

**Czech Republic**  
**Supreme Audit Office**

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## CONTENTS

<b>I. Evaluation of the Audit Plan .....</b>	<b>9</b>
<b>1. Audit plan (compilation, focus, changes to the plan).....</b>	<b>9</b>
<b>2. Audit results .....</b>	<b>9</b>
2.1 Audit findings .....	10
2.2 Audit with regard to the state closing account (financial audit).....	23
2.3 Cooperation with criminal justice authorities.....	29
2.4 Discussion of audit conclusions in bodies of Parliament and in the Czech Government .....	30
<b>II. Financial Evaluation of Audit Work.....</b>	<b>32</b>
<b>1. Summary financial evaluation of audits.....</b>	<b>32</b>
<b>2. Performance of the notification duty pursuant to Act No. 337/1992 Coll., on the administration of taxes and fees.....</b>	<b>32</b>
<b>III. Evaluation of Other Activities .....</b>	<b>34</b>
<b>1. Other SAO activities related to audit work .....</b>	<b>34</b>
1.1 Opinions on the interim report on implementation of the state budget and on the proposed state closing account .....	34
1.2 Opinions on draft legislation .....	35
1.3 Promoting best accounting practice .....	35
<b>2. Performance of duties towards the public .....</b>	<b>36</b>
2.1 Publications .....	36
2.2 Providing information pursuant to Act No. 106/1999 Coll., on free access to information .....	37
2.3 Citizens' submissions.....	37
<b>3. International cooperation .....</b>	<b>38</b>
<b>4. Management of SAO budget chapter finances .....</b>	<b>41</b>
4.1 Financial management in 2006.....	41
4.2 Investment expenditure .....	43
4.3 Mandatory audit.....	43
4.4 Internal audit.....	43
<b>5. SAO staffing .....</b>	<b>44</b>
<b>6. Organisational chart of the SAO.....</b>	<b>46</b>
<b>Conclusion .....</b>	<b>52</b>

### Appendices:

Appendix 1	Overview of audits with audit conclusion approved in 2006
Appendix 2	Audits added to the audit plan in 2006
Appendix 3	Overview of audits whose audit conclusions were approved by the SAO and were discussed in 2006 by the Czech Government
Appendix 4	Overview of audits whose audit conclusions were approved by the SAO and were discussed in 2006 by the audit committee of the Chamber of Deputies of Parliament of the Czech Republic
Appendix 5	List of abbreviations used





**Mr. František Dohnal**  
*President of the SAO*

Dear reader,

in your hands you hold the annual report of the Supreme Audit Office (SAO) containing a summary of information about and an evaluation of this institution's work in 2006.

This report's purpose is not to repeat all the findings gained from the more than forty audits that took place last year. All the audit conclusions have already been published in bulletins issued regularly four times a year and are, needless to say, available on the Supreme Audit Office's web site <http://www.nku.cz>. By its form and content, this report is designed to be a further step towards raising awareness about scrutiny of public expenditures in the Czech Republic, not only for experts in this area but also for everyone who is interested in how state property is used.

The annual report points out and describes the most important and serious problems related to the management of the Czech Republic's movable and real property, state budget finances and finances that are channelled into the country from abroad. It also acquaints readers with the bodies and organisational structure of the Czech Republic's supreme audit institution.

Although the Supreme Audit Office has no executive powers, its work can and should provide feedback. Feedback that serves Parliament of the Czech Republic, the Government and all citizens as a source of information as to whether the management of state property conforms to the law; whether the accounts kept by the state and its organisations are clear and correct; and whether public money is spent efficiently and economically.

It is not the Supreme Audit Office's aim to check everywhere and everything – that would be inefficient and probably also technically impossible. Nor is it the aim of audit to find shortcomings at all cost. The principal purpose of an audit is to verify, at a reasonable cost and in a statistically significant manner, whether the state's financial management is in order and, if not, to provide materials on which decisions on necessary changes can be based.

Because an audit institution must itself be subject to scrutiny, the annual report also contains information about the Supreme Audit Office's financial management and an auditor's statement.

A handwritten signature in black ink, which appears to read "František Dohnal". The signature is written in a cursive style with some loops and flourishes.





**Mr. Dušan Tešnar**  
*Vice-President of the SAO*

## Members of the SAO



Mr. Jiří Adámek



Mr. Zdeněk Brandt



Ms. Ludmila Brynychová



Mr. Jiří Drábek



Mr. Jan Holeček



Ms. Marie Hošková



Ms. Eliška Kadaňová



Mr. Jiří Kalivoda



Mr. Antonín Macháček



Mr. Rudolf Němeček



Ms. Zdeňka Profeldová



Ms. Jaromíra Steidlová



Mr. Petr Skála



Mr. Jan Vedral



Mr. Ladislav Zeman

*NB: SAO Members manage individual audits and, along with the President and Vice-president, make up the Board, which approves audit conclusions and the SAO's key documents.*

## Changes in the SAO's bodies

On 11. 9. 2006 Mr. Josef Pohl's mandate as a Member of the SAO ended. On 16. 11. 2006 Ms. Jaromíra Steidlová, elected by the Chamber of Deputies of Parliament of the Czech Republic, was sworn in as a Member of the SAO. At the end of 2006 the Board of the SAO thus possessed the composition prescribed by law.

## New SAO head office

Thirteen years after its founding the SAO has relocated. The move took place in December 2006 and January 2007. The SAO is now based in the modern TOKOVO office building at Jankovcova 2 in Prague's Holešovice district, not far from the Office's original headquarters. The SAO had been looking for a new head office for almost ten years. The original building, dating from the start of the 1970s, suffered considerable damage in the 2002 floods and offered insufficient capacity.

Offices that had previously been situated in a leased building in K Moravině street in Prague's Vysočany district were also relocated. Other leased premises in the Karlín district will be vacated during 2007, so that all the SAO's workplaces (apart from regional departments) are located under one roof.



*Jankovcova 63, Prague 7*



*TOKOVO, Jankovcova 2, Prague 7*



## **I. Evaluation of the Audit Plan**

### **1. Audit plan (compilation, focus, changes to the plan)**

The audit plan for 2006, comprising 37 audits, was approved by the Board of the SAO on 28. 11. 2005. During 2006 the Board of the SAO approved two more audits, raising their number to 39. 18 of these audits were completed in 2006, with 21 continuing in 2007.

With respect to the legally defined competence of the SAO, the audit plan was compiled on the basis of its medium-term outlook goals and the results of audits already conducted. The foundation on which the plan was devised consisted of suggestions from its own audit work, which covered all the main areas under its focus. These suggestions derived from the results of past audits and included monitoring measures that had been adopted to remedy previously identified shortcomings. When choosing which suggestions to follow up, the seriousness and current relevance of the given topic was assessed, as well as the relevance of the audit findings for drawing up the SAO's opinion on the state closing account.

In 2006 the SAO received a suggestion from the Czech Senate Committee on national economy, agriculture and transport. The Board of the SAO decided not to include the proposed audit of a tender held by state firm LOM Praha as part of modernisation project Mi - 171Š in its audit plan for 2006. Audit of this state firm was subsequently prepared for addition to the audit plan for 2007.

Audits focused on the following areas were included in the audit plan:

- administration of taxes and customs;
- management of state finances and property;
- management of state budget finances earmarked for programme financing and subsidies;
- management of finances provided to the Czech Republic from abroad;
- scrutiny of the closing accounts of selected state budget chapters;
- scrutiny of measures adopted to remedy shortcomings identified by previous audits.

A total of 26 changes were made to the audit plan during 2006. Most changes were made as a result of new data and materials obtained during the preparation of an audit and affected the "auditee" item (15 changes).

### **2. Audit results**

A total of 44 audits were completed in 2006 by approval of the audit conclusion. 26 of these audits had been started in 2005; 18 had started in 2006. Audits whose audit conclusions were approved in 2006 are listed in Appendix 1.

The audits completed in 2006 focused on both the income and expenditure sides of the state budget. On the income side, they dealt mainly with the administration of taxes and customs and scrutinised the procedures employed by the relevant authorities when administering taxes and customs. On the expenditure side, audits focused primarily on the management of state finances and property (in the case of organisational components of the state and contributory organisations); management of state budget finances earmarked for programme financing and the state's subsidies policy; public procurement; the financial management of state and other funds; and the management of finances provided to the Czech Republic from abroad. Audits also examined measures adopted to remedy previously identified shortcomings. The closing accounts of selected state budget chapters were scrutinised by means of financial audit.

The approved audit conclusions were published in the **SAO Bulletin** (year XIV, Nos. 1/2006 – 4/2006) and on the SAO's web site (<http://www.nku.cz>). This annual report merely mentions selected audit findings, which are described in more detail in Section 2.1 – Audit findings.

NB: Audits are referred to in this annual report in the following specimen format: “*Audit No. 06/02*”. The audits' full names are given in Appendix 1.

## 2.1 Audit findings

### 2.1.1 State budget incomes

In 2006, audit conclusions concerning the administration of value added tax and administration of excise duties were approved (Audit No. 05/19 and Audit No. 05/34 respectively). One specific audit was Audit No. 05/25, focusing on the management of state property and finances during the liquidation of state Firms.

**Audit No. 05/19 focused on value added tax (VAT), which was one of the most significant taxes during the audited period as it accounted for approximately one third of the state budget's tax revenues.**

The results of the audit revealed that the Czech tax administration was prepared well for the changes ensuing from the Czech Republic's integration into the single internal market of the European Union (EU). Even so, shortcomings emerged both in VAT administration and in the use of information from the EU.

The following key shortcomings were found among tax administrators:

- in some cases the tax offices failed to check data in summary reports and failed to resolve ambiguities in the values of intracommunity deliveries<sup>1</sup>, even though the differences between the data given in VAT returns and payers' summary reports amounted to **CZK 537.2 million**;
- when checking intracommunity deliveries data presented by taxpayers in VAT returns the tax offices made insufficient use of the full range of powers given them by law; in certain cases they did not rigorously scrutinise entitlement to exemption of intracommunity deliveries from VAT and failed to use procedures in case of incorrect tax returns and declarations; the value of intracommunity deliveries stated in VAT returns was **CZK 128.7 million** in these cases;
- the tax offices failed to investigate certain discrepancies between data from the EU and Czech entities' VAT returns concerning the values of intracommunity acquisitions, even though the scale of the discrepancies according to VIES<sup>2</sup> data was at least **CZK 148.3 million**.

**The principal objective of Audit No. 05/34 was to scrutinise the excise duty collection system following the adoption of new legislation putting the customs authorities in charge of the administration of excises with effect from 1. 1. 2004. Concurrently, there were also scrutinised the tax offices' procedures when collecting arrears of excise taxes as of 31. 12. 2003 and administration of excise duty following 1. 1. 2004.**

The audit found that

- some licences to operate a tax warehouse and licences for repeated receipt of selected products were not recorded in the register of tax entities until as much as 21 months after their effective date; incorrect or late entry of data in the international SEED<sup>3</sup> database, which enables tax administrators to check whether selected products are being handled by an authorised person, undermines the database's informational value and may ultimately lead to selected products

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<sup>1</sup> Deliveries of goods to another EU member state.

<sup>2</sup> Value Added Tax Information Exchange System.

<sup>3</sup> System for Exchange of Excise Data.

- being taxed in a different Member State from the state in which consumption is effected, and possibly even tax evasion;
- checking the movement of untaxed selected products is impeded by the fact that the EU does not have a uniform electronic system for mapping the transport of goods and monitoring selected excisable products yet; by Decision of the European Parliament and Council (EC) 1152/2003 of 16.6.2003 this EMCS<sup>4</sup> system should be launched on 1.7.2009;
- the current legislation does not enable tax administrators to increase tax security in cases where the operator of tax warehouse or authorised recipient announces an increased forecast annual volume of produced or received products after the relevant licence had been issued.

### **Audit No. 05/25 scrutinised the management of state finances and property during the liquidation of state Firms.**

The audit found that:

- the liquidation of 265 state Firms affected by privatisation had still not been completed by the start of 2005; 153 of these state Firms fall under the Ministry of Industry and Trade (MoIT) and 73 under the Ministry for Regional Development (MfRD). Liquidators were not motivated to complete liquidation quickly or to obtain the maximum possible proceeds from liquidation. The audited ministries did not monitor the effectiveness of asset liquidation procedures;
- liquidators could only sell these state Firms' assets by public auction or, with the consent of the Ministry of Finance (MoF), by direct sale. It was found out that in some cases assets were sold directly with the consent of both the MoF and the founding institution, without being previously offered in public auction; in a number of other cases, however, liquidators held auctions repeatedly. Not only did this prolong the liquidation process, the costs of auctions often exceeded the revenues gained;
- the direct sale of the petrol stations of BENZINA, state firm in liquidation, for CZK 772 million was exceptional in terms of both its scale and procedure. The decision on this sale was justified mainly on the grounds that it would enable a tax arrear payment and ecological burden commitments fulfilment and that it would not give rise to further costs. **The sale was not performed in a transparent manner and the original objectives were not achieved.**

## **2.1.2 State budget expenditure**

### **2.1.2.1 Programme financing**

As in previous years, when preparing and implementing investment construction programmes in 2006, ministries failed again to put in place essential conditions to ensure that state budget finances are spent effectively, efficiently and economically. Systemic shortcomings in the preparation, implementation and evaluation of investment programmes have meant that over several years the SAO has repeatedly found the same breaches of the law, internal standards, guidelines, prescribed procedures and principles of economy. Findings concerning the increasing of financial requirements are particularly alarming.

- E.g. Audit No. 06/03 – in the documentation for programme No. 327 220 from 2004 the Ministry of Transport (MoT) underestimated the cost of acquiring the audited stretches of the D8 Motorway; the acquisition costs had been based on year 2000 price levels. The new documentation drawn up for this programme in 2006 (which had not received MoF approval by the end of the audit) raises the financial requirement for acquiring the audited stretches of the D8 from CZK 32.7 billion to CZK 43.5 billion, i.e. by CZK 10.8 billion: **a 33% increase in costs.** The increased financial requirement in this programme documentation reduces the efficiency of expenditure on acquisition of the D8 Motorway.  
One consequence of the repeatedly found systemic shortcomings (long duration of planning permission proceedings) and of the long-term failure to resolve the conflict between public

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<sup>4</sup> Excise Movement and Control System.

interest in sustainable mobility of society and ecological stability is the undesirable delay in the construction of one of the scrutinised stretches of the D8 Motorway. That leads to loss of revenue that construction would have brought if the scrutinised stretches of the D8 had been opened at the same time.

#### *Assets reproduction programmes*

The key findings were:

- **unsuitably or insufficiently defined the programme objective;**  
E.g.: Audit No. 05/24 – the MoT inappropriately defined the objective of the “Renewal of Transport Infrastructure in Territory Affected by the 2002 Floods” programme; according to this objective, the infrastructure would have to have been restored with the defects it had before the floods.
- **implementation of investment programmes without duly prepared and approved documentation;**  
E.g.: Audit No. 05/16 – the MfRD provided **CZK 13,604 million** for housing construction and housing programmes, without any basic financial indicators, technical economic principles or financing conditions having been defined and approved by the MoF (conditions for provision of subsidies were badly defined – among other things, no criteria for staggering housing construction subsidy levels were set).
- **submission of programmes with incomplete documentation to the MoF and implementation of these programmes without MoF approval.**  
E.g.: Audit No. 06/12 – contrary to the applicable decree the MfRD submitted to the MoF for approval incomplete documentation for sub-programmes (four in total) adopted to implement national regional development programmes and, up to 2004 (in a period lasting from 2001), implemented the programmes without approval.

#### *Preparation of actions*

The key findings were:

- **investment actions were approved for registration without the appropriate documentary materials and data prescribed by Section 5 of Decree No. 40/2001 Coll., on state budget participation in financing asset reproduction programmes;**  
E.g.: Audit No. 05/24 – in the case of actions affecting rail transport infrastructure the MoT approved non-investment actions merely on the basis of information provided by the investor regarding financing requirements and sources; in the case of investment actions it did not always possess the project documentation.  
Audit No. 05/38 – the Ministry of Labour and Social Affairs (MoLSA) registered actions on the basis of investment objectives that did not contain all the data required for decisions on the registration of actions and the subsequent state budget participation. The lack of preparation for individual actions meant that the amount of finances was changed after registration, as were the deadlines for preparing and implementing actions, including changes of binding parameters. The changes to the actions’ parameters were not updated in the registration certificates or subsequently in decisions on state budget participation.
- **programme administrator’s failure to issue a decision on state budget participation.**  
E.g.: Audit No. 05/38 – the MoLSA provided individual labour offices with finances intended for implementation of actions without having issued a decision on state budget participation. It transferred almost the full amount of finances to the labour offices at a time when the actions were still being prepared and it was not clarified whether and in what financial value they would be implemented.

### *Implementation of actions*

The methodology currently governing the management of investment projects financed out of the state budget does not motivate investors to make financial savings. Investors are only responsible for not exceeding the finances specified in the decision on state budget participation.

The key findings were:

- **fundamental changes in the price of a contract during construction work;**  
E.g.: Audit No. 05/39 – scrutiny of the management of state budget finances earmarked for reconstruction and completion of the “Na Míčánkách” courts complex found that the price of the contract had been changed during construction work. The total price of the work (despite economy measures worth approx. CZK 34.6 million implemented by the Ministry of Justice (MoJ)) was increased by **CZK 289.9 million** to **CZK 2,170.3 million**, with the increased rate of VAT included.
- **use of finances for purposes other than the specified purpose;**  
E.g.: Audit No. 05/16 – some beneficiaries of housing construction and housing programme subsidies used the finances to build a gas main, for example, or to build a noise barrier and a waste water purification plant.  
Audit No. 05/24 – finances worth **CZK 1.7 million** were used for a different purpose in four actions designed to repair 2002 flood damage to transport infrastructure.  
Audit No. 06/10 – certain beneficiaries of programme subsidies used finances in a different budget period and for a different purpose.
- **miscellaneous audit findings.**  
E.g.: Audit No. 05/24 – the Road and Motorway Directorate of the Czech Republic (RMD) used **CZK 2.9 million** to repair objects belonging to other owners. In six actions **CZK 1.2 million’s worth** of billed work done as part of repairs of flood damages from 2002 in transport infrastructure was incorrectly paid.

