out an audit of credits provided within the subsidised financing of export.
743/12	10. 10. 2012	785/12	11/21	Not imposed

Overview of audits whose approved audit conclusions were discussed by the Government of the Czech Republic in 2012				
Government resolution No.	Date of session	Government document No.	Audit No.	Measures imposed by the Government
742/12	10. 10. 2012	709/12	11/16	The Government instructs the Minister of Transport: 1. to add measures mentioned in the opinion on the AC with terms and persons responsible for their fulfilment and to inform the Government about their implementation by 30. 6. 2013; 2. to assess the possibility of reaching more favourable prices by the enlargement of the group of possible applicants for public procurement and this by them being tendered by parts (independent functional entities) and pursuing the respective legislative measures of the act No. 137/2006 Coll., on public procurement and later amendments.
497/12	4. 7. 2012	228/12	11/36	The Government instructs the Minister of Labour and Social Affairs to implement the measures to eliminate the shortcomings mentioned in the AC and to inform the Government about their implementation by 31. 3. 2013.
496/12	4. 7. 2012	219/12	11/10	The Government instructs the Minister of Foreign Affairs to implement the measures to eliminate the shortcomings mentioned in the AC and to inform the Government about their implementation by 1. 10. 2012.
495/12	4. 7. 2012	386/12	11/07	Not imposed
494/12	4. 7. 2012	234/12	11/09	The Government instructs the Minister of Finance: 1. to implement the measures to eliminate the shortcomings mentioned in the AC, 2. to inform the Government about their implementation by 30. 11. 2012.
493/12	4. 7. 2012	402/12	11/14	The Government instructs the Minister of Transport: 1. to submit to the Government by 31.12.2012 the draft National strategy of development of cycling transport in the CR for 2012-2015, 2. to work out by 31.3.2013 price norms according to individual types of cycling routes and to ensure their usage at the process of price settlement.
492/12	4. 7. 2012	471/12	11/13	The Government instructs the Minister of Transport 1. to submit to the Government by 30.11.2012 a draft strategy for toll collection for vehicles for over 3.5 t and this with a current provider of toll system as well as the future one. 2. to begin immediately the preparation of legislative and other measures leading to the notification of public procurement procedure for the electronic toll provider for 2016.
491/12	4. 7. 2012	518/12	11/08	The Government instructs the Minister of Education, Youth and Sports to implement the measures to eliminate the shortcomings mentioned in the AC part IV of the material 518/12.
490/12	4. 7. 2012	580/12	11/12	Not imposed
489/12	4. 7. 2012	396/12	11/15	The Government instructs the Minister of Agriculture and to the director of SZIF to implement the measures to eliminate the shortcomings mentioned in the AC and to inform the Government about their implementation by 31. 12. 2012.
-	4. 7. 2012	358/12	10/26	Interrupted
232/12	4. 4. 2012	177/12	11/05	The Government instructs the Minister of Culture to implement the measures to eliminate the shortcomings mentioned in the AC.
231/12	4. 4. 2012	20/12	11/01	The Government approves adopted measures mentioned in the part III of material 20/12 and instructs the Minister of Health to ensure their implementation.



Overview of audits whose approved audit conclusions were discussed by the Government of the Czech Republic in 2012

Government resolution No.	Date of session	Government document No.	Audit No.	Measures imposed by the Government
230/12	4. 4. 2012	90/12	10/23	The Government instructs the Minister of Finance to implement the measures to eliminate the shortcomings mentioned in the AC.
229/12	4. 4. 2012	166/12	11/04	The Government instructs the Minister of Environment to implement the measures to eliminate the shortcomings mentioned in the AC and to inform the Government about their implementation by 30. 9. 2013.
228/12	4. 4. 2012	136/12	11/06	The Government instructs the Minister of Environment to implement the measures to eliminate the shortcomings mentioned in the AC and to inform the Government about their implementation by 31. 12. 2013.
227/12	4. 4. 2012	69/12	11/32	The Government instructs the Minister of Industry and Trade to implement the measures to eliminate the shortcomings mentioned in the AC and to inform the Government about their implementation by 31. 7. 2012.
226/12	4. 4. 2012	11/12	11/02	The Government instructs the Minister of Industry and Trade to implement the measures to eliminate the shortcomings mentioned in the AC and to inform the Government about their implementation by 31. 5. 2012.
225/12	4. 4. 2012	826/11	10/18	The Government instructs the Minister of Industry and Trade to implement the measures to eliminate the shortcomings mentioned in the AC and to inform the Government about their implementation by 31. 5. 2012.
213/12	28. 3. 2012	1345/11	10/28	The Government instructs the Minister of Agriculture to implement the measures to eliminate the shortcomings mentioned in the AC and to inform the Government about their implementation by 30. 6. 2012.
212/12	28. 3. 2012	1344/11	10/29	The Government instructs the Minister of Agriculture and the Director of SAIF to implement the measures to eliminate the shortcomings mentioned in the AC and to inform the Government about their implementation by 30. 6. 2012.
211/12	28. 3. 2012	936/11	10/21	The Government instructs the Minister of Agriculture to implement the measures to eliminate the shortcomings mentioned in the AC and to inform the Government about their implementation by 31. 3. 2012.
210/12	28. 3. 2012	1330/11	10/20	The Government instructs the Minister of Education, Youth and Sports to implement the measures to eliminate the shortcomings mentioned in the AC in the part IV of the material 1330/11.
209/12	28. 3. 2012	1321/11	10/27	The Government instructs the Minister of Defence to implement the measures to eliminate the shortcomings mentioned in the AC and to inform the Government about their implementation by 31. 8. 2012.
208/12	28. 3. 2012	1319/11	10/19	Not imposed
207/12	28. 3. 2012	1277/11	11/03	The Government instructs the Minister of Justice to implement the measures to eliminate the shortcomings mentioned in the AC and to inform the Government about their implementation by 30. 6. 2012.
206/12	28. 3. 2012	943/11	10/22	The Government instructs the Minister of Regional Development to implement the measures to eliminate the shortcomings mentioned in the AC.
192/12	21. 3. 2012	742/11	10/32	Not imposed
191/12	21. 3. 2012	863/11	10/25	The Government instructs the Minister of Regional Development to implement the measures to eliminate the shortcomings mentioned in the AC.

