

Czech Republic
Supreme Audit Office

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SAO President's look back at the year 2008

Dear reader,

in your hands you hold the annual report of the Supreme Audit Office (SAO) containing a summary of information about this institution and an evaluation of its work in 2008.

The Supreme Audit Office commemorated the 15th anniversary of its foundation in 2008. From a historical point of view, fifteen years is not such a long time; nevertheless, the SAO has undergone many changes ever since. I have been the President of the SAO only for three years now, despite that allow me to make a short balancing of the year 2008.

Most audit reports (so called audit conclusions) that were approved in 2008 have already been published in the SAO Bulletins, which are issued regularly four times a year, and are, needless to say, also available on the Supreme Audit Office's web site <http://www.nku.cz>. Thus, the purpose of this report is not to repeat all findings from the audits. 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 aims to report and describe 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 our country from abroad. It also acquaints readers with the bodies and organisational structure of the supreme audit institution in 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 it the aim of audit to find shortcomings at all cost. The principal purpose of an audit is to verify, at a reasonable cost and in a statistically significant manner, whether the state's financial management is in order and, if not, to provide materials on which decisions on necessary changes can be based.

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

František Dohnal
President of the SAO

I. Status of the SAO in society

1. Basic information on the SAO's status and powers

Existence of external auditing reaches its roots far back in the history of the Czech lands. One of the main principles of external auditing is the independence of an audit institution. In our conditions, this means that the SAO has been made an integral part of the Czech Republic's constitution¹ and that neither the planning nor the performance of the SAO audits can be influenced by the state executive. This strategy stems from universal principles adopted years ago in so-called *Lima Declaration*², which sets out, among other things, the fundamental principles underlying activities of audit institutions.

The SAO, established in 1993 following the inception of the Czech Republic (CR), stands for one of the irreplaceable elements of parliamentary democracy, inasmuch as the existence of an audit system constitutes one of the indispensable prerequisites for a proper functioning of any modern democratic state. Its status, jurisdiction, organisational structure, and scope of activities are laid down by Act No. 166/1993 Coll., on the Supreme Audit Office, in the wording as amended by subsequent legislation. Pursuant to this Act, the SAO in particular audits and scrutinizes the management of state assets and of finances collected based on law in favour of corporate bodies (such as the healthcare and social insurance), the compliance with law of the mandatory items of state budget incomes and expenditures, and the management of finances provided to the Czech Republic from abroad. It is also engaged in audits on the management of asset acquisitions and operating expenses by the Czech National Bank (CNB).

To ensure unbiased assessments of, and decisions in respect of, the facts subjected to audits, the principle of collective responsibility has been adopted, and anchored in pertinent legislation, in respect of the fundamental issues of SAO's audit competencies. This is why any decisions on SAO's audit plans are taken by the SAO Board, whereas the audit conclusions require the approval of either the SAO Board or the SAO Senates. The SAO Board is composed of the President, Vice-President, and fifteen SAO Members; the SAO Senates are constituted of at least three SAO Members each.

The SAO President and Vice-President, nominated by the Chamber of Deputies of the Czech Parliament (CD PCR), are appointed by the President of the Republic for a tenure of nine years. The SAO Members, nominated by the SAO President, are elected to their posts by the CD PCR. Then they continue holding their posts until the age of sixty-five years. A SAO Member manages audit activity and also formulates the audit conclusions. S/he takes part in the activities of the SAO Board and SAO Senates.

The SAO also enjoys a reasonable independence in financial matters; the SAO's sole determining body in the area of finances is the CD PCR, which approves the Czech state budget where the SAO has a budget chapter of its own.

¹ Constitutional Act No. 1/1993 Coll., Constitution of the Czech Republic, Chapter 5, Article 97, on the Supreme Audit Office:

- (1) The Supreme Audit Office is an independent body. It shall control the management of state property and the implementation of the State Budget.
- (2) The President and the Vice-President of the Supreme Audit Office shall be appointed by the President of the Republic on the proposal of the Chamber of Deputies.
- (3) The status, the jurisdiction, the organizational structure, and other details regarding the Supreme Audit Office shall be defined by law.