### *Final evaluation of actions*

The key findings were:

- **insufficient or no checking that binding parameters specified in decisions on state budget participation in the financing of actions were fulfilled;**  
E.g.: Audit No. 05/24 – the MoT did not check that the binding parameters specified in decisions on state budget participation were fulfilled; it appraised parameters approved in the construction project by the investor and attained during implementation or appraised only some of the parameters.
- **programme administrators’ failure to check data in documentation giving a final evaluation of an action and to finish an investment action;**  
E.g.: Audit No. 06/10 – the Ministry of Health (MoH) as programme administrator failed to respond to the fact that investors submitted the required documentation for final evaluation of actions, did not have it checked and did not finish the action.
- **programme participants’ failure to submit actions’ final evaluation documentation by the set deadline.**  
E.g.: Audit No. 06/02 – the Ministry of Education, Youth and Sports (MoEYS) as programme administrator failed to ensure that the participant in an investment programme submitted documentation for final evaluation of actions by the set deadlines.  
Audit No. 06/10 – programme participants did not submit final evaluations by the set deadline.

### *Possible future risks*

- **Audit No. 06/06 – in the implementation of the mining industry contraction programme the shortage of funds creates a risk that completion will be postponed from the year 2040 to 2050.** Discontinued facilities that have not been demolished necessitate annual costs of approx. CZK 30 million.

### **2.1.2.2 Subsidy policy**

The SAO's audit work has repeatedly found out that shortcomings persist in methodological, management, control and evaluation work done by the ministries in their capacity as the providers of state aids. The ministries' long-term failure to ensure sufficient control has resulted in repeated violations of the budget rules and the act on financial control.

#### *Shortcomings found out during audits of subsidy providers (ministries)*

The key findings were:

- **systemic shortcomings;**  
E.g.: Audit No. 05/17 – when providing subsidies for investment actions the MoLSA did not consistently observe the “guidelines” it had itself issued. The labour offices did not respect the provisions of Decree No. 242/2002 Coll., on detailed conditions for the provision of a contribution to employers over 50% of whose employees are citizens with altered capacity for work and accounting for such contribution, and provided employers with advances on the contribution in incorrect amounts.  
Audit No. 05/29 – the Ministry of the Environment (MoE) did not require that subsidy applications contain data on the total costs of all activities covered by the support, so that it would have been possible to appraise how efficiently state budget finances were spent. It accepted the final accounts on the use of subsidies even though these displayed shortcomings and did not prove the actual spending of subsidies in accordance with the conditions for subsidies spending.  
Audit No. 06/07 – when providing state budget finances for public passenger transport the MoT failed to define the concept of “the state’s transport requirements in the public interest” and, in connection with identifying the state’s transport requirements, failed to document its calculation of the amount of state budget finances assigned to cover demonstrable losses relative to the ordered scope. Czech Railways records a demonstrable loss using its own methodology, which is not sufficiently transparent and verifiable. The MoT did not question Czech Railways’ calculation with specific and material arguments, but even so the demonstrable loss the MoT specified in contracts on public service commitment and actually paid was lower than Czech Railways requested. The method used for defining the state’s transport requirements in the public interest and for paying demonstrable losses **is not a systemic solution to the issue of public passenger rail transport.** Czech Railways’ accumulated loss from its founding in 2003 to 30. 6. 2006 reached **CZK 2,720 million**: the loss from passenger transport alone reached CZK 10,764 million and was offset by other lines of business.  
Audit No. 06/12 – the extraordinary nature of regional infrastructure requirements financed out of the General Treasury Administration (GTA) budget chapter under a MoF programme was not sufficiently substantiated. The programme did not observe the rules of regional policy and even flouted its basic principles. Less than a quarter of the subsidy was allocated to economically and structurally affected regions. The manner by which state support is provided based on a parliamentary initiative contravenes the basic principles of asset replacement programme financing. These require the goals, priorities, measures, financial framework and timetable of support to be defined. In this way, subsidies worth CZK 4,402 million were unsystematically provided out of the GTA budget chapter in the years 2002 to 2005 in



circumstances where the support from MfRD programmes covered only approx. 28% of applicants from economically and structurally affected regions.

- **provision of finances without issue of a decision on provision of a subsidy and without defining the conditions for use of these finances;**

E.g.: Audit No. 06/11 – the Czech Philharmonic Orchestra (CPO) and Theatre Institute (TI) did not lodge applications with the Ministry of Culture (MoC) for provision of “Cultural Activities” programme finances for specific projects. The MoC did not even demand such procedure from beneficiaries and provided finances without issuing a decision on provision of a subsidy and without defining the conditions for use of these finances. The absence of such conditions made it impossible to verify whether their purpose was realised and whether individual cost items in the implementation of specific projects were justified.

- **breach of budget discipline;**

E.g.: Audit No. 06/11 – contrary to Act No. 218/2000 Coll., on budget rules and amending certain related acts (the budget rules), the MoC provided a specific subsidy of **CZK 0.9 million** to a legal person that had not been founded to provide cultural services.

- **failure to define a financial framework and timetable for national programmes of regional development, failure to put in place satisfactory initial conditions for monitoring and evaluating the benefits of the programmes;**

E.g.: Audit No. 06/12 – in National Regional Development Programmes Nos. 1 and 4 the MfRD did not specify their valid duration and in all national programmes merely specified a financial framework for one year, without breaking it down into individual measures.

The MfRD failed to define any indicators or measures for monitoring and evaluating programmes – it was therefore practically impossible evaluate the benefits of any of the audited programmes for the regions’ economic and social development.

- **insufficient definition of the subsidy allocation and accounting conditions that are an integral part of decisions on the provision of subsidies;**

E.g.: Audit No. 05/30 – when financing operational actions the Czech Office for Surveying, Mapping and Cadastre (COSMC) failed to define in decisions on state budget participation binding parameters for investors’ use of programme finances to cover current expenditure.

Audit No. 06/05 – when providing finances for environmental research and development the MoE failed to define uniform and unequivocal rules for compliance with costs in individual items as per the contract on support. It also left the question of the time from when costs could be recognised open to broad interpretation. In this way the MoE allowed expenditures effected before contracts were signed or after final reports were handed in to be included in costs. It also allowed the inadmissible combination of specific and institutional support for research and development.

Audit No. 06/14 – in the conditions contained in decisions on state budget participation the MoC failed to prohibit the use of subsidy finances to cover depreciation and thus enabled subsidy beneficiaries to use subsidies contrary to the purpose of the “Programme to Support the Regional Functions of Libraries”. Three beneficiaries used subsidy finances to cover depreciation; the total sum involved was **CZK 0.2 million**.

- **insufficient control;**

E.g.: Audit No. 06/05 – the control system used by the MoE as the provider of support for research and development does not make it possible to identify most of the shortcomings affecting the use of subsidies.

Audit No. 06/07 – the MoT did not scrutinise the financing of losses from the operation of personal rail transport incurred through fulfilment of a public service commitment.

- **shortcomings found in the provision and spending of investment incentives and investment support.**

E.g.: Audit No. 05/33 – out of a total sum of CZK 5,102 million provided in specific subsidies with regard to legal persons’ income tax **CZK 99 million** was spent ineffectively, as the company that

received this subsidy stopped production and took its technologies abroad. It was found out that the audited companies had wrongfully spent **CZK 0.4 million's** of finances provided for a specific subsidy with regard to legal persons' income tax and **CZK 0.4 million's** of finances provided for employee training and re-training.

State budget finances of **CZK 70 million** provided for employee training and re-training to an investor in the strategic services sector were at the company's disposition for over 4 years, without achieving the purpose for which they were provided.

#### *Shortcomings found out during audits of subsidy beneficiaries*

The key findings were:

- **beneficiaries failed to prove that the finances had been used solely to cover costs directly related to fulfilment of the goals and parameters of the research and development project;**

E.g.: Audit No. 06/05 – the MoE checked the drawdown and use of finances by means of “ordinary accounting” whose conclusiveness was limited – statements drawn up by beneficiaries were incomplete and incorrect and deviated from the facts as reported in the accounting. A number of shortcomings were found among subsidy beneficiaries, who did not always prove that they had used the finances solely to cover costs directly related to the fulfilment of project goals and parameters.

- **non-compliance with the conditions for using subsidies and financing actions;**

E.g.: Audit No. 06/12 – some subsidy beneficiaries committed breaches of budget discipline by using subsidy finances contrary to the defined obligations; one subsidy beneficiary broke the condition of not transferring assets acquired with the help of a subsidy to another legal or natural person for a period of five years and some subsidy beneficiaries defrayed contractual deliveries of building work not documented conclusively by their material performance.

Audit No. 06/14 – contrary to the purpose of subsidies under the “Programme to Support the Regional Functions of Libraries” some libraries used non-investment finances to fund investments or to pay expenditure on hospitality and costs associated with trips abroad.

- **failure to keep correct accounts of assets subsidised out of the state budget;**

E.g.: Audit No. 06/12 – some subsidy beneficiaries did not keep correct accounts of assets subsidised out of the state budget at a total acquisition cost of **CZK 100 million**.

- **use of finances contrary to the specified purpose of a subsidy.**

E.g.: Audit No. 06/15 – as part of the “Programme to Support the Regional Functions of Libraries” some libraries used finances of **CZK 0.2 million** contrary to the specified purpose of the subsidy.

#### *Possible future risks*

- **Audit No. 05/33 – the provision of investment support to companies operating in the strategic services sector is not regulated by law.** The act on investment incentives provides that investment incentives may only be provided for processing industry sectors. The lacking legislation on this area creates a risk that the shortcomings identified by audit will be repeated.

The conclusion of an annex to the “Joint Objective Declaration”, which enables companies to obtain higher specific subsidies with regard to legal persons' income tax than was originally defined, represents a risk for state budget expenditure. These higher budget expenditures are not compensated by any greater obligations on the companies. According to the originally executed declarations specific subsidies regarding legal persons' income tax were limited by the amount of the subsidy disbursed in the first five years. Under the annexes to the declarations, the intensity of public support remained the sole criterion. State expenditures will therefore be greater than had originally been reckoned. Failure to comply with the letter of the conditions for



assessing fulfilment of the obligation to establish new jobs creates a risk that state budget finances will be drawn down groundlessly.

### 2.1.2.3 Public contracts

For several years now, the SAO's audit conclusions and annual reports have also drawn attention to shortcomings in public procurement. It is alarming that repeated findings confirm that there is insufficient will or ability in the auditees to address this unsustainable state of affairs. This is an area that is rigorously monitored by EU authorities and it is seen by the public as a potential hotbed of corruption.

Breaches of the act on public contracts have been found out repeatedly in the areas under scrutiny; violations occurred in practically all phases of the procurement process.

#### *Creation of the conditions for commercial public tenders*

The key findings were:

- **the tender terms do not contain specific criteria for assessing bids.**

E.g.: Audit No. 06/03 – as the body commissioning a tender for construction of part of the D8 Motorway the RMD did not include in the terms of the tender specific criteria by which bids were assessed. As a result, the tender process was challenged by one of the competitors and by the Office for the Protection of Competition (OPC), which led to the tender deadline being put back and the implementation deadline being jeopardised.

#### *Declaring commercial public tenders (inviting candidates to bid)*

Despite repeated notification by the SAO, unlawful conduct is common, with contracting entities either obviating the necessary application of the relevant legislation or ignoring it entirely. The following key shortcomings were found:

- **the act on public contracts was ignored and contracts subject to commercial public tender were awarded to a single candidate, commercial public tenders were not held;**

E.g.: Audit No. 05/16 – As part of housing construction and housing programmes one municipality did not hold a public tender for building contractors and gave the complete construction job worth a total of over **CZK 100 million** to a contributory organisation that the municipality had itself founded.

Audit No. 05/21 – the Ministry of Interior (MoI) awarded three public works contracts for the general repair of helicopter fuel units worth a total of **CZK 81.5 million** to a sole candidate.

Audit No. 06/01 – the Czech Statistical Office (CSO) did not hold a tender for a contract worth a total of **CZK 46.1 million**.

Audit No. 05/24 – the RMD incorrectly assigned the “I/15 Litoměřice bridge” contract worth **CZK 66.7 million** based on an invitation to a sole candidate.

Audit No. 06/17 – the Krkonoše National Park Administration (KRNAP) purchased 12 all-terrain vehicles worth **CZK 9.9 million** without holding a commercial public tender.

- **splitting large contracts into several smaller contracts and awarding these parts separately, even though the law expressly forbids such procedure;**

E.g.: Audit No. 05/16 – three municipalities purposely split public contracts into small contracts in order to avoid having to hold a commercial public tender.

- **incorrect assignment based on a call to three candidates;**

E.g.: Audit No. 05/24 – the RMD incorrectly assigned implementation of “Repair of Slope Subsidence on the D5” worth **CZK 6.7 million** based on an invitation to three candidates.

- **the subject of the contract was not specified precisely and correctly, resulting in the contract being broadened and the total price of the work being increased;**  
E.g.: Audit No. 05/24 – the Railway Infrastructure Administration (RIA) and Czech Ports (CP) did not define the subject of the contract precisely and correctly in three actions. Consequently, the contract had to be broadened during implementation and the price increased by a total of **CZK 1.3 million**.
- **public procurement procedure conforms to legislation no longer in effect;**  
E.g.: Audit No. 06/11 – when awarding two public contracts the CPO proceeded according to legislation that is no longer in effect.

#### *Evaluation of bids and selection of the winning candidate*

The key findings were:

- **possibility of subjective evaluation of bids;**  
E.g.: Audit No. 06/03 – the criterion of “professional competence” in the terms of a tender for construction of the D8 Motorway allowed the RMD to evaluate candidates’ bids subjectively.
- **gross violations of the law occurred in public procurement.**  
E.g.: Audit No. 06/12 – some subsidy beneficiaries did not exclude candidates from participation in public contracts and awarded them contracts even though these candidates had failed to provide the legally required information and documents regarding their qualifications; they also failed to publish invitations for bids at a central address etc.

#### **2.1.2.4 Management of state property**

Audits focusing on the management of state property repeatedly revealed a number of serious shortcomings in this area, especially in record keeping, valuation and the subsequent inventory of property.

##### *Inventory*

The key findings were:

- **failure to inventory assets and liabilities, or inconclusive inventory;**  
E.g.: Audit No. 06/04 – the Administration of the State Material Reserves (ASMR.) failed to render to account identified inventory discrepancies in the accounting period for which inventory was meant to verify the state of assets and liabilities. The ASMR. also failed to document conclusively the state of inventories of material reserves as of 31 December in compliance with Act No. 563/1991 Coll., on accounting.  
Audit No. 06/10 – some hospitals failed to demonstrate the state of assets as of the end of the balance sheet day by means of the physical inventory states adjusted by increments and reductions.  
Audit No. 06/11 – the TI failed to document the inventory of assets and liabilities for 2004 worth a total value of **CZK 67.9 million** and for 2005 worth a total of **CZK 47.8 million**.
- **failure to perform documentary inventories;**  
E.g.: Audit No. 05/14 – the Ministry of Defence (MoD) did not perform a documentary inventory of fixed intangible assets as of 31. 12. 2004 worth **CZK 332.5 million**.

##### *Incorrect accounting*

The key findings were:

- **assets were not listed in the accounts, or records of the assets an organisation is qualified to manage were incomplete, and inconclusiveness.**  
E.g.: Audit No. 06/01 – the CSO did not mention in its accounts land parcels measuring a total of 3,946 m<sup>2</sup> in area.

Audit No. 06/02 – in relation to the transferred assets of ceased to exist teaching centres the National Institute for Further Education did not proceed in accordance with the act on accounting, as it failed in some cases to enter them in the accounts separately as land parcels. The price of certain parcels was included in the acquisition prices of buildings, so the parcels were depreciated contrary to the law.

Audit No. 06/04 – in 2004 and 2005 the ASMR. did not keep conclusive records of real property, whereby the content of these records did not correspond to the actual state or the state as recorded in the real estate register.

Audit No. 06/17 – the Administration of National Parks, the Šumava Protected Landscape and KRNAP entered the majority of land parcels in their accounts at zero value; the total value of this land is approx. **CZK 3,152 million**.

### *Management of state property*

The key findings were:

- **inefficiency and wastefulness when managing state property;**

E.g.: Audit No. 05/14 – Implementation of the MoD's information systems came before suitable transmission environment structures and capacity had been built. There was a fundamental imbalance between the possibilities offered by the transmission environment and the requirements of the operated information systems.

Audit No. 05/27 – the Czech Consolidation Agency (CCA) spent money uneconomically; audit found inordinately high expenditure on wages, high costs for outsourcing services, for acquiring promotional items and high costs for training and study for a limited number of employees.

Audit No. 05/30 – land surveying and real estate registry authorities failed to comply with Act No. 219/2000 Coll., on the property of the Czech Republic and its representation in legal relations, when selling and liquidating surplus state property worth **CZK 4,323,000**.

Audit No. 06/04 – the ASMR. continued to provide services to a debtor that owed over CZK 8 million in outstanding payments.

Audit No. 06/08 – in the Police of the Czech Republic several new automobiles were left for long unused and constituted “reserves”.

Audit No. 06/11 – the TI did not respect the legal state established by effective court decisions and thus caused the state budget considerable damages when it was obliged to pay **CZK 11.6 million** in interest and a further **CZK 0.9 million** in court costs.

- **spending large amounts of state budget finances on external services;**

E.g.: Audit No. 05/25 – when liquidating state Firms or performing other activities connected with the function of founders of state Firms, the MfRD and MoIT entrusted control over this process to external Firms. When scrutinising the liquidators' procedure the SAO found cases where payments for services were inordinate; invoiced sums were often not broken down in detail; or the liquidators used the resources of the liquidated Firms to pay for expenditure overstepping the framework of the contracts concluded with the founders (in certain cases expenditure was demonstrably not related to liquidation of Firms).

Findings that large amounts of state budget finances were spent on external services were also made in other audits, e.g. Audit No. 05/27.

- **failure to apply contractual penalties and failure to specify contractual penalties in contracts;**

E.g.: Audit No. 06/04 – the ASMR. did not demand from debtors contractual penalties worth a total of **CZK 35.5 million**. It also signed purchase contracts with suppliers without providing for penalties for violation of obligations by the supplier. Conversely, the contracts provided for penalty interest when the buyer was in arrears. The contractual relation therefore showed signs of imbalance.

- **neglect of duty when managing property;**

E.g.: Audit No. 06/17 – the competence to manage certain state-owned land parcels requiring

special protection and certain land parcels containing natural heritage sites has not been transferred to the national parks administrations yet.

- **possible future risks.**

E.g.: Audit No. 05/21 – the technical state of the hangar of the Air Service of the Police of the Czech Republic in Prague-Ruzyně constitutes a risk of considerable damage to state property.

