

Czech Republic  
Supreme Audit Office

# ANNUAL REPORT 2007



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**František Dohnal**  
*president of the SAO*

Dear reader,

in your hands you hold the annual report of the Supreme Audit Office containing a summary of information about this institution and an evaluation of its work in 2007.

The purpose of this report is not to repeat all the findings from more than thirty audits that were performed 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 provided to the country from abroad. It also acquaints readers with the bodies and organisational structure of the supreme audit institution of the Czech Republic.

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 the aim of an audit to find shortcomings at all cost. The principal purpose of the 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 be itself subject to scrutiny, the annual report also contains information about the Supreme Audit Office's financial management and an auditor's statement.



# I. Status and Powers of the SAO

## 1. Basic information on the status and powers of the SAO

After the Czech Republic became a separate independent state, the Supreme Audit Office (hereinafter referred to as the SAO, the Office) was established in 1993. The existence of the SAO is given by the Constitution of the Czech Republic (hereinafter referred to as Constitution). Except the legislative, executive and judicial powers of various state institutions, the Constitution defines the SAO as an independent body in a separate chapter.

The Office executes its role independently and is dependent neither on the legislative (Parliament) nor executive (the Government) powers. Political influence on its activity is eliminated to maximal extent. Thus, the Office represents one of the irreplaceable elements of parliamentary democracy, because the existence of an audit system is one of the essential conditions for a good functioning of a modern democratic state.

Act No. 166/1993 Coll. on the Supreme Audit Office, as amended, governs the status, jurisdiction, organisational structure, and activity of the SAO. Based on this act, the SAO audits and examines the management of state property and financial means collected in accordance with the law (for instance health and social insurance), the implementation of income and outcome items of the state budget, and the management of the resources provided to the Czech Republic from abroad. It also audits the financial management of the Czech National Bank in the area of expenditures for property acquisition and the Czech National Bank operations.

The President of the Republic appoints the President and Vice-president of the SAO on the proposal of the Chamber of Deputies of Parliament of the Czech Republic for a term of nine years.

In order to assure the highest level of objectivity in reviewing audit facts or during the process of decision-making in general, the Act stipulates a collective decision-making principle for important questions concerning the Office's auditing activities. This is the reason why decisions on audit planning and audit conclusions are adopted by collective bodies of the Office – the Board and Senates of the Office. The Board of the Office is composed of the President, Vice-President and fifteen Members of the Office; Senates are formed of at least 3 Members of the Office.

Members of the Office are nominated by the President of the Office and elected by the Chamber of Deputies. They carry out their office until they reach the age of 65 years. The institutional independence between the Office and the Members of the Office is pointed out in the Act through the disciplinary procedure, which is initiated by the Disciplinary Chamber, whose members are the President of the Board and two judges of the Supreme Court.

The institutional independence is also supported by the financial independence. The Chamber of Deputies of Parliament of the Czech Republic and the state budget are the only determining bodies.



TOKOVO, Jankovcova 2, Prague 7

## 2. Photographs of the SAO Members



Ing. Jiří Adámek



Ing. Zdeněk Brandt



Ing. Ludmila Brynychová



JUDr. Jiří Drábek



JUDr. Jan Holeček



Mgr. Marie Hošková



JUDr. Eliška Kadaňová



JUDr. Ing. Jiří Kalivoda



Ing. Antonín Macháček



MVDr. Rudolf Němeček



Mgr. Zdeňka Profeldová



Ing. Jaromíra Steidlová



Ing. Petr Skála



Ing. Jan Vedral



Ing. Ladislav Zeman



Ing. Dušan Tešnar  
vice-prezident NKÚ

## 3. Changes in the SAO's bodies

Vice-president of the SAO, Mr Dušan Tešnar, resigned from his post on 10 September. 2007. President of the Czech Republic appointed Mr Tešnar to this post on 9 January 2003 and his tenure would have ended in 2012.

**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.





## II. Evaluation of the Audit Plan in 2007

### 1. Audit Plan

The audit plan for 2007 was approved by the Board of the SAO on 13 November 2006. The plan, which originally comprised 25 audits, was later extended by another three audits by the Board of the SAO in the course of 2007, raising their total number to 28. Out of them, nine audits were completed in 2007, while 19 audits are continuing in 2008.

The focus of the audit plan in 2007 reflected the legally defined competence of the SAO. The audit plan in 2007 was compiled on the basis of the goals its medium-term outlook and the results of audits already conducted. Any own suggestions derived from the results of the past audits and included monitoring measures, which had been adopted to remedy previously identified shortcomings. When choosing the suggestions to be followed up, 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 of the Czech Republic.

In 2007, the SAO received two suggestions from the Chamber of Deputies of Parliament of the Czech Republic. The Board of the SAO reviewed a suggestion from the Defence Committee of the Chamber of Deputies of Parliament of the Czech Republic to perform an audit of destruction of useless ammunition performed by the Ministry of Defence. It decided to include Audit No. 08/17 – *State budget funds provided for disposal of inutile ammunition and linked activities of the Ministry of Defence* in the audit plan for 2008.

The Board of the SAO reviewed a suggestion from the Audit Committee of the Chamber of Deputies of Parliament of the Czech Republic to perform an audit of state budget finances earmarked for the international architectural contest for the design of the *New building of the National Library of the Czech Republic*, and decided not to include the suggestion in the audit plan for 2008.

Audits focusing on the following areas were included in the 2007 Audit Plan:

- collection and administration of taxes and customs duties;
- management of state finances and property (earmarked, e.g., for educational establishments; to finance the activities of some selected physical training and sporting organisations; artistic public universities and colleges; the air defence of the state, etc.);
- management of state firms;
- management of state budget finances earmarked for programme financing and subsidies (e.g., fixed assets reinvestment programmes; programmes serving the creation, renewal, and operation of information systems and communications technologies; road construction and renewal programmes; social and criminality prevention programmes; granting of state loans and refundable financial aid; the active employment policy);
- management of finances provided to the Czech Republic from abroad (e.g., drawing on finances from the European Union Structural Funds and the Cohesion Fund; implementation of the Common Agricultural Policy);
- the closing accounts of selected state budget chapters (e.g., *Ministry of Education, Youth and Sports; Ministry of Labour and Social Affairs*);
- management of state finances collected and applied in the area of air protection;
- scrutiny of measures adopted to remedy shortcomings identified during previous audits.





A total of 19 changes were made to the Audit Plan during 2007. Most of the changes were made as a result of new data and materials obtained during the preparation of audits and affected the item entitled the “auditee” (13 changes). Other changes related to the time schedule. In one case, the SAO Member in charge of producing the audit conclusion was replaced due to illness (Audit No. 07/24)<sup>1</sup>.

## 2. Results of Audit Work

A total of 30 audits were completed in 2007, including the approval of their audit conclusions. Twenty-one of these audits were commenced in 2006 and nine audits were commenced in 2007. An overview of completed audits with their audit conclusion approved in 2007 is shown in Appendix 1.

Audits completed in 2007 focused on both the income and expenditure sides of the state budget. On the income side, the audits dealt mainly with the administration of taxes and customs duties following the Czech Republic’s accession to the European Union (EU) and scrutinised the procedures employed by the relevant authorities when administering taxes and customs duties. On the expenditure side, audits focused primarily on the management of state finances and property (in the case of Government-operated units and contributory organisations, and in case of newly established Government-operated units), management of state firms, management of state budget finances earmarked for programme financing and the state subsidy policy, management of finances provided to the Czech Republic from abroad, strategies and concepts, and measures adopted to remedy shortcomings identified during previous audits.

The closing accounts of selected state budget chapters were scrutinised by means of financial audits.

The approved audit conclusions were published in full in the **SAO Bulletin** (Volume XV, Nos. 1/2007 – 4/2007) and on the SAO web site ([www.nku.cz](http://www.nku.cz)). The audit conclusion from Audit No. 07/10 will be published in the SAO Bulletin, No. 1/2008.

This Annual Report only contains some selected audit findings, which are described in more detail in Section 2.4 – *Audit Findings*, and in Section 2.5 – *Audit with Regard to the State Closing Account (Financial Audit of State Budget Chapters)*.

The legislation quoted in this Annual Report has been applied in the wording effective in the period in question.

### 2.1 Summary Financial Evaluation of Audits

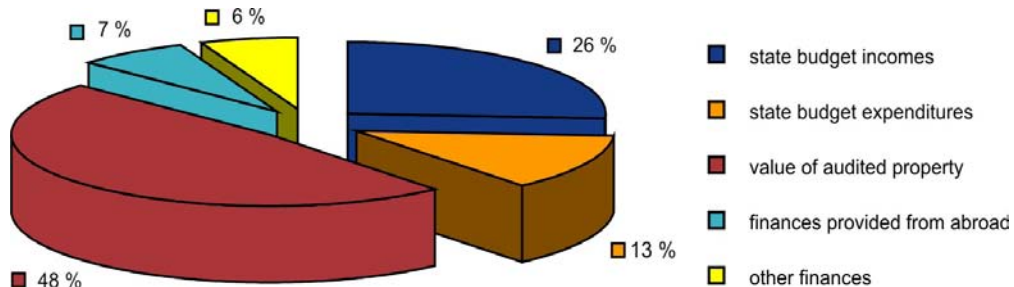
Financial evaluation of audit work in 2007 is expressed by means of an indicator of the volume of audited state finances and property, which is primarily informative and testifies to the extent of the audits. It may be significantly influenced both by the subject matters of the audits and by the audited period, where one audit may scrutinise a particular area over several budget years.

Audits whose audit conclusions were approved in 2007 scrutinised state finances and property worth a total of **CZK 226,518.2 million**. This overview excludes financial audits. Also, Audit No. 06/24 was excluded because it concerned a review of procedures applied by the Ministry of Finance (MoF) in the compilation of the state budget and drawing on some selected expenditures of the state budget chapter entitled *General Treasury Administration* (GTA), as well as Audit No. 06/36 concerning audits of the concept of development of the transport infrastructure in the Czech Republic. A more detailed structure of the audited state finances and property is shown in Graph1.

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<sup>1</sup> Audits are hereinafter described in the Annual Report with help of an abbreviated form, e.g., Audit No. 07/01. The full titles of the audits are carried in Appendix 1.

**Graph 1: Structure of the total audited state finances and property in 2007**



## 2.2 Performance of Notification Duty Pursuant to Act No. 337/1992 Coll., on 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 in order to adopt measures discontinuing any unauthorised use of state property. Based on such audit findings, where appropriate, the SAO fulfils its duty to notify the territorial tax offices pursuant to Act No. 337/1992 Coll., on the administration of taxes and fees, as amended.

In 2007, a total of 19 such notifications were made to the appropriate tax offices based on the results of nine audits (Audits Nos. 06/12, 06/20, 06/21, 06/25, 06/32, 06/35, 07/02, 07/10, 07/26); 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 notifications concerned the amount of CZK 259.026 million in total, which represents the financial value of the audits performed in 2007.**

**Table 1: Total number of submissions and total finances in respect of which notifications were submitted to the relevant tax offices in the years 2003–2007** (CZK millions)

	2003	2004	2005	2006	2007
<b>Total number of notifications</b>	24	35	28	32	19
<b>Total finances</b>	370,645	645,500	1 736,385	2 062,952	259,026

Source: SAO Annual Reports from the years 2003, 2004, 2005, and 2006.

## 2.3 Cooperation with the Law Enforcement Authorities

In 2007, the SAO submitted one notification of circumstances indicating possible committing of an offence, based on findings from Audit No. 06/28, focused on state property and state budget finances designated for the activities of the Customs Administration. The notified circumstances indicated that state property in the acquisition price of **CZK 6 million** was liquidated contrary to the State Property Act. The notification has still been investigated into by the law enforcement authorities. In connection with this notification, the President of the SAO, under the terms of Section 23 of Act No. 166/1993 Coll., on the Supreme Audit Office, released the head of the audit team, which conducted the audit, from her confidentiality duty, so that she could provide the law enforcement authorities with the necessary cooperation.

Out of the four notifications of circumstances indicating possible committing of an offence submitted by the SAO in 2006, the law enforcement authorities decided not to proceed in respect



of two of the notifications in 2007, pursuant to Section 159a(1) of the Criminal Code<sup>2</sup>. In one case, the criminal proceeding was not commenced, and in one case an action was filed against a specific natural person for committing the offence of breaching obligation in the management of property of others, pursuant to Section 255(1) and Sections 255(2)(a) and 255(2)(b) of the Criminal Code.

The law enforcement authorities requested the SAO's cooperation in a total of 15 cases in 2007. Upon their request, the President of the SAO, pursuant to Section 23 of the SAO Act, released 20 employees from their confidentiality duty due to an important interest of the state so that they could be interviewed by the law enforcement authorities in order to uncover the investigated circumstances or so that they can be interviewed as witnesses. In five cases, assistance was provided to the law enforcement authorities by way of providing them with audit records.

Negotiations conducted between the SAO and members of the Office of the Attorney of the State dealt with coordination of procedures and identification of principles of mutual cooperation, focused in particular on more intense supervision over any notified offences under investigation, mutual exchange of information, and drafting of documents for information of offence.

## 2.4 Audit Findings

### 2.4.1 State Budget Incomes

In 2007, audit conclusions concerning the administration of the value added tax (VAT) and the collection of customs duties were approved.

**Audit No. 06/27 focused on the system of administration of the value added tax following the Czech Republic's accession to the European Union, the legislation governing some of the areas relating to the VAT, and procedures applied by tax administrators in making use of VAT audit instruments. It made use of the results from the similar Audit No. 05/19 – Administration of Value Added Tax (the SAO Bulletin, No. 1/2006), and it discovered, among other things, that certain shortcomings continued to exist in the area of the administration of the VAT.**

The audit was performed by the SAO together with the Federal Court of Auditors of the Federal Republic of Germany (BRH) under an agreement entered into by the two audit authorities. Their cooperation focused mainly on the verification of certain selected transactions executed by and between tax payers in the Czech Republic and in the Federal Republic of Germany, on the use of information resulting from international cooperation between the tax administrations, and on drawing a comparison between the systems of VAT administration employed in those two countries.

The audit did not identify any shortcomings, which would indicate any especially serious breaches of the legislation. However, tax administrators did not make a full use of all mechanisms serving checks of the performance of duties by VAT payers and failed to pay proper attention to reviews of differences in the values of any reported business transactions.

For example, tax offices in some cases failed to check, and/or remove, unclear data contained in summary reports (SR) and failed to make use of the data in the assessment of tax duties:

- for example, they failed to verify the data contained in the summary reports in 39 cases although differences between values of goods supplied to other EU Member States, according to VAT returns and the summary reports, amounted in total to **CZK 776 million**;



- they failed to verify 142 cases whether the data about procurement of goods from other EU Member States, as shown in the VAT returns, were correct, truthful, and complete, although the MoF warned them that the VAT returns may be erroneous. The overall difference between the value of the procured goods as shown in the VAT returns filed by tax payers in the Czech Republic and the value of the delivered goods as shown in the summary reports filed by tax payers in the European Union, amounted to **CZK 1,771.8 million**.

The performed audit showed that the introduction of an annual automatic matching of the values of tax duties and claims for reimbursement of the VAT payable for goods in other EU Member States would facilitate better identification of mistakes in tax returns and elimination of any potential tax evasion.

**The aim of Audit No. 07/07 was mainly to scrutinise procedures applied by the Customs in the collection of customs duties following the Czech Republic's accession to the European Union, with special attention paid to the share designated to cover the costs of collection of customs duties.** Following the Czech Republic's accession to the European Union, customs duties represent an income of the EU budget. The Czech Republic is entitled to retain a share of the customs duties (25%) in the form of reimbursement of its collection expenses. The state budget thus earned **CZK 3,300 million** in the period in question.

The audit discovered that:

- the General Directorate of Customs (GDC) did not proceed in accordance with the Accounting Act as it had failed to account for such income. The MoF, too, failed to account for the income from customs duties;
- in view of their budget designation, the income was accounted for as tax income although it was of a different nature;
- the financial funds were transferred to the state budget on a monthly basis by way of advance payments, which, however, were not duly settled in the period under scrutiny (from 1 May 2004 until 31 December 2006). The balance on the relevant extra-budgetary account continued to increase year-on-year. The state closing accounts showed such income in the amount of such advance payments.

## 2.4.2 State Budget Expenditures

### 2.4.2.1 Audit of Strategies and Concepts

The SAO identified during some audits a recurring absence, and/or shortcomings relating to long-term strategies and concepts (e.g., the development of transport infrastructure, long-term projections or the development in the area of defence). Failure to produce, at all or to a sufficient extent, any strategic and conceptual documents may have a negative impact on the economy, effectiveness, and efficiency of future public spending.

**Audit No. 06/19** – The *Action Plan of the Ministry of Defence for 2005* included, as one of its priorities, the production of long-term projections in the area of defence until 2020, which, however, the Ministry of Defence (MoD) had not produced until the time of the audit. Thus, the MoD's planning was lacking a long-term concept;

**Audit No. 07/03** – An absence of a long-term strategy applied by the MoD and a lack of information about its intentions also had a negative impact on the management of the LOM PRAHA, State-owned Enterprise;

**Audit No. 07/04** – The Ministry of Transport (MoT), the Road and Motorway Directorate of the Czech Republic (RMD), and the State Fund of Transport Infrastructure (SFTI) failed to evidence any specific criteria serving the proposing and approval of their road development and reconstruction projects.



**The overall audit of development concepts was the subject matter of Audit No. 06/36 – Financial Resources Spent on Transportation Network Development in the Czech Republic, which focused in particular on the identification of risks resulting from the current shape of conceptual and strategic documents and which in turn can have a negative impact on the economy, effectiveness, and efficiency of future public spending on the development of transport infrastructure.**

Possible future risks:

The audit discovered that the current state of affairs in the area of strategy and concepts of development of the transport infrastructure would not guarantee any future efficient and economical financial spending. The MoT does not sufficiently eliminate risks, which prevent higher efficiency of such transport infrastructure spending. The most serious risk is seen in the absence of politically binding long-term goals of development of transport infrastructure and verification of their feasibility by way of a socio-economic assessment, including the assessment of the environmental impact of transportation projects.

Additional risks:

- The MoT has not produced its conceptual materials related to the development of transport infrastructure (the Public Transport Act and any connected plans of transport services, the concept of public logistic centres). Therefore, there currently exists an increased risk of lower efficiency of transport development projects incorporated in the *General Plan of Development of the Transport Infrastructure /GEPARDI*<sup>3</sup>.
- An absence of a multi-mode transport prognosis and a missing database of duly substantiated preliminary costs of any proposed transport infrastructure development projects related to the individual types of transport would result in a risk of non-objective results of their multi-criteria analyses.
- An absence of decisions on the order of preference of such transport infrastructure development projects and time schedules of their preparation and implementation, i.e. an absence of a fundamental output from the preparatory and implementation phase concepts, would reduce the efficiency of the programme financing system in respect of efficiency of public spending.
- Inconsistent analyses of costs and revenues relating to transport infrastructure development projects and failure to respect their outcome result in the planning of public spending on the preparation and implementation of development projects with low determined efficiency, and/or development projects whose social efficiency has not been documented at all.
- Underestimation of acquisition costs of transport infrastructure development projects gives rise to an overall lack of finances for the implementation of at least a minimum scenario of financing of the development of transport infrastructure. Such situation may significantly increase the risk of failures in obtaining EU subsidies, in particular, in the event of financially demanding planned development of high-speed railways in the Czech Republic, which have not yet become a matter of common interest on the side of the European Union.

#### **2.4.2.2 Programme Financing**

The SAO has repeatedly discovered shortcomings in the preparation, implementation and evaluation of investment programmes over several years now. This is due to the same breaches of the generally binding legislation, internal standards, guidelines, prescribed procedures and principles of economy. The audited Government Ministries, when preparing and implementing

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*The General Plan of Development of the Transport Infrastructure produced by the MoT, subject to Government Resolution No. 938, dated 22 September 2003, represents the basic conceptual material for the development of transport infrastructure.*



their capital investment programmes, failed to put in place the essential conditions ensuring that state budget finances are spent effectively, efficiently and economically from the society's point of view.

*Programme Financing by State Funds*

**Audit No. 06/18 focused on the implementation of the programme entitled *Reconstruction and Modernisation of Some Selected Railways*. In the period under scrutiny, 80 projects took place within the programme, with the overall investments amounting to CZK 62,928 million, out of which 38 projects were chosen for audit, with the overall investment amount of CZK 37,818 million.**

The audit discovered that:

- the SFTI did not apply any firm evaluation criteria and any outcome of assessment of socio-economic efficiency in order to select its implemented projects. To a large extent, it allowed the application of subjective selection criteria fully depending on the opinions of certain individuals partaking in negotiations on the compilation of the SFTI budget for a given year. When approving projects for implementation, it did not consider the requirement of ensuring the goals and other parameters of the programmes;
- economy and efficiency of finances expensed on reconstructions and modernisations of railways were negatively affected by approving projects with low socio-economic efficiency. Such projects were not always duly justified and the causes of their low efficiency were not analysed, either. In a number of cases, insufficiently prepared projects were approved for implementation, which resulted in postponing their deadlines, higher capital expenditures, and at times also in a removal of such project from the implementation plan.