² Lima Declaration is a basic document on principles of independent audit activities that was adopted at the IX INCOSAI in Lima (Peru) in October 1977.



2. Board of the SAO



Mr František Dohnal
President of the SAO



Mr Miloslav Kala
Vice-President of the SAO



Mr Jiří Adámek
Member of the SAO



Ms Zdeněk Brandt
Member of the SAO



Ms Ludmila Brynychová
Member of the SAO



Mr Jiří Drábek
Member of the SAOÚ



Mr Jan Holeček
Member of the SAO



Ms Marie Hošková
Member of the SAO



Ms Eliška Kadaňová
Member of the SAO



Mr Jiří Kalivoda
Member of the SAO



Mr Antonín Macháček
Member of the SAO



Mr Rudolf Němeček
Member of the SAO



Ms Zdeňka Profeldová
Member of the SAO



Ms Jaromíra Steidlová
Member of the SAO



Mr Petr Skála
Member of the SAO



Mr Jan Vedral
Member of the SAO



Mr Ladislav Zeman
Member of the SAO

3. Changes in the SAO's bodies

On 03.02.2008, Mr Jiří Drábek's mandate as a Member of the SAO expired. On 20.09.2008, Mr Jan Holeček's mandate as a Member of the SAO expired. Mr Miloslav Kala was appointed as Vice-President of the SAO by the President of the Czech Republic on 13.11.2008.

II. Assessment of audits undertaken in 2008

1. Audit plan for 2008

The audit plan for 2008 was approved by the SAO Board on 26 November 2007. The plan, which originally comprised 33 audits, was later extended by additional audits by the SAO Board during the course of 2008, raising their total number to 38. Of these, 18 audits were completed in 2008, while 20 audits continue into 2009.

The focus of the 2008 Audit Plan reflected the SAO competences as laid down in pertinent legislation. Also, the audit plan was drafted with appropriate regard to *The Audit Strategy of the Supreme Audit Office*.

The Audit Strategy of the Supreme Audit Office is a document that was discussed, just as the *Vision of the Supreme Audit Office*, over a period of several months, eventually to be considered by the SAO Board and finally approved by the SAO President on 2. 11. 2007. These documents set out the major directions of audit activity for the next five-year period. Linked to the *Strategy* are medium-term audit prospects, which are also reflected in the annual audit plans.

In 2008, the SAO did not receive any suggestions from either the Czech Government or the Czech Parliament.

Audits focusing on the following areas were included in the 2008 Audit Plan:

- incomes of the state budget (for instance, uncollected social insurance premiums, items of returnable financial assistance);
- management of finances sourced from the state budget and of state-owned assets (such as the financial management of ministries, of government agencies and various state bodies and entities);
- management of state budget finances allotted for programme financing and subsidies; for example, major investment projects, programmes of support to technology centres and strategic services centres, support to research and development, support of families, of information and communication technologies, building the State Treasury, support of the expansion of industrial zones and of regeneration of territories, buildings and facilities);
- management of the funds provided to the CR from abroad (e.g., support of the common agricultural policy, the structural policy of the European Union /EU);
- the closing accounts of selected state budget chapters (such as 333 - *Ministry of Education, Youth and Sports*, 313 - *Ministry of Labour and Social Affairs*);
- finances collected by law (for example, by the Czech National Health Insurance Company and the Military Health Insurance Company);
- administration of the finances coming under special chapters of the state budget (397 - *State Financial Assets Operations*);
- public private partnerships (such as the construction of the Justice Palace and Facility in Ústí nad Labem);
- management of state-owned enterprises.