Audit No. 06/04 – the ASMR. deposited “special accounts” finances with commercial banks even though, as state treasury finances, they should have been deposited in accounts maintained by the Czech National Bank (CNB). In view of the quantity of these finances the ASMR. proceeded extremely riskily, as a substantial proportion of the finances was not covered by mandatory insurance. The state runs the risk of major losses should the commercial banks fail.

Audit No. 06/17 – scrutiny of national parks and other protected territories revealed that land covered by the strictest protection regime (in the territory of KRNAP) was sold to other owners (private entities), which presents a risk for the state budget in view of the state’s obligation to compensate for injury if agricultural or forestry management is encumbered.

*Other audits also dealt with management of state property:*

- **Audit No. 06/09 scrutinised the drawdown of finances spent on publishing activities for the requirements of selected administrators of state budget chapters and assessed these expenses. The audit found that:**

- In 2004 and 2005 ten audited offices issued over 300 publications a year. The ascertainable total cost of these publications was CZK 349 million. Income from publication work amounted to approximately CZK 21 million.

- Some of the audited offices did not have the necessary overview of publications they had issued and the incurred expenses.

- **Audit No. 06/15 scrutinised the Office of the Public Defender of Rights’ management of state property and state budget finances. The audit found out that:**

- The total value of inaccuracies in the presented financial and accounting statements for 2005 was CZK 4,439,121.50. The magnitude of the identified inaccuracies was substantially influenced by the incorrect valuation of a building and land acquired by free transfer by law when the Office opened for business.

- Scrutiny of management of state property found most notably that donations worth a total of CZK 0.5 million were provided in 2001 to support non-profit activity, even though the budget rules act did not allow.

*Government shareholdings:*

- **Audit No. 05/35 scrutinised contributions of state finances made to commercial companies through selected central bodies of state administration. The audit found out that:**

- The overall reporting of Government shareholdings in commercial companies in the closing accounts of state budget chapters in the course of the years under scrutiny did not correspond to their actual state, particularly in connection with incorrect accounting or in some cases incomplete records.

- The evolution of the Government’s shareholdings in the period under scrutiny shows clearly that their state increased almost tenfold, reaching CZK 33.9 billion at the end of 2004. This pronounced increase was largely influenced in 2003 by a non-monetary contribution of CZK 20 billion paid by the state into the newly formed joint stock company Czech Railways, which, in view of this company’s long-term loss-making tendency and the state’s full ownership of it, negatively affect the quality of securities portfolio held by the Czech Republic.

- One systemic shortcoming consists in the different ways of paying revenues from Government shareholdings into the budget chapters of the GTA and State Financial Assets Operations (SFAO).
- The considerable magnitude of these state-owned long-term financial assets merits greater attention from the competent central bodies, no matter if the MoF or the relevant ministries are in charge of administering the state's shareholdings. Taking measures provided for in the existing legislation to meet these requirements would be a significant step towards acquiring complete and more transparent information about these assets. The most important measure would seem to be resolving the entire issue of accounting rules governing state financial assets.

#### **2.1.2.5 Management of state and other funds**

- **Audit No. 05/28 scrutinised the management of state finances specifically earmarked for handling hazardous waste during its disposal and fees levied on hazardous waste. The audit found out that:**
  - In the years 2002–2004 the State Environmental Fund (SEF) received just 32% of the total amount of the risk component of fees for storing hazardous waste calculated according to summary records. The amount of fees paid in was thus **CZK 748.3 million lower** than calculated.
  - The system for collecting and paying in fees for storage of hazardous waste in landfill sites is complicated and the method for collecting overdue fees does not work. It enables waste generators and landfill site operators either not to pay the fee for storage of hazardous waste in landfills at all or to pay just a minimal amount.
  - Importing waste into the Czech Republic for disposal is banned bar certain exceptions; consequently, there are many entities that exploit ambiguities in the legislation and declare the waste as a product. The lack of certainty in the legislation on waste management, imprecise definitions, frequent changes, complexity and the tardiness of amendments make the current legislation ineffective.
  - The Czech Environmental Inspectorate (CEI) imposed fines for breaching duty in waste management that were at the lowest level provided for by law. Even so, the MoE as the body of appeal found the fines to be inordinately high and often reduced the fines following appeals. The low amount levied in fines and the relatively high incidence of breaches of the waste management act make it clear that the imposition of fines is not sufficiently effective.
- **Audit No. 05/36 scrutinised procedure when handling state-owned real property administered by the Children and Youth Fund “in liquidation” (CYF). The audit found out that:**
  - Act No. 364/2000 Coll., on the winding up of the Children and Youth Fund and amending certain acts, defined a set of persons to which real property could be transferred free of charge and provided that the remaining real property was to be transferred by the liquidator for a charge. By Government resolution commissions were set up for tenders for free transfers, and conditions and documents for these tenders and permissible uses of the real property were specified.
  - When performing composition of state property the liquidator was obliged to proceed in cooperation with the Government and the MoF, which had been assigned to oversee the liquidator's work. In the case of free transfers, certain items of real property were excluded on the grounds of their unsuitability for work with children, even though projects were submitted for their use by authorised persons. The Government was not informed that these items of real property had been excluded. Even though the CYF's assets were covered by the special legislation laying down rules for the use of property of the Czech Republic, these regulations were not respected in the case of the non-free transfers. The MoF did not approve the contracts on non-free transfers. The liquidator also sold buildings for which tenders for free transfers were still ongoing.

- Real property sold for approx. **CZK 37 million** by the liquidator in 2004 was valued by experts at least **CZK 198 million**. Out of a total of 36 items of real property, 28 buildings were sold to just three commercial companies.

#### **2.1.2.6 Management of finances provided to the Czech Republic from abroad;**

- **Audit No. 05/32 focused on the implementation of the “Rural Development and Multifunctional Agriculture” operational programme. The programme is co-financed by the EU budget, the Czech state budget and beneficiaries’ private sources. The audit found out that:**
  - The system for implementation of the audited programme was established in the Czech Republic in conformity with European and national legislation.
  - In the case of the audited projects, the operational programme implementation system functioned without major or numerous errors; in all audited cases the purpose of support was respected and the project goal achieved.
  - By the end of 2005 7.3% of the volume of allocated public finances (2004 to 2006) had been paid and a decision was issued for 52% of this volume. Because implementation of the operational programme is still in its early stages, the second figure indicates a supposition that there will be a greater use of finances from the EU budget earmarked for its implementation.
- **Audit No. 06/02 focused on management of finances from the European Social Fund (ESF) channelled into national education projects. The audit found out that:**
  - Regarding the management of ESF finances for national projects, no fundamental shortcomings or serious irregularities were found in their administration and financing. Some less significant shortcomings did emerge, e.g. the approval process for applications for payments was suspended by the Mediating Authority mainly because applications contained wrong data, certain expenditure was wrongly rendered to account and the materiality of reported overhead costs was insufficiently documented.
- **Audit No. 06/17 found out that the European Commission declared that transposition of EU directives into Czech law had caused a breach of directive 79/409/EEC, on the conservation of wild birds.** If the situation is not redressed, the Czech Republic is at risk of a large fine from the EC, which would have a negative impact on the state budget.

#### **2.1.2.7 Management of finances collected by law in favour of legal persons**

- **Audit No. 05/31, concerning the financial management of the Industrial Health Insurance Company for Employees of Banks, Insurance Companies and Construction Firms and the METAL-ALIANCE Health Insurance Company, found out the following:**
  - Regarding the collection of insurance premiums for public health insurance, application of Act No. 48/1997 Coll., on public health insurance and amending certain related acts, was documented by the implementation of precise working procedures laid down by internal norms, both during the collection of insurance premium payments and when tending to debts owed by payers. This was meant to limit the growth in the absolute level of debts owed by premium payers, including the collection of existing debts at the maximum level and in the minimum amount of time. The desired effect was not achieved entirely, debt levels are on the increase in both health insurance companies.
  - Regarding provided and audited payments and the payment of recognised healthcare, problems were registered in the arrangement of the manner and size of payments with individual contractual healthcare providers. The state of affairs was directly dependent on the results of negotiation proceedings and procedures required of health insurance companies by the MoH according to payment decrees always issued for the relevant half-year. The



applicable wording of Act No. 48/1997 Coll. reckoned with these decrees in cases where, for example, the MoH found the result of negotiation proceedings to be contrary to the legislation or public interest and issued decrees specifying the value of a “point”, the size of payments and regulatory restrictions on healthcare. Health insurance companies were obliged to implement the decrees and were responsible for doing so; the expense incurred in connection with arranging the payments, i.e. administration and the creation and distribution of repeatedly drafted price annexes to contracts, including the comprehensive modification of software, amounted to CZK 10.025 million in the period under scrutiny from 2003 to the 1<sup>st</sup> half of 2005 in both healthcare insurance companies.

## **2.2 Audit with regard to the state closing account (financial audit)**

One basis on which the SAO’s opinion on the state closing account (SCA) is formulated is financial audit. The aim of a financial audit is to obtain sufficient reliable information about whether the data reported in individual closing accounts of state budget chapters are duly conclusive and credible. In financial audit, an opinion is expressed as to whether the financial statements of an auditee (accounting unit) are compiled in conformity with the applicable legislation and whether they give a faithful and honest representation of the subject of the accounting in all significant respects. Additionally, attention is focused on whether the closing account of the state budget chapter, as part of the state closing account, is compiled on the basis of accounting and financial statements of the accounting units in the relevant state budget chapter and conforms to the requirements laid down by law; the quality of the presented information is judged in terms of its completeness and reliability.

The following are published in audit conclusions from financial audit:

- an opinion on the financial statements;
- an assessment of the reliability of the auditee’s internal management and control system;
- an assessment of the conformity of the accounting unit’s accounting system with the act on accounting and related regulations;
- an assessment of fulfilment of the state budget chapter administrator’s obligation to submit a closing account conforming to the law in terms of its form, manner and substance;
- an assessment of all other significant circumstances stemming from or related to financial audit.

The aim of accounting and financial statements in the public sector is to provide their users with information about the auditee’s financial position and the development of the auditee’s financial situation.

Sections 20 and 29 of the budget rules act and Decree No. 16/2001 Coll., on the manner, times and scope of data submitted for assessment of implementation of the state budget, budgets of state funds and budgets of territorial self-governing units, provides that the purpose of obtaining data from financial statements for individual organisational components of the state and contributory organisations is to process them in a subsequent multi-level aggregation, for which it is important that the specified items of financial statements are substantively homogeneous and correct, so that the information provided in financial statements is comparable.

### **Results of financial audit work in 2006**

The audit conclusions of the following audits from the audit plans for 2005 and 2006 were approved in 2006.

Table 1: Overview of approved audit conclusions from financial audits in 2006  
(CZK thousands)

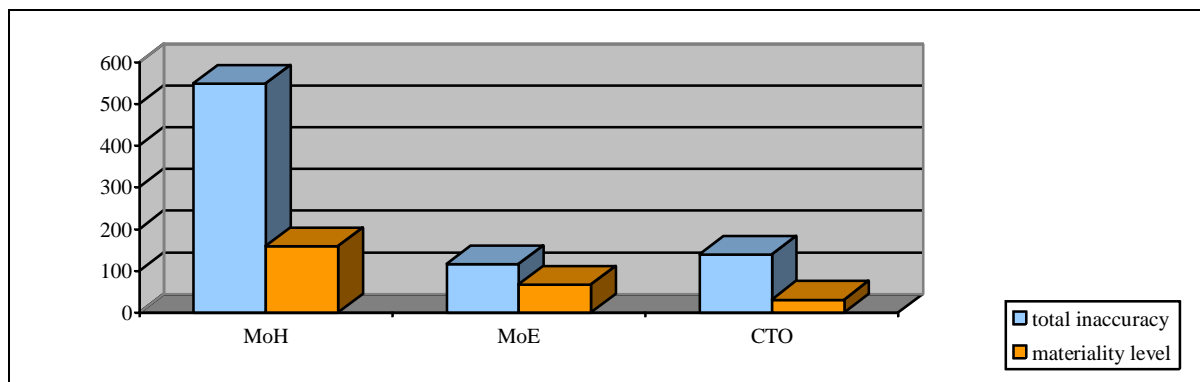
<i>Audit (state budget chapter number)</i>	<i>Financial statements as of</i>	<i>Assets</i>	<i>Incomes</i>	<i>Expenditures</i>	<i>Total absolute inaccuracy in financial statements</i>	<i>Notification to tax offices (breach of budget discipline)</i>
05/13 – Closing account of the Securities Commission State Budget Chapter (347)	31. 12. 2004	244 532,06	625,74	125 130,95	122 307,56	4 783,37
05/20 – Closing account of the Grant Agency of the Czech Republic State Budget Chapter (321)	31. 12. 2004	64 349,56	4 047,81	1 246 792,06	8 811,27	735 443,62
05/22 – Closing account of the Ministry of Health State Budget Chapter (335)	31. 12. 2004	1 449 406,01	167 093,81	7 979 829,27	548 534,03	31 661,61
05/23 – Closing account of the Ministry of the Environment State Budget Chapter (315)	31. 12. 2004	942 838,09	29 911,58	3 343 835,52	116 518,41	138 200,62
06/13 – Closing account of the Czech Telecommunication Office State Budget Chapter (328)	31. 12. 2005	1 314 179,11	1 562 376,77	467 292,90	138 862,39	304,86
06/16 – Closing account of the Industrial Property Office State Budget Chapter (344)	31. 12. 2005	463 177,32	118 019,76	155 472,25	1 025,26	1 598,56
<b>Total</b>		<b>4 478 482,15</b>	<b>1 882 075,47</b>	<b>13 318 352,95</b>	<b>936 058,92</b>	<b>911 992,64</b>

Source: SAO audit conclusions from financial audits

As part of financial audits, individual audits specified the **total inaccuracy** in the auditees' financial statements; this was then compared with the specified materiality level. Based on these comparisons, opinions were formulated on the auditees' financial statements.

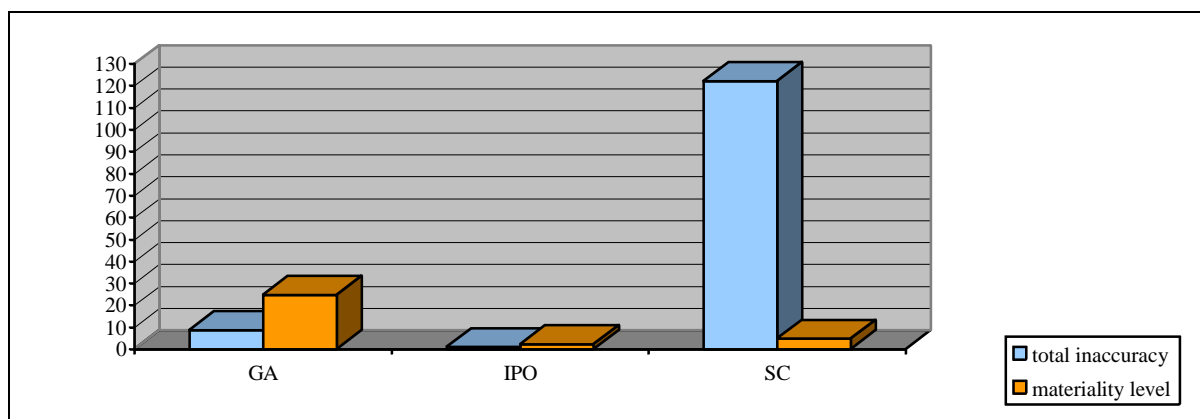


Graph 1: Ascertained total inaccuracies and materiality level (MoH, MoE, CTO)  
(CZK millions)



Source: SAO audit conclusions from financial audits

Graph 2: Ascertained total inaccuracies and materiality level (GA, IPO, SC)  
(CZK millions)



Source: SAO audit conclusions from financial audits

Only the Grant Agency's (GA) and Industrial Property Office's (IPO) financial statements gave a faithful and honest representation of the subject of the accounting in all significant respects in accordance with Czech law. The other auditees' financial statements did not, and for that reason they could not serve as a reliable basis for compiling the relevant state budget chapter's closing account.

The principal causes of the inaccuracies detected in the final statements and the ensuing closing accounts that were covered by audits whose audit conclusions were approved in 2006 included:

Table 2: Principal causes of found inaccuracies

<i>Principal causes of found inaccuracies</i>	<i>SC</i>	<i>GA</i>	<i>MoH</i>	<i>MoE</i>	<i>CTO</i>	<i>IPO</i>
failure to inventory assets and liabilities in conformity with the act on accounting	X	X	X	X	X	X
discrepancies in asset accounts and incorrect generation of resources for financing fixed assets	X		X	X	X	
failure to comply with the prescribed budget composition	X	X	X	X	X	
incorrect accounting for inventories			X		X	
incorrect accounting for advance payments						X
incorrect accounting for refundable and temporary short-term financial aid		X	X			
incorrect accounting for cultural and social needs fund and related accounts		X	X			
incorrect accounting for finances and stamps	X	X	X	X		X
accounting not using double-entry book-keeping			X			
accounting for unfounded liabilities					X	

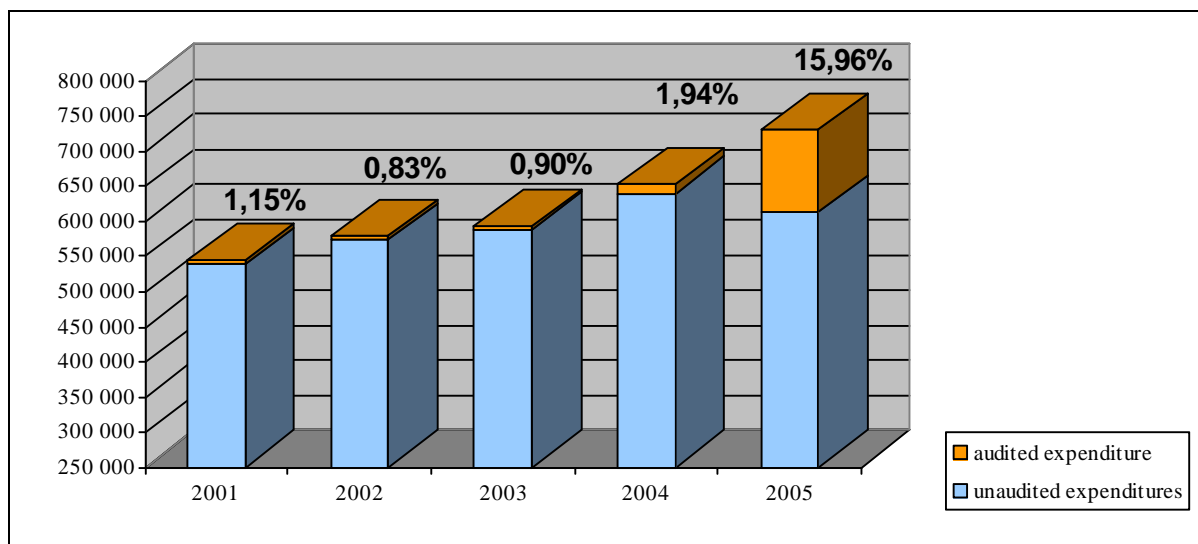
Source: SAO audit conclusions from financial audits

As in previous years, in 2006 the common result of all the aforementioned audits was the finding that **on a large scale auditees effected budget expenditures above the budgeted level according to sections and items of the budget composition before budget measures were executed.** This is defined by Section 25 of the budget rules act as unauthorised use of state budget finances and, in conjunction with Section 44 of the act, it is a breach of budget discipline. The situation described above is testimony to shortcomings in the management of budget expenditures both in the planning stage and in the stage of actual drawdown.