**Audit No. 07/04 focused on the system of management of implementation and compliance with the fundamental material, time, and financial parameters of projects covering the construction and reconstruction of roads implemented with a total of 17 programmes. Out of the 435 audited projects with the overall investment amount of CZK 423,000 million, which were under some form of implementation within the period in question (preparation or construction), 50 projects with the overall investment amount of 62,000 million were audited in more detail.**

The audit discovered that the projects were not implemented with sufficient efficiency. In the majority of cases, the system of the programme financing did not guarantee effective, economical, and efficient spending of finances because:

- the programme financing rules were not applied consistently with projects co-financed by the SFTI, which is not required to determine the amount of its financial participation depending on the requirements of the programmes or allocate such finances accordingly (that applied to the majority of such projects);
- nine out of the 17 audited programmes lacked approved documentation or duly determined elementary programme indicators, especially financial and time indicators;
- the costs, deadlines and other parameters of projects included in the investment plans approved by the MoT were not of a binding nature. Only seven out of the 318 processed investment plans of projects contained a somewhat objective determination of their costs, which the other cases lacked;
- no socio-economic assessment of several versions of routes of roads took place prior to the approval of investment plans and also the assessment of technical solutions of important development projects from the point of view of their investment intensity was insufficient;
- preparation of development projects of complete transport routes, from the beginning of the work on their documentation for the zoning and planning decision until the issuance of the building permit took 8 years on the average;



- the planned costs of the 435 audited projects in the years 2004 to 2007 were increased by **CZK 76,000 million**, i.e. 22 %; with more than a half of the projects, such increases equalled 46 % of their costs. The planned deadlines were met only in 32 % of the projects.

Systemic shortcomings:

The SFTI (same as the other state funds) is not required to observe either the programme financing rules as stipulated in the Budget Rules Act<sup>4</sup> or the implementing decree<sup>5</sup> in approving projects covered by its annual budget. It is not required to determine the share of its financial participation subject to assessment of the documentation of the programmes and to allocate them according to the programmes.

The MoT has not issued any decision about registering projects in the information system. Therefore, no binding determination of costs, deadlines, and other parameters was performed in the investment plans. Projects were registered in the Asset Reinvestment Information System of Programme Financing (ISPROFIN) by the RMD, which did not act as the programme administrator.

*EU Directives Implementation System*

**Audit No. 06/31 was aimed at checking the provision, drawdown, and spending finances on some selected investment projects in the area of water economy and environmental development projects, and in particular compliance with the requirements ensuing from the implementation of Council Directive No. 91/271/EEC, by way of which the Czech Republic undertook to implement by 2010 the pre-determined extent of measures in the area of waste water treatment. The results of the audit pointed out some shortcomings and risks relating to the implementation of the Directive.**

The audit discovered:

- postponing of projects (some projects have been postponed until 2008 to 2010);
- failure to include 180 agglomerations into projects for implementation;
- the Ministry of Agriculture (MoA) failed to assess consistently the genuinely expensed costs of the past years. Therefore, the annually updated future financial requirements were not objective;
- the MoA does not hold sufficient materials about investors' capability to ensure own sources required in order to co-finance projects with the participation of the European Union.

Possible future risks:

By its failure to keep the commitment, the Czech Republic faces a major risk of sanctions from the European Union. At the present time, such risk has been of a substantial extent. At the time of the audit, a total of 180 agglomerations did not have either their financing ensured or the relevant documentation produced. The EU funds will constitute the main source of financing until 2010, subject to the Czech Republic being able to provide adequate co-financing.

*Assets Acquisition and Reinvestment Programmes*

The SAO repeatedly discovered during audits of those programmes that:

- **investment programmes have been implemented without duly processed and approved documentation, e.g.:**

**Audit No. 06/18** – The MoT launched the programme entitled *Reconstruction and Modernisation of Some Selected Railways* in 1993. No approved documentation was available, no deadline for the completion of the programme was determined, and no criteria for the evaluation of the implementation of its goals were detailed, in respect of the programme;

<sup>4</sup> Act No. 218/2000 Coll., on budget rules, and amending certain related legislation (the Budget Rules).

<sup>5</sup> Decree No. 40/2001 Coll., on financing of reinvestment programmes from the State Budget.





**Audit No. 06/22** – The MoD, in view of the unclear situation around its projects, had to re-draft the relevant documentation for the programme entitled *Procurement and Renewal of Transport, Special Purpose, and Handling Logistic Means*, which resulted in frequent delays with the risk of non-compliance with the deadlines and financial parameters of the projects, and in modifications in the selected commodities. The MoD failed to match in an optimum manner the financial requirements and the planned implementation of individual projects;

**Audit No. 06/32** – The Ministry of Interior (MoI) as the administrator of the reinvestment programme entitled *Development and Renewal of the Material and Technological Resources of the MoI Support Organisations* allowed that the programme financing (**CZK 283.8 million**) took place without any programme documentation approved by the MoF between 2003 and January 2006;

- **lack of concept in the preparation of development projects, increasing of the financial requirements of investment projects and postponing of project completion deadlines, e.g.:**

**Audit No. 06/29** – The previous Audit No. 03/32 (see No. 1/2004 of the SAO Bulletin) pointed out a lack of concept in the preparation of the project concerning the construction of the National Technical Library (NTL) launched by the State Technical Library as early as in 1999. Commencing in 2004, the construction of the new building of the NTL was included in an investment programme entitled *Development and Renewal of the Material and Technological Resources of the MoEYS Management System*, without any evidence whether the finances expended in the previous years were used efficiently and whether the new development stage duly expanded on the original project. The identified facts showed that the preparation of the construction of the new NTL building lacked any concept and a clear plan from the very beginning as shown by frequent modifications of the investment plan of the project. As a result, among other things, the costs went up and the project deadlines were postponed;

**Audit No. 06/37** – The RMD failed to prepare properly the investment project entitled *Reconstruction of the RMD Building – in Prague, Na Pankráci 56*. The costs at the time of the audit exceeded the investment plan drafted in February 2005 by **CZK 6.7 million** (i.e., by 33 %). The completion deadline was postponed three times from December 2005 until May 2006;

- **releasing of major quantities of available finances only in the last month of the relevant year, which makes it difficult to make a proper use of them and causes transfers of such finances to the reserve fund, e.g.:**

**Audit No. 06/25** – The Ministry of Health (MoH) did not release more than 50 % of available finances for the programme entitled *Support for Development and Renewal of the Material and Technological Facilities of Teaching Hospitals* in the years 2003–2005 until the last month of the relevant year. Afterwards, the MoH transferred any unused funds in the amount of **CZK 1,234.8 million** to the reserve fund;

- **insufficient internal audit of finances drawn from the state budget via the Government-operated units, e.g.:**

**Audit No. 06/25** – The MoH really spent the sum of **CZK 1,138.2 million** on the implementation of the programme entitled *Support for Development and Renewal of the Material and Technological Facilities of Teaching Hospitals* in the years 2003–2005. The MoH audited only 2.67 % of those finances, while the audit was only a formal one. This is a recurring phenomenon, which the SAO audit conclusions keep pointing out after each and every audit of investment finances drawn via the MoH;

**Audit No. 06/29** – The Ministry of Education, Youth and Sports (MoEYS), as of the completion date of the SAO audit, did not perform any audits of finances earmarked from the

programme entitled *Development and Renewal of the Material and Technological Resources of the MoEYS Management System*, although it was commenced in 2003 and the finances were drawn from 2004. In the years 2004–2006, this investment programme cost **CZK 524.6 million**.

#### *Preparation of Investment Projects*

Identified shortcomings:

- **investment projects approved for registration without the appropriate documentary materials and data (e.g. missing technical and economic, time, and financial parameters of the projects):**

**Audit No. 06/32** – The MoI as the administrator of the reinvestment programme entitled *Development and Renewal of the Material and Technological Resources of the MoI Support Organisations* allowed that applications for subsidies were not duly drafted to such extent that would allow for the material and functional definition of the projects. At the same time, the planned amount of the capital expenditures was not supported by calculations and it was not possible to determine whether capital expenditures cover all effects potential to the course of the project implementation.

The deadlines applicable to preparation and implementation of projects were frequently postponed and their binding parameters were modified;

- **failure on the side of recipients to comply with binding indicators relating to the decision on state budget participation, e.g.:**

**Audit No. 06/25** – In respect of some projects implemented within the programme entitled *Support for Development and Renewal of the Material and Technological Facilities of Teaching Hospitals*, some binding indicators relating to the decision on state budget participation were not complied with. This represented a breach of budget discipline in the total amount of **CZK 9.4 million**, which involved four teaching hospitals;

- **incorrect accounting of the programme in ISPROFIN, e.g.:**

**Audit No. 07/10** – The Ministry of Culture (MoC) recorded in ISPROFIN the project entitled *Set of Below-the-Limit Projects* as a single project. They were a set of previously unspecified projects in the total amount of stated finances worth **CZK 173.5 million**. The MoC was unable to submit the documentary materials in respect of that project, to specify the drawing on finances, and to identify the specific recipients of the funds.

#### *Implementation of Investment Projects*

Identified shortcomings:

- **shortcomings identified with participants (investors) in investment projects, e.g.:**

**Audit No. 06/32** – The Ministry of Interior Support Services Enterprise (MoISSE) failed to apply to the programme administrator for amendment of its decisions in those cases when it was obvious that it would not be able to comply with the binding parameters determined in relation to the decision on the state budget participation in the implementation of the project.

Furthermore, the MoISSE failed to account for the costs of the individual projects separately and in an analytical manner, and it did not specify in the accounts, which projects they related to. As a result, it was difficult to identify the amount of finances drawn in respect of each individual project;

**Audit No. 06/29** – The MoEYS as a participant in the project entitled *MoEYS, Purchase, Repair, and Modification of the Building at Karmelitská 378/17, Prague 1*, accepted the price in the amount of **CZK 27.1 million** in the purchase contract, which was determined in an



expert opinion produced in keeping with such legislation, which had already been cancelled at the time of the execution of the contract.

The MoEYS as a participant in the project entitled *Procurement and Renewal of MoEYS Information Technologies* in 2006 did not proceed in an economical manner because it failed to employ until February 2007 almost one third of all computers purchased in August and September 2006;

**Audit No. 07/08** – The State Labour Inspection Office (SLIO) failed to transfer to the state budget outstanding balances of finances from projects whose implementation was concluded in 2005, and which were financed within the ISPROFIN programmes, in the total amount of **CZK 1.7 million**;

**Audit No. 07/10** – The Moravian Museum failed to include in its documentation for a project entitled *Reconstruction of the Pavilion “Anthropos”* work connected with the construction of a superstructure containing a lecture hall and a solution of the exposition on the 4th floor, worth **CZK 13.1 million**, which were subsequently implemented under a separate contract for work done. On the other hand, some work was not implemented although it was included in the project documentation.

The Arts Museum in Olomouc, regarding its project entitled *Archdiocesan Museum, Reconstruction of the Přemyslid Palace*, failed to perform additional archaeological research although the nature of the place justified expectations of archaeological findings. Archaeological objects were found in the course of the development project and conceptual changes were made, which resulted in modifications of the project, additional work, postponed deadlines, and also the termination of a contract with the original supplier, and the holding of a new commercial public tender. As a result of such changes in the project, and any resulting delays in construction work (approx. 14 months), the total price grew by **CZK 89.8 million** to **CZK 259.7 million**.

#### *Final Evaluation of Investment Projects*

Identified shortcomings:

- **insufficient or no checking that binding parameters specified in decisions on state budget participation in the financing of actions were fulfilled and programme administrators' failure to check the data in the documentation giving a final evaluation of the project, e.g.:**

**Audit No. 06/32** – The Mol, as the programme administrator, did not perform a proper check of data in the documentation giving a final evaluation of individual projects, and it failed to double check the data consistently. Therefore, it concluded final evaluations also in the case of projects where the binding parameters as stipulated in relation to the decision on state budget participation were not complied with;

**Audit No. 07/10** – The MoC, as the programme administrator of the project entitled *Reinvestment of Fixed Assets within the Authority of the MoC* failed to insist consistently on the implementation of all of its requirements as stipulated in respect of recipients of subsidies in decisions on state budget participation and in its terms and conditions.

Also, it failed to perform consistent audits at least once in the course of the implementation of all projects in the case of project financing by way of individually assessed expenditures;

- **programme participants' failure to submit actions' final evaluation documentation by the set deadline, e.g.:**

**Audit No. 06/28** – The GDC did not consistently observe the provisions of Decree No. 40/2001 Coll. at least in 15 investment projects because it failed to produce the docu-



mentation relating to the final assessment of projects within deadlines as stipulated in the individual decisions issued by the MoF. They were produced with delay of between 4 and 23 months.

Potential risks:

**Audit No. 07/01** – Audits of financing of the technical equipment of the Fire Brigades of the Czech Republic (FB) included in the programme entitled *Development and Renewal of the Material and Technological Facilities of the Fire Brigades*, the following shortcoming were discovered at both the FB General Directorate and the audited FB regional units:

- they failed to drawdown on the budgeted finances in the years 2005 and 2006 although they were lacking automobiles worth in total **CZK 400 million** according to the list of the minimum equipment of fire fighting technologies and material pursuant to the relevant decree<sup>6</sup>. Such drawdown on budget items was mainly affected by delays in the delivery of agreed orders by suppliers;
- they were mainly lacking automobile tank fire engines, automobile cranes, ladder trucks, platform trucks, containers, and special technology serving the elimination of hazardous substances and action at traffic accidents. Almost 49.2 % of automobiles operated by the FB regional units are older than 13 years.

#### **2.4.2.3 Subsidy policy**

*Shortcomings Found During Audit of Subsidies Providers*

Identified shortcomings:

- **failure to account for deductible costs regarding research and development projects, e.g.:**

**Audit No. 06/39** – The Czech Mining Office (CMO), in assessing bids of solutions of research and development projects inconsistently accepted bids, which did not include proposed planned deductible costs. In the course of performance of such solutions, the CMO would pay for invoiced work on such projects although the invoices and their enclosures did not provide for the genuine costs expensed in respect of such work and activities;

- **insufficient audit activity (follow-up checks of application of subsidies), e.g.:**

**Audit No. 06/38** – The MoD failed to perform any pending or follow-up checks of application of subsidies in respect of State-owned Enterprise Vojenské lesy a statky ČR (Military Forests and Estates of the Czech Republic – VLS, s.p.) and it also failed to produce any preliminary criteria for the evaluation of the economical, effective and efficient performance of public administration in providing subsidies;

**Audit No. 06/39** – The CMO, as the provider, did not perform financial audits pursuant to the Research and Sciences Support Act<sup>7</sup> with help of its own employees, and it rather sub-contracted them.

#### **2.4.2.4 Public procurement**

For several years now, the SAO's audit conclusions and annual reports have also drawn attention to shortcomings in the area of public procurement. Repeated findings confirm that there is insufficient will or ability on the side of the auditees to address this state of affairs.

<sup>6</sup> Decree No. 247/2001 Coll., on organisation and activities of fire brigades.

<sup>7</sup> Act No. 130/2002 Coll., on support extended to research and development from public funds, and amending certain other legislation (the Research and Development Support Act).

*Public procurement and Evaluation of Bids*

Identified shortcomings:

- **ignoring the existence of the Public Procurement Act and errors in awarding public procurement, e.g.:**

**Audit No. 06/22** – The Institute of Aviation Medicine, Prague (IAM) entered into a contract in 2004 covering the cleaning of its interior premises without holding a tender. By way of amendments to the contract, the price was increased to **CZK 3.9 million** and the contract became a public contract;

**Audit No. 07/01** – The FB of the Ústí Region ordered a technical improvement of its automobile tank fire engines worth **CZK 2.2 million** (w/o VAT) by way of negotiated proceeding without publication in 2005. It only invited one single bidder to negotiations although also other firms in the Czech Republic provided reconstruction of fire automobiles.

When awarding public procurement concerning two automobile tank fire engines machines worth in total **CZK 12.1 million** (w/o VAT) and a contained carrier worth **CZK 3.3 million** (w/o VAT), it determined the technical specification by naming a type of product and manufacturer without allowing any other solution;

- **splitting large contracts into several smaller ones and awarding these parts separately, even though the law expressly forbids such procedure, e.g.:**

**Audit No. 06/22** – The Central Military Hospital in Prague (CMH) awarded an above-the-limit public contract outside the public procurement procedure in 2005. It decided to split the matter of performance and procured hardware worth **CZK 2.7 million** merely on the basis of separate orders;

**Audit No. 06/37** – The General Directorate of the RMD decided to split a contract worth **CZK 5,8 million** into three partial orders.

The RMD, Plant Prague, ordered construction work within a project entitled *Reconstruction of the RMD Building – in Prague, Na Pankráci 56*, worth in total **CZK 27 million** on the basis of 21 contracts and orders;

- **non-transparent awarding of contracts, e.g.:**

**Audit No. 06/18** – Seven contracts were awarded in a non-transparent manner. E.g., in the case of one contract for the delivery of one project, two records from the opening of envelopes were submitted, each showing different bid prices from one single bidder. In another case, the Railway Infrastructure Administration did not submit a bid for the delivery of preparatory documentation of a project from another bidder;

- **shortcomings in evaluation of bids, e.g.:**

**Audit No. 06/18** – Shortcomings in the evaluation of bids appeared in the case of four investment projects regarding the programme entitled *Reconstructions and Modernisations of Railways*:

- bids for the delivery of preparatory documentation in respect of one project were evaluated also using a partial criterion, which was not mentioned in the terms and conditions of the relevant tender;
- in three cases relating to the selection of suppliers of project documentation, bidders who failed to comply with the qualifications were not eliminated from the evaluation;
- in two cases relating to the selection of suppliers of construction projects, the seven-day term for the release of the surety pursuant to the Public procurement Act was not complied with<sup>8</sup>.



#### 2.4.2.5 Management of State Finances and Property

Audits focusing on the management of state property a finances repeatedly revealed a number of serious shortcomings in this area, particularly as concerned the stock-taking of property and liabilities, insufficient record-keeping and evaluation, inaccurate accounting of such property, and lack of economic management of state property. Opening balances were not produced in respect of any of the two newly created Government-operated units.

##### *Stock-taking*

Identified shortcomings:

- **failure to make stock-taking of assets and liabilities, and/or its inconclusiveness, differences in stock-taking results, e.g.:**

**Audit No. 06/22** – The MoD did not ensure conditions for proper management of state property in the case of the field hospitals deployed on international missions, which resulted in differences after stocktaking of the property upon their return. Their genuine causes were not identified and evaluated and the differences were not accounted for;

**Audit No. 06/32** – The MoI did not perform any stock-taking of its real estates in the audited period in keeping with the Accounting Act<sup>9</sup>, because it failed to identify plots of land which were eliminated during the relevant financial year, plots of land which it was not authorised to manage, plots of land with inaccurately determined area, and thus their inaccurate book value was determined, or it recorded a plot of land as a whole although it was divided into two parts in the previous years.

##### *Incorrect Accounting*

Identified shortcomings:

- **assets were not listed in the accounts, and/or records of the assets, which an organisation is qualified to manage, were incomplete and inconclusive, e.g.:**

**Audit No. 06/22** – The MoD did not record duly real estates, which were transferred in 1994 to the CMH in Prague and the IAM in Prague. It still kept three such transferred plots of land in its books in the total amount of **CZK 63.4 million** in 2006;

**Audit No. 06/37** – A number of shortcomings regarding records of plots of land were identified with the RMD, which prevented an objective verification of the genuine state in the accounting books. The RMD also manages plots of lands in respect of which its ownership titles have not been settled duly, and it further records a number of plots of land, which it does not want for its activities.

##### *Management of state property*

**The aim of Audit No. 06/19 was to scrutinise management of state property and state budget finances in the case of the introduction of the JAS 39 Gripen and L-159 aircraft in the Army of the Czech Republic.**

The audit discovered that:

- there were no long-term projections concerning the development of the area of the national defence, and the conceptual materials failed to justify the requirements for 14 supersonic aircraft JAS 39 Gripen. The Government of the Czech Republic only discussed the armament of the aircraft with medium-range missiles subsequently, while the combat canon ammunition must not be used due to its unreliability, and it was replaced with training ammunition;



- The MoD failed to sell any unnecessary aircraft L-159, which have still been stored with the manufacturer. The envisaged costs of their conservation will have amounted to **CZK 346.6 million** in the years 2006–2010.

Future risks facing the operational capability of the tactical air force:

- lack of duly trained pilots, in particular, for the JAS 39 Gripen aircraft;
- lack of duly instructed and trained flying personnel;
- insufficient secondary maintenance of the JAS 39 Gripen aircraft due to failure to ensure the required standards of security of the premises;
- insufficient equipment with means of identification, which may limit potential deployment of the L-159 aircraft during international missions and NATO war games.

**Audit No. 06/37 reviewed the economical manner of ensuring its own activities and in managing state property of the state contributory organisation RMD and the implementation of measures adopted to remedy shortcomings identified by the previous Audit No. 04/24 (No. 2/2005 of the SAO Bulletin).** The audit found out that the RMD did not remove serious shortcomings concerning the economical nature of ensuring its own operation. It was identified that the measures adopted to remedy shortcomings identified during the previous audit were practically inefficient.

A number of shortcomings were not remedied at all:

- e.g. the RMD failed to specify duly the subject matters of lease contracts, documents relating to lease agreements were incomplete, and the amount of rent was not justified sufficiently, in particular, in respect of leases of advertising sites and plots of land under rest areas (rents for advertising sites were by 69 % to 93 % lower than the rent as determined in the internal regulations of the RMD);

or they were remedied only in part:

- e.g. budgeting and reporting of operational costs.

Improvements were recorded only in the area of procurement of materials, international business trips, and management of financial assets.

#### *Management of state finances*

**Audit No. 06/24 reviewed procedures applied by the MoF in the compilation of its budget and drawing on selected expenditures of the GTA State Budget Chapter.**

#### Systemic Shortcomings and Potential Risks

The GTA chapter represents a specific chapter of the state budget and it ranks among its most important parts given the volume of its finances. During the period of the audit, it ranked second regarding the volume of the total expenditures; in each of the years, its stake in the total expenditures amounted to more than 20 %; and almost 60 % of the total incomes.