A total of 26 amendments were made to the audit plan during the course of 2008. Most of the changes were made on account of new data and documents obtained while the audits were being prepared, affected the item entitled 'the auditee' (17 changes). Further changes were



required to amend the time schedule (three changes), the subject and aim of the audit (one change) and the incorporation of additional audits (five changes to the audit plan).

2. Results of audits

A total of 36 audits were brought to completion in 2008, with their respective audit conclusions duly considered and approved. Out of this total, 18 audits were launched in 2007 and the other 18 in 2008. An overview of the completed audits, with their audit conclusions approved in 2008, is shown in Annex 1.

The audits completed in 2008 were focused on both the state budget incomes and expenditures.

The most momentous findings included, for example, the following facts:

- failings and shortcomings of the Regional Court of Brno in managing the project of construction of the Brno Palace of Justice, where an ill-conceived and inconsistent control activity of the Ministry of Justice (MJ) caused the investment project to proceed ineffectively over-all;
- failure to account for the finances coming under the chapter *State Financial Assets Operations* (SFAO) as well as for the assets registered as state financial assets (SFA);
- shortcomings of the Czech Post (CP) in acquiring, reconstructing and repairing its immovable assets, as well as in the selection of suppliers and in stock-taking its the Postal Museum collections;
- granting approval to the Ústí nad Labem Justice Palace and Facility construction project based on public-private partnership (PPP³) in spite of biased calculations, mainly as regards the profitability of the project;
- precluding an assessment of effectiveness, economy and fulfilment of the objective of extending institutional support to specific research;
- systemic shortcomings in the management of a project aimed to implement outsourcing in the Ministry of Defence (MD) sector;
- the Ministry of Labour and Social Affairs (MLSA) has been unable, within the framework of its *Family support programme*, to determine precisely its spending on the various subsidy titles;
- financial statements of the MLSA and the Council for Radio and Television Broadcasting (CRTB) failed to give a true and fair view of their accounting.

The closing accounts of selected state budget chapters were scrutinised by means of financial audit type reviews.

For the different audits undertaken, the approved audit conclusions were published in full in the **SAO Bulletin**, Issues 1/2008–4/2008 (Vol. XVI) as well as on the SAO's websites. The audit conclusions pertaining to the audits⁴ Nos. 08/04, 08/06 and 08/18 are yet to be published; they will appear in the SAO Bulletin, Issue 1/2009 (Vol. XVII).

This annual report merely mentions selected audit findings, which are described in more detail in Section 2.5 – Findings ascertained in audits completed in 2008.

The legislation quoted in this annual report has been applied in the wording effective during the audit period in question.

3 Public Private Partnership. The PPP is a general term designating a rather broad group of projects in which both the private and the public sectors participate jointly, aiming to provide services which traditionally were being provided by the public sector alone. Generally, the PPP is a term for various forms of cooperation involving the bodies of public administration alongside the entrepreneurial sector to provide financing, construction works, renewal, administration or maintenance of some public infrastructure, or to provide services to the public.

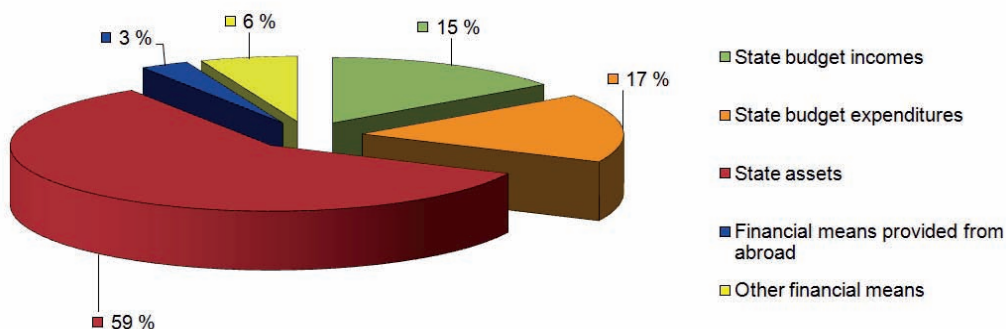
4 Henceforward, the audits are referred to in this annual report in the following specimen format: Audit No. 07/06. The audits' designations are spelled out in full in Annex 1.