***Audited expenditures' rate of total expenditures of the state closing account of accounting units and overview of closing account financial audits conducted***

In 2006 the trend of the increasing amount of state expenditures that the SAO scrutinised by financial audit continued (see Graph 3).

Graph 3: Proportion of audited expenditures out of the total expenditure of the closing state account of accounting units (CZK millions)



Source: Government regulation on the state closing account in individual years and Automated Budget Information System).

NB: The figures are "corrected percentages", i.e. the state budget chapters that do not have accounting units (396 – State Debt, 397 – State Financial Assets Operations, 398 – General Treasury Administration) and the chapter not subject to the SAO's scrutiny (381 – Supreme Audit Office) are not included in the total expenditure of state closing accounts.

The development of the scale of audited expenditure illustrates the SAO's endeavour to attain a state of affairs where it will be able to audit the state closing account, i.e. use financial audit to scrutinise a statistically significant portion of the state budget (state budget chapters' closing accounts). Besides the proportion of audited expenditures, there is also a chart showing which state budget chapters' closing accounts have already been subjected to financial audit in individual years.

The management quality requirements for financial audits are defined in accordance with the recommendations of the International Organisation of Supreme Audit Institutions (INTOSAI), INTOSAI audit standards, European Implementation Directives and International Standards on Auditing (ISA).

Table 3: Overview of conducted financial audits for individual state budget chapters

<i>State budget chapter</i>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
301 Office of the President of the Republic					
302 Chamber of Deputies of Parliament					
303 Senate of Parliament					
304 Office of the Czech Republic Government					
305 Security Information Service					
306 Ministry of Foreign Affairs					
307 Ministry of Defence					
308 National Security Office					
309 Office of the Defender of Public Rights				X	
312 Ministry of Finance					
313 Ministry of Labour and Social Affairs					
314 Ministry of the Interior					
315 Ministry of the Environment				X	
317 Ministry for Regional Development	X				
321 Grant Agency of the Czech Republic				X	
322 Ministry of Industry and Trade					X
327 Ministry of Transport					
328 Czech Telecommunication Office					X
329 Ministry of Agriculture					
333 Ministry of Education, Youth and Sports					X
334 Ministry of Culture		X			
335 Ministry of Healthcare				X	
336 Ministry of Justice			X		
338 Ministry of Informatics					
343 Office for the Protection of Personal Data	X				
344 Industrial Property Office					X
345 Czech Statistical Office					
346 Czech Office for Surveying, Mapping and Cadastre					
347 Securities Commission				X	
348 Czech Mining Office					
349 Energy Regulatory Office					
353 Office for the Protection of Competition			X		
358 Constitutional Court					
361 Academy of Sciences of the Czech Republic			X		
372 Council for Radio and Television Broadcasting					
374 Administration of State Material Reserves					
375 State Office for Nuclear Safety			X		
381 Supreme Audit Office					
396 State debt					
397 State Financial Assets Operations					
398 General Treasury Administration					

Source: SAO audit conclusions

NB: Chapters 396, 397 and 398 have no accounting units; chapter 381 is not subject of SAO scrutiny.

### 2.3 Cooperation with criminal justice authorities

Under the terms of Section 8 (1) of the criminal code the SAO submitted four notifications of circumstances indicating possible commission of a crime, based on audit findings. In connection with these notifications the President of the SAO, under the terms of Section 23 of Act No. 166/1993 Coll., on the Supreme Audit Office, released four auditors who conducted these audits from their confidentiality obligation so that they could provide the criminal justice authorities with the necessary cooperation when examining evidence connected to findings acquired during these audits.

Table 4: Overview of criminal notifications submitted

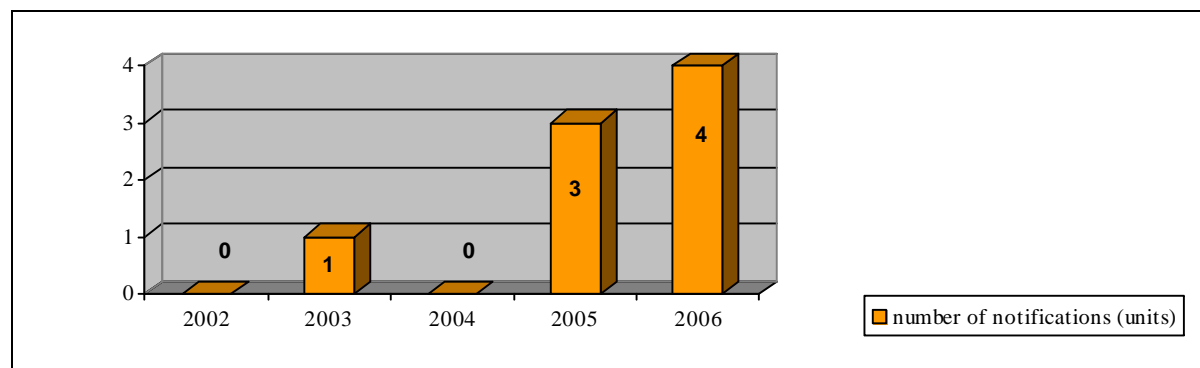
<i>Audit No.</i>	<i>Finding</i>	<i>Factual basis pursuant to the criminal code</i>	<i>Result of investigation</i>
05/15	failure to comply with due date of health insurance premiums, penalty	§ 255	ongoing*
05/25	uneconomical use of finances of a state firm during liquidation	§ 255	ongoing*
06/04	failure to collect contractual penalties	§ 255	ongoing*
06/11	providing a subsidy to an unauthorised entity causing penalty interest for delay	§ 127, § 255	ongoing*

\* State as at 30.1.2007

In 2006 the criminal justice authorities requested the SAO's cooperation in 22 instances in all. In 17 cases the SAO provided audit materials from the relevant audits when so requested for the purpose of criminal proceedings. In five cases the President of the SAO, under Section 23 of Act No. 166/1993 Coll. and on the grounds of important state interest, released a total of nine employees from their confidentiality obligation so that they could provide information to the criminal justice authorities (make a statement clarifying the circumstances under investigation) or so that they could be questioned as witnesses.

In the first half of 2006, the relevant criminal justice authority shelved, under the terms of Section 159a (4) of the criminal code, one of the three criminal notifications submitted by the SAO in 2005 on the grounds that they had not ascertained facts warranting the prosecution of a specific person. The other two criminal notifications are still under investigation by the criminal justice authorities.

Graph 4: Overview of the number of notifications submitted in the years 2002–2006



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

Audit conclusions, which are the results of the SAO's audit work, summarise and evaluate audit findings. They are an important source of information for the Czech Parliament and Government, which may use their powers to ensure that identified shortcomings are redressed and effective measures are adopted. The purpose of audit is only achieved when measures to remedy or eliminate identified shortcomings are implemented, for the actual impacts brought about by approved audit conclusions are the principal criterion of the effectiveness of audits.

During 2006, the **Audit Subcommittee of the Budget Committee** of the Chamber of Deputies added to its agenda just one SAO audit conclusion, namely Audit No. 05/06 "State Budget Finances Earmarked for Investment and Renovation in the Motol University Hospital Premises"<sup>5</sup>, resolving that the MoH was proceeding unsystematically in healthcare programme financing.

Since the start of the new electoral term 2006–2010 the Chamber of Deputies has had a new **Audit Committee**, which placed a total of six SAO audit conclusions on the agenda of its two sessions during 2006. At each session the Committee passed a resolution declaring the shortcomings found at the relevant central bodies and requesting the Government or relevant ministry to present further materials (concepts, reports, remedial measures etc.). For example, the Committee's resolutions stated that:

- the MoF had failed to prove that the accounts of the budget chapter 347 – Securities Commission were correct, complete and conclusive as of the day of its winding up (Audit No. 05/13);
- activities done by the MfRD from 1998 to 2004 for a long time contravened the budget rules (Audit No. 05/16);
- tax administrators did not pay sufficient attention to checking intracommunity<sup>1</sup> deliveries either in terms of whether the data given in VAT returns tallied with data in the relevant summary reports or in terms of whether the data provided by Czech payers and payers from EU countries matched (Audit No. 05/19);
- activities performed by the MoH for a long time contravened the act on accounting and the budget rules (Audit No. 05/22);
- activities performed by the MoE for a long time contravened the act on accounting and the budget rules (Audit No. 05/23);

An overview of audit conclusions discussed by the Audit Committee of the Chamber of Deputies of Parliament of the Czech Republic, including adopted resolutions, is given in Appendix 4.

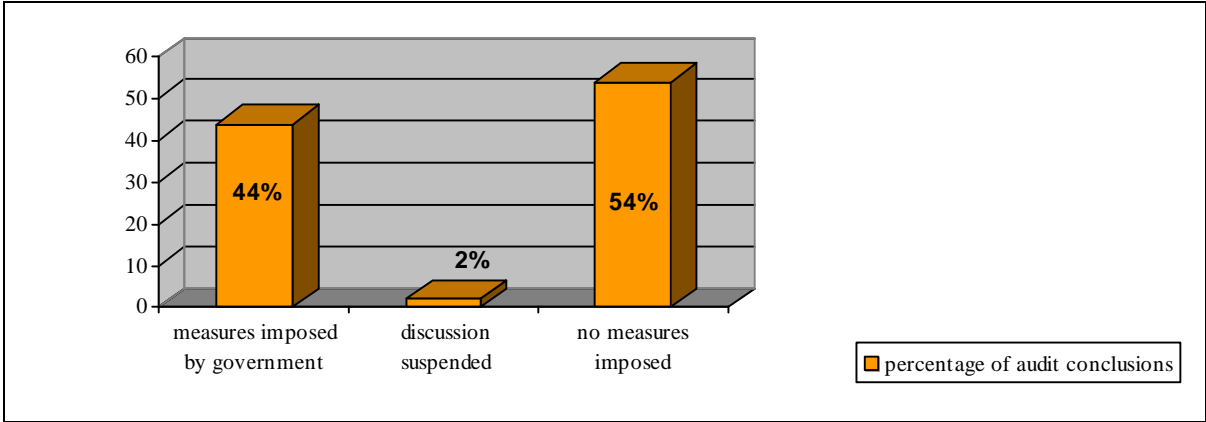
The **Czech Government** placed on the agenda of its eleven meetings in 2006 a total of 45 SAO audit conclusions (29 of which were approved in 2006 and 16 previously). The audit conclusions were always discussed together with the opinions of the relevant central bodies or other concerned entities. All 45 audit conclusions were discussed; in 44 cases the Government passed a resolution and in one case the discussion was suspended (Audit 06/11).

An overview of audit conclusions discussed by the Czech Government, including measures it imposed, is given in Appendix 3.

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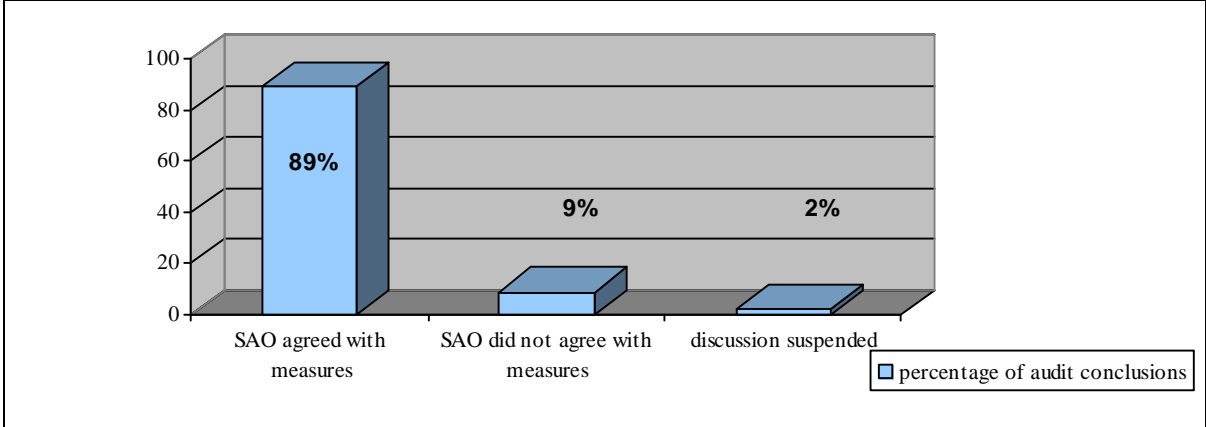
<sup>5</sup> Audit conclusion from Audit No. 05/06 "State Budget Finances Earmarked for Investment and Renovation of the Motol University Hospital Premises" was approved in 2005 (and published in SAO Bulletin No. 4/2005).

**Graph 5:** Audit conclusions discussed by the Czech Government in 2006 (in terms of the Government's response)



In 89% of cases the SAO agreed with the outcome of the Government's discussion of audit conclusions; this means that the SAO either agreed with the Government department's response or the measures adopted by the department, or in some cases measures imposed and adopted by the Government.

**Graph 6:** Audit conclusions discussed by the Czech Government in 2006 (in terms of the SAO's reaction)



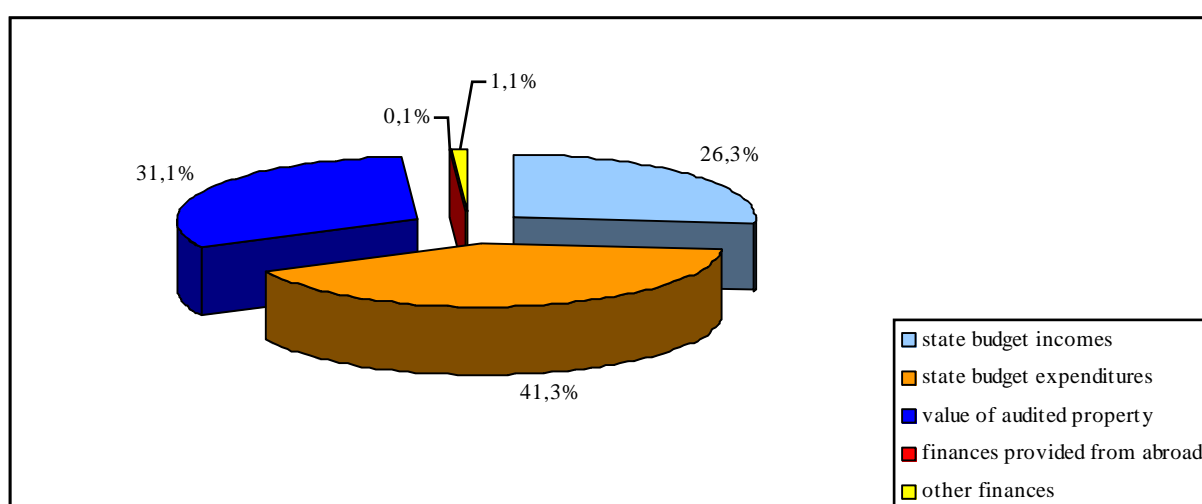
## II. Financial Evaluation of Audit Work

### 1. Summary financial evaluation of audits

The financial evaluation of audit work for 2006 is expressed by means of an indicator that is primarily informative and testifies to the scale of audits. It may be significantly influenced both by the subject of the audit and by the audited period, where one audit may scrutinise a particular area over several budget years.

Audits whose audit conclusions were approved in 2006 (not including financial audit) scrutinised state finances and property worth a total of **CZK 279,960.446 million**; Graph 7 gives the structure of such finances and property.

Graph 7: Composition of audited state finances and property



NB: A financial evaluation of financial audit work is given in Table 1 – Overview of Approved Audit Conclusions from Financial Audit in 2006.

### 2. Performance of the notification duty pursuant to Act No. 337/1992 Coll., on the administration of taxes and fees

Specific audit findings that put a reliable figure on losses can be used by the relevant administrative authorities and bodies for collecting finances or to adopt measures stopping unauthorised use of state property. Based on such audit findings, where warranted the SAO fulfils its duty to notify territorial financial authorities pursuant to Act No. 337/1992 Coll., on the administration of taxes and fees, as amended.

In 2006, **a total of 32 such notifications** based on the results of 17 audits were sent to the appropriate financial authorities; the notifications concerned the expenditure side of the state budget, and in particular unauthorised use of budget finances in terms of their purpose and time of use.

The sent notifications (including from financial audit) involved a total sum of **CZK 2,062.952 million**.