A large part of the incomes and expenditures of the GTA fails to comply with one of the fundamental criteria as stipulated in respect of that chapter in the Budget Rules Act because the finances often lack a general nature and often fall under the authority of other chapter administrators. Also the incorporation of spending on programme financing does not reflect the nature of that specific chapter. The incorporating of such spending in the GTA chapter reduced the liabilities of the relevant administrators for their confided matters and increases the risk of inefficient spending of the state budget finances. The MoF, in its capacity of the administrator of that chapter, does not account for the finances incorporated in the GTA chapter.

Failures to ensure management control in the sense of the Financial Audit Act, a large number of budget modifications, and failures to account for finances belonging under the chapter, represent a serious risk in the management of the state budget finances. This risk is multiplied by the volume of finances incorporated under the GTA chapter.



**The aim of Audit No. 06/35 was to scrutinise the financing of the implementation of the project entitled *State Information Policy in Education in the years 2003 to 2006*. Furthermore, it verified the implementation of its goals at some selected schools of different types and the implementation of measures adopted in order to remedy shortcomings identified by the previous Audit No. 02/31 (No. 2/2003 of the SAO Bulletin).** The main causes for the non-fulfilment of the original intention of the *State Information Policy in Education* lie in insufficient detailing of the individual projects at the very beginning of their implementation, and insufficient control mechanisms on the side of the Government ministries involved.

The audit discovered that:

- the remedial measures adopted by the MoEYS regarding the outcome of the previous audit were not implemented consistently;
- certain changes occurred in the years 2004 to 2006, which can be described as positive. Schools were involved in active implementation of the original intention but insufficient assistance extended to them by the MoEYS in identifying further financial resources (in particular, from the EU funds) and the abrupt discontinuation of the programme, will bring unexpected financial burdens to the schools;
- the MoEYS assigned the task of the implementation of the schools' educational and information portal to its contributory organisation – Institute for Information on Education, which spent more than **CZK 26 million** on that project in the years 2003 to 2006. However, only an information part of the portal was launched, which was practically not used almost at all by schools. The MoEYS did not assign the creation of the educational part of the portal until the completion of the audit, so that part of the project has not been implemented.

**Audit No. 06/39 was supposed to review, as one of its goals, state budget incomes within the authority of the CMO.** The audit discovered that District Mining Offices were prevented from efficiently enforcing penalties for delays in advance payment on excavated minerals, which their payers were supposed to pay by way of advance instalments. The existing legislation, actually, does not contain any unequivocal manner of determining the amount of such advance payments. Therefore, payers who pay their advances late have been privileged as against the relevant communities and the state, because the latter only received the payments into their budget with a delay.

**Audit No. 07/02 was part of a coordinated audit of the management of state finances collected and applied in the area of air and the ozone layer protection, and an audit of implementation of liabilities under international treaties, performed concurrently by the audit authorities of the Slovak Republic (the coordinator), the Republic of Slovenia, and the Austrian Republic.** Also for this reason, a large part of the audit focused on the implementation of international liabilities of the Czech Republic and compliance with obligations under Community law (*acquis communautaire*). The audit found out that the Czech Republic fulfilled the regulations governing limitations of emissions of pollutants, protection of the climate and the ozone layer, and that it has duly implemented the *acquis communautaire*. Failures were discovered only in the implementation of Council Directive 96/62/EC on ambient air quality assessment and management and any related legislation. Emission limits of some pollutants have been exceeded in the territory of the Czech Republic. The Czech Republic has been standing the risk of penalties imposed by the European Commission (EC) due to its failure to meet those requirements.

The audit discovered that:

- the Ministry of the Environment (MoE), in its capacity of the administrator of the State Environmental Fund (SEF), was responsible for the drafting of programmes, extended by the SEF in support of air protection. The SEF, between 2003 and 2006, spent approx. **CZK 3,200 million** on air protection. The MoE failed to evidence any evaluation of efficiency





of such programmes by the SEF, which should have been performed in the form of analyses showing conclusions required for corrections, extension, and/or termination of the support programmes;

- the SEF reported significantly exaggerated environmental benefits of its projects. This applied especially to its programme entitled *Support for Overall Installation of Gas Supplies in Communities*. The programme, at the same time, represented a dominant project in respect of its financing. Criteria used in the evaluation of environmental benefits of projects do not possess such information value as they are claimed to have. In a number of cases, the recipients failed to achieve such criteria. Data concerning previous consumption of solid fuels were exaggerated, same as values of reduction of consumption of such fuels after the completion of the subsidised project.

#### *Creation of New Government-operated Units*

**Audit No. 06/28, among other things, focused on changes in the legal position of the Customs. From 1 July 1997 to 30 April 2004, the Customs Administration represented an organisation unit of the MoF. Commencing on 1 May 2004, the Customs consists of the GDC, 8 Customs Directorates and 54 Customs Offices. Ever since, the GDC represents an organisational unit of the state.**

The audit discovered that:

The MoF, in respect of its organisational unit:

- failed to perform a stock-taking of all assets and liabilities, and thus transferred state property of unknown composition and value;
- failed to ensure, as of the date of the termination of its organisational unit, a reduction of the spending limits in respect of its bank accounts in the aggregate amount of **CZK 124,5 million**;
- failed to act in an economical manner and paid **CZK 1.5 million** for the purchase of plots of land, to which the state acquired ownership title only more than six years later;
- failed to account for liabilities resulting from the sale of plots of land and apartments in the amount of **CZK 6.2 million** in the relevant financial year. It did not account for them until the payments were credited to its bank account;

The GDC:

- failed to open new accounting books as of 1 May 2004 and to produce an opening balance; in some cases, it acted as if it were not a new organisational unit of the state, and/or a new accounting unit;
- failed to evidence its genuine state of assets as of 31 December 2004 and as of 31 December 2005;
- allowed for the liquidation, without any prior approval from a liquidation committee and without the approval by the Director-General, of assets of the total acquisition value of **CZK 6 million**, which was not included in any analytical records and which was reported as a deficit as of 31 December 2004;
- failed to act in a purposeful and economical manner by deciding already at the beginning of 2005 that the Customs could not really use software worth **CZK 2.2 million**, whose procurement was approved and paid for at the end of 2004.

**Audit No. 07/08 checked up the handling and management by the State Labour Inspection Office (SLIO) of state property and finances required for its own activities, in the sense of the Labour Inspection Act, and their application.**

The SLIO was founded on 1 July 2005 by way of legislation terminating at the same time the Czech Safety of Labour Office (CSLO) and its separate Safety of Labour Inspectorates.



The audit discovered that:

The Ministry of Labour and Social Affairs (MoLSA):

- determined the SLIO budget by way of a schedule in 2006, which did not reflect the realistic requirements of expenditures for its own activities, as proved, among other things, by the subsequent increasing of the budget by more than one third, as well as by the number of budget measures taken.

The SLIO:

- failed to produce its opening balance as of the date of its foundation, i.e. 1 July 2005;
- failed to produce a decision concerning the determination of authority to manage the property of the terminated CSLO;
- failed to keep its accounting books in keeping with the Accounting Act, e.g. it accounted its procured assets in incorrect property accounts. It accounted for cash in hand spending before the cash was demonstrably paid; it failed to record all accounting cases with help of accounting documents and to enter them in the accounting books.

*Management of State Firms*

**Audit No. 06/38 focused on a scrutiny of the management of state finances and property by State-owned Enterprise Vojenské lesy a statky ČR (Military Forests and Estates of the Czech Republic – VLS) discovered the following:**

VLS, s.p.:

- some commercial contracts on the sale of timber executed by VLS, s.p. may be unfavourable in their consequences. Relations of commercial liabilities in the sale of wood, when the purchaser had more rights than the seller, were imbalanced; the manner of delivery of the goods did not reflect an equal position of both contracting parties;
- it introduced an integrated management system, which – however – was not duly focused on financial audit, assessment, analyses, and identification of causes of financial shortcomings, efficiency and economy.

The Supervisory Board of VLS, s.p., performed some of its activities in a formal manner the audited period;

The MoD:

- failed to specify the assets in the founding deed of VLS, s.p. in an unequivocal and non-interchangeable manner (it did not use plot numbers and registration numbers in the identification of the plots of land and buildings, respectively). The allocated assets have not been recorded in the Companies Register.

**Audit No. 07/03 focused on the management of the state property and finances by State-owned Enterprise LOM PRAHA, and at the same time on the assessment of contractual relations between the founder (the MoT) and the State-owned Enterprise.** Pursuant to an analysis of the financial volumes of some selected contracts, the audit focused on the strategic contract for the provision of pilot training to the Army of the Czech Republic, worth approx. **CZK 930 million** in the audited period.

The audit discovered that:

- the terms and conditions covering the provision of pilots training in the years 2004–2006 and the adopted manner of determination of the costs did not allow the MoD to verify whether the requirements of the state provided for by way of the business activities of the enterprise were performed in an efficient and economical manner;
- an analysis of the current subcontracted pilot training showed that the applied option ensured better performance parameters than when provided for by the MoD's own forces;

- the MoD, in respect of the project of modernisation of its helicopter force and its Mi-171Š helicopters repeatedly approved and modified the technical specifications of the modernisation. Therefore, there are permanent risks concerning the ensuring of self-reliance in air transport during international missions;
- the LOM PRAHA suffered shortcomings in the records and management of its entrusted assets, in particular, in connection with divestiture of a portion of its real estates. In the years 2004–2006, the LOM PRAHA sold in total 45,208 square metres of plots of land and buildings for a total of **CZK 59.5 million**. In two cases, those real estates were sold for prices by **CZK 2.4 million** lower than as suggested in expert opinions.

#### **2.4.2.6 Management of Finances Provided to the Czech Republic from Abroad;**

**Audit No. 06/26 focused on the scrutiny of management of state budget and EU funds earmarked for the implementation of certain measures relating to the Common Agricultural Policy and included in the project entitled *Horizontal Rural Development Plan in the Czech Republic in the period 2004–2006*.**

The audit discovered that:

- the system of implementation of the *Horizontal Rural Development Plan* (HRDP) in principle complied with the requirements of the European and national legislations in the area of the Common Agricultural Policy, and it was operational. On the basis of almost 45,000 applications for subsidies filed by applicants, the sum of **CZK 14,680.5 million** was paid out in the audited period 2004 to 2006;
- partial shortcomings appeared in the field of legislation, in particular, delayed issuance of regulations, which resulted in obstacles in the implementation of the HRDP, particularly at the very beginning. A special regulation is missing, which would govern to a general extend the decision-making concerning the allocation of such subsidies.

Possible future risks:

The shortcoming identified at the MoA and the State Agricultural Intervention Fund (SAIF) show that the spending in some cases was contrary to the regulations of the European Communities, which gave rise to certain risk of adoption of decisions excluding the financing of such spending by the European Commission.

**Audit No. 06/30 focused on the management of state finances earmarked for the implementation of programmes of cross-border cooperation *Phare CBC*<sup>10</sup> and *Interreg IIIA*<sup>11</sup>.**

The audit discovered that:

- the EU financial funds designated for the Czech Republic's projects of cross-border cooperation in the years 2000–2006 were allocated by Phare CBC in the total amount of **EUR 76 million**. Out of this amount, the sum of **EUR 5.8 million** (8 %) was not drawn;
- the conditions for drawing on the projects from the European Regional Development Fund (ERDF) within the framework of *Interreg IIIA* were complied with and the projects were duly paid for in the third year of the programme period. Another two thirds of the allocated funds should be drawn in the next two years.

<sup>10</sup> The Phare programme is one of the chief instruments of extending financial and technical assistance to the countries of Central and Eastern Europe, in the preparation for their membership of the EU; the cross-border cooperation programmes (*Phare CBC – Cross Border Cooperation*) offer preparation for involvement in the initiative of the Community Interreg IIIA. The projects performed within the framework of those programmes usually are of capital investment nature, they are implemented in the border areas and their impact crosses the border.

<sup>11</sup> An initiative to promote trans-national cooperation on spatial planning in support of cross-border cooperation between the border areas.



Systemic shortcoming:

The focus of the support was fairly broad and the Ministry for Regional Development (MfRD) failed to establish a sufficient system of qualified indicators for the evaluation of their benefits. Shortcomings were identified in the implementation of the *Interreg IIIA* programme because the MfRD failed to check sufficiently performances delegated to other entities. In some cases, it allowed for exemptions from the fulfilment of certain terms and conditions to be complied with by the recipients of such support.

The MfRD often changed the programme documentation in the course of the implementation of the programme, which made it difficult for the end recipients to interpret duly the rules governing the programmes as well as any follow-up audits.

**Audit No. 06/33 focused on finances provided to the Czech Republic from the financial mechanisms of the European Economic Area (EEA) and Norway.**

The audit discovered that:

- during evaluation of applications filed in response to *Call No. 1*, shortcomings appeared in some cases, in particular, incomplete reports on the outcome of evaluation, incomplete evaluation committees, and failures to respect the aggregate amount of points in the determination of the standings. However, the preconditions for proper drawing on finances were not endangered, despite such identified shortcoming in the course of the evaluation of the applications filed in response to *Call No. 1*;
- if compared to the other countries – recipients of finances from the financial mechanisms of the EEA and Norway, the Czech Republic does not seem to lag behind in their implementation.

Possible future risks:

The reason for only partial drawing on finances from the total allocated funds from the financial mechanisms of the EEA and Norway has been represented by the protracted approval process of the application. As a result of exchange rate differences (the strengthening of the Czech crown as against the Euro) the demands for the public budgets keep increasing. That may result in growing co-financing shares, which will be far from negligible. They may be in the range of hundreds of thousands of Czech crowns with individual recipients, depending on the financial demands of the project.

**Audit No. 06/34 focused on efficiency of finances earmarked for the payment of the costs of land work from the state budget chapter of the MoA, from the Land Fund of the Czech Republic, from the operational programme (OP) entitled *Rural Development and Multifunctional Agriculture*, and/or from the SAPARD programme<sup>12</sup>.**

The audit discovered that:

- the MoA pre-financed spending on projects on land work in the total amount of **CZK 1.2 million** in 2005, which were not recognised as acceptable in 2006, so it paid this amount in 2006 from another budget item. This breach of the budget rules was caused by an existing legislative contradiction since higher pre-financing of projects within the framework of the OP entitled *Agriculture* could not be adjusted in another budget year without breaching the budget rules;
- resources earmarked in the years 2004 to 2006 within the framework of the OP *Agriculture*, sub-measure 2.1.1, in the amount of **CZK 1,556.5 million** would not be drawn in full because savings from reduced expenditures on such land work projects were not reported by the Land Authorities forthwith and thus could not be applied by the end of 2006. Such breaches of the duty to report changes in project expenditures forthwith were tolerated by both the MoA (the Steering Authority) and the SAIF (the Mediating Authority);

12

*Special Accession Programme for Agriculture and Rural Development.* A programme in support of capital investments into agriculture and rural development. Beside the assistance proper, there is a side goal in assisting in the preparation of the candidate countries for the EU Common Agricultural Policy.



- the MoA did not account for liabilities in respect of EU funds within the framework of the OP Agriculture in the years 2005 and 2006; as a result, the MoA accounts were incorrect. The liabilities accounted for **CZK 154.3 million** as of 31 December 2005.

**Audit No. 07/05 reviewed the provision, drawdown, and spending finances on the operational programme entitled Industry and Business (OPIB).**

The audit discovered that:

- the Ministry of Industry and Trade (MoIT), in determining the rules of spending feasibility to finance activities co-financed from the structural funds, did not follow the relevant EC legislation and did not provide such rules in a uniform manner to all end users. As a result, e.g. three of the audited end users included their exchange rate losses in the total amount in excess of **CZK 3 million** as their deductible costs;
- the drawing on finances from the structural funds has been slowed down by the administratively demanding system of implementation within the OPIB. The MoIT, as the Steering Authority in charge of efficiency and correct management of the OPIB, did not evaluate any reasons for such time demand of the implementation process;
- the MoIT, within its technical assistance extended to the OPIB, spent in unjustifiable manner the amount of **CZK 2.1 million** on the implementation of two research projects, which – however – failed to bring the expected effect;
- the CzechInvest agency, which acted as the Mediating Authority in respect of six programmes, failed to observe the prescribed work procedures as determined in the existing rules issued by the MoIT and acted contrary to Government Resolution and the MoIT rules on management of budget finances in case of contracts for technical assistance;
- shortcomings were identified with some selected end users of support in the area of awarding public procurement, financing, and project implementation, and book keeping.

## **2.5 Audit with Regard to the State Closing Account (Financial Audit of State Budget Chapters)**

Three financial audits were completed in 2007 aimed at verifying correctness of reports submitted for the production of the closing accounts of the individual chapters of the state budget of the Czech Republic. Such financial audits serve to:

- express opinion of the faithful and honest representation of the subject matter of accounting in the financial statements of the audited entities;
- evaluation of reliability of the internal management and audit systems;
- assessment of conformity of the accounting books and legal requirements;
- assessment of the obligation of the chapter administrator in compiling the closing account.

Financial audits serve as the basic instruments in verifying information carried in the closing accounts of the state budget chapters, whose results help formulate the SAO's opinions on the state closing account.

**Table 2: Overview of approved audit conclusions  
from financial audits in 2007****(CZK thousands)**

Auditing operation	Financial statements as of	Date of auditing operation's approval	Assets	Incomes	Expenditures	Total absolute inaccuracy in financial statements	Notification to tax offices (breach of budget discipline)
06/20 – Closing account of the Ministry of Industry and Trade State Budget Chapter	31. 12. 2005	12. 2. 2007	6 019 861,09	1 641 574,79	13 634 860,01	1 217 060,69	5 243,74
06/21 – Closing account of the Ministry of Education, Youth and Sports State Budget Chapter	31. 12. 2005	26. 2. 2007	3 385 107,18	920 659,82	102 220 096,93	22 802 966,99	226 127,28
07/26 – Closing account of the Ministry of Education, Youth and Sports State Budget Chapter	31. 12. 2006	19. 11. 2007	4 143 561,49	1 079 910,90	110 424 596,99	173 692,60	13 341,05
<b>Total</b>			13 548 529,76	3 642 145,51	226 279 553,93	24 193 720,28	244 712,07

Source: SAO audit conclusions from financial audits.

### 2.5.1 Financial Audits Completed in 2007 and Their Results

The audits identified certain facts testifying to serious shortcomings in the documents serving the compilation of the closing accounts of state budget chapters.

#### *Conformity of Keeping Accounting Books and Legal Requirements*

Identified shortcomings

##### – **Correctness of accounting books**

The audits discovered incorrect application of accounting methods as determined in the Accounting Act and its implementing decrees, e.g.:

**Audit No. 06/20** – The MoIT incorrectly reduced the evaluation of buildings, failed to comply with the specification of the content of asset items, failed to account for the identified stock-taking difference, failed to account for exchange rate differences, and failed to account as of the dates of accounting cases;

**Audit No. 06/21** – The MoEYS, in the course of 2005, failed to identify the genuine state of its assets reported in several balance-sheet accounts in the amount of **CZK 179.8 million**, it did not comply with the determination of the content of accounts, and created an unjustified long-term



asset fund in respect of investment subsidies paid out, it did not account correctly for advance payments made in respect of long-term assets, and it accounted in an incorrect manner about procurements of hardware as technical improvement of a building;

**Audit No. 07/26** – The MoEYS, in the course of 2006, failed to identify the genuine state of its assets reported in the account as material on stock, it failed to account for stock-taking differences in the amount of **CZK 166.2 million**, double reported some liabilities, and accounted for receivables on the basis of “void and null” lease agreements.

– **Complete accounting, e.g.:**

**Audit No. 06/20** – The MoIT, in the course of 2005, did not account for movements of financial funds in bank described as *Other Special Finances from the National Fund, Financing of Expenditures of Residual State-owned Enterprises by the National Property Fund, and Centralised Finances from Liquidated State-owned Enterprises*. Facts relating to the management of the above described financial funds were recorded, contrary to the Accounting Act, in separate records outside the accounting books and reported only within the accounting unit;

**Audit No. 06/21** – The MoEYS did not account for some buildings and plots of land in the total value of **CZK 59.4 million** in 2005, and failed to show them in the financial statements as of 31 December 2005;

**Audit No. 07/26** – The MoEYS did not account for buildings worth **CZK 59.4 million** also in the course of 2006, and failed to show them in the financial statements as of 31 December 2006.

– **Conclusive accounting books, e.g.:**

The MoIT, in the course of 2005, and the MoEYS, in the years 2005 and 2006, did not keep any conclusive accounting books in the sense of the Accounting Act, so – as a result – no stock-taking of their assets and liabilities were conducted in keeping with the Accounting Act, and some accounting records were not conclusive.

– **Comprehensible accounting books, e.g.:**

**Audit No. 06/20** – The MoIT, contrary to the Accounting Act, did not keep any comprehensible accounting books in the course of 2005, namely in the area of transfers – subsidies. The accounting books of the MoIT were not able to determine reliably and unequivocally the content of accounting cases and their participants in the given area, namely because the accounting books did not allow for clear identification of recorded accounting cases – whether they concerned subsidies, returned subsidies, erroneous payments or correction of accounts. The MoIT did not record subsidies paid out to recipients on the basis of regularly delivered bank account statements but with help of aggregate accounting receipts issued on a monthly basis (and/or quarterly).

– **Complete financial statements, e.g.:**

**Audit No. 06/20** and **Audit No. 06/21** – The notes to the financial statements of the MoIT compiled as of 31 December 2005 and the notes to the financial statements of the MoEYS compiled as of the same date did not contain, contrary to the legislation, information about the accounting methods applied, and further information, which would explain and complement information contained in the balance sheet and which are material for the assessment of the assets of the accounting unit;

**Audit No. 07/26** – The notes to the financial statements of the MoEYS compiled as of 31 December 2006 did not contain, contrary to the legislation, information, which would explain and complement information contained in the balance sheet and which are material for the assessment of the assets of the accounting unit.