Overview of audits whose approved audit conclusions were discussed by the Government of the Czech Republic in 2012				
Government resolution No.	Date of session	Government document No.	Audit No.	Measures imposed by the Government
190/12	21. 3. 2012	812/11	10/17	The Government instructs the Minister of Justice to implement the measures to eliminate the shortcomings mentioned in the AC and to inform the Government about their implementation by 31. 12. 2012.
189/12	21. 3. 2012	808/11	10/31	The Government instructs the Minister of Environment to continue with the solving of unfavourable state of the final sum of the Green Savings Programme pursuant to the Government resolution No. 298/11.
188/12	21. 3. 2012	642/11	10/14	The Government instructs the Minister of Environment to implement the measures to eliminate the shortcomings mentioned in the AC and to inform the Government about their implementation by 30. 9. 2012.
187/12	21. 3. 2012	747/11	10/15	Not imposed
186/12	21. 3. 2012	665/11	10/24	The Government instructs the Minister of Transport: 1. to assess the necessity of the subsidy of new railway vehicles appropriation from the state budget and to inform the Government by 31. 7. 2012; 2. to ensure oversight of the ability of the Czech Railways to pay back the credits for which there was a security provided.

## Appendix No. 5 to the SAO's Annual Report for 2012

**Abbreviations**

AC	Audit Conclusion
ADIS	Automated Tax Information System
ARES	Administrative Registry of Economic Entities
ASOSAI	Asian Organisation of Supreme Audit Institutions
CAS No. 703	Czech Accounting Standard - Transfers
CBC	Committee on Budgetary Control of the Chamber of Deputies of the Parliament of the Czech Republic
CEB	Czech Export Bank
CERMAT	Centre for Ascertaining Education Results
CNAB	Competent National Audit Bodies
COSMC	Czech Office for Surveying, Mapping and Cadastre
CR	Czech Republic
CSSA	Czech Social Security Administration
CSÚIS	Central System of State Accounting Information
CzR	Czech Railways
ECA	European Court of Auditors
EDS/SMVS	Information System of Programme Financing
EU	European Union
EUROSAI	European Organisation of Supreme Audit Institutions
FS	Financial Statements
GFD	General Financial Directorate
GHIC	General Health Insurance Company
GOCHR	Government Office of the Czech Republic
GTA	General Treasury Administration
ICT	Information and Communication Technology
INTOSAI	International Organisation of Supreme Audit Institutions
IOP	Integrated Operational Programme
IS	Information System
IS VZ	Information System on Public Contracts
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
LČR	Lesy ČR (Forests of the Czech Republic)
MCP	Municipal Council of Prague
MoA	Ministry of Agriculture
MoC	Ministry of Culture
MoD	Ministry of Defence
MoE	Ministry of the Environment
MoEYS	Ministry of Education, Youth and Sports
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoH	Ministry of Health
MoI	Ministry of the Interior
MoIT	Ministry of Industry and Trade

MoJ	Ministry of Justice
MoLSA	Ministry of Labour and Social Affairs
MoRD	Ministry of Regional Development
MoT	Ministry of Transport
NL	National Library
NM	National Museum
NPWP	Negotiating Procedure without Publication
OGRPA	Office for Government Representation in Property Affairs
OPCR	Office of the President of the Czech Republic
OPE	Operational Programme Environment
OPEC	Operational Programme Education for Competitiveness
OPPA	Operational Programme Prague - Adaptability
OUS	Organisational Unit of the State
PCR	Police of the Czech Republic
PP	Public Procurement
PPP	Public-Private Partnership
PRR	Prague Ring Road
RC CR	Regional Council of the cohesion region
RC CB	Regional Council of the cohesion region Central Bohemia
RC MS	Regional Council of the cohesion region Moravia-Silesia
RC NE	Regional Council of the cohesion region North-East
RC SW	Regional Council of the cohesion region South-West
Regeneration Programme	Programme for the Regeneration of Urban Monument Reserves and Urban Monument Zones
RIA	Railway Infrastructure Administration
RMD CR	Road and Motorway Directorate of the Czech Republic
SAI	Supreme Audit Institution
SAIF	State Agricultural Intervention Fund
SAO	Supreme Audit Office
SB	State Budget
SCA	State Closing Account
SCF	State Cultural Fund
SEF	State Environment Fund
SFA	State Financial Assets
SFAO	State Financial Assets Operations
SFTI	State Fund for Transport Infrastructure
SHDF	State Housing Development Fund
TCS	Toll Collection System
TO	Tax Office
TR	Tax Return
UN	United Nations
VAT	Value Added Tax