2.1 Summary financial evaluation of audits

The financial evaluation of audits undertaken in 2008 is expressed by means of an indicator of the volume of audited state finances and assets; this is primarily a parameter of illustrative nature, indicative of 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 2008 scrutinised state finances and assets worth a total of CZK 157, 653.9 million. This overview excludes financial audits. Also, the Audit No. 08/02 has not been included, owing to the fact that this was an audit focused on examining the system of administration of all the support programmes operated by various ministries. A more detailed structure of the audited state finances and assets is shown in Graph no. 1.

Graph 1: Structure of the total audited state finances and assets in 2008



2.2 Performance of notification duty pursuant to Act No. 337/1992 Coll., on administration of taxes and charges

Wherever justified, the SAO based on its audit findings discharges its duty to notify the financial authorities responsible for territorial entities, pursuant to Act No. 337/1992 Coll., on the administration of taxes and charges.

In 2008 based on the outcome of 11 audits, the SAO discharged its duty to notify the tax offices by sending out to the tax offices concerned a total of 19 notifications of facts relating to taxation levies imposed on auditees; these notifications regarded expenditures of the state budget. The total sum of the finances involved, reflected in the aforementioned notifications (including those relating to financial audit type reviews) was **CZK 22 711, 066.20**.

2.3 Cooperation with the law enforcement authorities

Pursuant to Section 8 (1) of the Criminal Code⁵ the SAO lodged three complaints based on its findings which suggested that criminal acts had been committed.

Table 1: Overview of complaints lodged

Audit No.	Findings	Facts of the case pursuant to Criminal Code	Results
07/03	A state-owned enterprise sold immovable property at prices lower than those determined by expert assessments	Section 255 - breach of duties in the administration of other person's property	not closed yet
07/13	Damage caused to the Czech Republic due to a forensic expert's undervaluation of the worth of immovable assets	Section 175 - False testimony and an untruthful expert statement/assessment	not closed yet
07/22	Unduly increased construction costs of the Brno Justice Palace and Facility		not closed yet

In respect of the complaint lodged by the SAO in 2007, the law enforcement authorities acting pursuant to Section 159a (1) of the Code of Criminal Procedure decided not to proceed and to shelve the case. The case in question concerned the Audit No. 06/28 which ascertained that state assets were managed in contravention of law.

In two other cases of SAO's complaints previously shelved, the Supreme Public Prosecutor issued a decision requiring the cases to be returned to the police bodies concerned, in order to furnish additional evidence. These included the complaint stemming from the Audit No. 05/15 which ascertained that the Railways Infrastructure Administration failed to pay taxes, social and health insurance premiums, and state employment policy contributions, and the complaint relating to the Audit No. 05/16 where the findings were indicative of a possible fraud commitment in connection with an application for subsidy submitted by Ralsko municipality.

In 2008 the law enforcement authorities requested the SAO's cooperation in a total of five cases. In response to these requests, the SAO furnished audit documentation pertaining to six different audits, and the SAO President, acting pursuant to Section 23 of the SAO Act, relieved four staff members of their duty of professional confidence on the ground of an important interest.

2.4 Audit conclusions discussed by bodies of the Czech Parliament and the Czech Government

The SAO cooperates with both Chambers of the Czech Parliament and with the Czech Government. Immediately after its approval, every audit conclusion is sent to the Chairmen of the two Parliamentary Chambers and to the Prime Minister. The SAO also sends its Annual Report, its position on the closing accounts of the state budget, and its opinion on the issue of implementation of the state budget to these institutions.

The SAO's Annual Report for 2007 was considered by the Audit Committee of the Chamber of Deputies of the Czech Parliament at its 25th session held on 03.04.2008. Equally, it was considered by the plenary session of the Senate, at its 15th meeting held on 09.07.2008.