*Faithful and Honest Representation of the Subject Matter of the Accounting Books in the Financial Statements of Audited Entities*

Identified shortcomings:

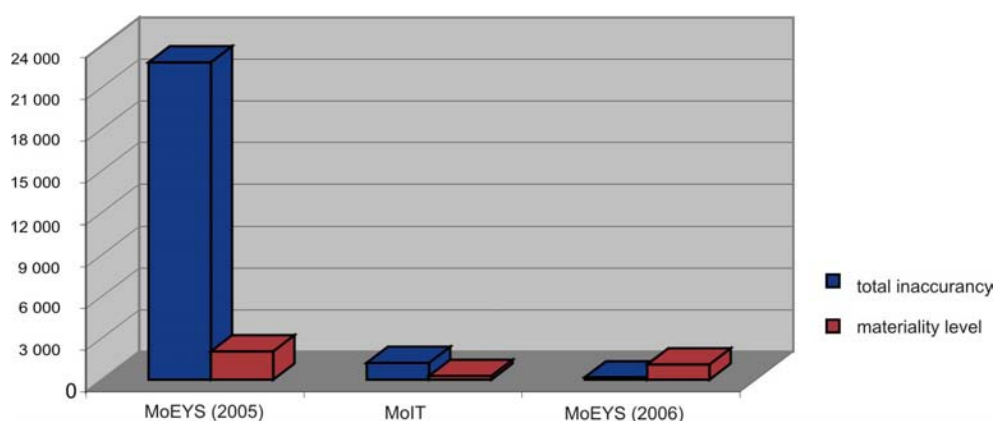
**Audit No. 06/20** – In view of the extent of totally identified irregularities (**CZK 1,217.1 million**) in the financial statements of the MoIT and their comparison to the prescribed maximum ratio of bad records (the materiality level<sup>13</sup> in the amount of **CZK 272.7 million**), it is obvious that the financial statements of the MoIT **do not give a faithful and honest representation of the subject matter of the accounting books for the financial year 2005**, in keeping with the Accounting Act and other related legislation;

**Audit No. 06/21** – The extend of totally identified irregularities (**CZK 22,803 million**) in the financial statements of the MoEYS as of 31 December 2005 and their comparison to the prescribed maximum ratio of bad records (the materiality level in the amount of **CZK 2 044,4 million**) makes it obvious that the said financial statements **do not give a faithful and honest representation of the subject matter of the accounting books for the financial year 2005**, in keeping with the Accounting Act and other related legislation;

**Audit No. 07/26** – In view of the extend of totally identified irregularities (**CZK 173.7 million**) in the financial statements of the MoEYS as of 31 December 2006 and their comparison to the prescribed maximum ratio of bad records (the materiality level in the amount of **CZK 1,104.2 million**), it is obvious that the said financial statements **give a faithful and honest representation of the subject matter of the accounting books for the financial year 2006**, in keeping with Accounting Act and other related legislation.

A comparison of the totally identified irregularities and the materiality level of financial audits whose audit conclusions were approved in 2007, is contained in the following Graph.

**Graph 2: Comparison of totally identified irregularities and the materiality level** (in CZK million)



Source: Audit conclusions from financial audits – 06/20, 06/21, and 07/26.

*Reliability of Internal Management and Control Systems*

The MoIT, in the course of 2005, and the MoEYS, in the years 2005 and 2006, did not operate fully efficient internal control systems, which could duly identify, evaluate, and minimise the risk related to activities, which represent subject matters of accounting, and always verify, via on-going and follow-up

<sup>13</sup> The maximum potential ratio of bad records, which users of reports may still consider as acceptable, was specified in 2005, in keeping with recommendations from the INTOSAI international audit standards, in the amount of 2% of the value, which best represents the extent of financial activities of the given accounting unit. In case of follow-up audits, such maximum bad records ratio was stipulated at 1% of the value of all spending.





audits, timely and reliable information provided to the management of such public authority, concerning uses of public finances, operations performed, and their on-going accounting treatment.

#### *Compilation of the Relevant State Budget Chapter Closing Account*

The financial statements compiled by the MoIT as of 31 December 2005 (**Audit No. 06/20**) and the financial statements compiled by the MoEYS as of 31 December 2005 (**Audit No. 06/21**) **did not constitute reliable documents for the compilation of the closing accounts of state budget chapters** No. 322 – *Ministry of Industry and Trade*, and No. 333 – *Ministry of Education, Youth and Sports* in 2005, pursuant to Decree No. 419/2001 Coll.<sup>14</sup> All identified irregularities were aggregated in the numerical lists in the closing accounts.

The financial statements produced by the MoEYS as of 31 December 2006 (**Audit No. 07/26**) represented a reliable document for the compilation of the closing account of the state budget chapter No. 333 – *Ministry of Education, Youth and Sports* in 2006. All identified irregularities were aggregated in the numerical lists in the closing accounts. The 2006 closing account of the chapter did not contain all facts as required by Decree No. 419/2001 Coll.

#### *Budget Discipline*

Breaches of budget discipline in the sense of section 44 of the budget rules were discovered during audits in case of all auditees, e.g.:

**Audit No. 06/20** – The MoIT used an amount of **CZK 5.2 million** contrary to the budget rules;

**Audit No. 06/21** – The MoEYS spent a total amount of **CZK 226.1 million** prior to the adoption of a budget measure in 2005;

**Audit No. 07/26** – The MoEYS paid out, without any reason, part of interest in the total amount of **CZK 13.2 million**.

#### *Other Financial Audit Findings*

E.g. **Audit No. 06/20** – The audit focused on correct evaluation and reporting of the state property participations. The 2005 financial statements of the MoIT showed property participations in the total amount of **CZK 1,479.6 million**. It was in connection with those participations that the issue of evaluation of equity was resolved, which the MoIT acquired as a result of an increase of registered capital from the resources of a joint-stock company. The existing legislation covering the evaluation and reporting of participations has been so ambiguous that even the application of an expert opinion did not facilitate the adoption of an unequivocal conclusion and evaluation of correctness of the reported data.

## **2.5.2 Share of Audited Expenditures in the Total Expenditures of the State Budget**

In 2007, the share of expenditures reviewed during audits again increased as against the total expenditure of the state budget. Thus, strategic knowledge of all significant state budget chapters has been developed step by step, along with audits of important parts of the state budget expenditures.

Under the 2007 Audit Plan, financial audit of 53.7% of the expenditures<sup>15</sup> of the state closing account of the Czech Republic were performed in 2006 with accounting units in the area of the state budget. The state budget chapters, which do not have accounting units (396 – *State Debt*, 397 – *State Financial Assets Operations*, 398 – *General Treasury Administration*), and chapter 381 – *Supreme Audit Office*, are not included in the total expenditure of state closing accounts.

<sup>14</sup> Decree No. 419/2001 Coll., on the extent, structure, and deadlines relating to data submitted for the compilation of the draft state closing account, and on the extent, structure, and deadlines for the compilation of the draft closing accounts of the state budget chapters.

<sup>15</sup> These represent a "corrected percentage", i.e., the total state closing account spending does not include those state budget chapters without accounting units (396 – *State Debt*, 397 – *State Financial Assets Operations*, 398 – *Universal Treasury Administration*), and chapter 381 – *Supreme Audit Office*.

### 2.5.3 Conditions Created for Systemic Performance of Financial Audits

The implementation of the strategy in the area of audits of data of the closing accounts of the individual state budget chapters has been conditioned by the existence of sufficient audit capacity and methodology based on the audit standards of the International Organisation of Supreme Audit Institutions (INTOSAI), and/or *International Standards on Auditing*. Therefore, implementation has taken place over the several past years of such standards by way of preparation of ever more complex and more detailed methodological aids.

The process of acquiring systemic knowledge of all significant chapters has been shown in the following table, which contains all important state budget chapters and information about the performance of financial audits.

**Table 3: Review of performed financial audits in respect of the individual state budget chapters**

	State budget chapter	2002	2003	2004	2005	2006	2007
306	Ministry of Foreign Affairs						
307	Ministry of Defence						
309	Public Defender of Rights					x	
312	Ministry of Finance						
313	Ministry of Labour and Social Affairs						
314	Ministry of 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 Health				x		
336	Ministry of Justice			x			
343	Office for Personal Data Protection	x					
344	Industrial Property office (Czech Patent and Trademark Office)					x	
347	Securities Commission				x		
353	Office for the Protection of Competition			x			
361	Academy of Sciences of the Czech Republic			x			
372	Council for Radio and Television Broadcasting						
375	State Office for Nuclear Safety			x			

Source: Audit conclusions of the SAO.

### 2.6 Audits of International Financial Sources (Information on Report on Management of EU Funds in the CR)

In keeping with the authorisation of the SAO to audit finances provided to the Czech Republic from abroad, it focuses in this area in particular on audits of finances from the most important source, i.e., the EU budget. The finances were provided to the end recipients via a number of various programmes



and policies, which often possess fairly complicated implementation structures. Therefore, the SAO has decided to issue an information report entitled *Report on Financial Management of the EU Funds in the Czech Republic* as a separate document. The main goal of the document is to compile and publish material information about the EU budget and about the management of finances in the Czech Republic. In this manner, the SAO also wishes to contribute to an improvement of such management by pointing out its weaknesses and shortcomings identified during audits, and at the same time, to increase public awareness in this area.

The report will be published in the first half of 2008 and it will contain, apart from information about the process of creation of the EU budget and its individual elements of its incomes and expenditures, also a summary of audit conclusions performed by the SAO or audits published by EU institutions. The report will be published for the first time, so it will concern not only the specific budget year 2007 but the entire period of time since the Czech Republic's entry to the European Union, i.e. the years 2004 to 2007.

## 2.7 Discussion on Audit Conclusions by the Bodies of the Czech Parliament and the Czech Government

Audit conclusions, which sum up and evaluate facts identified during audits, represent an important source of information for Parliament and the Government of the Czech Republic, which have the authority to arrange for remedies of any identified shortcomings and adopt effective measures. The purpose of an audit is only achieved when measures to remedy or eliminate identified shortcomings are implemented, because the actual impacts brought about by approved audit conclusions represent the principal criterion of the effectiveness of audits.

**Audit Committee** The Chamber of Deputies of Parliament of the Czech Republic included in the agenda of its session in the course of 2007 a total of 38 audit conclusions issued by the SAO. A resolution was adopted in respect of each individual audit conclusion reviewed by the committee, which took notice of such audit conclusion, and often also named the identified shortcomings on the side of the relevant central authorities, and at the same time requested the Government or the relevant Government Ministry to remedy the case and/or to present further materials (concepts, reports, etc.).

A list of the audit conclusions reviewed by the Audit Committee of the Chamber of Deputies of Parliament of the Czech Republic in 2007, including its adopted resolutions, is shown in Appendix No. 4.

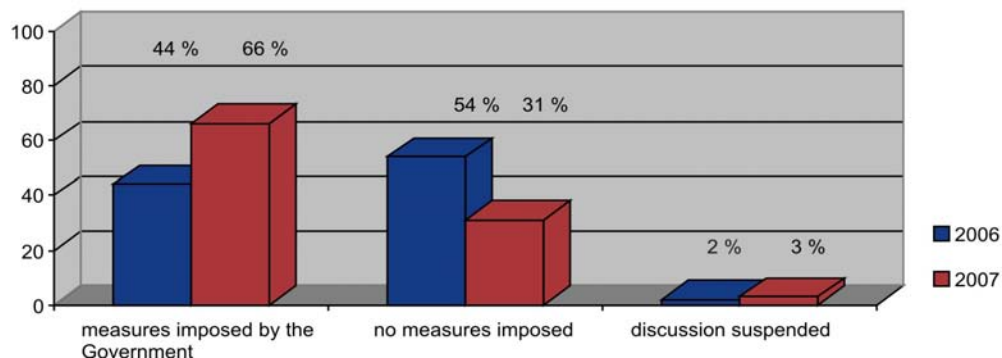
**Table 4: Number of audit conclusions reviewed by the Audit Committee of the Chamber of Deputies of Parliament of the Czech Republic in 2006 and 2007**

	Number of Audit Committee Meetings where the audit conclusions were reviewed	Number of audit conclusions reviewed
2006	2	6
2007	9	38
Total	11	44

**The Government of the Czech Republic reviewed** a total of 32 audit conclusions issued by the SAO in 2007 (including 19 audit conclusions approved in the course of 2007 and 13 audit conclusions approved in the previous year 2006). The Government adopted its resolutions in 31 cases. Audit conclusions were always reviewed together with the opinions of the relevant central authorities (and/or any other affected entities) and responses to such opinions issued by the SAO.

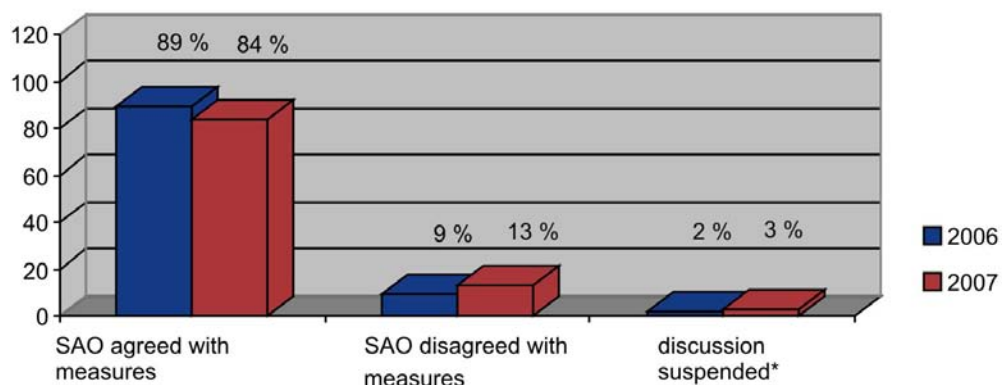
A list of the audit conclusions reviewed by the Government of the Czech Republic in 2007, including adopted measures, is shown in Appendix No. 3.

**Graph 3: Audit conclusions reviewed by the Government of the Czech Republic (in view of the response from the Government of the Czech Republic) in the years 2006 and 2007**



The SAO agreed with the outcome of the discussion of audit conclusions by the Government of the Czech Republic in 84 % of the cases, which means that the SAO either consented to the response from the Government department in question or to measures adopted by another Government department, and/or measures adopted and imposed by the Government of the Czech Republic.

**Graph 4: Audit conclusions reviewed by the Government of the Czech Republic (in view of the response from the SAO) in the years 2006 and 2007**



NB: \* Discontinued discussion over the audit conclusion by the Czech Government



## III. Evaluation of Other SAO Activities

### 1. Other SAO Activities Related to Audit Work

#### 1.1 Opinions on the Interim Report on Implementation of the State Budget and 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 in 2006 and on the Government report on the implementation of the state budget of the Czech Republic for the first half of 2007 pursuant to Section 5 of the SAO Act.

The opinion on the state closing account in 2006 was produced by the SAO, which stressed its experiences and knowledge accumulated during the audit activities of the SAO, and its content focused, in particular, on the evaluation of the closing accounts of the budget chapters and on a summary of 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 performed by the SAO.

The opinion also pointed out some principled issues facing the 2006 state budget, in particular, some long-term trends in the structure and implementation of the state budget, such as:

- a high budget management deficit;
- growth in the share of mandatory expenditures;
- low drawing on budget resources from the EU;
- shortcomings in the collection and administration of taxes;
- impacts of transfers of budget finances to reserve funds;
- the inclusion of funds from privatisation to finance state funds;
- deficit management of public budgets and its impact on the fulfilment of the EU criteria;
- the issuance of state guarantees, etc.

The SAO's opinion on the Government report on the implementation of the state budget for the first half of 2007, among other things, summed up the following main findings:

- The elementary indicator of fulfilment of the state budget (the balance of incomes and expenditures accumulated from the beginning of the year) showed – as of 30 June 2007 – an absolute surplus in the amount of **CZK 1,300 million**;
- within the evaluation of the state budget for the first to the third quarters of 2007, the cash fulfilment of the budget showed a surplus in the absolute amount of **CZK 36,300 million**, which represented the best economic balance in such period ever since 1993. Despite expected faster drawing on the expenditures at the end of the year, therefore, the deficit projections at the end of 2007 have been fairly more favourable than as per the budget.

**However, the SAO repeatedly points out the negative trend in the long-term development (growth) of the Government debt, which has been affected, in particular, by the deficit management of the state budget.**



## 1.2 Opinions on Draft Legislation

Pursuant to section 6 of the SAO Act, both Chambers of Parliament of the Czech Republic and their bodies have been entitled to request the SAO to issue its opinions on certain draft legislation concerning budget management, accounting, state statistics, and the exercise of control, supervision and inspection work. In 2007, the SAO was requested by the Audit Committee of the Chamber of Deputies of Parliament of the Czech Republic to issue its opinion on the draft amendment to the Financial Audit Act.

Within the process of interdepartmental comments under the Government's Legislative Rules, the SAO received a total of 208 draft regulations for appraisal in 2007. It paid special attention primarily to the intended subject matter of the Audit Act, the intended subject matter of certain legislative modifications relating to public transport, the amended Budget Rules Act, and the amended Accounting Act. Attention was also paid to legislative drafts containing provisions relating to the execution of structural support programmes in agriculture, and amendments in the area of taxes and tax proceedings. The SAO submitted specific comments on a total of 43 drafts.

**Table 5: Overview of the interdepartmental comments process**

Appraised legislation	Number of appraised drafts	Number of drafts on which comments were submitted based on the SAO's audit work
Acts regulating an area subject to the SAO scrutiny	23	20
Implementing decrees for acts regulating areas subject to the SAO scrutiny	21	17
Other regulations	164	6

## 1.3 Support for Best Accounting Practice

Support for best accounting practice contributes in an efficient manner to the drafting and submitting of high-quality accounting and financial information, which lies at the base of responsible and qualified decision-making and good financial management. The SAO plays an important role in this area in view of its statutory position, and – as a result – it has focused its activities as follows:

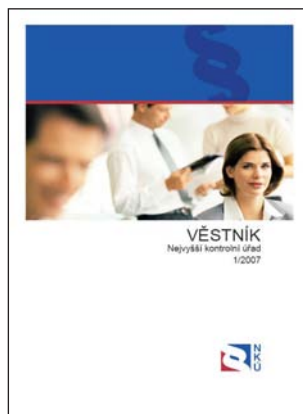
- application of consistent accounting methods with the auditees;
- long-term application of high reliability and completeness of information disclosed by the auditees;
- prevention of risks and their impacts through pointing out shortcomings in the audit systems of the auditees;
- pointing out requirements for the execution of system, and/or legislative changes in such cases when the existing legislation fails to govern any significant accounting, audit or financial issues in a sufficient or unambiguous manner.

Support for best accounting practice also requires adequate and timely responses to planned modification in the area of the state accounting because such changes would in turn require modifications of the existing audit methodologies. The SAO, in connection with the planned state accounting reform, has developed and exercised activities aimed at the creation of the relevant information base (e.g. monitoring and translation of the *International Public Sector Accounting Standards* and exchange of information or cooperation with the supreme audit institutions in other countries). Uses of any acquired information represent a desirable benefit in the field of support for best state accounting practices.

## 2. Performance of Duties towards the Public

### 2.1 Publications

The SAO Bulletin (Volume XV) was published in four parts, always at the end of a calendar quarter. The individual parts contained a total of 30 audit conclusions; one of them concerned an audit completed in 2006. Furthermore, they carried the Audit Plan, its amendments and modifications, and the Annual Report. Audit conclusions were also regularly published on the SAO Internet site.



Topical information about the competences, organisational structure, and activities of the SAO were published on the Office's web pages ([www.nku.cz](http://www.nku.cz)), which saw a substantial upgrade in 2007 in connection with the application of the new SAO's visual style, including a new logo. Furthermore, information was published on an on-going basis as required by the legislation.



The *Joint Final Report on Coordinated Audits of the State Funds Management and Performance of International Obligations in Hazardous Wastes Treatment (the Basel Convention)* was adopted in January 2007. The report informed about the course and outcome of coordinated audits between the Czech Republic and the Slovak Republic, which have a common border. Both countries have been facing similar problems, which concern the trans-boundary movement of hazardous wastes and their disposal, at the present time, in particular, illegal imports of wastes from the neighbouring countries. The coordinated audits performed by the SAO and the Supreme Audit Office of the Slovak

Republic were agreed in order to obtain findings about the implementation of international obligations relating to trans-boundary movements of hazardous wastes and their disposal, the operation and extent of exchanges of information among the Member States of the Basel Convention, the system of financing of environment improvement measures and the standards of international cooperation. The audits took place in keeping with the intentions of the plan produced by the Working Group on Environmental Auditing of the European Organisation of Supreme Audit Institutions (EUROSAI) for the years 2002–2005.