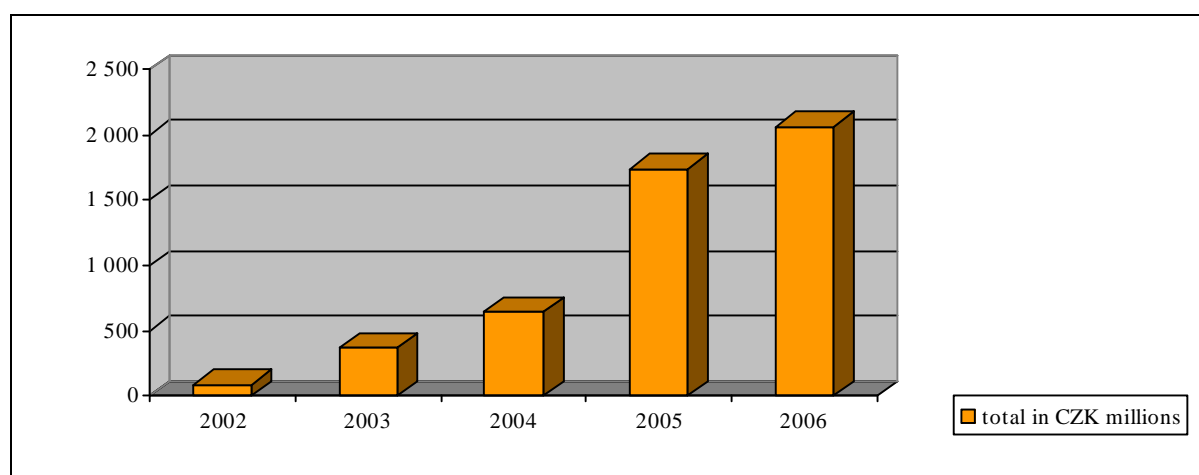


Table 5: Total number of submissions and total finances in respect of which notifications were submitted to the relevant financial authorities in the years 2002–2006 (CZK millions)

	2002	2003	2004	2005	2006
Total number of notifications	26	24	35	28	32
Total finances	87,300	370,645	645,500	1 736,385	2 062,952

Source: SAO annual reports

Graph 8: Total finances in respect of which notifications were submitted to the relevant financial authorities in the years 2002–2006 (CZK millions)



### III. Evaluation of Other Activities

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

##### 1.1 Opinions on the interim report on implementation of the state budget and on the proposed state closing account

The SAO submitted to the Chamber of Deputies of Parliament of the Czech Republic opinions on the state closing account of the Czech Republic proposed by the Czech Government for 2005 and on the Government report on implementation of the state budget of the Czech Republic for the first half of 2006 pursuant to Section 5 of the act on the SAO.

The opinion on the state closing account for 2005 was formulated so as to emphasise the experiences and findings gained from the SAO's audit work, i.e. it focused mainly on appraising the closing accounts of budget chapters and summarised the most serious and recurring shortcomings, referring to the relevant audit conclusions approved by the Board of the SAO and published in the SAO Bulletin. Generalisations were drawn from the results of financial audits done by the SAO.

Furthermore, the SAO drew attention to certain fundamental problems in implementation of the 2005 state budget. It sees the fundamental shortcoming **in the overall insufficient appraisal of the effectiveness, efficiency and economy of expenditure that is prescribed by the law.**

The SAO drew attention to persisting problems in the structure and implementation of the state budget; these include primarily:

- the high proportion of mandatory expenditures;
- the impacts of moving budget finances between budget chapters and reserve funds;
- the inclusion of extrabudgetary finances in the state budget and public budgets;
- the impacts on public budgets and the public debt in connection with achieving the criteria defined by the EU;
- the issuing of state guarantees.

The SAO's opinion on the Government report on implementation of the state budget for the first half of 2006 declared, among other things, that in view of the anticipated expenditures up to the end of 2006 that were not covered in the budget (for, among others, execution of non-standard state guarantees and pay-out of pensions) the Government's forecast putting the budget deficit as at year end at around CZK 90 billion, without including the unpredictable influences of transfers between budget finances and reserve funds and without including the influence of links to the EU budget, was realistic, even if budgeted tax receipts were slightly exceeded. The SAO stressed that the mentioned phenomena, combined with other circumstances described in the Government document, increase the risks that the budgeted deficit will be overstepped, which may have a fundamental impact on the endeavour to abide by the "Convergence Programme for 2006–2008" for 2006, with the concomitant threat of sanctions by the EU.



*President of the SAO F. Dohnal making his first-ever presentation of the SAO's opinion on the Government proposal for the state closing account of the Czech Republic for 2005 (in October 2006)*

The SAO also drew attention to the negative tendency in the long-term development (growth) of government debt and the growth in the expected debt levels of certain state funds (most notably the State Agricultural Intervention Fund and State Environmental Fund). The absolute level of debt is still far from alarming by international comparison; however, its acceleration in recent years, despite being substantially offset by privatisation receipts, is a warning sign. **The SAO has repeatedly drawn attention to these circumstances and to the gradually weakening influence of the dwindling privatisation resources, which in coming years will become an increasingly real risk for the further development of government debt.**

## 1.2 Opinions on draft legislation

Section 6 of the act on the SAO provides that both chambers of Parliament and their bodies are authorised to ask the SAO's opinion on draft legislation concerning budget management, accounting, state statistics and the exercise of control, supervision and inspection work. The said bodies did not make use of this authorisation in 2006.

In the interdepartmental comments process under the Government's Legislative Rules the SAO received a total of 211 draft regulations for appraisal in 2006. It submitted specific comments on 23 drafts.

Table 6: Overview of the interdepartmental comments process

<i>Appraised legislation</i>	<i>Number of appraised drafts</i>	<i>Number of drafts on which comments were submitted based on the SAO's audit work</i>
acts regulating an area subject to SAO scrutiny	12	8
implementing regulations for acts regulating areas subject to SAO scrutiny	11	7
other regulations	188	8

## 1.3 Promoting best accounting practice

Promoting best accounting practice and systemic changes in accounting is part of long-term international efforts by other audit institutions in developed countries. Best accounting practice does not just aid the preparation and submission of high-quality accounting and

financial information; it also helps provide high-quality information for the management of the auditee and subsequently becomes a foundation on which sound decision-making and good financial management can be based. In this context and following the issue of the “2005 IFAC Handbook of International Public Sector Accounting Standards Board Pronouncements”, SAO representatives attended an international conference entitled “Harmonisation of Auditing and Accounting in the European Union”, which was held in Prague on October 16–17 2006 and was organised by the Chamber of Auditors of the Czech Republic. SAO representatives informed conference participants about the state and prospects of public sector accounting in the Czech Republic and about the International Public Sector Accounting Standards. Implementation of these standards has achieved goals related to increasing the extent of accrual-based accounting and consolidation of entities’ financial statements in the area of the state closing account.

## 2. Performance of duties towards the public

### 2.1 Publications

The SAO Bulletin (XIV volume) was published in four parts, one at the end of each calendar quarter. There was a fundamental reduction in the number of SAO Bulletin imprints in 2006. The Bulletin is now distributed mainly in electronic form, which has brought a marked reduction in production costs.



The SAO’s web site (<http://www.nku.cz>) enables quick access to **up-to-date information**. Here users can find information about the SAO’s scope of competence, organisational structure and work, as well as other information as required by law (annual report, yearly report, opinions on the state closing account and closing account of budget chapter 381 – Supreme Audit Office). Regular information from individual audits is also published here, making the web site the principal source of news about on-going events in the SAO in 2006.



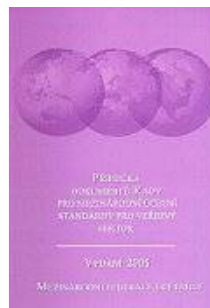
Press releases giving a concise summary of the results of audits are distributed for each audit conclusion; press releases are also used to inform the media about current on-going events in the SAO. In the course of 2006 the SAO President appeared on several radio and television programmes and gave regular commentaries and interviews in electronic and printed media.

An **intranet** has been created for the internal use of SAO staff.

In September 2006 a **“Report on the Results of Parallel Audit of the Administration of Value Added Tax in the Czech Republic and in the Slovak Republic in 2005”** was published. This trilingual publication informs about the course and results of parallel audits done by the SAO and Supreme Audit Office of the Slovak Republic.

In October 2006, **“AUDIT 2006”** was published in Czech and English versions to inform about the SAO’s procedure in financial audit and the significance of this type of audit.

In 2006, the SAO published, jointly with the Chamber of Auditors of the Czech Republic, a translation of the **“2005 IFAC Handbook of the International Public Sector Accounting Standards Board Pronouncements”** (the standards apply in the same wording for 2006). The handbook’s principal content the International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants, i.e. documents that currently exert a global influence on developments and reform efforts in public sector accounting and reporting. The publication was also made available to the public.



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

In 2006, eight written requests for information were registered; in no case was a decision issued to withhold information. The requests contained queries about the SAO’s audit work; these queries were responded to by passing on audit conclusions or referring to information published on the SAO’s web site. Other queries concerned the organisation of the SAO’s work and the SAO’s new head office. The SAO continues to provide information pursuant to the act on free access to information free of charge.

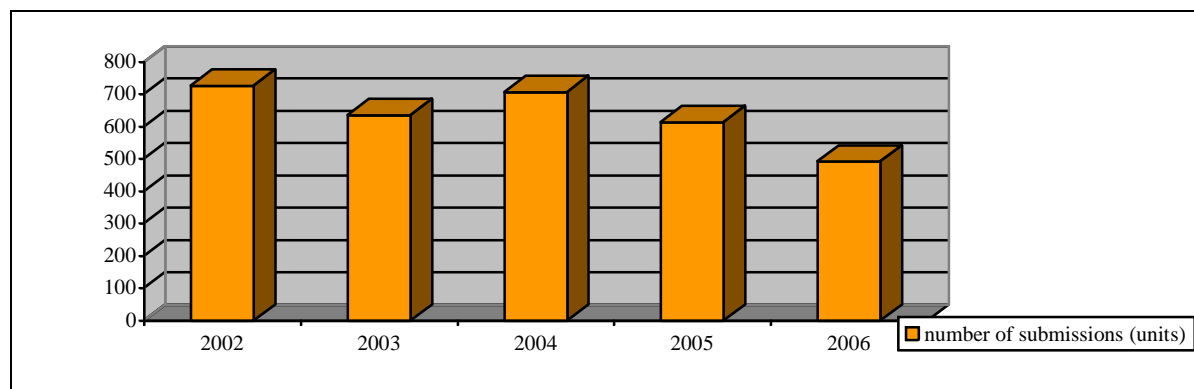
## 2.3 Citizens’ submissions

The SAO received **491 citizens’ submissions** in 2006, a fall of 20% from 2005. This fall in the number of written submissions can be linked to citizens’ growing awareness of the SAO’s powers and the increasing number of submissions by telephone. The proportion of submissions that can be applicable for audit purposes remains the same.

Table 7: Development in the number of received submissions and their applicability in the years 2002–2006

	2002	2003	2004	2005	2006
Total number of submissions	727	636	707	614	491
Applicable submissions (%)	38,9	37,8	39,3	33,4	36,0

Graph 9: Overview of the total number of submissions



The structure of the substantive focus of citizens' submissions continues to correspond to current social problems. Roughly a third of submissions concern private disputes (in particular property disputes), followed by disputes with energy and services suppliers. Another major focus of criticism is public administration, in particular bodies of territorial self-government and their management of public finances and property. The state administration bodies and state-founded legal persons that came in for the most frequent criticism were again the Land Fund of the Czech Republic, followed by the social security authorities. Considerable criticism is also levelled at public procurement methods and procedures.

### 3. International cooperation

International relations were dominated in 2006 by actions focusing on bilateral and multilateral cooperation. International cooperation was linked mainly to the SAO's membership of working groups in INTOSAI (International Organisation of Supreme Audit Institutions) and EUROSAI (European Organisation of Supreme Audit Institutions) and also working groups in the Contact Committee of Heads of Supreme Audit Institutions /SAI/. Bilateral cooperation took place mainly with the supreme audit institutions of Slovakia, Germany, the Netherlands, Great Britain and Belgium, and with the European Court of Auditors.

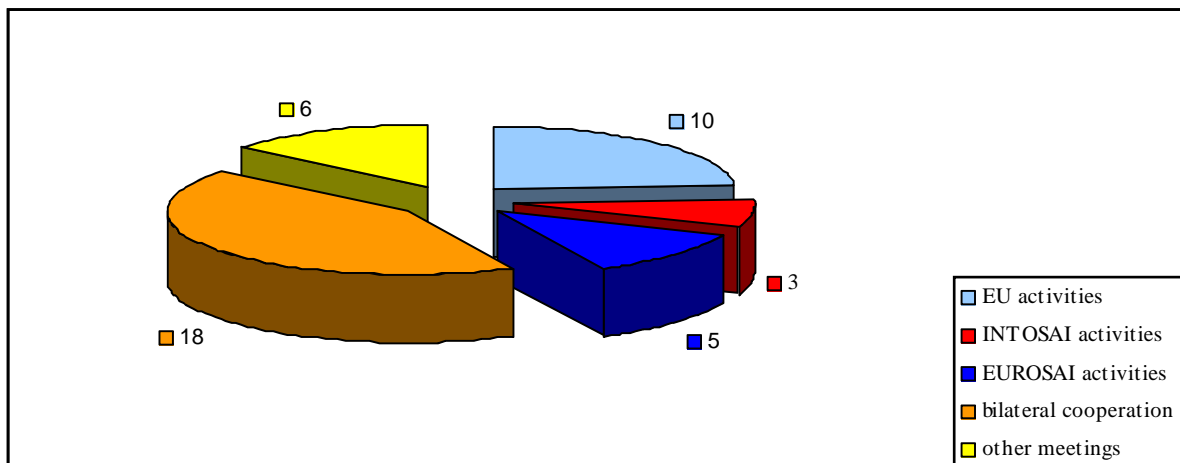


*President of the SAO F. Dohnal with members of the European Court of Auditors (March 2006)*

A total of 42 events abroad took place in 2006; 13 of these meetings were held in the context of coordinated audits and 11 focused on working groups and committees dealing with a specific area of audit. The others included seminars, conferences, official visits and other events. Cooperation with the National Audit Office of Great Britain continued with going of one SAO auditor specialised in performance audit procedures and methods on a work placement.

A significant event in international cooperation between the SAIs of EU countries was the Contact Committee meeting held in Warsaw in December. One of the meeting’s principal topics was SAIs’ contribution to increasing responsibility for EU finances.

Graph 10: Number of foreign business trips by SAO representatives and staff in 2006



The SAO organised 28 international events in the Czech Republic in 2006. In April it organised a meeting entitled “Working Group on National SAI Reports on EU Financial Management”; in November it organised the 6<sup>th</sup> seminar of the EUROSAI Training Committee on “Better Auditing of Public Aids and Subsidies”, which was attended by 58 representatives from 28 SAIs, the European Court of Auditors, SIGMA and other institutions. This seminar was organised with financial assistance from EUROSAI and was very highly rated by participants.





*6<sup>th</sup> seminar of the EUROSAI Training Committee (November 2006)*

As part of bilateral cooperation the SAO was visited by the president of the German Federal Court of Audit (BRH) and the president of the Supreme Audit Office of the Slovak Republic. Coordinated audits were also conducted with these SAIs in 2006.



*President of the SAO F. Dohnal with President of the BRH D. Engels (June 2006)  
and with president of the Supreme Audit Office of the Slovak Republic J. Jasovský (August 2006)*

The coordinated audits conducted with the Slovak SAI focused on the administration of value added tax and use of the VIES<sup>2</sup> information system, and management of state finances and fulfilment of international commitments when dealing with hazardous waste. Both audits culminated with the signing of a communiqué and a joint report.



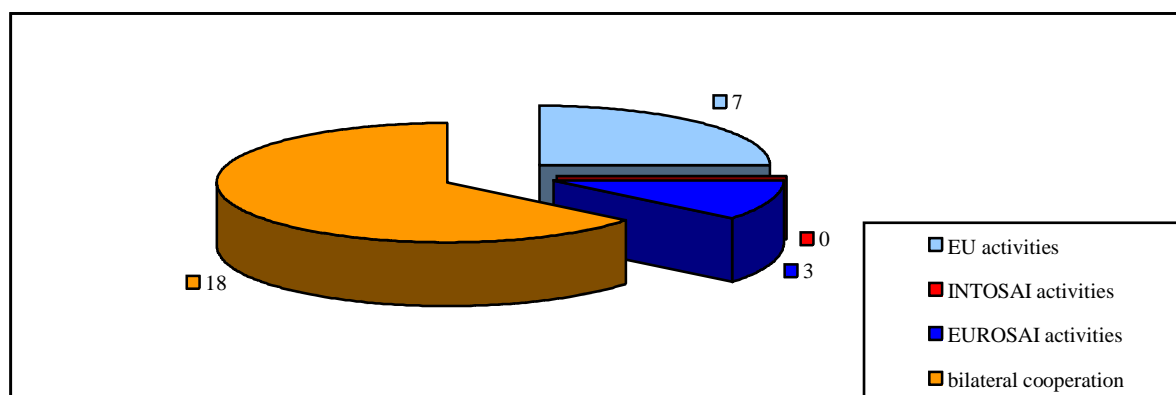
*Valtice, meeting of delegations from the supreme audit institutions of the Czech Republic and the Slovak Republic (August 2006)*

An audit of the costs of acquiring the D8/A17 Prague – Dresden Motorway and an audit focusing on value added tax administration were conducted with the German BRH.

Besides long-term bilateral cooperation, 2006 also brought visits to the SAO by colleagues from the SAIs of Sweden and the Republic of Korea; colleagues from two audit institutions from the People's Republic of China were welcomed on working visits.



Graph 11: Number of international SAO events in the Czech Republic in 2006



#### 4. Financial management of the SAO state budget chapter

##### 4.1 Financial management in 2006

Act No. 543/2005 Coll., on the state budget of the Czech Republic for 2006, approved the budget for the SAO budget chapter; during the year it was modified by seven budgetary measures within the organisation's powers, which had no impact on binding indicators.

Table 8: Achievement of binding indicators of the SAO budget for 2006  
(CZK thousands)

<i>Indicator</i>	<i>Approved budget</i>	<i>Implementation</i>	<i>Percentage implementation*</i>
<i>Aggregate indicators:</i>			
<b>Total incomes</b>	<b>1 145</b>	<b>16 688</b>	<b>1 457,44</b>
<b>Total expenditures</b>	<b>506 515</b>	<b>503 763</b>	<b>99,46</b>
<i>Cross-sectional indicators:</i>			
Employees' pay and other payments for work done	245 961	243 898	99,16
of which: employees' pay	224 774	224 363	99,82
mandatory insurance premiums paid by the employer	86 086	85 050	98,80
transfer to the Cultural and Social Needs Fund	4 495	4 487	99,83
<i>Specific indicators – incomes:</i>			
Total untaxed incomes, capital incomes and received subsidies	1 145	16 688	1 457,44
<i>Specific indicators – expenditures:</i>			
Expenditure covering performance of SAO tasks	506 515	503 763	99,46
of which: pay to SAO officials	18 347	17 452	95,12
Reimbursement for expenses associated with exercise of office	3 764	2 973	78,99
Non-investment transfers to international organisations	120	80	66,61
<i>Programme financing expenditure</i>	<i>78 020</i>	<i>91 755**</i>	<i>78 020</i>

NB: \* Figures for percentage implementation of the budget are derived from financial statements.  
\*\* Including extra-budgetary finances and transfer to the reserve fund.