The most essential part of the cooperation between the Czech Parliament and Government on the one hand and the SAO on the other hand consists in considering the audit conclusions.



In 2008, one audit conclusion - for the first time ever in the SAO's history - was considered in the plenary session of the Parliament's Chamber of Deputies. The case in question was the audit conclusion resulting from Audit No. 06/25 - *State budget finances provided for the implementation of the programme „Support for development and renewal of the material and technical facilities of teaching hospitals“*. This audit conclusion was considered by the Parliament's Chamber of Deputies in its 30th meeting held on 07.05.2008, and was taken cognisance of in the Chamber of Deputies' Resolution No. 798.

SAO's main partner in the Czech Parliament is the **Audit Committee of the Chamber of Deputies**. The Committee discusses SAO's audit conclusions, its annual report, the draft of the SAO budget chapter, its closing accounts, the opinion of the SAO on the closing accounts, and other documents.

In 2008 the Audit Committee considered a total of 31 audit conclusions submitted by the SAO.

Table 2: Number of audit conclusions discussed by the Audit Committee of the CD PCR in years 2006 - 2008

Year	Number of Committee on Audit meetings, where audit conclusions were discussed	Number of audit conclusions discussed
2008	8	31
2007	9	38
2006	2	6

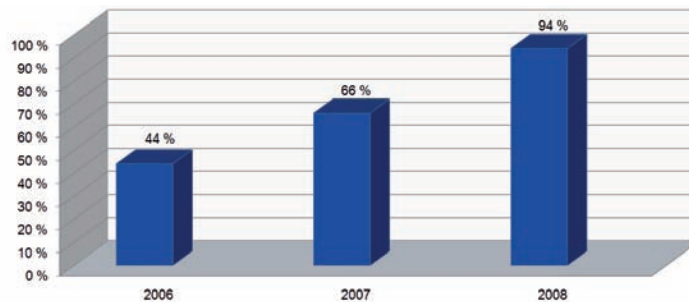
As a rule, the audit conclusions are discussed in the Committee with the SAO President, together with the SAO Member who was in charge of the audit in question and with representatives of the Government Ministries concerned. The Audit Committee adopts a resolution on the discussed audit conclusion, together with the opinion of the Ministry concerned, in cases where this audit conclusion has been already considered by the Government. Such resolution often spells out the shortcomings identified, at the same time requesting the Government, the Ministry concerned or the Minister in person to rectify the situation or, as the case may be, to present/furnish additional documentation (policy papers, reports, a list of remedial measures, etc.).

A list of the audit conclusions reviewed by the Audit Committee, together with a summary of the resolutions adopted by the Committee, is shown in Annex 2.

Some of the audit conclusions presented by the SAO were also considered by the Committee on national economy, agriculture and transport of the Czech Parliament's Senate.

The Czech Government considers all the audit conclusions presented. The audit conclusion is sent to the Prime Minister who transmits it to the Ministry concerned for comments. Then the audit conclusion in question, together with the pertinent Ministry's comments, is submitted for consideration by the Government in a session held with the SAO President in attendance. In 2008 the Government considered 35 audit conclusions submitted by the SAO. A resolution is adopted in respect of every such audit conclusion, whereby the Government takes cognisance thereof, also taking cognisance of the opinion submitted by the Ministry concerned. In most cases, this resolution also incorporates a section where the tasks to be performed are presented, frequently also setting a deadline for the Minister concerned to submit information to the Government on how the adopted measures were implemented.

Graph No. 2: Audit conclusions reviewed by the Government (with measures imposed) in the years 2006 – 2008 (number of audit conclusions in %)



A list of the audit conclusions considered by the Government in 2008, including a summary of the measures to be taken, is shown in Annex 3.