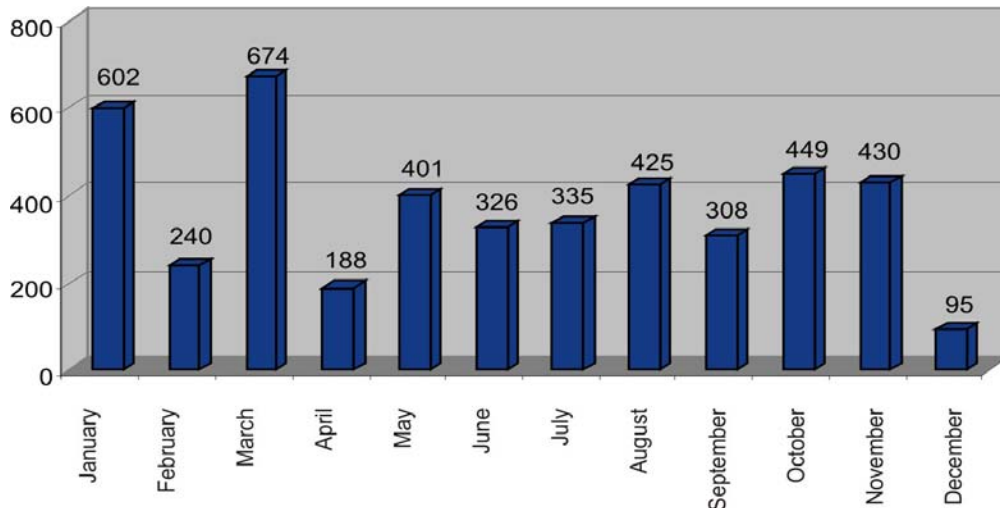
The *Joint Report on Coordinated Audits of Expenditure on the Construction of Motorway Prague – Dresden* was issued in May 2007. The tri-lingual publication (in Czech, English, and German versions) informed about the course and outcome of coordinated audits of expenditures on the construction of the motorway between Prague and Dresden performed by the SAO and the BRH. The audits focused on economy, efficiency, and effectiveness of any expensed funds. The coordinated audits were performed by the BRH in the Federal Republic of Germany and by the SAO in the Czech Republic. The coordinated audits took place in the years 2005 and 2006. The publication was also made available to the public.

The *Report on the Results of International Cooperation in Excise Duty Administration Audits between the Czech and the Slovak Republic in 2006* was issued in October 2007. The tri-lingual publication (in Czech, Slovak, and English versions) informed about the course and outcome of coordinated audits, which were selected in consideration of the amended system of collection of excise duties. This modification was applied in connection with the incorporation of the Czech Republic and the Slovak Republic in the EU internal market as of 1 May 2004. The operation of the EU internal market requires free movement of goods, including goods subjected to excise duties. The basic principal is to allow for the circulation of goods free of any excise duties until the date of their delivery for end consumption. The new legislation adopted in both countries would facilitate, in keeping with the above-described principle, free movement of goods under tax supervision under the duty suspension arrangements. The system is very demanding for the tax administrators and presumes close mutual cooperation of the relevant administrative authorities of the Member States in their struggle against tax fraud in this area.



A report entitled *Summary of the Media Presentation of the Supreme Audit Office* was produced in 2007. The report also contained a summary of the annual media reports about the SAO, compiled according to its assessment. Graph 5 shows media attention paid to the SAO per months. All in all, the SAO was mentioned in 4,473 cases in 2007.



**Graph 5: Summary of media attention paid to the SAO in 2007 – development of media attention paid to the SAO per months**

Source: Newton Media.

## 2.2 Providing Information Pursuant to Act No. 106/1999 Coll., on Free Access to Information

Three written requests for information pursuant to Act No. 106/1999 Coll. were registered in 2007. One of them was not processed in keeping with the said Act because the applicant requested a material originated from an entity other than the SAO. Another request was raised by a legal entity in its capacity of a participant in administrative proceedings conducted by another administrative authority; following a personal meeting with a representative of the applicant, the request was removed from the competence of the Free Access to Information Act. As far as the third request is concerned, the relevant information was provided within the statutory deadline pursuant to the said legislation. Beside written requests, the Communication Department also responded in an operative manner to numerous telephoned requests for information, mainly involving audits performed by the SAO. Also, the Communication Department participated in a MoI project entitled *An Analysis of Effect of the Act on Free Access to Information in Consideration of the Extent of Applied Public Audits of Activities of Regional and Community Authorities, and Other Legal Entities Founded or Otherwise Controlled by those Authorities and Other Obligated Entities*, in that year.

The SAO responds to requests for information free of charge.

## 2.3 Citizens' Submissions

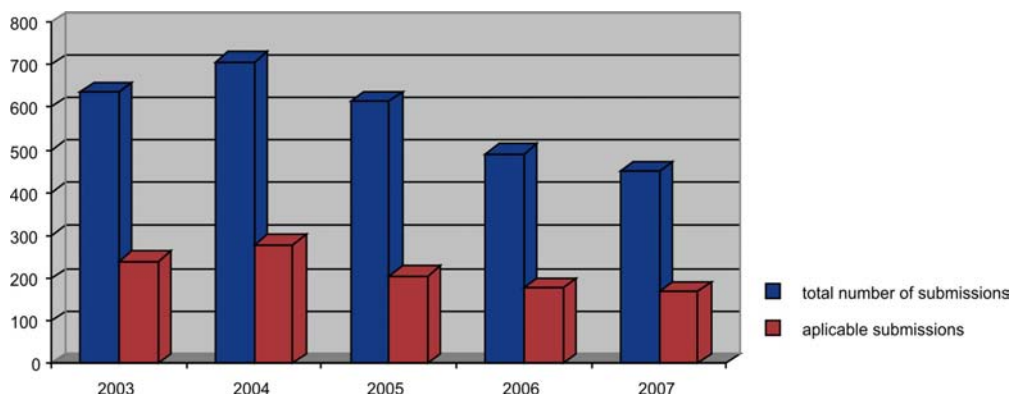
In 2007, the SAO Communication Department recorded **450 submissions from citizens and institutions**. As against a drop in the number of registered written submissions, the number of received telephoned submissions increased and was reviewed, and also the number of personal visits by grievants and enquirers increased in 2007. The change in the formal structure of such submissions, among other things, also relates to the SAO information policy, in keeping with which both citizens and institutions have been offered explanations on the position and competences of the SAO.

Another important finding relates to increased applicability of submissions for the purposes of audits – the ratio stood at 37.6 % in 2007. That trend appeared in 2002 when a gradual reduction of recorded submissions was accompanied by a significant drop in submissions, which could not be used in audits.

**Table 6: Development in the number of received submissions and their applicability in the years 2003–2007**

Year	2003	2004	2005	2006	2007
<b>Total number of submissions</b>	636	707	614	491	450
<b>Number of Applicable submissions</b>	240	278	205	177	169
<b>Applicable submissions (%)</b>	37,8	39,3	33,4	36,0	37,6

Contrary of changes in the format of submissions, they remain identical as far as their content structure is concerned. Still, they can be basically divided into three groups. The first of them (32.5 %) covers submissions of prevailingly private nature – they relate to issues concerning contractual relations and increased prices of housing, energies, social and health services, and an increased number of criticisms of their quality. The number of such submissions remains basically unchanged. Also the second area of submissions remains basically constant – it covers criticism of public administration and management of public assets and finances (47.6 %); a non-negligible portion of such submissions relates to complaints about the performance of local self-government (12.3 % of all submissions). As a new occurrence, submissions critical of the application of EU funds have been recorded. The third group, which is substantially smaller than the previous two (19.9 %), covers submissions that are difficult to sort out. They include requests for information pursuant to Act No. 106/1999 Coll., and various queries.

**Graph 6: Overview of the total number of received submissions and their applicability in the audit activity in the years 2003–2007**

### 3. International Cooperation

International cooperation mainly focused on activities pursued within the framework of the European Union and on bilateral cooperation in 2007. The SAO maintained bilateral cooperation, in particular, with the supreme audit institutions of the Slovak Republic, the Federal Republic of Germany, the United Kingdom, and with the European Court of Auditors.



President of the SAO Mr Frantisek Dohnal and heads of SAIs. From left: Mr I. Soltes - Slovenia, Mr J. Moser – Austria, Mr F. Dohnal – Czech Republic, Mr J. Jezierski – Poland, and Mr J. Jasovský – Slovak Republic

The SAO representatives took part in a total of 45 events abroad, including, e.g. 16 events held within the framework of the EU. Also, five meetings took place with international partners on coordinated audits; seven events were linked to the SAO's membership of the INTOSAI and the EUROSAI, and members of the SAO also took part in four conferences and congresses and ten workshops and seminars.

The XIX<sup>th</sup> INTOSAI Congress represented a principal event in the field of international cooperation in that year; it was held in Mexico in November, attended by some 600 representatives of the supreme audit institutions of the whole world. The main topics discussed at the congress included management, accountability, and public debt audits, and systems of performance evaluation based on generally accepted key indicators.



INTOSAI Congress in Mexico

Other significant events also included participation in the V<sup>th</sup> EUROSAI and OLACEFS Conference, which mainly focused on fiscal sustainability, presentation of accounts and accountability. The conference was organised by the Portuguese audit institution in Lisbon.

Another important event within international cooperation of the audit institutions of the Member States of the European Union was represented by the meeting of the Contact Committee of the Heads of the Supreme Audit Institutions (SAIs) of the Member States of the European Union and

the European Court of Auditors in Helsinki in December. The meeting discussed, as one of the main topics, risk management, tolerable level of risk and the integrated internal control system in the management of EU funds.

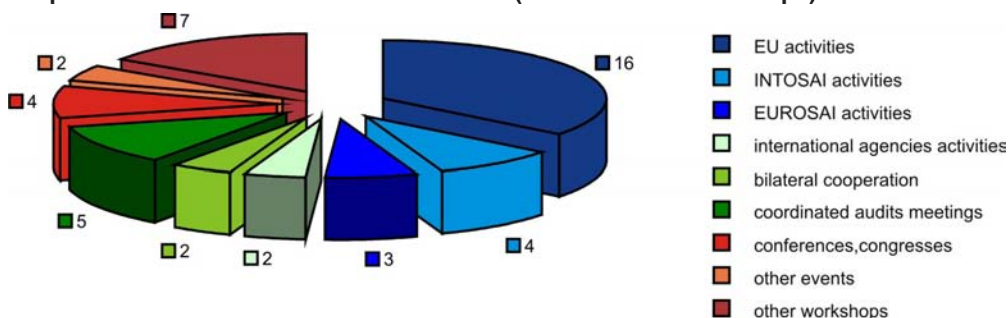


*Contact Committee of the heads of supreme audit institutions of the EU Member States and the European Court of Auditors*

SAO experts took part in meetings and sessions of working groups focusing on some separate fields of audits in 2007. They included, e.g., the environment, structural funds, joint audit standards, the VAT, and other topics. One member of the SAO participated in an international training course organised by the audit authority in the United Kingdom focusing on the application of modern audit methodologies in financial audits as well as in performance audits. Members of the SAO were nominated to the Audit Board of EUROCONTROL, the European Organisation for the Safety of Air Navigation. The Audit Board is in particular in charge of verifying the financial statements of that international agency.

The President of the SAO with the delegation visited the People's Republic of China on the invitation of the Auditor-General of the Chinese National Audit Office. Beside working meetings with the top representatives of the Chinese National Audit Office and the Chinese Ministry of Audit, the delegation also inspected the Audit University in Nanjing, which seems to be the only university of its kind in the world.

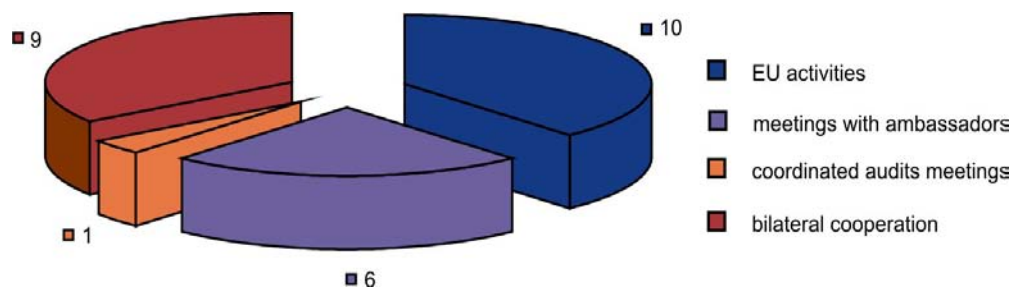
**Graph 7: SAO's international travels in 2007 (number of business trips)**



The SAO organised a total of 26 international events in the Czech Republic in 2007. They were official visits by the top representatives of audit institutions from Slovakia, Wales, and Lithuania, a visit by one of the highest leaders of the U.S. Government Accountability Office, visits by ambassadors to the Czech Republic (from China, France, the Republic of Korea, Ukraine), a Member of the European Court of Auditors, working meetings and gatherings within

the framework of coordinated audits and in the area of performance audits (the United Kingdom, Slovakia, Slovenia, Austria).

**Graph 8: Number of international events held by the SAO in the Czech Republic in 2007**



The SAO also organised presentations concerning the position and activities of the SAO for the ambassadors of the EU countries in the Czech Republic, for the Czech ambassadors to other countries, and for representatives of the Ministry of Foreign Affairs. The SAO was further visited by delegations of auditors and parliamentarians (China, Tajikistan).



*Presentation for the EU Member States ambassadors*

Last but not least, six audit missions of the European Court of Auditors took place in 2007.

The list of the titles of the audit missions of the European Court of Auditors in the Czech Republic in 2007:

- Performance audit of the Instrument for Structural Policies for Pre-accession (ISPA);
- Audit of the customs consignment warehouse operation;
- Audit (the statement of assurance) regarding accounts for the budget year 2007 regarding ERDF finances within the framework of the OP entitled *Industry and Business*;
- Audit (the statement of assurance) regarding accounts for the budget year 2007: Financial audit of the European Agricultural Guarantee Fund and other measures in the field of agriculture;
- Audit (the statement of assurance) regarding accounts for the budget year 2007 for the field of agriculture and rural development in the Czech Republic: Evaluation of the certification authority;
- Audit (the statement of assurance) regarding accounts for the budget year 2007 in relation to finances from the ERDF within the framework of the OP entitled *Infrastructure*.



In December, the SAO organised a meeting of the Working Group on Structural Funds III. The aim of the meeting was, in particular, to acquaint its participants with findings from the coordinated audit of the structural fund programmes in the area of employment and the environment, and the evaluation of progress achieved in the implementation of the audit. The meeting was attended by 40 representatives from 16 audit institutions, the European Court of Auditors, and the European Commission.



*Meeting of the Working Group on Structural Funds III*

A coordinated audit of the administration of excise duties performed together with the SAO of the Slovak Republic was completed with signing of a communiqué and a joint report.



*President of the Czech SAO Mr Dohnal and Chairman of the Slovak SAO Mr Jasovský signed the joint report on the excise duty administration audit*

At the present time, audits of finances in the area of air protection have been under way, performed together with the SAO of the Slovak Republic and the audit institutions of Slovenia and Austria. A coordinated audit of the administration of the value added tax performed together with auditors from the BRH is close to completion.

The SAO participates as an observer in another joint audit performed together with the supreme audit institutions of the Visegrad Group countries and Austria, concerning internal audit in the area of the structural funds.

## 4. Internal Audit

The activities of the Internal Audit Department in 2007 were based in full on the provisions of Act No. 320/2001 Coll., on financial audit in public administration, and amending certain other legislation (the Financial Audit Act), and certain related legislation.

The 2007 internal audit plan was derived from a medium-term plan and it was prioritised, following an objective evaluation of risks and findings of the internal audit system. The in 2007 Internal Audit Department performed and completed five audits in 2007.

**Table 7: Overview of conducted internal audits 2007**

Audit No.	Focus of the audit
06/04	Audit of implementation of measures to eliminate shortcomings found by Audits No. 05/03 – Audit of Accounting of Travel Expenses and No. 05/04 – Audit of Costs of International Activities of the Office– a follow-up audit
07/01	Audit of comparisons of operating costs – II. (using the benchmarking method)
07/02	Audit of the staff communication with the Office Information System – performance audit
07/03	Audit of operation of the training centre – performance audit
07/04	Audit of the share of time spent by auditors by auditing, training and other activities – system audit

In 2007, the internal audit did not discover any serious findings in the sense of the provision of section 22 (6) of the Financial Audit Act. With the goal of removing partial shortcomings, the President of the SAO ordered the adoption of appropriate measures. Their fulfilment has been monitored by the Director of the Internal Audit Department.

The Internal Audit Department, within its competences, also offered advisory services.

## 5. Management of the SAO Budget Chapter Finances in 2007

### 5.1 Performance of Binding Indicators in the SAO Budget Chapter

The budget chapter No. 381 – *Supreme Audit Office* was approved by Act No. 622/2006 Coll., on the state budget of the Czech Republic for 2007. No budget measures adjusting the amount of binding indicators of the approved budget were taken in 2007.

**Table 8: Achievement of binding indicators  
of the SAO budget for 2007**

(CZK thousands)

Indicator	Approved budget	Implementation	Percentage implementation
Aggregate indicators:			
<b>Total incomes</b>	<b>925</b>	<b>8 806,27*</b>	<b>952,03</b>
<b>Total expenditures</b>	<b>637 891</b>	<b>582 116,90**</b>	<b>91,26</b>
Specific indicators:			
Incomes	925	8 806,27	952,03
Expenditure covering performance of the SAO tasks	637 891	582 116,90	91,26
of which:			
Reimbursement for expenses associated with the function of the Office	4 078	2 994,00	73,42
Non-investment transfers to international organisations	120	77,57	64,64
Other expenditures of the SAO	633 693	579 045,34	91,38
of which:			
use of the reserve fund	-	6 372,49	-
transfer to the reserve fund	-	40 752,66	-
Cross-sectional indicators:			
Employees' pay and other payments for work done	265 641	245 561,40	92,44
of which:			
employees' pay	242 756	224 890,50	92,64
other payments for work done	22 885	20 670,90	90,33
mandatory insurance premiums paid by the employer	92 975	85 918,73	92,41
transfer to the Cultural and Social Needs Fund	4 855	4 497,81	92,64
pays to SAO officials	19 815	17 949,29	90,58
programme 281 010 financing expenditure	97 720	102 262,38**	104,65

\* including extra-budgetary finances from the reserve fund

\*\* including extra-budgetary finances and transfer to the reserve fund

### Incomes

The incomes amounted to **CZK 2,433,000**, i.e. 263.11 %. The table shows incomes including the transfer of extra-budgetary finances from the reserve fund.

### Expenditures

Total expenditures, not including extra-budgetary finances, amounted to **CZK 534,991,750**, i.e. 83.87 % of the approved budget. The figure shown in the table (**CZK 582,116,600**) covers also the used extra-budgetary finances from the reserve fund, and transfers of unused finances for programme financing to that fund.





The biggest share is taken by expenditure on salaries and associated expenditures (57.72 %), service expenditures (24.26 %), and the costs of the programme entitled *Development and Renewal of the Material and Technological Resources of the Supreme Audit Office* (17.57 %).

**All binding indicators in the SAO's budget chapter were complied with in 2007.**

## 5.2 Reinvestment Programmes Financing Expenditures

Budget finances were spent on Programme 281 010 – *Development and Renewal of the Material and Technological Resources of the Supreme Audit Office*, namely on its information and communication technologies and asset reinvestment. Beside the extra-budgetary finances from the reserve fund, the total drawing amounted to **CZK 56,967,340**.

## 5.3 Mandatory Audit

The annual financial statements of the SAO were audited in the sense of the provision of section 33 (3) of Act No. 166/1993 Coll., on the Supreme Audit Office. In the auditor's opinion, "the financial statements and financial reports offered a faithful and honest representation of the assets, liabilities, and the financial standings as of 31 December 2007, and the incomes and expenditures of the Supreme Audit Office in 2007, in keeping with the Czech accounting standards".

# 6. SAO Staffing and Organisation

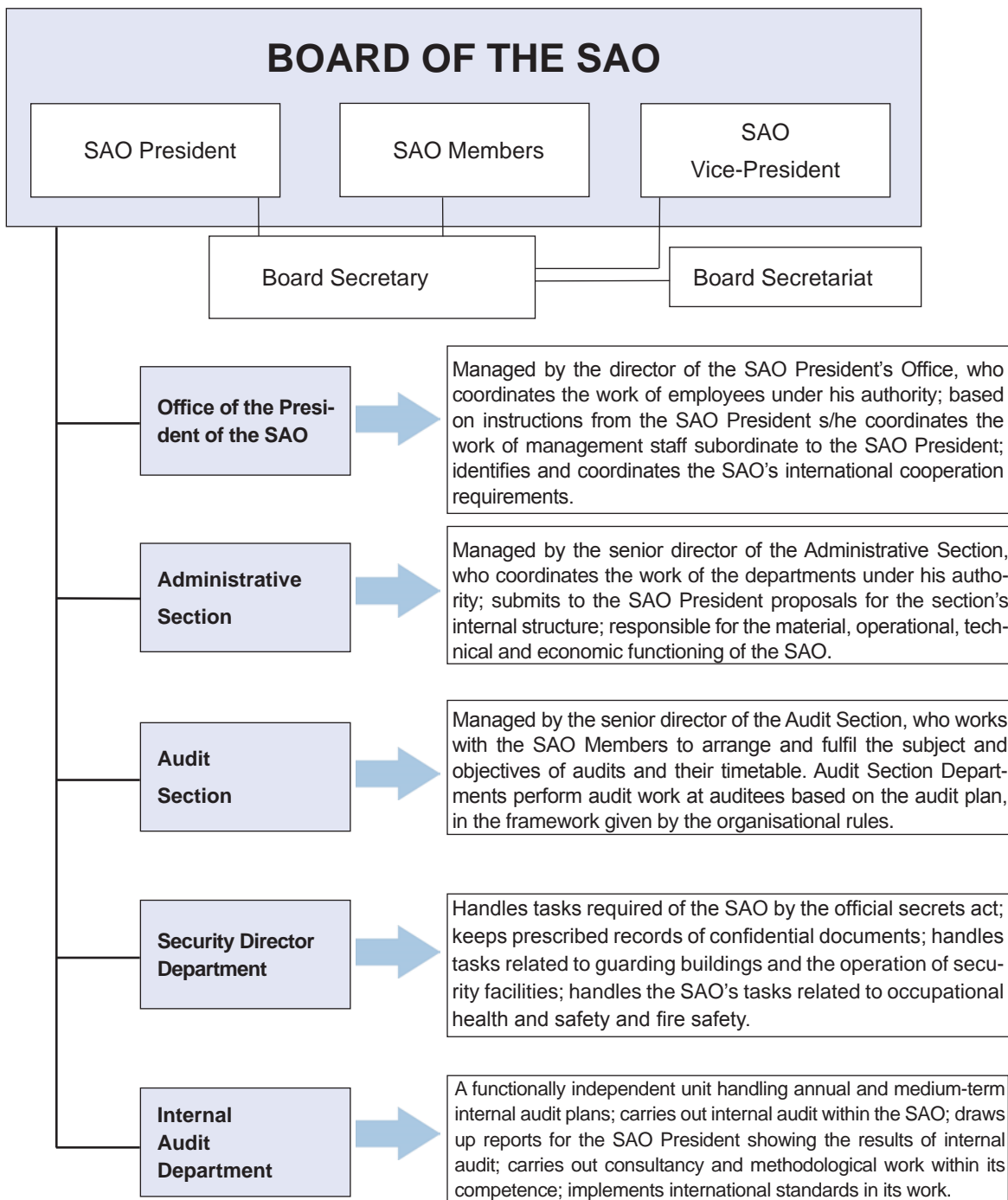
## 6.1 Changes in the Organisational Structure

Additional changes were made in 2007, following certain modifications performed in the last quarter of 2006. Following a change of the organisational rules approved by the President of the SAO on 26 June 2007, 19 SAO regional offices were concentrated into nine regional departments located in the cities of Liberec, Ústí nad Labem, Plzeň, České Budějovice, Hradec Králové, Brno, Olomouc, Ostrava, and the newly established regional department in Jihlava. The Board of the SAO did not recommend this organisational change.