### **Incomes**

Own incomes amounted to CZK 2,953,000, i.e. 257.91%. The table shows incomes including the transfer of extra-budgetary finances of CZK 13,735,000 from the reserve fund (RF).

### **Expenditures**

Total expenditures, not including extra-budgetary finances, amounted to CZK 490,028,000, i.e. 96.75% of the approved budget. The figure shown in the table covers expenditure including used extra-budgetary finances from the RF amounting to CZK 13,735,000.

Common expenditures account for 89.89% of budget drawdown; capital expenditures comprise 10.11%.

The biggest rate is taken by expenditure on pay and associated expenditures (66.19%), followed by programme financing expenditure (18.21%).

### **All binding indicators in the SAO's budget chapter were complied with in 2006.**

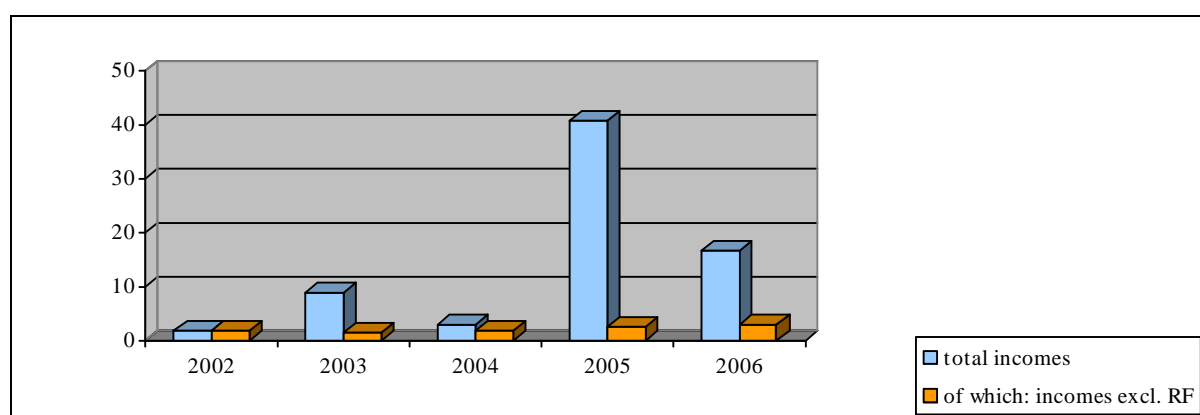
The table and graphs below show the SAO's total incomes and expenditures for the years 2002 to 2006.

Table 9: Incomes and expenditures for the years 2002–2006 (CZK millions)

	2002	2003	2004	2005	2006
<b>Total incomes</b>	<b>1,920</b>	<b>9,006</b>	<b>3,090</b>	<b>40,820</b>	<b>16,688</b>
<i>of which: incomes excluding RF</i>	<i>1,920</i>	<i>1,425</i>	<i>1,763</i>	<i>2,479</i>	<i>2,953</i>
<b>Total expenditures</b>	<b>357,598</b>	<b>387,659</b>	<b>498,253</b>	<b>490,342</b>	<b>503,763</b>
<i>of which: expenditures excluding RF</i>	<i>357,598</i>	<i>380,078</i>	<i>496,926</i>	<i>452,001</i>	<i>490,028</i>

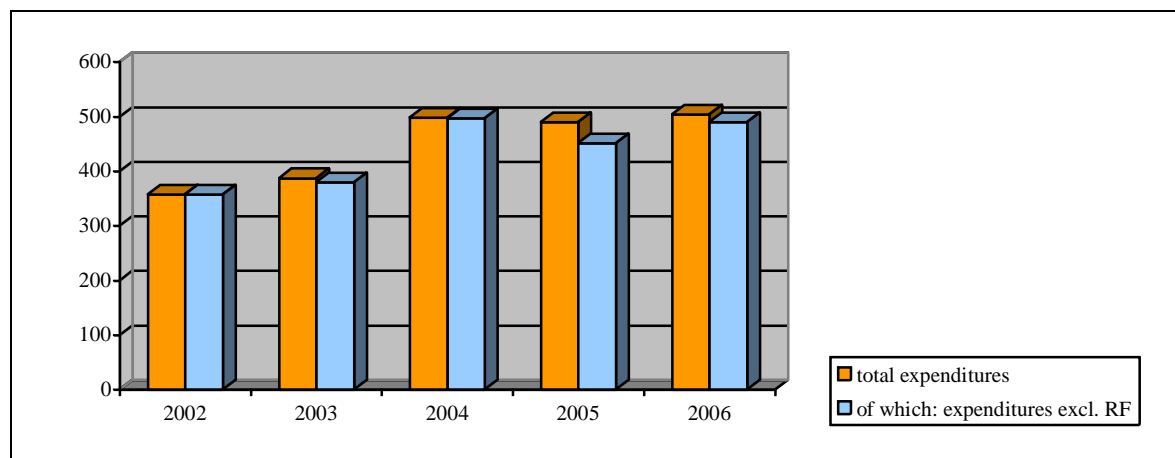
Source: Closing accounts of budget chapter 381 – Supreme Audit Office

Graph 12: Incomes for the years 2002–2006 (CZK millions)



Graph 13: Expenditures for the years 2002–2006

(CZK millions)



## 4.2 Investment expenditures

Investment expenditures were spent on the development and renewal of the SAO's material and technological resources, particularly information and communications technologies and assets replacement.

Total drawdown was CZK 50,951,000, of which extra-budgetary RF finances amounted to CZK 2,901,000.

## 4.3 Mandatory audit

The SAO's yearly financial statements were verified by an auditor within the meaning of Section 33 (3) of Act No. 166/1993 Coll., on the Supreme Audit Office; the auditor issued an unqualified audit certificate.

## 4.4 Internal audit

The work of the internal audit (IA) division in 2006 derived entirely from Act No. 320/2001 Coll., on financial control in public administration and amending certain acts and related regulations.

In 2006 the internal audit division carried out and completed a total of four audits, in accordance with the annual internal audit plan approved by the SAO President.

Table 10: Overview of conducted internal audits

<i>Audit number</i>	<i>Focus of the audit</i>
<b>IA č. 05/04</b>	Audit of costs associated with the SAO's international activities – performance audit
<b>IA č. 06/01</b>	Audit of drawdown of budget items (ordered by the director of the Office of the President and director of the Press Department) – audit of internal control system
<b>IA č. 06/02</b>	Audit of implementation of measures to eliminate shortcomings found by audits 03/03 "Audit of Language Teaching", 04/03 "Audit of Drawdown of Budget Finances and Classification of Employees into Pay Categories", and 05/01 "Audit of Provision of Bonuses to Heads of Audit Teams" – performance and compliance audit (ex post audit)
<b>IA č. 06/03</b>	Audit of comparison of the SAO's operating costs using benchmarking – performance audit

No serious findings within the meaning of Section 22 (6) of the act on financial control in public administration were made in 2006. In order to eliminate minor shortcomings the

SAO President ordered suitable measures that are being implemented according to a timetable and are regularly monitored by the director of the Internal Audit Department.

## 5. SAO staffing

There were **506 employees** working in the SAO as of 31. 12. 2006; 199 of these worked in regional departments. 363 employees worked in the audit section.

46 new employees were taken on in 2006 and 65 employees terminated the employment. Of these 65 departing employees, 43 (61.5%) terminated their employment to draw old-age or invalid pension. 497 employees had been in continuous employment for an entire year as of 31. 12. 2006.

Table 11: Overview of the number of SAO employees in the years 2002–2006 (total state of the workforce as of 31. 12. of the given year)

	2002	2003	2004	2005	2006
<b>Total number of employees</b>	<b>468</b>	<b>483</b>	<b>485</b>	<b>518</b>	<b>506</b>
<i>of which: Prague</i>	279	293	289	318	307
<i>regional departments</i>	189	190	196	200	199

Graph 14: Overview of the number of SAO employees in the years 2002–2006 (total state of the workforce as of 31. 12. of the given year)

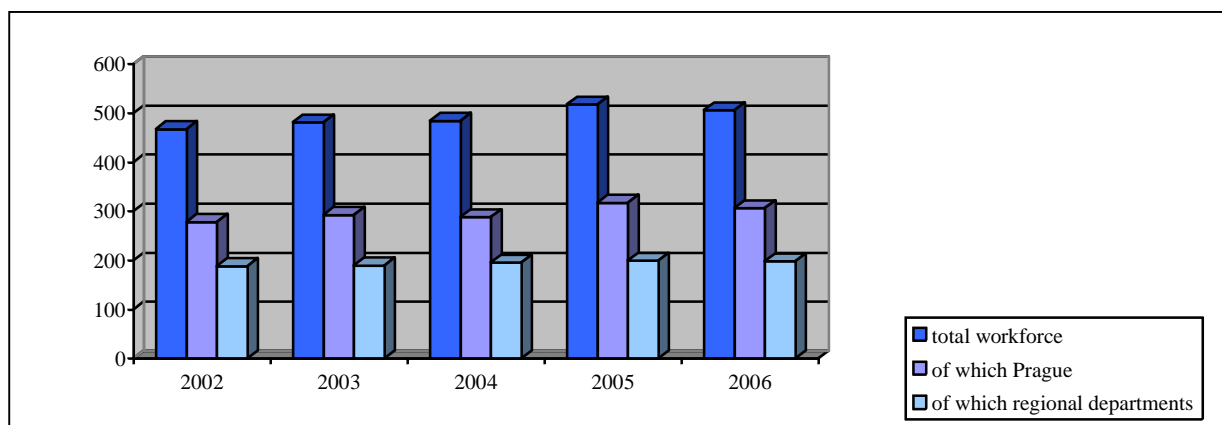


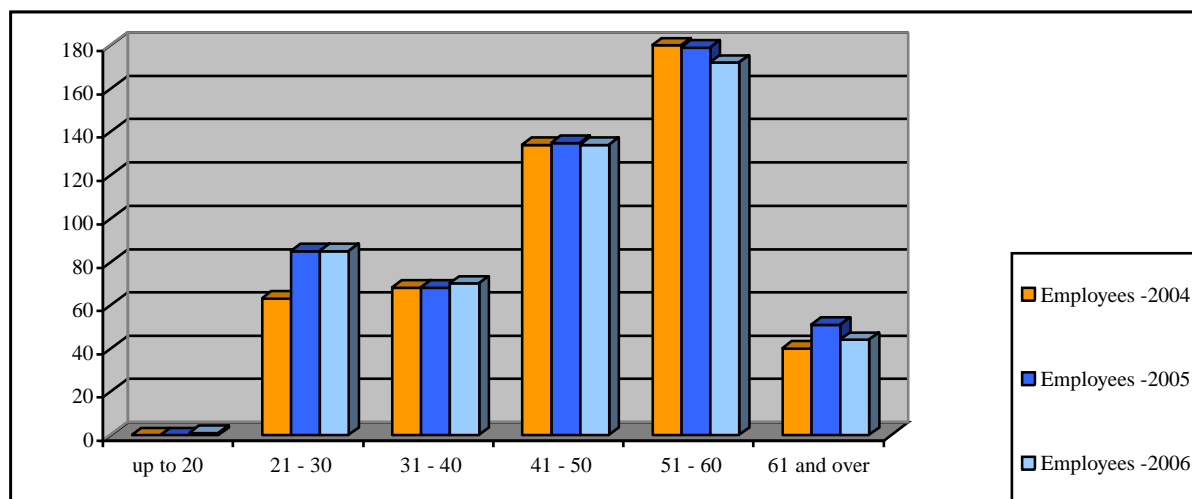
Table 12 shows the age structure of SAO staff as of 31. 12. 2006, including comparison with 2004 and 2005.

**The average age of the SAO's workforce in 2006 was 46,5.**

Table 12: Age structure of SAO staff in the years 2004–2006

Age structure	Number of employees					
	2004		2005		2006	
	total	of which female	total	of which female	total	of which female
<i>up to 20</i>	0	0	0	0	1	0
<i>21 – 30</i>	63	32	85	44	85	46
<i>31 – 40</i>	68	50	68	47	70	46
<i>41 – 50</i>	134	91	135	90	134	92
<i>51 – 60</i>	180	94	179	94	172	92
<i>61 and over</i>	40	11	51	18	44	14
<b>Total</b>	<b>485</b>	<b>278</b>	<b>518</b>	<b>293</b>	<b>506</b>	<b>290</b>

Graph 15: Overview of the age structure of SAO staff in the years 2004–2006 (total state of the workforce as of 31. 12. of the given year)



The educational levels of SAO staff as of 31. 12. 2006 is based on the classification of basic branches of education. University education is then divided according to a field of study. The qualifications structure in 2006 was almost unchanged from 2005. As of 31. 12. 2006 a total of 388 employees were university-educated, i.e. 76.7%.

Table 13: Qualifications structure of SAO staff as of 31. 12. 2006

<i>Qualifications/education</i>	<i>Prague</i>	<i>Regional departments</i>	<b>2006 total</b>	<i>% of the total</i>
<i>elementary</i>	2	0	<b>2</b>	0,40
<i>secondary</i>	3	1	<b>4</b>	0,79
<i>secondary with apprenticeship certificate</i>	22	1	<b>23</b>	4,54
<i>secondary with school-leaving exam</i>	64	24	<b>88</b>	17,39
<i>higher vocational</i>	1	0	<b>1</b>	0,20
<i>university*</i>	215	173	<b>388</b>	76,68
<b>Total</b>	<b>307</b>	<b>199</b>	<b>506</b>	<b>100,00</b>

\* Including bachelor's degree.

### ***Professional training***

The SAO's training activities in 2006 focused on further improving the professional qualifications of audit staff. The specialist focus of individual training events was devised to correspond, among other things, to the audit plan for 2006.

Long-term training projects designated as "financial audit" and "performance audit" went on. 16 auditors successfully sat the final exam in the "financial audit" training project and 63 in the "performance audit" training project. The information learnt about audit methods and procedures is subsequently applied during the performance of audit work.

As part of language skills training, intensive language courses for selected SAO employees continued, including preparation for standardised English-language exams at the British Council or through City & Guilds, and German-language exams at the Goethe Institute and French-language exams at the French Institute.

A total of 44 employees passed the standardised exam in the aforementioned languages in 2006 (see Table 14).

Table 14: Overview of the number of passed standardised exams by individual language and proficiency level in the year 2002–2006

<i>Language, proficiency level*</i>	<i>Number of successful candidates</i>	
	<i>2006</i>	<i>Total</i>
English, proficiency level C1 – CAE/Expert	5	7
English, proficiency level B2 – FCE/Communicator	27	52
English, proficiency level B1 – PET/Achiever	6	11
English, proficiency level A2 – KET/Access	2	3
French, proficiency level B2 – DELF 2	2	2
French, proficiency level B1 – DELF 1	0	1
German, proficiency level B2 – ZDfB	1	2
German, proficiency level B1 – ZD	1	3

\* Levels are defined by the European Reference Framework.

## 6. Organisational chart of the SAO

### *Changes in the organisation of the SAO*

Extensive organisational changes were made in the SAO in the last quarter of 2006.

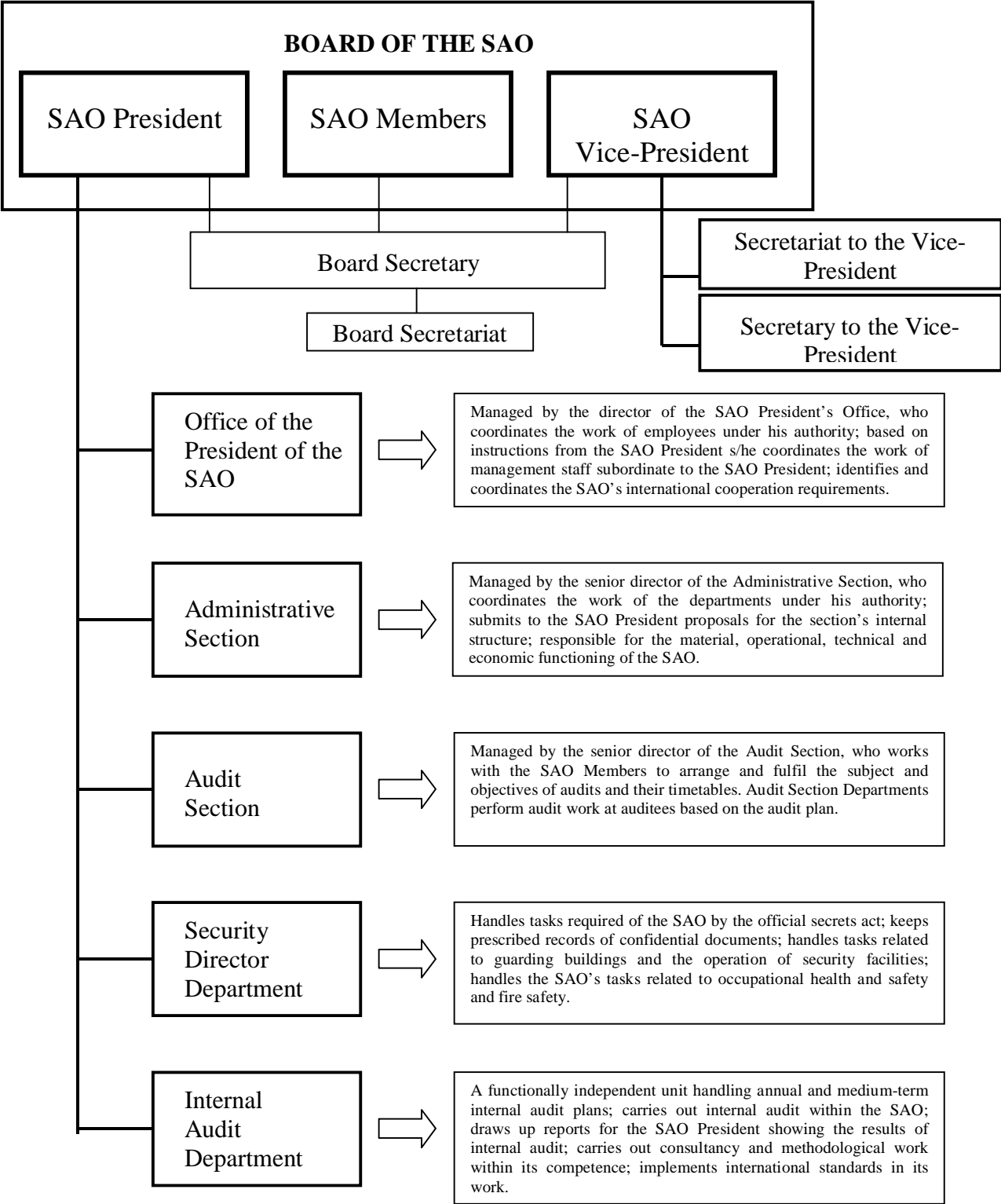
In the first phase as of 1. 10. 2006 there was an organisational change in the SAO's administrative section. The International Relations Department was moved under the Office of the President of the SAO; and the work of the External Relations Department concerning the processing of submissions and requests for information was transferred to the Press Department. In view of this expansion of its activities it was renamed the Communication Department. The remaining work of the External Relations Department (filing and archiving) was transferred to the Secretariat of the Senior Director of the Administrative Section and the External Relations Department was discontinued. The principal reason for this organisational change was to make simpler and more effective the work of the SAO's organisational departments handling the Office's communication with the public and presentation abroad.