From the SAO's viewpoint the outcome of the Government reviews of the audit conclusions can be regarded as satisfactory in those cases where the Government adopts appropriate measures to remedy the failings and deficiencies identified, or in cases where these have been remedied already. On the other hand, situations may also occur where the Government does not adopt a resolution charging the Minister to implement remedial measures, and yet the SAO does not consider the measures adopted to be adequate enough. However, such situations are very rare and in 2008 the SAO expressed, in most cases, its agreement with the outcome of the Government reviews of the audit conclusions.

The effectiveness of any specific remedial measures can be only judged properly when a follow-up audit is undertaken.

2.5 Facts ascertained in audits completed in 2008

2.5.1 State budget incomes

In 2008 the approved audit conclusions were concerned with the administration and writing off of arrears in the areas of social insurance premiums and levied state employment policy contributions, the administration of the financial assets of the state and the incomes from the sales of state-owned real estate property.

Audit No. 08/04 - The Czech Social Security Administration (CSSA) when accounting for insurance premiums receivables failed to include and to report in its accounting as at 31.12.2007, penalty claims worth min. CZK 18.5 million.

The CSSA when generating its inventory lists of insurance premiums receivables proceeded in contravention of the Accountancy Act⁶. The closing balances of the analytic accounts shown on the lists pertained to receivables due from organisations, small businesses, and self-employed persons which were lower by CZK 5,470,5 million than the actual value of the insurance related receivables due.

Audit No. 08/08 - Ministry of Finance (MF) when administering financial assets of the state and the SFAO chapter of the state budget:

- failed to include in its accounting both the SFAO chapter funds and the assets on the SFA inventory list, notwithstanding that it was the state ownership which had to be accounted for as stipulated by the Accountancy Act. The MF's own auxiliary records of the inventory of

⁶ Act No. 563/1991 Coll., on accounting.



these assets were regulated neither by legislation nor by MF's internal rules and lacked the requisite information power and reliability;

- included in the SFA such funds which did not possess the nature of SFA's monetary means as defined by the Act on Budget Rules⁷;
- transferred into the SFA the funds of **CZK 4,182.2 million** total worth in absence of any ruling by the CD PCR, the Government or any relevant special act, as stipulated by the Act on Budget Rules;
- in 2006 and 2007, transacted financial operations between SFA's accounts worth **CZK 10,193.8 million** and **CZK 141.1 million**, which it failed to enter as operations on the state budget in the SFAO chapter.

In respect of the SFA area, the MF failed to provide for managerial financial reviews, within the meaning of the Financial Audits Act⁸.

Audit No. 08/12 - The Land Fund of the Czech Republic (LF CR) when applying an across-the-board policy in calling a tender comprising three rounds and in conducting the tender evaluation also comprising three rounds, negated the principle of the tender, *i.e.*, to sell the immovable property at the highest price attainable, in the case of only one tenderer participating. In certain cases it failed to determine correctly the bid price of the real estate concerned.

2.5.2 State budget expenditures

2.5.2.1 Audits of strategies and policies

The economy, effectiveness and efficiency of public spending are adversely affected by the recurring absences, or shortcomings, of long-term strategic and policy outline documents. In some of its audits, the SAO determined the following:

Audit No. 07/16

- *The information strategy of the Ministry of the Environment* failed to incorporate any survey of all the information systems used in the sector; descriptions of the different systems were missing, as were the listing of the operational information systems and any plans for acquisition of new information systems.
- Until the end of the audit, the Ministry of the Environment (ME) failed to provide for setting up any information security system within both the computerised and the conventional environment of public administration.
- The ME failed to execute its task of acting as administrator of the *Single Information Space for the Environment (SISE)*, defined in the Act on Information Systems in public administration⁹, and only acts in the capacity of a formal administrator. The SISE is rather just a theoretical concept since the different subsystems of this information system are not interconnected. The ME failed to produce a document which would present a complete listing of all the SISE subsystems and a map of their interconnecting links.
- Until the end of the audit, the Czech Hydrometeorological Institute (CHMI) failed to produce any long-term information strategy.