In keeping with the new organisational structure, part of the employees moved in the course of the fourth quarter of 2007 from the terminated offices in Beroun, Mladá Boleslav, Kutná Hora, Pardubice, Zlín, Šumperk, Třebíč, Most, Strakonice, Tábor, and Sokolov. The remaining employees were made redundant and their employment was terminated.

## 6.2 Organisational Chart

The organisational structure, including brief job descriptions of the individual departments, is carried in the following charts and in Appendix No. 5.

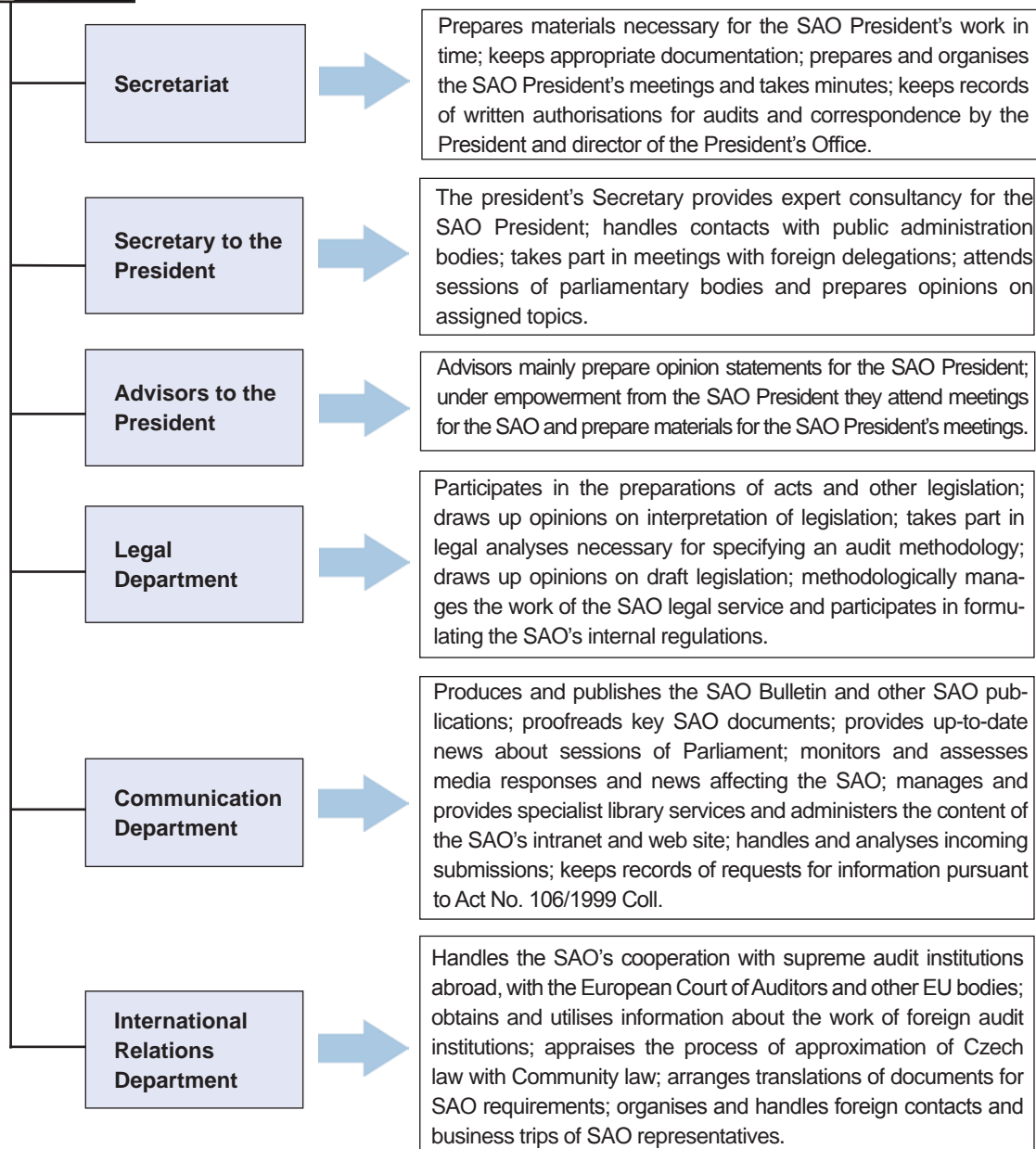


## Office of the President of the SAO



**Mrs Markéta Kandráčová**

Director of the Office of the President of the SAO

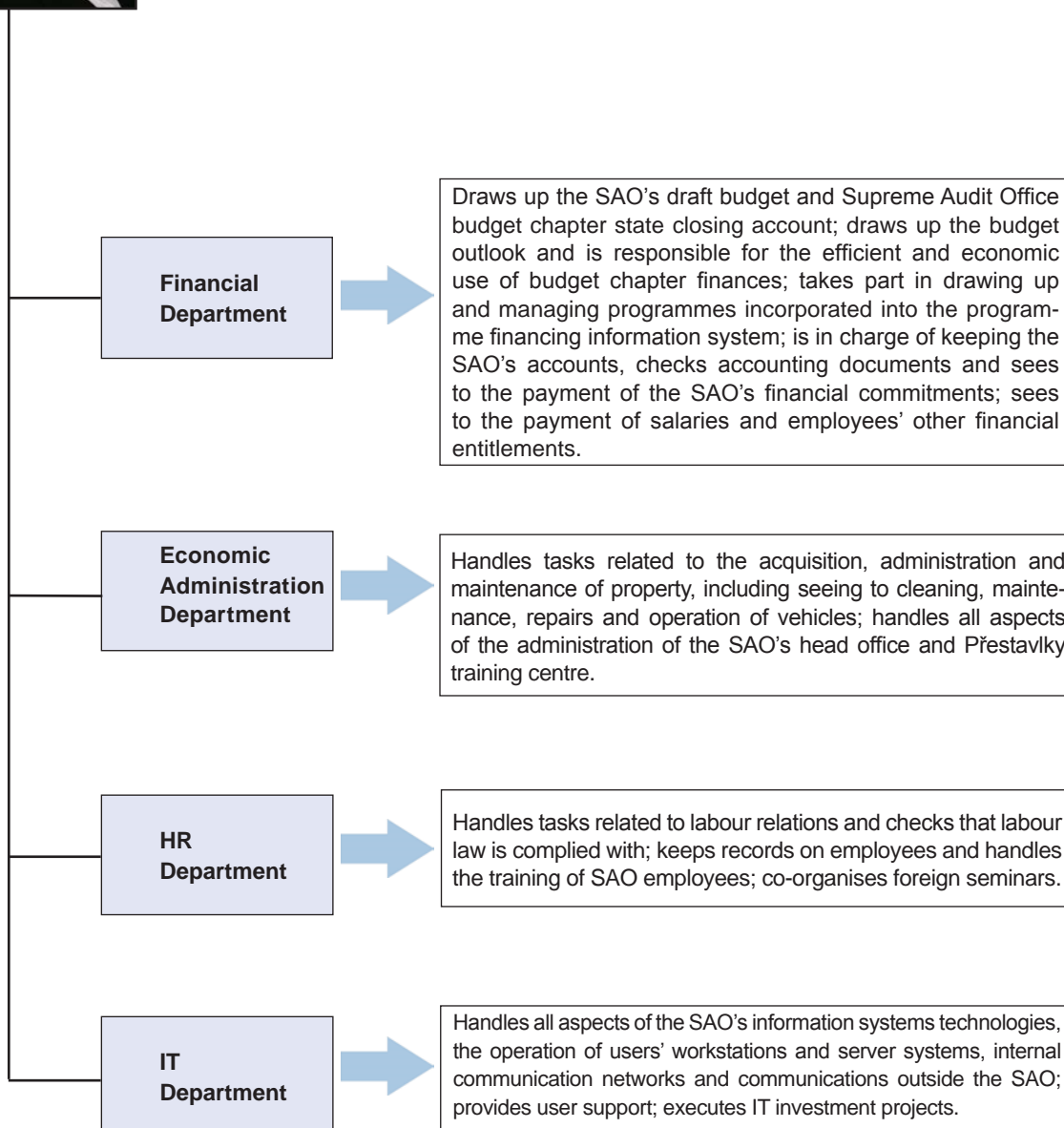


## Administrative section



**Mrs Ema Bendová**

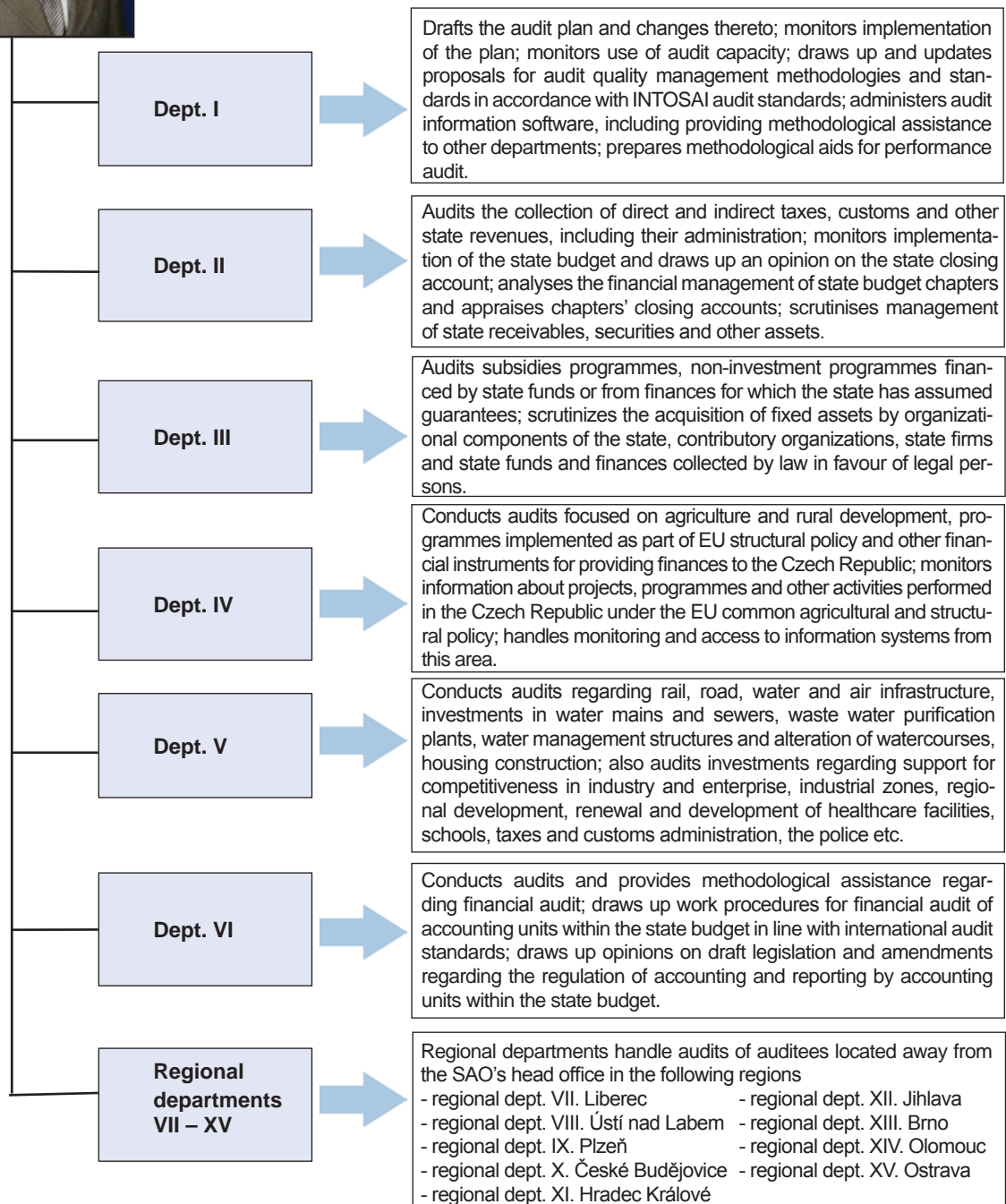
Senior Director of the Administrative Section



## Audit section



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



### 6.3 SAO Staffing

As of 31 December 2007, the SAO had 451 employees, including 320 employees of the audit section, i.e., 254 auditors, 36 managers, and 30 support staff.

As shown in chapter 6.1, the number of the SAO regional offices was reduced from 19 down to nine in the course of the year. Until the change, the regional offices consisted of 199 planned job positions. Two job positions were eliminated as a result of the organisational changes and 49 job positions were shifted from then terminated offices into the new structure comprising nine regional departments. The balance of 46 job positions were transferred to the SAO headquarters in Prague, in order to cover the increased demand for auditors to be involved in audits in the central bodies of the state administration.

In the course of 2007, 35 new employees were recruited while 79 employees terminated their employment (further labour force movements occurred due to maternity leaves and parental leaves). Out of the 79 leaving employees, 30 people (38 %) retired, while 35 people (44 %) left directly or indirectly due to the organisational changes.

**Table 9: Overview of the number of SAO employees in the years 2003–2007 (total state of the workforce as of 31. 12. of the given year)**

	2003	2004	2005	2006	2007
Total number of employees	483	485	518	506	451
of which: Prague	293	289	318	307	292
regional departments	190	196	200	199	159

**Graph 9: Overview of the number of SAO employees in the years 2003-2007 (total state of the workforce as of 31.12. of the given year)**

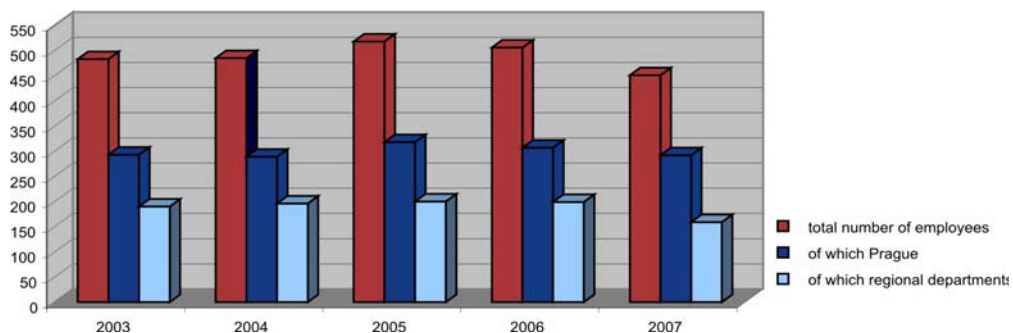
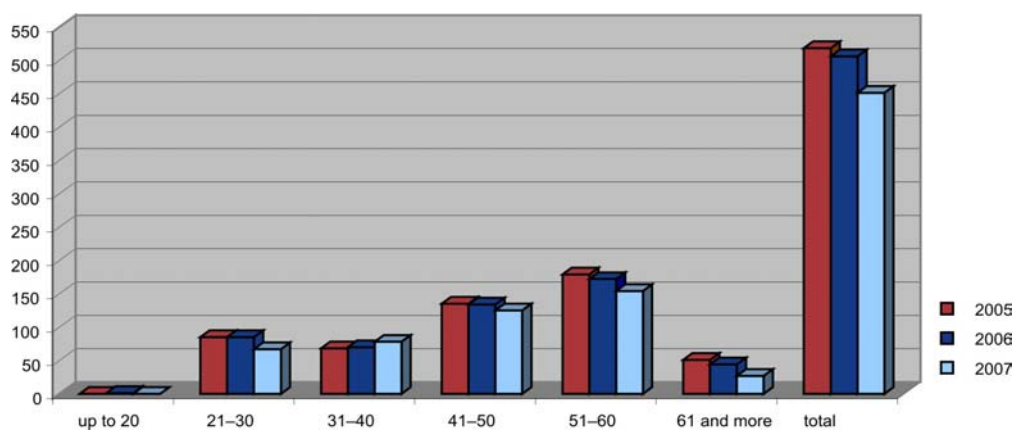


Table 10 shows the age structure of the SAO staff as of 31.12.2007, including comparison with years 2005 and 2006.

**The average age of the SAO's workforce in 2007 was slightly higher than 46 years (46,06).**

**Table 10: Age structure of the SAO staff in the years 2005–2007**

Age structure	Number of employees					
	2005		2006		2007	
	total	of which female	total	of which female	total	of which female
up to 20	0	0	1	0	0	0
21–30	85	44	85	46	67	33
31–40	68	47	70	46	78	55
41–50	135	90	134	92	125	85
51–60	179	94	172	92	154	81
61 and more	51	18	44	14	27	8
<b>TOTAL</b>	<b>518</b>	<b>293</b>	<b>506</b>	<b>290</b>	<b>451</b>	<b>262</b>

**Graph 10: Overview of the age structure of the SAO staff in the years 2005–2007 (total state of the workforce as of 31 December of the given year)**


The qualification structure of the SAO staff as of 31 December 2007 is based on the classification of core education fields. Within the SAO, university education is further divided according to the field of study. The qualifications structure was almost unchanged as against 2006.

As of 31 December 2007, a total of 344 employees, i.e. 76.7 %, were university graduates.

**Table 11: Qualifications structure of the SAO staff as of 31. 12. 2007**

Qualifications/education	Prague	Regional departments	2007 total	% of the total
elementary	0	0	0	0,00
secondary	1	1	2	0,44
secondary with apprenticeship certificate	19	0	19	4,21
secondary with school-leaving exam	70	15	85	18,85
higher vocational	1	0	1	0,22
university*	201	143	344	76,27
<b>TOTAL</b>	<b>292</b>	<b>159</b>	<b>451</b>	<b>100,00</b>

\* including bachelor's degree.

*Professional Training*

In 2007, educational activities within the SAO focused on further deepening and increasing of professional qualifications of the auditors. The professional focus of the individual educational projects derived, among other things, from the 2007 Audit Plan.

The long-term training projects continued, i.e. “Financial Audit”, “Performance Audit”, and “Auditor Specialised in Capital Investment Projects”. 16 auditors successfully passed their final exams in the “Financial Audit” training project and 18 auditors completed their training project on “Performance Audit”. 14 auditors acquired the certificate of the Auditor Specialised in Capital Investment Projects. Information about audit methods and procedures is subsequently applied during the performance of audit work.

Special attention was paid to the content and manner of the initial training of new employees of the SAO. The concept of the initial training for newly recruited employees was subjected to some changes. The initial training has been divided into three separate levels and their content adjusted to the requirements of the individual sections. Each level ends with a final exam.

A total of 33 employees successfully passed higher levels of standardized language examinations in the English, French, and German languages in 2007. Thus, almost 22 % of all employees have mastered such foreign languages at least at the B1 level of the European Framework of Reference (see Table No. 12).

**Table 12: Employees with exam level B1\*) and higher**

Language, proficiency level*	B1	B2	C1	C2
English	21	56	6	1
French	1	2	1	-
German	5	4	-	-

\* Levels are defined by the European Framework of Reference.

The system of organised language courses for the SAO staff was abandoned in the course of the year, and replaced in September 2007 with a system of instruments motivating the employees to study foreign languages on their own.





## Conclusion

The results of the audit work performed by the SAO in 2007 repeatedly point out persisting systemic shortcomings, principally in the areas of management of state finances and property, programme financing, subsidies policies, the functioning of internal control systems, and the implementation of measures adopted previously in order to remove any identified shortcomings. The recurrent mistakes and shortcomings identified with auditees may testify to inefficient penalties. As a new feature, the SAO pointed out in its audit conclusions the current state of affairs in respect of some strategic and conceptual documents. The standards, and/or non-existence of such documents, may have a negative impact on the economy, effectiveness, and efficiency of any expensed public finances.