In the second phase as of 1. 12. 2006 organisational changes were also made in the SAO Audit Section. These changes were designed to gradually build up concentrated teams of specialists for different types of audit and for different types of operations with state finances and property and finances provided to the Czech Republic from abroad. The new cross-sectional departments thus replaced the previous specialist departments arranged according to the individual administrators of budget chapters.

Following the organisational changes and in line with the relevant provisions of Act No. 166/1993 Coll. the President of the SAO approved the new organisational rules, which took effect on 1. 12. 2006.

### *Organisation of the SAO*

The following charts depict the new organisational structure, including a brief description of the work done by individual departments.

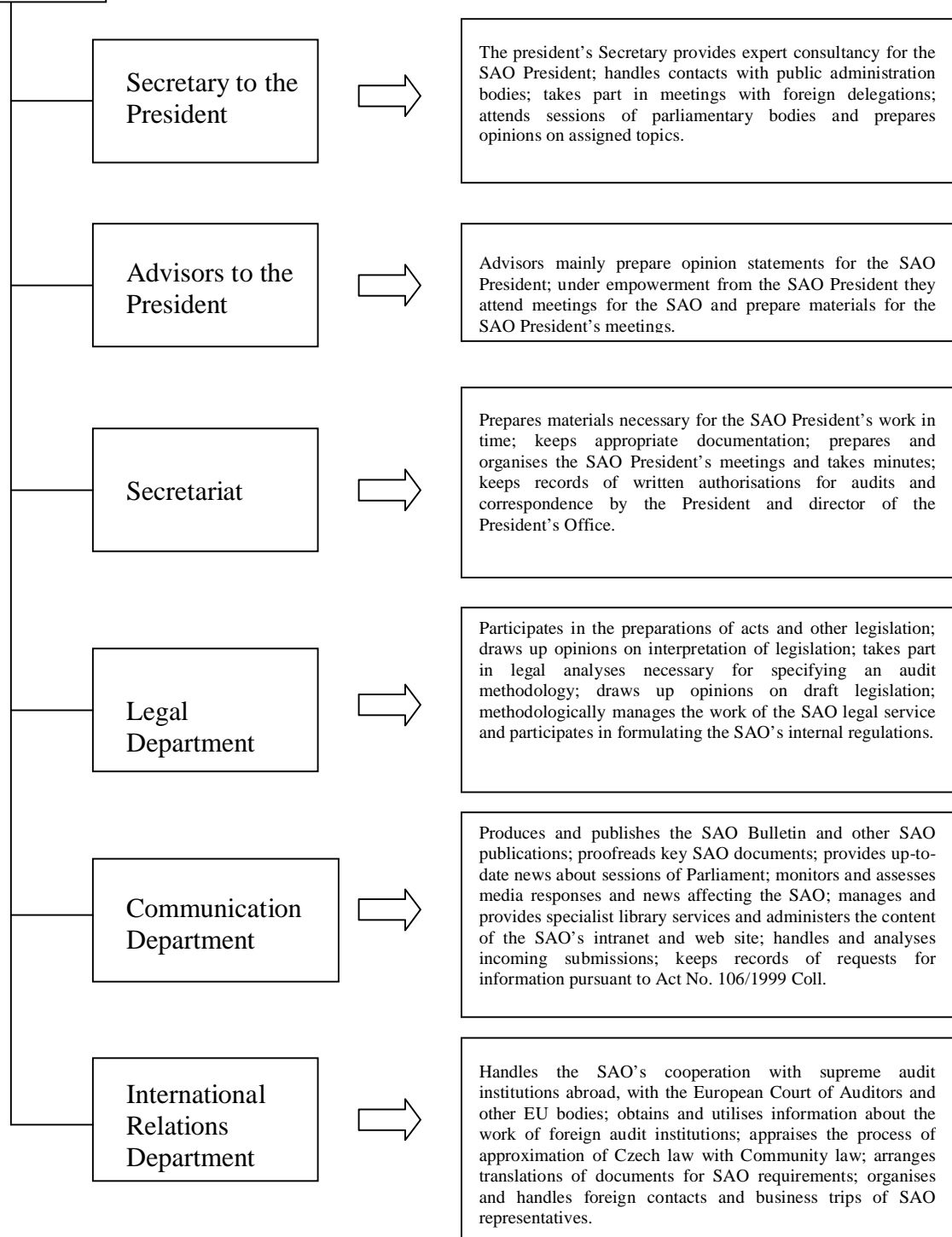


## Office of the President of the SAO



**Ms. Markéta Kandráčová**

Director of the Office of the President of the SAO

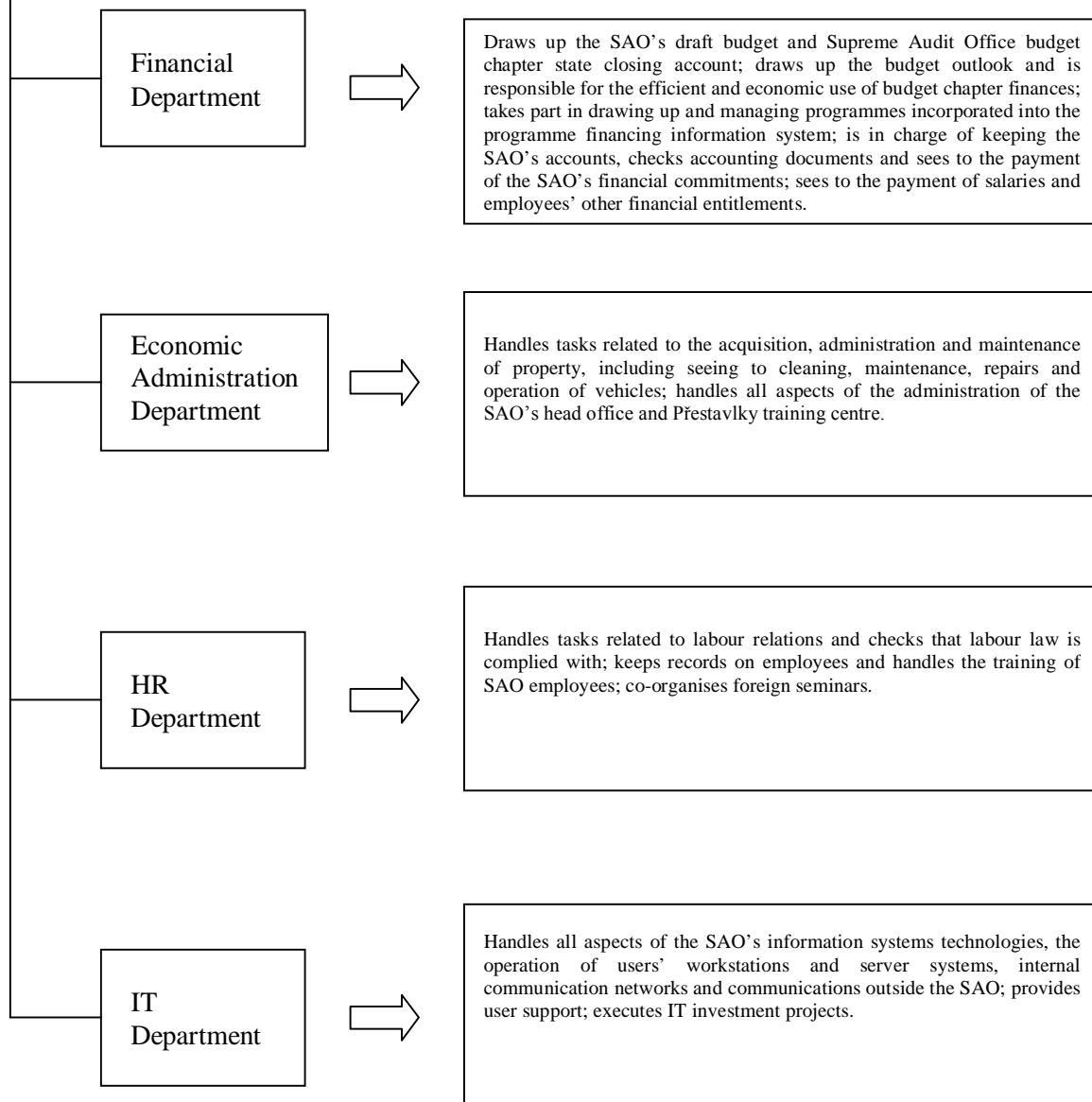




## Administrative section



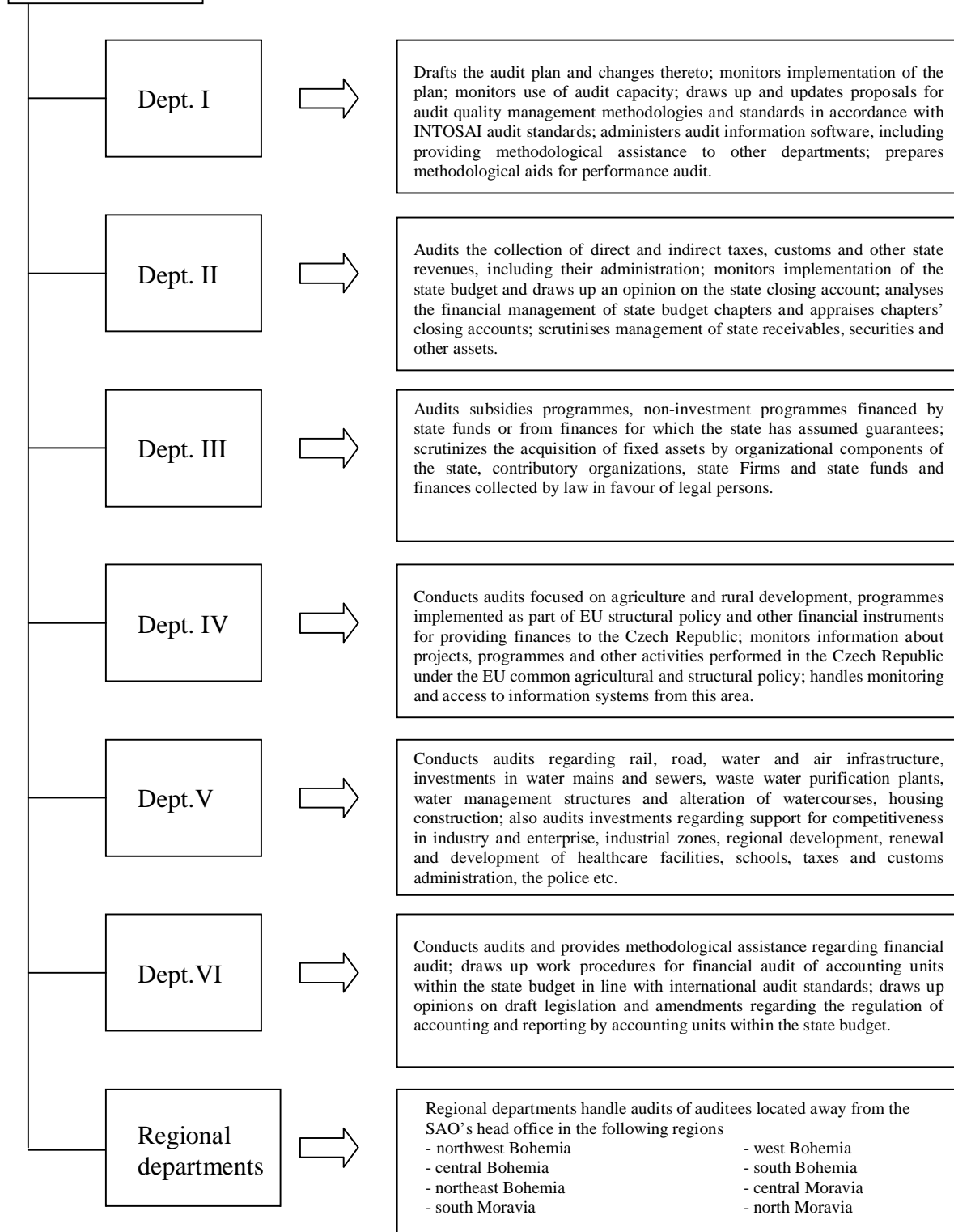
**Ms. Ema Bendová**  
Senior Director of the Administrative Section



## Audit section



**Mr. Petr Neuvirt**  
Senior Director of the Audit Section





## Conclusion

The results of the SAO's audit work for 2006 reveal persisting systemic shortcomings, principally in the areas of programme financing, subsidies policies, accounting, reporting and the functioning of internal control systems.

In the course of the past year, we registered a greater effort by the Government to remedy the identified shortcomings; the results may only be seen in the longer term, however. There was also a significant shift in the discussion of audit conclusions by Parliament of the Czech Republic in 2006. Following the general elections, the Chamber of Deputies set up a separate Audit Committee, in line with established practice in other EU countries. Some audit conclusions were also discussed in bodies of the Senate.

For many years now the SAO has drawn attention to a number of audit findings in its audit conclusions and annual reports showing up the same errors and shortcomings – that may be testimony to ineffective sanction mechanisms. This state of affairs is particularly noticeable in the management of state property within state offices and organisations, in the area of programme financing, subsidies policy and in public procurement. Yet public procurement is an area that is not only closely observed by the EU authorities; it is also highly sensitive in terms of suspicions of possible corruption.

The results of audit work do not always point to a need to change acts of Parliament and secondary legislation. However, the legislation will evidently have to be changed or added to in the case of the financing of Czech embassies or use of the state's material reserves.

Most irregularities are caused by ineffective internal control mechanisms in the audited institutions or personal failures by specific people. There should therefore be a wider debate on the imposition of sanctions, including appraising possible criminal liability.



## Overview of audits whose audit conclusions were approved during 2006

Audit number	Subject of audit	SAO approving body	Date of approval	Publication in bulletin part/year
05/13	Final account of the state budget chapter the Czech Securities Commission	Board	9. 1. 2006	1/2006
05/14	The management of the state property and funds while information systems building for the Ministry of Defence	Senate	6. 3. 2006	1/2006
05/16	Management of state budget finances earmarked for housing construction programmes	Board	9. 1. 2006	2/2006
05/17	Management of the state budget funds provided for employment of citizens with reduced work abilities	Board	20. 2. 2006	1/2006
05/18	Management of funds earmarked for building and renewal of the Prague Metro	Board	12. 6. 2006	2/2006
05/19	Value Added Tax Administration	Board	6. 3. 2006	1/2006
05/20	The final account of the state budget chapter the Grant Agency of the Czech Republic	Board	20. 3. 2006	1/2006
05/21	Management of the state property and funds earmarked for aeronautic equipment of the Air Police of the Czech republic	Senate	10. 5. 2006	2/2006
05/22	Closing account of the state budget chapter – the Ministry of Health	Board	24. 4. 2006	2/2006
05/23	Closing account of the state budget chapter – the Ministry of Environment	Board	24. 4. 2006	2/2006
05/24	Funds provide for remedies of the transport infrastructure damages caused by the 2002 flood	Senate	22. 2. 2006	1/2006
05/25	Management of state property in connection with winding-up of the state enterprises	Senate	1. 3. 2006	1/2006

<b>Audit number</b>	<b>Subject of audit</b>	<b>SAO approving body</b>	<b>Date of approval</b>	<b>Publication in bulletin part/year</b>
<b>05/26</b>	Management of state property and finances earmarked for protection against weapons of mass destruction, passive monitoring systems and electronic combat in the Army of the Czech Republic	Senate	15. 6. 2006	will be not published – 2/2006 (i)
<b>05/27</b>	The Czech Consolidation Agency management of state property and funds	Board	12. 6. 2006	2/2006
<b>05/28</b>	Management of the state funds dealing with dangerous waste	Senate	26. 4. 2006	2/2006
<b>05/29</b>	State budget grants earmarked for zoological gardens	Senate	29. 5. 2006	2/2006
<b>05/30</b>	Management of the state property and the state budget funds by geographical and cadastral authorities	Board	24. 4. 2006	2/2006
<b>05/31</b>	Management of the funds collected on the basis of the act on insurance for public health insurance at the OZP - the industrial health insurance company for employees of banks and insurance companies and the health insurance company METAL ALIANCE	Senate	21. 8. 2006	3/2006
<b>05/32</b>	Funds earmarked for programs of structural subsidies in agriculture	Board	29. 5. 2006	2/2006
<b>05/33</b>	Management of the state budget funds spent for providing of investment incentives and investment aids on the basis of 'Memorandum of Understanding Declaring Common Intention'	Board	21. 8. 2006	3/2006
<b>05/34</b>	Excise Duty Administration	Board	11. 9. 2006	3/2006
<b>05/35</b>	Equity holdings of the state in business companies seated in the Czech Republic	Board	21. 8. 2006	3/2006
<b>05/36</b>	The state immovable assets administered by the Children and Youth Fund "winding-up"	Board	6. 3. 2006	1/2006
<b>05/37</b>	State budget funds earmarked for payments of liabilities that belonged to health service facilities established by former district offices	Board	15. 5. 2006	2/2006