Financial audits performed in keeping with the 2007 Audit Plan served to review 53.7 % of all expenditures of the state closing account of the Czech Republic in 2006 spent by the accounting units in the area of the state budget (the figure represents a converted percentage without the state budget chapters, which are not accounting units, and without chapter 381 – *Supreme Audit Office*).

As concerns its audit activities, the SAO wishes to point out that the state accounting books still are not kept in respect of the state as a whole, and that some state finances have not been accounted for.

The SAO also performed several audits focusing on the drawing on finances from the EU structural funds. In 2008, the SAO would like to issue a separate document entitled *Report on the Financial Management of the EU Funds in the Czech Republic*, aimed at compiling and publishing material information about findings from audits of finances provided to the Czech Republic by the European Union.

Increased efforts on the side of the Czech Government to remedy certain identified shortcomings were noticed in the course of the past year. Their results, though, can only be shown in the long time perspective. Also, a significant positive shift was noticed in 2007 in respect of the discussion of audit conclusions in Parliament of the Czech Republic, more specifically, in the Audit Committee.

The results of the audit work do not always point out a need for amending any acts of Parliament and the secondary legislation. In many cases, their observances would do.

Part of the identified shortcoming has been caused by a lack of operation of internal audits of the auditees. Failure to ensure management control in the sense of the Financial Audit Act represents a serious risk in handling the state budget finances.







## Appendices

### Appendix 1 of the SAO Annual Report for 2007

#### Overview of audits whose audit conclusions were approved in 2007

Audit number	Subject of audit	SAO approving body	Date of approval	Publication in bulletin part/year
06/18	Financial resources earmarked for reconstruction and modernization of railways	Senate	16. 1. 2007	1/2007
06/19	Tactical air force of the Czech Army	Board	15. 5. 2007	2/2007
06/20	The 2005 final account of the state budget chapter „Ministry of Industry and Trade“	Board	12. 2. 2007	1/2007
06/21	The 2005 final account of the state budget chapter „Ministry of Education, Youth and Sports“	Board	26. 2. 2007	1/2007
06/22	State property and budget funds earmarked for military healthcare	Senate	23. 4. 2007	2/2007
06/24	State budget funds involved in the chapter „General Treasury Administration“	Board	23. 4. 2007	2/2007
06/25	State budget funds provided for developing material and technical basis of teaching hospitals	Senate	28. 2. 2007	1/2007
06/26	Financial resources earmarked for the Common Agricultural Policy	Board	25. 6. 2007	3/2007
06/27	Value added tax administration after Czech Republic's accession to the EU	Board	23. 4. 2007	2/2007
06/28	State property and budget funds earmarked for customs administration service	Board	11. 6. 2007	2/2007
06/29	State budget funds spent on development and reinvestment of material and technical basis of the Ministry of Education, Youth and Sports control system	Senate	20. 6. 2007	2/2007
06/30	Financial resources earmarked for cross-frontier cooperation programs	Board	11. 6. 2007	2/2007
06/31	Financial resources spent on construction and technical reinvestment of water and environmental buildings within the competence of the Ministry of Agriculture	Senate	22. 8. 2007	3/2007
06/32	Real estates within the competence of the Ministry of Interior	Senate	27. 6. 2007	3/2007
06/33	Financial resources provided for the Czech Republic within the frame of financial support from European Economic Area and Norway	Board	11. 6. 2007	2/2007

<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>06/34</b>	Financial resources spent on land adjustment from Ministry of Agriculture state budget Chapter, Land Fund of the Czech Republic, Territory and Agricultural Development Program, and the SAPARD Program	Board	28. 8. 2007	3/2007
<b>06/35</b>	State budget funds earmarked for National Strategy for ICT in Education	Board	28. 8. 2007	3/2007
<b>06/36</b>	Financial Resources spent on transportation network development in the Czech Republic	Board	16. 7. 2007	3/2007
<b>06/37</b>	State property management of the Road and Motorway Directorate of the Czech Republic	Senate	27. 6. 2007	3/2007
<b>06/38</b>	Management of the Military Forests and Estates of the Czech Republic	Board	28. 5. 2007	2/2007
<b>06/39</b>	Czech Mining Office's management of state property and finances	Board	10. 4. 2007	2/2007
<b>07/01</b>	Automotive technical equipment of the Fire Rescue Service ČR	Board	31. 10. 2007	4/2007
<b>07/02</b>	Financial resources assessed for the air conservation	Senate	2. 10. 2007	4/2007
<b>07/03</b>	Management of the LOM PRAHA state-owned enterprise and the ordering expenses of Ministry of Defence.	Board	19. 11. 2007	4/2007
<b>07/04</b>	Financial resources earmarked for selected projects of road constructions and renovations programs	Senate	4. 10. 2007	4/2007
<b>07/05</b>	Financial resources earmarked for Industry and Enterprises Operational Program	Board	19. 11. 2007	4/2007
<b>07/07</b>	Customs gathering after Czech Republic's accession to the European Union	Senate	5. 12. 2007	4/2007
<b>07/08</b>	Management of state budget funds provided for the Labour Administration Office	Senate	15. 10. 2007	4/2007
<b>07/10</b>	State budget funds provided for the Fiscal Assets Reinvestment Program of Ministry of Culture	Board	10. 12. 2007	was not released in 2007
<b>07/26</b>	Closing Account of state budget chapter – Ministry of Education, Youth and Sports	Board	19. 11. 2007	4/2007

**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.

Appendix 2 of the SAO Annual Report for 2007

**Audits added to the audit plan during the course of 2007**

Audit number	Subject of audit
07/26	Closing Account of state budget chapter – Ministry of Education, Youth and Sports
07/27	State budget funds granted for organization of the 2009 Nordic World Ski Championship hosted in Liberec, Czech Republic
07/28	Closing account of the state budget chapter „Council for Radio and Television Broadcasting“

## Overview of audits whose audit conclusions were approved by the SAO and were discussed by the Czech Government in 2007

Government resolution (number)	Date of session	Government material (number)	Audit conclusion	Measures noted	Measures imposed by the Czech Government	SAO's agreement with adopted measures
1210/07	29. 10. 2007	1340/07	<b>06/36</b>	no	The MoT will consider social efficiency of incorporated projects during the annual updating of the <i>Time Schedule of Development of the Transport Infrastructure in the Years 2008 – 2013</i> .	<b>yes</b>
1209/07	29. 10. 2007	1486/07	<b>06/34</b>	no	not imposed	<b>yes</b>
1208/07	29. 10. 2007	1520/07	<b>06/31</b>	no	The MoA and the MoE will produce and submit to the Government, on or before 31 December 2007, an analysis of implementation and feasibility of implementation until 2010 of its obligations in the area of quality requirements on wastewater treatment in the Czech Republic.	<b>yes</b>
988/07	29. 8. 2007	1167/07	<b>06/30</b>	no	not imposed	<b>yes</b>
987/07	29. 8. 2007	1234/07	<b>06/37</b>	no	The MoT shall ensure that measures are implemented to remedy the shortcomings mentioned in the audit conclusions and contained in the opinion on the audit conclusions.	<b>yes</b>
986/07	29. 8. 2007	1183/07	<b>06/28</b>	no	The MoF shall commission relevant audit authorities to review efficiency of measures adopted for the period under scrutiny by the SAO in the audit conclusions, until the present time.	<b>yes</b>
985/07	29. 8. 2007	1180/07	<b>06/29</b>	no	MoEYS will implement measures in order to eliminate shortcomings contained in audit conclusions.	<b>yes</b>
984/07	29. 8. 2007	1272/07	<b>06/32</b>	yes	not imposed	<b>yes</b>
983/07	29. 8. 2007	1259/07	<b>06/26</b>	no	The MoA will ensure elimination of shortcoming contained in audit conclusions.	<b>no</b>
866/07	25. 7. 2007	1138/07	<b>06/33</b>	no	not imposed	<b>yes</b>
844/07	25. 7. 2007	747/07	<b>06/39</b>	no	The Chairman of the Czech Mining Office will specify, on or before 31 October 2007, the internal rules governing the structure of documents submitted by bidders during ongoing audits and the final evaluation of research and development projects.	<b>yes</b>

Government resolution (number)	Date of session	Government material (number)	Audit conclusion	Measures noted	Measures imposed by the Czech Government	SAO's agreement with adopted measures
843/07	25. 7. 2007	808/07	<b>06/22</b>	no	The MoD: 1) will implement measures in order to eliminate shortcomings contained in audit conclusions, as per the opinion of the MoD; 2) will assess, on or before 25 January 2008, measures adopted in order to eliminate the shortcomings contained in audit conclusions and will report the outcome to the Member of the SAO in charge of the relevant audit.	<b>yes</b>
842/07	25. 7. 2007	863/07	<b>06/27</b>	no	not imposed	<b>no</b>
841/07	25. 7. 2007	1014/07	<b>06/24</b>	no	The MoF: a) will ensure the implementation of measures Nos. 1 to 5 contained in the opinion of the MoF on the audit conclusion, and it shall also ensure that the implementation of measure No. 1 is accompanied by legislative arrangements applicable to procedures applied in the incorporation of expenses in the implementation of state guarantees in the draft of the state budget of the Czech Republic and for the implementation proper of such guarantees; b) will reflect transfers of expenditures in the GTA chapter to other relevant budget chapters, in the draft of the state budget for 2008 and 2009, as well as in the projections for the subsequent state budgets, as shown in Table No. 1, Part IV. of the Government document Ref. No. 1014/07; c) will maintain potentials of financing of assets reinvestment belonging to schools and pre-school establishments within the authority of communities in the GTA chapter. The MoE, the MoLSA, the MoFA, the Mol, the MoIT, and the MoC, together with administrators of other state budget chapters, will propose amendments of the relevant Government resolutions regarding transfers of expenditures from the GTA chapter to the budget chapters pursuant to Table No. 1, Part IV. of the Government document Ref. No. 1014/07. Administrators of the state budget chapters: a) will not propose and transfer expenditures belonging in a material way to a certain chapter administrator to the GTA chapter; b) will create, on or before 31 July 2007, conditions for financing of the asset reinvestment programme project entitled <i>Support for Development and Renewal of the Regional Infrastructure</i> and the programme entitled <i>Project Financed upon the Decision of the Chamber of Deputies of Parliament of the Czech Republic and the Government within their Authority</i> and within their budget chapters, subject to compliance with the purpose of any earmarked budget finances.	<b>yes</b>

Government resolution (number)	Date of session	Government material (number)	Audit conclusion	Measures noted	Measures imposed by the Czech Government	SAO's agreement with adopted measures
840/07	25. 7. 2007	1024/07	<b>06/19</b>	no	The MoD: 1) will implement measures in order to eliminate shortcomings contained in audit conclusions; 2) will evaluate, on or before 25 January 2008, any adopted measures and will report the outcome to the member of the SAO in charge of the relevant audit.	<b>yes</b>
402/07	18. 4. 2007	141/07	<b>06/17</b>	no	The MoE and the MoA will discuss transfers of the right to manage plots of land located in specially protected areas and requiring special protection pursuant to the relevant provisions of Act No. 114/1992 Coll. and Act No. 95/1999 Coll., from the Land Fund of the Czech Republic to the relevant managing authorities of national parks and the Agency for Nature and Landscape Protection, on or before 30 April 2007, and to report the outcome to the Government on or before 30 June 2007. The MoE will submit to the Government, on or before 31 December 2007, draft Government resolutions declaring bird reserves "Heřmanský stav – Odra-Poolší", "Dehtář", and "Českobudějovické rybníky".	<b>yes</b>
401/07	18. 4. 2007	452/07	<b>06/21</b>	no	The MoEYS will implement measures as contained in the opinion on the audit conclusion.	<b>yes</b>
400/07	18. 4. 2007	291/07	<b>06/20</b>	no	The MoT will ensure the implementation of the measures contained in the opinion of the on the audit conclusion.	<b>no</b>
399/07	18. 4. 2007	226/07	<b>06/18</b>	no	The MoT will ensure the implementation of the measures contained in the opinion of the on the audit conclusion.	<b>no</b>
398/07	18. 4. 2007	487/07	<b>06/25</b>	no	The MoH will perform a follow-up check of implementation of measures adopted in order to remove any identified shortcomings, on or before 30 June 2007.	<b>yes</b>
-	28. 3. 2007	349/07	<b>06/15</b>	-	-	-
76/07	24. 1. 2007	70/07	<b>06/10</b>	no	The MoH will perform a principled review of the investment programmes of the MoH.	<b>yes</b>
75/07	24. 1. 2007	62/07	<b>06/08</b>	no	not imposed	<b>yes</b>
67/07	24. 1. 2007	18/07	<b>06/23</b>	no	not imposed	<b>yes</b>



Government resolution (number)	Date of session	Government material (number)	Audit conclusion	Measures noted	Measures imposed by the Czech Government	SAO's agreement with adopted measures
66/07	24. 1. 2007	26/07	06/16	no	The Chairman of the IPO will: 1) implement in a consistent manner and supervise measures adopted in order to remove shortcomings as shown in the audit conclusions; 2) submit to the MoIT, on or before 31 July 2007, a report on the outcome of audits performed by the Internal Audit focused on the following issues: a) efficiency of any adopted remedies in the area of identified shortcomings; b) whether the current account maintained in respect of applications pursuant to the <i>Agreement on International Patent Cooperation</i> is properly accounted for; c) whether the new economic software supplies relevant information facilitating the sufficient saturation of the budget items prior to making financings.	yes
65/07	24. 1. 2007	25/07	06/03	no	The MoT will implement measures in order to eliminate shortcoming contained in audit conclusions as described in the opinion of the MoT.	yes
28/07	3. 1. 2007	1981/06	06/12	no	not imposed	yes
11/07	3. 1. 2007	1953/06	06/14	no	The MoC will ensure the implementation of measures contained in the opinion on the audit conclusion.	yes
10/07	3. 1. 2007	1833/06	06/11	no	The MoC will ensure the ongoing implementation of measures contained in the opinion on the audit conclusion.	yes
9/07	3. 1. 2007	1959/06	06/13	no	not imposed	yes
8/07	3. 1. 2007	1873/06	06/07	yes	The MoT, on or before 31 December 2007, will adopt a system solution of provision of the state budget financing to public transport.	yes
7/07	3. 1. 2007	1759/06	06/06	no	not imposed	yes

**NB:** A list of the used abbreviations is given in Appendix 6 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 2007**

Committee resolution	Date of session	Audit conclusion	Czech Government material (number)	Czech Government resolution (number)	Summary of committee resolution
162	15. 11. 2007	<b>06/03</b>	25/07	65/07	<p>The AC suspended its discussion of the audit conclusion.</p> <p>The AC requested the director general of the RMD to submit to the AC, on or before 31 December 2007, the following:</p> <ul style="list-style-type: none"> <li>a) a comprehensive material on management and control mechanisms in the area of selection of projects, preparation of investment projects, public tenders and the implementation of projects proper;</li> <li>b) a comparison of legislation in the area of the environment in respect of transport development projects within the Member States of the European Union;</li> <li>c) identification of risks, which may result in increased prices of development projects.</li> </ul>
161	15. 11. 2007	<b>06/37</b>	1234/07	987/07	<p>The AC took notice of:</p> <ul style="list-style-type: none"> <li>a) the audit conclusion;</li> <li>b) an opinion of the MoT on the audit conclusion as contained in the Government document.</li> </ul> <p>The AC requested the director general of the RMD to submit to the AC the following:</p> <ul style="list-style-type: none"> <li>a) a report on the implementation of tasks ensuing from Government resolution No. 987/07 on the audit conclusion;</li> <li>b) a report on the implementation of the provisions of Act No. 320/2001 Coll., on financial audit, on or before 31 December 2007;</li> <li>c) a project of reorganisation of the RMD, on or before 31 December 2007.</li> </ul>

Committee resolution	Date of session	Audit conclusion	Czech Government material (number)	Czech Government resolution (number)	Summary of committee resolution
160	15. 11. 2007	<b>06/18</b>	226/07	399/07	The AC took notice of: a) the audit conclusion; b) an opinion of the MoT on the audit conclusion as contained in the Government document. The AC requested the MoT to submit to the AC, on or before 30 November 2007, a project of financing of transport development projects resolving the standardised methodology of selection of specific investment projects, their efficiency assessment and the structure of the forms of their financing.
153	14. 11. 2007	<b>06/25</b>	487/07	398/07	The AC requested the Chairman of the Chamber of Deputies, to include on the agenda of the next session of the Chamber of Deputies a point entitled "The SAO Audit Conclusion from Audit No. 06/25".
149	8. 11. 2007	<b>06/04</b>	1680/06	1297/06	The AC took notice of the report from the ASMR on the implementation of adopted remedial measures pursuant to the SAO audit conclusion in relation to Audit 06/04. The AC requested the Chairman of the ASMR to submit to the AC information about the operation of the warehouse at Heřmanův Městec.

Committee resolution	Date of session	Audit conclusion	Czech Government material (number)	Czech Government resolution (number)	Summary of committee resolution
139	4. 10. 2007	06/25	487/07	398/07	<p>The AC took notice of the audit conclusion.</p> <p>The AC stated, pursuant to the SAO audit conclusions from the years 2000–2006, that unclear concepts with elements of randomness, insufficient preparation of investment projects, failure to respect the legislation, and non-existent efficient control would result in inefficient spending of state finances.</p> <p>The AC stated that:</p> <ul style="list-style-type: none"> <li>a) the material submitted by the MoH pursuant to the AC Resolution No. 19 dated 9 November 2006 did not represent an economic analysis of the MoH projects;</li> <li>b) the material submitted pursuant to the letter from the Chairman of the AC did not meet the relevant requirements;</li> <li>c) the MoH did not cooperate in the economic evaluation of expenditures from the MoH chapter.</li> </ul> <p>The AC requested the MoH:</p> <ul style="list-style-type: none"> <li>a) to submit, on or before 30 October 2007, pursuant to Act No. 320/2001 Coll., on financial audit in public administration, its management control rules and public administration control rules in the area of awarding public procurements and the implementation of capital investment programme financing projects, including their staffing;</li> <li>b) to amend, on or before 30 October 2007, the submitted material, in particular: <ul style="list-style-type: none"> <li>- to expand the period of time starting on 1 January 2002;</li> <li>- to include on the list all medical establishments;</li> <li>- recipients of a state budget contribution for the purchase of certain medical apparatuses;</li> <li>- to add the linear accelerator on the list of apparatuses;</li> <li>- to add information about costs of construction modifications and other costs of the commissioning of the apparatus to the list of requested information;</li> <li>- to submit the technical specifications as described in the tender documentation of the individual projects.</li> </ul> </li> </ul>

Committee resolution	Date of session	Audit conclusion	Czech Government material (number)	Czech Government resolution (number)	Summary of committee resolution
138	4. 10. 2007	<b>05/37</b>	1103/06	885/06	<p>The AC took notice of:</p> <p>a) the audit conclusion;</p> <p>b) the opinion of the MoH on the audit conclusion as contained in the Government document;</p> <p>The AC stated, on the basis of SAO investigations, that certain funds received from the state budget as payments for liabilities of medical establishments founded by the former regional authorities pursuant to Government Resolutions No. 1153/03, No. 1219/03, No. 56/04 and No. 1205/04, were granted without any irregularities.</p>
137	4. 10. 2007	<b>06/10</b>	70/07	76/07	<p>The AC took notice of:</p> <p>a) the audit conclusion;</p> <p>b) the opinion of the MoH on the audit conclusion as contained in the Government document; the AC stated that, on the basis of SAO investigations, the MoH, as the administrator of Programme 335 210, in some cases failed to issue its decision of the participation of the state budget and failed to ensure checks of information in the final evaluation documents in the reviewed period 2001–2005. Thus, it allowed some participant in the Programme to proceed contrary to the provisions of Act No. 199/1994 Coll., on awarding public procurements, Act No. 218/2000 Coll., on budget rules, and Act No. 563/1991 Coll., on accounting, and MoF Decree No. 40/2001 Coll., on the involvement of the state budget in financing asset reinvestment programmes;</p> <p>The AC requested the MoH to submit to the AC, on or before 31 December 2007, a report on the current state of reinvestment programmes for the regional medical establishments and on control measures and correct use of funds from the state budget.</p>

Committee resolution	Date of session	Audit conclusion	Czech Government material (number)	Czech Government resolution (number)	Summary of committee resolution
131	12. 9. 2007	<b>06/25</b>	487/07	398/07	<p>The AC suspended its discussion of the audit conclusion.</p> <p>The AC requested the MoH to submit to the AC the following:</p> <p>a) on or before 28 September 2007, the material requested by the Chairman of the AC in a letter dated 30 August 2007 (Ref. No. KV/30.8.07/004K);</p> <p>b) on or before 30 October 2007, a material evidencing that the programmes and investment projects included in the draft state budget in 2008 meet all statutory provisions;</p> <p>The AC requested the MoF to submit to the AC, on or before 30 October 2007, a list of programmes according to the state budget chapters included in the draft state budget in 2008, which meet the statutory provisions for financing from the state budget.</p>
130	12. 9. 2007	<b>05/17</b>	516/06	470/06	<p>The AC took notice of:</p> <p>a) the audit conclusion; b) the opinion of the MoLSA on the audit conclusion as contained in the Government document.</p>
129	12. 9. 2007	<b>05/11</b>	188/06	182/06	<p>The AC took notice of:</p> <p>a) the audit conclusion;</p> <p>b) the opinion of the MoF on the audit conclusion as contained in the Government document.</p> <p>c) the opinion of the MoE on the audit conclusion as contained in the Government document;</p> <p>The AC requested the MoF to submit to the AC, on or before 31 October 2007, the following:</p> <p>a) a time schedule of spending of finances on the removal of old environmental burdens;</p> <p>b) a list of liabilities of the state in removing old environmental burdens.</p> <p>The AC requested the MoE to submit to the AC, on or before 31 October 2007, the following:</p> <p>a) a priority list of removing old environmental burdens;</p> <p>b) a list of liabilities of the state in removing old environmental burdens.</p>

Committee resolution	Date of session	Audit conclusion	Czech Government material (number)	Czech Government resolution (number)	Summary of committee resolution
128	12. 9. 2007	05/39	1450/06	1183/06	<p>The AC took notice of the audit conclusion.</p> <p>The AC requests the MoJ to submit to the AC, on or before 30 October 2007, information on the application of recommendations contained in Part III of Audit Conclusion No. 05/39 in the preparation and implementation of the investment project <i>Justiční areál Brno</i> (Palace of Justice in Brno).</p>
127	12. 9. 2007	06/06	1759/06	7/07	<p>The AC took notice of:</p> <p>a) the audit conclusion;</p> <p>b) the opinion of the MoIT on the audit conclusion as contained in the Government document;</p> <p>The AC requested the MoIT to submit to the AC the following:</p> <p>a) on or before 30 September 2007, financial statements and annual reports, management economic analyses, review of the course and outcome of tenders held within mining contraction programmes, in respect of the state-owned enterprises DIAMO, Stráž pod Ralskem and Palivový kombinát Ústí, Ústí nad Labem, for the years 2002 to 2006, and also for 2007;</p> <p>b) on or before 30 November 2007:</p> <ul style="list-style-type: none"> <li>- system measures ensuring a uniform activities of the state-owned enterprises DIAMO, Stráž pod Ralskem and Palivový kombinát Ústí, Ústí nad Labem;</li> <li>- a concept for ensuring the funding, if possible outside the state budget (e.g., from EU funds, own resources of the state-owned enterprises, privatisation, sale of property of state-owned enterprises, etc.);</li> <li>- a report on ensuring regular audits of the managements of the state-owned enterprises DIAMO, Stráž pod Ralskem and Palivový kombinát Ústí, Ústí nad Labem.</li> </ul>

Committee resolution	Date of session	Audit conclusion	Czech Government material (number)	Czech Government resolution (number)	Summary of committee resolution
107	16. 5. 2007	<b>06/23</b>	18/07	67/07	The AC took notice of: a) the audit conclusion; b) the opinion of the MoH on the audit conclusion as contained in the Government document; c) the opinion of the managing board of the Security Fund on the audit conclusion as contained in the Government document.
106	16. 5. 2007	<b>05/32</b>	1157/06	884/06	The AC took notice of: the audit conclusion.
105	16. 5. 2007	<b>05/21</b>	1059/06	830/06	The AC took notice of the audit conclusion.
104	16. 5. 2007	<b>06/15</b>	349/07	no Government resolution	The AC took notice of the audit conclusion. The AC recommended the Public Defender of Rights (the Ombudsman) the following: a) to require the head of office to observe consistently procedures as stipulated in Act No. 320/2001 Coll., on financial audit; b) to amend/complete its internal rules, so that it should stipulate the titles, obligations, and liability of the staff of the accounting unit in respect of attaching a signature or an identification clause to accounting records.



Committee resolution	Date of session	Audit conclusion	Czech Government material (number)	Czech Government resolution (number)	Summary of committee resolution
95	12. 4. 2007	06/17	141/07	402/07	<p>The AC took notice of the audit conclusion.</p> <p>The AC stated that the managements of national parks in some cases failed to manage finances from the state budget and the state property in an economical manner during the period of audit (2000 to 2005).</p> <p>The AC stated that Administration of the Šumava National Park and Protected Landscape Area and the Administration of the Krkonoše National Park in Vrchlabí failed to record in their accounting books plots of land worth in total CZK 3.15 billion, due to a failure to transfer the competence to manage the state property pursuant to Act No. 569/1991 Coll., on the Land Fund of the Czech Republic.</p> <p>The AC requested MoE as follows:</p> <ul style="list-style-type: none"> <li>a) to enter into negotiations with the MoA (the Chairman of the Land Fund of the Czech Republic) without any delay about transfers of competences to manage plots of land in specially protected territories;</li> <li>b) to inform the AC, on or before 30 June 2007, about the current state and activities of the national parks and other protected territories;</li> <li>c) to apply the amended Act No. 114/1992 Coll., on nature and landscape protection, in order to prevent the launching of an administrative proceeding from the EU against the Czech Republic.</li> </ul>

Committee resolution	Date of session	Audit conclusion	Czech Government material (number)	Czech Government resolution (number)	Summary of committee resolution
94	12. 4. 2007	<b>05/29</b>	1088/06	831/06	<p>The AC took notice of the audit conclusion.</p> <p>The AC stated that the MoE:</p> <p>a) in the period of carrying out the audit (2003 to 2004), it failed to issue a methodological instruction covering subsidies to zoological gardens, it transferred finances with a delay, and checked and evaluated any such provided subsidies in an insufficient manner;</p> <p>b) adopted certain remedial measures in 2006 leading to the removal of shortcomings pursuant to the audit conclusions;</p> <p>c) in the period of the audit (2003 to 2004), it failed to observe the provisions of Act No. 320/2001 Coll. The AC requested the MoE to submit to the AC, on or before 30 June 2007, a fresh report on the manner of granting and controlling subsidies for zoological gardens.</p>
93	12. 4. 2007	<b>06/08</b>	62/07	75/07	<p>The AC took notice of the audit conclusion.</p> <p>The AC stated that the Police of the Czech Republic adopted adequate measures in order to remove any identified shortcomings.</p> <p>The AC requested the MoI to submit to the AC, on or before 30 June 2007, its economic and legislative analyses:</p> <p>a) of possibilities of purchasing automobile fuels from the ASMR as part of their regular reinvestment;</p> <p>b) of possibilities of purchasing service cars of the Police of the Czech Republic using another economic form.</p>
92	12. 4. 2007	<b>05/15</b>	180/06	184/06	<p>The AC took notice of the audit conclusion.</p> <p>The AC requested the Director General of the RIA to submit to the AC, on or before 31 May 2007, a financial outlook for the years 2007 to 2011.</p>
88	11. 4. 2007	<b>05/18</b>	1203/06	917/06	<p>The AC took notice of the audit conclusion and the opinion of the MoT on the audit conclusion.</p> <p>The AC stated that the terms and conditions of the subsidies conditions applied by the MoF and the MoT prevented the SAO from meeting the goal of the Audit in question.</p>

Committee resolution	Date of session	Audit conclusion	Czech Government material (number)	Czech Government resolution (number)	Summary of committee resolution
87	11. 4. 2007	<b>06/12</b>	1981/06	28/07	<p>The AC took notice of the audit conclusion.</p> <p>The AC stated that the activities pursued by the MfRD in the area of support for the national regional development programmes in the period of the audit 2000 to 2005 did not comply with the rules as stipulated in Act No. 248/2000 Coll., on regional development support; the AC stated that the MoF failed to show a systematic approach within the framework of its programme entitled <i>Support for Development and Renewal of the Regional Infrastructure in the years 2002 to 2005</i>, rather, it fully relied on decisions of the Chamber of Deputies of Parliament of the Czech Republic.</p> <p>The AC requested the MfRD and the MoF to submit to the AC, on or before 30 June 2007:</p> <p>a) a report on the current state of the implementation of Government Resolution No. 560 dated 17 May 2006, on the Strategy of regional development of the Czech Republic;</p> <p>b) a report of relationships between the national regional programmes and the operational programmes pursued by the EU structural funds.</p>
86	11. 4. 2007	<b>06/07</b>	1873/06	8/07	<p>The AC took notice of the audit conclusion.</p> <p>The AC requested the MoT to submit to the AC, on or before 31 December 2007, information about the implementation of the Government task (see, Government Resolution No. 8, dated 3 January 2007), to apply a systematic approach to the provision of finances from the state budget to public transport; The AC recommended the Transport Subcommittee of the Economic Committee to review the audit conclusion.</p>
83	5. 4. 2007	<b>06/11</b>	1632/06,1833/06	10/07	<p>The AC took notice of the audit conclusion;The AC stated that Act No. 320/2001 Coll. was not complied with in the period of the audit (2004 to 2005).</p>
82	5. 4. 2007	<b>06/14</b>	1953/06	11/07	<p>The AC took notice of the audit conclusion;The AC stated that the MoC failed to comply with Act No. 320/2001 Coll. in the period of the audit (2002 to 2004).</p>

Committee resolution	Date of session	Audit conclusion	Czech Government material (number)	Czech Government resolution (number)	Summary of committee resolution
81	4. 4. 2007	<b>06/20, 06/21</b>	291/07, 452/07	400/07, 401/07	<p>The AC disagreed with Government Resolutions on the SAO audit conclusion in relation to audits of the closing accounts of the state budget chapters.</p> <p>The AC stated, in consideration of the still not reviewed audit conclusions in relation to Audit 06/20 – the closing accounts of the state budget chapter of the MoIT – and Audit 06/21 – the closing accounts of the state budget chapter of the MoEYS the following:</p> <ul style="list-style-type: none"> <li>a) the financial statements compiled within the individual chapters did not represent reliable background materials for the production of the state closing account of the Czech Republic;</li> <li>b) beaches of Act No. 563/1991 Coll. could be described as long-term recurring systematic shortcomings;</li> <li>c) a number of irregularities resulted from breaches of Act No. 320/2001 Coll.</li> </ul> <p>The AC stated that the Government, in the long-term view:</p> <ul style="list-style-type: none"> <li>a) has failed to resolve the very serious risk resulting from reporting of untruthful data in the state closing account of the Czech Republic;</li> <li>b) has failed to pay sufficient attention to the production of the state closing account of the Czech Republic.</li> </ul> <p>The AC requested the Government to submit to the AC a proposal for a system solutions, which would mainly:</p> <ul style="list-style-type: none"> <li>a) facilitate consolidation of the accounting data at the state level;</li> <li>b) lead to a change in the accounting system capable of providing data for efficient management of the state;</li> <li>c) establish efficient control mechanisms minimising the stating of untruthful data;</li> <li>d) facilitate effective methodological assistance in ensuring uniform accounting data statements.</li> </ul>
80	4. 4. 2007	<b>05/20</b>	765/06, 1773/06	733/06, 1354/06	<p>The AC took notice of the audit conclusion;</p> <p>The AC stated that activities of the GA for a long time contravened the acts:</p> <ul style="list-style-type: none"> <li>a) 563/1991 Coll.</li> <li>b) 218/2000 Coll.</li> <li>c) 320/2001 Coll.</li> </ul>

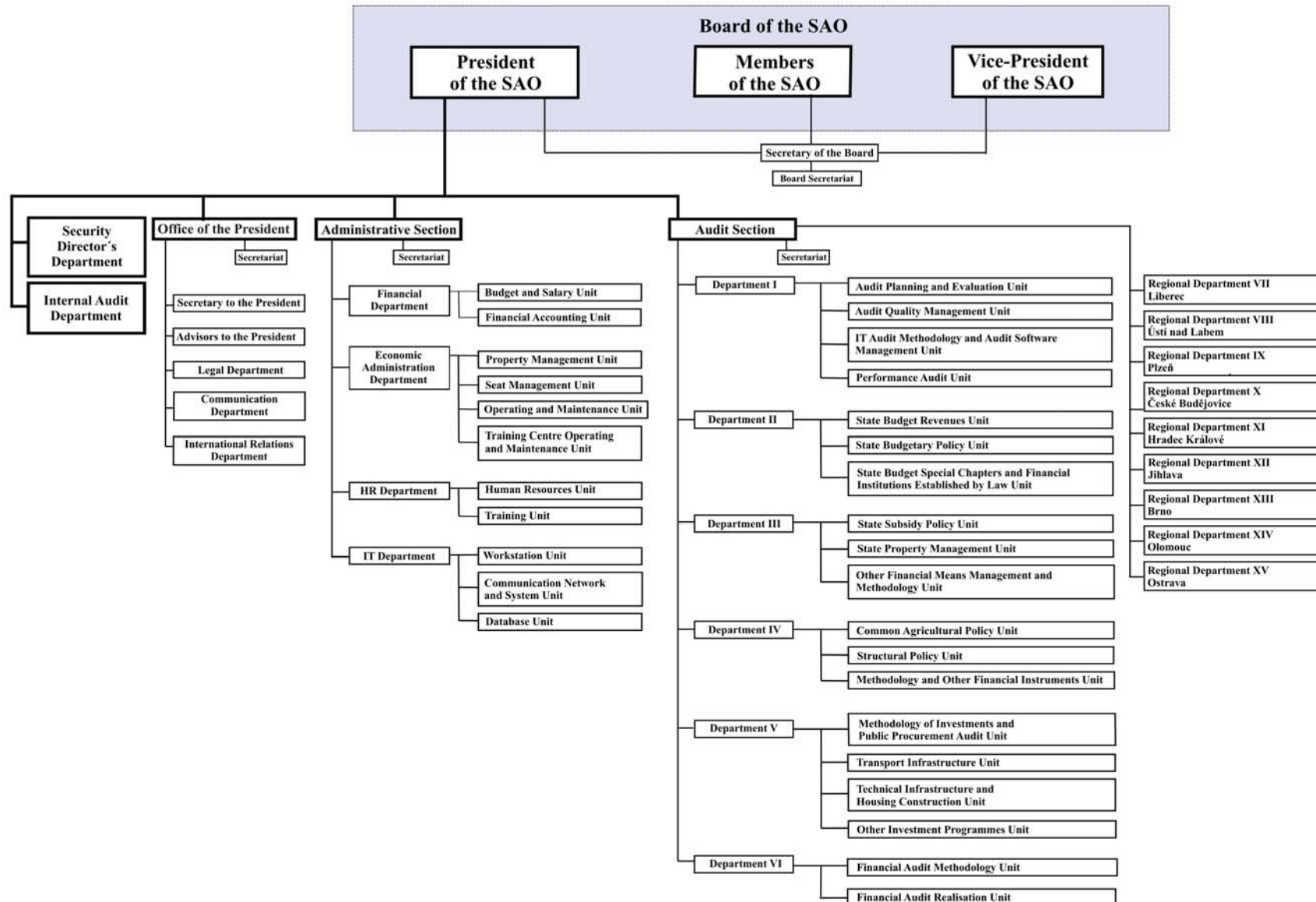
Committee resolution	Date of session	Audit conclusion	Czech Government material (number)	Czech Government resolution (number)	Summary of committee resolution
79	4. 4. 2007	<b>06/13</b>	1959/06	9/07	The AC took notice of the audit conclusion. The AC stated that activities of the CTO for a long time contravened the acts: a) 563/1991 Coll. b) 218/2000 Coll. c) 320/2001 Coll.
78	4. 4. 2007	<b>06/16</b>	26/07	66/07	The AC took notice of the audit conclusion. The AC stated that activities of the IPO for a long time contravened the acts: a) 563/1991 Coll. b) 218/2000 Coll. c) 320/2001 Coll.
77	4. 4. 2007	<b>05/30</b>	952/06	734/06	The AC took notice of the audit conclusion. The AC stated that Act No. 320/2001 Coll. was not complied with in some cases.
76	4. 4. 2007	<b>06/05</b>	1664/06	1299/06	The AC took notice of the audit conclusion. The AC stated that the MoE, until 2006: a) expensed finances on sciences and research without any clearly stipulated rules and for unspecific goals; b) failed to observe Act No. 320/2001 Coll., on financial audit; the AC requested the MoE to submit to the AC, on or before 30 June 2007, the following: – clear terms and conditions governing drawing on finances for sciences and research; – a report on the rules governing a system of management control in the area of sciences and research.
75	4. 4. 2007	<b>06/01</b>	1634/06	1252/06	The AC took notice of the audit conclusion. The AC requested the Chairman of the CSO to submit to the AC, on or before 15 May 2007, an economic evaluation of procurement of furniture from the Prison Service of the Czech Republic, in comparison to bids from a public tender.

Committee resolution	Date of session	Audit conclusion	Czech Government material (number)	Czech Government resolution (number)	Summary of committee resolution
74	4. 4. 2007	<b>06/09</b>	1646/06	1298/06	The AC took notice of the audit conclusion. The AC requested the MoD to submit to the AC, on or before 15 May 2007, a report pursuant to point II.2 of Government Resolution No. 1298 dated 15 November 2006.
71	22. 2. 2007	<b>05/28</b>	996/06	761/06	The AC requested the MoE to submit to the AC: a) an evaluation of benefits and effects of its remedial measures adopted in order to eliminate shortcoming contained in audit conclusions, on or before 31 December 2007; b) together with the SEF, the CEI and the MoF, intentions of further required legislative measures, deadline: 15 April 2007. The AC recommended to the Environmental Committee to review the audit conclusion.
70	22. 2. 2007	<b>05/24</b>	529/06	469/06	The AC took notice of the audit conclusion. The AC requested the MoT to submit to the AC, on or before 31 March 2007, a proposal for certain legislative measures leading to substantial reduction of the period of time required for the removal of damage caused by the floods.
57	10. 1. 2007	<b>06/02</b>	1674/06	1300/06	The AC took notice of the audit conclusion. The AC stated that the MOEYS implemented its adopted measures.
55	10. 1. 2007	<b>05/34</b>	1693/06	1257/06	The AC took notice of the audit conclusion. The AC stated that the audit conclusion required an amendment of the legislation governing excise duties; the AC requested the MoF to submit to the Chamber of Deputies an amendment of the relevant legislation; the AC requested the MoF, the General Director of the GDC, the President of the Chamber of Tax Advisers, the Chairman of the Supreme Administrative Court, as well as court experts on "tobacco", to provide their opinions on the existing wording of Catch V, Act No. 353/2003 Coll.; the AC requested the Director General of the GDC, as the administrator of excise duties, to produce an analysis of the impact on the relevant tax payers of the individual provisions of the submitted bill (ST 41).

Committee resolution	Date of session	Audit conclusion	Czech Government material (number)	Czech Government resolution (number)	Summary of committee resolution
49	10. 1. 2007	<b>06/04</b>	1680/06	1297/06	<p>The AC took notice of the audit conclusion.</p> <p>The AC stated, on the basis of the audit conclusion, that the activities pursued by the ASMR:</p> <ul style="list-style-type: none"> <li>a) had been pursued contrary to Act No. 563/1991 Coll. for a long period of time;</li> <li>b) has been pursued contrary to Act No. 218/2000 Coll., for a long period of time, with the knowledge of the MoF;</li> <li>c) has been pursued contrary to Act No. 219/2000 Coll. for a long period of time;</li> <li>d) has been pursued contrary to Act No. 320/2001 Coll.; the AC stated that serious shortcomings identified by the SAO caused the immediate removal of the Chairman of the ASMR; the AC requested the MoF to produce an opinion on the specific arrangements of financing within the framework of changes and modifications performed at the ASMR.</li> </ul> <p>The AC requested the MoIT, in view of the serious nature of the shortcomings in the activities of the ASMR, to keep the AC informed about the following:</p> <ul style="list-style-type: none"> <li>a) the implementation of any remedial measures;</li> <li>b) further action in resolving the shape of the ASMR; The AC requests the MoIT and the Chairman of the ASMR to submit to the AC, on or before 15 February 2007, a report on compliance with the provisions of Act No. 320/2001 Coll., in the ASMR chapter, commencing from the date of its effect.</li> </ul>
47	10. 1. 2007	<b>05/36</b>	613/06,105/07	730/06,175/07	<p>The AC took notice of the audit conclusion.</p> <p>The AC stated that the MoF so far failed to implement Resolution No. No. 1347, dated 4 November 2004, of the Chamber of Deputies, and did not submit to it its concept for the use of assets of the CYF following their transfer to the MoF as of 1 January 2005; the AC requests the Chairman of the Chamber of Deputies to include on the agenda of the next regular session the point on "Review of Implementation of Resolution of the Chamber of Deputies No. 1347".</p>

**NB:** A list of the used abbreviations is given in Appendix 6 of this Annual Report.

## Organisation of the SAO





**List of 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)
CEI	Czech Environmental Inspectorate
CMH	Central Military Hospital, Prague
CMO	Czech Mining Office
CNB	Czech National Bank
CR	Czech Republic
CSLO	Czech Safety of Labour Office
CSO	Czech Statistical Office
CTO	Czech Telecommunication Office
CYF	Children and Youth Fund
EC	European Commission
EEA	European Economic Area
ERDF	European Regional Development Fund
EU	European Union
EUROSAI	European Organisation of Supreme Audit Institutions
FB	Fire Brigades of the Czech Republic
GA	Grant Agency of the Czech Republic
GDC	General Directorate of Customs
GEPAIDI	General Plan of Development of the Transport Infrastructure
GTA	General Treasury Administration
HRDP	Horizontal Rural Development Plan
IAM	Institute of Aviation Medicine, Prague
INTOSAI	International Organisation of Supreme Audit Institutions
IPO	Industrial Property Office
ISPROFIN	Information System of Programme Financing
IT	information technologies
LOM PRAHA	till 1992 Aircraft Repair Works Malešice, state enterprise
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
Mol	Ministry of Interior
MoISSE	Ministry of Interior Support Services Enterprise
MoIT	Ministry of Industry and Trade
MoJ	Ministry of Justice
MoLSA	Ministry of Labour and Social Affairs
MoT	Ministry of Transport
NTL	National Technical Library
OP	operational programme
OPIB	operational programme Industry and Business
RIA	Railway Infrastructure Administration
RMD	Road and Motorway Directorate
SAIF	State Agricultural Intervention Fund
SAO	Supreme Audit Office
SEF	State Environmental Fund
SFTI	State Fund for Transport Infrastructure
SLIO	State Labour Inspection Office
SR	summary reports
VAT	Value Added Tax
VATR	Value Added Tax Return
VLS, s.p.	Military Forests and Estates of the Czech Republic