<b>Audit number</b>	<b>Subject of audit</b>	<b>SAO approving body</b>	<b>Date of approval</b>	<b>Publication in bulletin part/year</b>
<b>05/38</b>	Management of the state budget funds earmarked for long-term property acquisition under responsibility of the Ministry of Labour and Social Affairs	Board	26. 6. 2006	3/2006
<b>05/39</b>	Management of the state budget funds earmarked for reconstruction and completion of the Centre of Justice "Na Míčáncách"	Board	21. 8. 2006	3/2006
<b>06/01</b>	State property and state budget funds earmarked to cover the work of the Czech Statistical Office	Board	18. 9. 2006	3/2006
<b>06/02</b>	State property and funds earmarked for continuing education of pedagogical staff	Senate	18. 9. 2006	4/2006
<b>06/03</b>	Funds earmarked for development of Motorway D8	Board	4. 12. 2006	4/2006
<b>06/04</b>	State property and the state budget funds earmarked for the administration of the state material reserves	Senate	19. 9. 2006	4/2006
<b>06/05</b>	Financial resources earmarked for research and development in the area of environment	Senate	19. 9. 2006	4/2006
<b>06/06</b>	State budget funds earmarked for phasing out of mining	Board	16. 10. 2006	4/2006
<b>06/07</b>	State budget finances provided for public passenger transport	Board	30. 10. 2006	4/2006
<b>06/08</b>	Automotive technical equipment of the Police of the Czech Republic	Senate	30. 11. 2006	4/2006
<b>06/09</b>	Funds drawn for publishing activities of the state budget chapters' administrators	Senate	22. 8. 2006	3/2006
<b>06/10</b>	State budget funds provided for the programme 'The support of the property reproduction for regional healthcare facilities'	Senate	4. 9. 2006	3/2006
<b>06/11</b>	State property and the state budget funds from the chapter 'Ministry of Culture'	Senate	4. 9. 2006	3/2006
<b>06/12</b>	State budget funds earmarked for programmes of regional development support	Senate	21. 11. 2006	4/2006
<b>06/13</b>	Final account of the state budget chapter the Czech Telecommunication Office	Board	13. 11. 2006	4/2006



<b>Audit number</b>	<b>Subject of audit</b>	<b>SAO approving body</b>	<b>Date of approval</b>	<b>Publication in bulletin part/year</b>
<b>06/14</b>	State budget finances spent on the “Programme to Support the Regional Functions of Libraries”	Senate	21. 11. 2006	4/2006
<b>06/15</b>	Management of state property and state budget funds in the Office of the Public Defender of Rights	Board	27. 11. 2006	4/2006
<b>06/16</b>	Closing account of the state budget chapter –The Industrial Property Office	Board	27. 11. 2006	4/2006
<b>06/17</b>	State property and finances provided for the work of national parks and other protected territories	Senate	14. 12. 2006	Audit conclusion not yet published
<b>06/23</b>	Financial contributions provided by employee insurance companies to the Underwriting Fund	Board	27. 11. 2006	4/2006

*NB:*

*Board – the SAO Board consists of the SAO’s president, vice-president and members.*

*Senate – SAO Senates are collective bodies of the SAO composed of three and more SAO members.*

*(i) – No publication of information about completion of an audit.*

**Audits added to the audit plan  
during the course of 2006**

<b>Audit number</b>	<b>Subject of audit</b>
<b>06/38</b>	Financial management of Military Forests and Estates of the Czech Republic
<b>06/39</b>	Czech Mining Office's management of state property and finances

**Overview of audits whose audit conclusions were approved by the SAO and were discussed by the Czech Government in 2006**

<b>Government resolution</b>	<b>Date of session</b>	<b>Government material (number)</b>	<b>Audit conclusion</b>	<b>Measures noted</b>	<b>Measures ordered by the Czech Government</b>	<b>SAO's agreement with adopted measures</b>
1300/06	15. 11. 2006	1674/06	06/02	no	MoEYS to implement measures proposed in the MoEYS opinion on the audit conclusion	<b>yes</b>
1299/06	15. 11. 2006	1664/06	06/05	no	No	<b>yes</b>
1298/06	15. 11. 2006	1646/06	06/09	no	MoD to implement measures to remedy shortcomings mentioned in the audit conclusion and within 6 months to evaluate the adopted measures to eliminate the found shortcomings and to notify the SAO Member assigned to manage the audit with the result	<b>yes</b>
1297/06	15. 11. 2006	1680/06	06/04	no	President of the ASMR. to rigorously implement remedial measures and to inform the MoIT about implementation	<b>yes</b>
1257/06	1. 11. 2006	1239/06	05/34	no	No	<b>yes</b>
1252/06	1. 11. 2006	1234/06	06/01	yes	No	<b>yes</b>
–	1. 11. 2006	1632/06	06/11	suspended	suspended	<b>not yet</b>
1184/06	18. 10. 2006	1546/06	05/33	no	MoLSA and MoF to submit to the Government by 1. 11. 2006 an overview of remedial measures to eliminate the shortcomings mentioned in the audit conclusion, including defining specific responsibility for these shortcomings	<b>yes</b>
1183/06	18. 10. 2006	1450/06	05/39	no	no	<b>yes</b>
988/06	16. 8. 2006	V226/06	05/26	no	MoD to implement measures to remedy the	<b>yes</b>

<b>Government resolution</b>	<b>Date of session</b>	<b>Government material (number)</b>	<b>Audit conclusion</b>	<b>Measures noted</b>	<b>Measures ordered by the Czech Government</b>	<b>SAO's agreement with adopted measures</b>
					shortcomings mentioned in the audit conclusion and to evaluate them within six months and notify the SAO Member assigned to manage the audit of the result	
950/06	16. 8. 2006	1241/06	05/38	no	No	<b>no</b>
917/06	26. 7. 2006	1203/06	05/18	no	No	<b>yes</b>
885/06	26. 7. 2006	1103/06	05/37	no	No	<b>yes</b>
884/05	26. 7. 2006	1157/06	05/32	no	MoF and MoA to ensure a minimal error rate in systems, including for the coming programming periods, and to monitor the state continually as part of control mechanisms	<b>yes</b>
831/06	3. 7. 2006	1088/06	05/29	no	No	<b>yes</b>
830/06	3. 7. 2006	1059/06	05/21	no	No	<b>yes</b>
762/06	21. 6. 2006	997/06	05/23	no	No	<b>yes</b>
761/06	21. 6. 2006	996/06	05/28	no	No	<b>yes</b>
734/06	14. 6. 2006	952/06	05/30	no	No	<b>yes</b>
733/06	14. 6. 2006	765/06	05/20	yes	Chairman of the "Government Council for Research and Development" to submit to the Government, along with the report on the work of the Grant Agency, information about measures taken to remedy the identified shortcomings and possibly also a proposal for reducing rewards for the exercise of public office for members of the GA's Board of Directors for 2006 and to inform the chairman of the Committee for Science, Education, Culture, Youth and Sport of the Chamber of Deputies about the audit	<b>yes</b>

<b>Government resolution</b>	<b>Date of session</b>	<b>Government material (number)</b>	<b>Audit conclusion</b>	<b>Measures noted</b>	<b>Measures ordered by the Czech Government</b>	<b>SAO's agreement with adopted measures</b>
					conclusion and adopted resolution	
732/06	14. 6. 2006	632/06	05/14	no	MoD to ensure measures are implemented to remedy the shortcomings mentioned in the audit conclusion; and to evaluate the remedial measures within six months and notify the SAO Member assigned to manage the audit of the result	<b>yes</b>
731/06	14. 6. 2006	948/06	05/22	yes	No	<b>yes</b>
730/06	14. 6. 2006	613/06	05/36	no	MoF to address the question of ex post audits of compliance with the terms of contracts on free transfers of real property	<b>yes</b>
470/06	26. 4. 2006	516/06	05/17	no	No	<b>yes</b>
469/06	26. 4. 2006	529/06	05/24	no	No	<b>yes</b>
468/06	26. 4. 2006	562/06	05/25	no	MoIT to conduct an analysis of the existing state firm liquidation system within the MoIT's department by 30. 9. 2006; and to take measures based on this analysis to speed up the liquidation of state Firms	<b>yes</b>
467/06	26. 4. 2006	583/06	05/19	no	MoF to draw up and by 31. 8. 2006 to submit to the Government proposals for measures, including legislation, to increase the possibilities for electronic submission of summary reports and tax returns for VAT	<b>yes</b>
286/06	22. 3. 2006	222/06	05/16	yes	No	<b>yes</b>
285/06	22. 3. 2006	238/06	05/13	no	No	<b>no</b>
186/06	22. 2. 2006	111/06	05/09	no	MoF and MoFA to propose to the Government by 31. 8. 2006 legislative changes to regulate the method of financing embassies in Act No. 218/2000 Coll.	<b>no</b>

<b>Government resolution</b>	<b>Date of session</b>	<b>Government material (number)</b>	<b>Audit conclusion</b>	<b>Measures noted</b>	<b>Measures ordered by the Czech Government</b>	<b>SAO's agreement with adopted measures</b>
185/06	22. 2. 2006	35/06	05/10	no	MoA to draw up and by 30. 9. 2006 submit proposals for possible procedures for transforming the Agriculture and Forestry Support and Guarantee Fund	<b>yes</b>
184/06	22. 2. 2006	180/06	05/15	no	No	<b>yes</b>
183/06	22. 2. 2006	32/06	05/12	no	No	<b>yes</b>
182/06	22. 2. 2006	188/06	05/11	no	MoF to draw up and by 31. 5. 2006 submit a substantiated estimate as to how much less finances will be drawn as part of the clear-up of old ecological burdens than contractually guaranteed, as well as a timetable for the expenditure of such finances; the MoE to draw up and by 31. 5. 2006 submit a methodology for selecting old ecological burden clear-up priorities	<b>yes</b>
66/06	11. 1. 2006	V433/05	04/05	no	MoI to ensure during 2006 that an audit is performed to verify both how appropriate and complete the remedial measures adopted to eliminate shortcomings listed in the audit conclusion were and the manner and completeness with which these remedial measures were implemented	<b>yes</b>
65/06	11. 1. 2006	V426/05	04/02	no	MoD to implement measures to remedy shortcomings mentioned in the audit conclusion and within 6 months to evaluate the adopted measures to eliminate the found shortcomings and to notify the SAO Member assigned to manage the audit with the result	<b>yes</b>
64/06	11. 1. 2006	V425/05	04/28	no	MoD to implement measures to remedy shortcomings mentioned in the audit conclusion and within 6	<b>yes</b>

<b>Government resolution</b>	<b>Date of session</b>	<b>Government material (number)</b>	<b>Audit conclusion</b>	<b>Measures noted</b>	<b>Measures ordered by the Czech Government</b>	<b>SAO's agreement with adopted measures</b>
					months to evaluate the adopted measures to eliminate the found shortcomings and to notify the SAO Member assigned to manage the audit with the result	
48/06	11. 1. 2006	1908/05	04/35	no	no	<b>yes</b>
47/06	11. 1. 2006	2005/05	04/33	no	MoD to ensure measures are implemented to remedy the shortcomings mentioned in the audit conclusion; and to evaluate the remedial measures within six months and notify the SAO Member assigned to manage the audit of the result	<b>yes</b>
46/06	11. 1. 2006	2025/05	05/03	no	MoEYS to ensure the proposed measures are implemented	<b>yes</b>
45/06	11. 1. 2006	2093/05	05/01	no	no	<b>yes</b>
44/06	11. 1. 2006	2/06	05/07	no	MoC to ensure measures are implemented to remedy the shortcomings mentioned in the audit conclusion	<b>yes</b>
43/06	11. 1. 2006	2031/05	05/06	no	no	<b>no</b>
42/06	11. 1. 2006	2052/05	05/08	no	no	<b>yes</b>
41/06	11. 1. 2006	1780/05	04/04	no	no	<b>yes</b>

*NB: A list of the used abbreviations is given in Appendix 5 of this Annual Report.*

**Overview of audits whose audit conclusions were approved by the SAO and were discussed by the Audit Committee of the Chamber of Deputies of Parliament of the Czech Republic in 2006**

Committee resolution	Date of session	Audit conclusion	Czech Government material	Czech Government resolution	Summary of committee resolution
40	15. 11. 2006	05/16	222/06	286/06	<p>The Audit Committee (AC) declares that in the years 1998–2004 the MfRD’s activities were in long-term conflict with the budget rules act.</p> <p>The AC demands that the following are submitted:</p> <p>a) a report on the reasons for, evaluation of and remedy of the found shortcomings;</p> <p>b) a report on current coordination between the MfRD and the MoF when creating rules for assets replacement financing programmes;</p> <p>c) a report on the MfRD’s control rules for housing construction and housing programme financing.</p> <p>The AC requests the MoF to submit by 15. 12. 2006 a report on inspections conducted by tax offices at beneficiaries of housing construction subsidies under MfRD programmes in the years 2002–2006.</p>



Committee resolution	Date of session	Audit conclusion	Czech Government material	Czech Government resolution	Summary of committee resolution
39	15. 11. 2006	05/19	583/06 1377/06 1719/06	467/06 1327/06	<p>The AC declares that</p> <p>a) practical implementation of Council Regulation (EC) 1798/2003 took place in accordance with the conditions set by the EU;</p> <p>b) the audit conclusion contains no findings that could be rated as constituting serious systemic or methodological shortcomings in the area under scrutiny;</p> <p>c) tax administrators did not pay sufficient attention to checking intracommunity deliveries either in terms of whether the data given in VAT returns tallied with data in the relevant summary reports or in terms of whether the data provided by Czech payers and payers from EU countries matched.</p> <p>The AC requests the MoF to submit by 15. 12. 2006 a report on remedial measures to reduce the error rate in the manual inputting of data into the electronic system by tax administrators.</p>
23	9. 11. 2006	05/36	613/06	730/06	<p>The AC suspended its discussion of the audit conclusion;</p> <p>The AC requests the MoF to submit the following:</p> <p>a) by 10. 11. 2006 a concept for use of CYF assets after transfer to the MoF as of 1 January 2005;</p> <p>b) by 15. 12. 2006 a report on the current state of CYF assets transferred to the MoF and a proposal for further procedure.</p> <p>By resolution No. 44 the AC declares that the MoF did not meet the deadline for submitting the concept and requests the MoF to ensure that AC resolution No. 23 is implemented.</p>
22	9. 11. 2006	05/23 05/22 05/13			<p>The AC requests the Government to submit by 30. 11. 2006 a report on compliance with the act on financial control in individual budget chapters and their organisational components as of 31. 12. 2006, including the course of implementation of this act's individual provisions.</p>

Committee resolution	Date of session	Audit conclusion	Czech Government material	Czech Government resolution	Summary of committee resolution
21	9. 11. 2006	05/23 05/22 05/13			<p>The AC declares that the MoF</p> <ul style="list-style-type: none"> <li>a) is responsible for compiling the state closing account of the Czech Republic properly, so that it is complete, conclusive and correct;</li> <li>b) gave the administrators of individual chapters no or insufficiently methodology guidance about compliance with the acts on accounting and financial control;</li> <li>c) does not create any functioning control mechanisms to verify that data in the state closing account are correct, complete and conclusive.</li> </ul> <p>The AC requests the MoF to submit an analysis of the state of accounting programmes, methodological instructions and control systems affecting the accounting of individual chapters of the state closing account and the compilation of the state closing account</p>
20	9. 11. 2006	05/13	238/06	285/06	<p>The AC declares that the MoF failed to prove that the accounts of budget chapter 347 – Securities Commission were correct, complete and conclusive as of the day of its winding up.</p> <p>The AC requests the MoF additionally to document the course of the winding up of the SC and the overall appraisal of the SC's accounts, including rendering to the relevant chapter.</p>

<b>Committee resolution</b>	<b>Date of session</b>	<b>Audit conclusion</b>	<b>Czech Government material</b>	<b>Czech Government resolution</b>	<b>Summary of committee resolution</b>
19	9. 11. 2006	05/22	948/06	731/06	<p>The AC declares the activities of the MoH</p> <p>a) were in long-term conflict with the acts on accounting and budget rules;</p> <p>b) continue to contravene that act on financial control.</p> <p>The AC requests the MoH to submit the following by 30. 11. 2006:</p> <p>a) a report on the course of implementation of the provisions of the act on financial control since its effective date;</p> <p>b) an economic analysis of MoH programmes No. 235 110 “Support for Development and Renewal of the Material and Technological Facilities of University Hospitals”, No. 223 52 10 “Support for Development and Renewal of the Material and Technological Facilities of Regional Healthcare” since the effective transfer of healthcare facilities to regions and municipalities, based on the SAO’s findings in previous years;</p> <p>a) a more detailed assessment of the preparations for and course of the Motol University Hospital and St Anne’s University Hospital in Brno investment actions.</p>
18	9. 11. 2006	05/23	997/06	762/06	<p>The AC declares that activities of the MoE</p> <p>a) were in long-term conflict with the acts on accounting and budget rules;</p> <p>b) were in conflict with the act on financial control.</p> <p>The AC declares that the MoE opened accounts with commercial banks in which CZK 61.62 million was deposited long-term.</p> <p>The AC requests the MoE to submit the following by 30. 11. 2006:</p> <p>a) a report on the course of implementation of the provisions of the act on financial control since its effective date;</p> <p>b) a report on the reasons for, course of and ministry staff responsible for opening and using accounts with commercial banks.</p>

*NB: A list of the used abbreviations is given in Appendix 5 of this Annual Report.*

**List of used abbreviations**

AC	audit committee of the Chamber of Deputies of Parliament of the Czech Republic
ASMR.	Administration of the State Material Reserves
BRH	Bundesrechnungshof (German Federal Court of Audit)
CCA	Czech Consolidation Agency
CEI	Czech Environmental Inspectorate
CNB	Czech National Bank
COSMC	Czech Office for Surveying, Mapping and Cadastre
CPO	Czech Philharmonic Orchestra
CP	Czech Ports
CR	Czech Railways
CSO	Czech Statistical Office
CTO	Czech Telecommunication Office
CYF	Children and Youth Fund “in liquidation”
EC	European Commission
ESF	European Social Fund
EU	European Union
EUROSAI	European Organisation of Supreme Audit Institutions
GA	Grant Agency of the Czech Republic
GTA	General Treasury Administration (state budget chapter)
IA	internal audit
INTOSAI	International Organisation of Supreme Audit Institutions
IPO	Industrial Property Office
KRNAP	Krkonoše National Park
MfRD	Ministry for Regional Development
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 Interior
MoIT	Ministry of Industry and Trade
MoJ	Ministry of Justice
MoLSA	Ministry of Labour and Social Affairs
MoT	Ministry of Transport
OPC	Office for the Protection of Competition
RIA	Railway Infrastructure Administration
RF	reserve fund
RMD	Roads and Motorways Directorate
SAI	supreme audit institution
SAIF	State Agricultural Intervention Fund
SAO	Supreme Audit Office
SC	Securities Commission
SEF	State Environmental Fund

SFAO  
TI  
VAT

State Financial Assets Operations (state budget chapter)  
Theatre Institute  
value added tax

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