Audit No. 07/17 - Since 2007, the Ministry of Education, Youth and Sports (MEYS) has failed to produce any updated and approved document outlining the state policy in sports, to the standard of the foregoing document entitled *State policy directions in the area of sports for the 2004–2006 period*.

⁷ Act No. 218/2000 Coll., on budget rules, also amending certain related legislation (the Budget Rules).

⁸ Act No. 320/2001 Coll., on financial audits in public administration and on amendments to certain acts (the Financial Audits Act).

⁹ Act No. 365/2000 Coll., on information systems in public administration.



Audit No. 07/19 - The MJ through its policy documents is well capable to provide for systemic support of an effective and economical development in the area of the material and technical resources of the prison services. However, the SAO pointed out that there are risks looming that could lower the effectiveness and economy of the process of public spending:

- neither the objectives stated in policy papers nor their implementing measures are so organised in the policy documents as to conform to timing or material priorities;
- there are no provisions for funding to the full extent of the implementation of the policy objectives;
- the selection of projects for this programme was such that it cannot prevent the risk of including lower importance projects that would eventually contribute less to meeting the stated objectives than other projects of greater societal importance;
- The MJ failed to determine which of its bodies would bear responsibility for the preparations and reviews of the degree of compliance with the requirements stated in the policy documents and for meeting the programme objectives in the area of prison services, or for acting in cooperation with the CR Prison Service Administration in this area. This entails the risks that any future policy documents drafted by the MJ will suffer from inadequate coordination and that the strategic objectives of the sector, or the Government's priorities as the case may be, will not be sufficiently reflected in shaping the outlines of the prison services.

Audit No. 07/21 - The MD documents dealing with the activities and development of the CR Army during the 2009–2014 period failed to address the needs of air defence where the estimated expenditures run as high as CZK 16,800 million.

Audit No. 08/03 - The MEYS having operated its *National programme of research I (NPR I)* for the initial two years presented the Government with a report which however failed to incorporate any evaluation of the results achieved and of the degree of meeting its objectives. No estimate of the effectiveness of the NPR 1 programme has been made so far by the Ministry, even though the programme now has entered its fifth year of implementation and funding.

2.5.2.2 Programme financing

Shortcomings in providing for the preparation of the various programmes have been a recurring cause of breach of generally valid legislation, internal norms, directives, procedures and funding principles applicable to investment programmes, and are reflected in an uneconomical financing of funds allotted for the implementation of the projects.

Ill-conceived and inconsistent control activity of various Ministries has a harmful impact on the over-all economy of the investment projects.

Financing of programmes from state funds

For several years already, the SAO has been ascertaining a fundamental systemic deficiency: the core problem is that the state funds from which programmes are financed are not required by law to observe the programme financing rules within the meaning of the budgetary rules.

Audit No. 07/25 - The *Programme of ensuring railway security and passengers' safety*, launched in 1993, has not yet had its deadline for termination set. From 2000 the projects under this programme were funded through the mediation of the State Fund of Transport Infrastructure (SFTI) and, as a consequence to this, all funding was financed by the programme outside the framework of the Act on Budget Rules and its implementing regulations. This produced a systemic weakening of the requirements normally imposed on efficiency, economy and effectiveness of spending. No further projects have been added by the Ministry of Transport (MT) since 2006.



The funding of the projects under the said programme, taking place through the SFTI and, thus, outside the framework of the Act on Budget Rules, entails risks mainly threatening the due execution of the constituent projects and, simultaneously, the unbiased final evaluation thereof from the angle of purposefulness of such spending.

Owing to the absence of any risk analysis in respect of the safety and security of rail transport and its passengers, it was not possible to allocate funding in a systemic manner and as effectively as possible, to projects that would eliminate the major risks existing in this area. Thus, projects of lower importance or projects lacking adequate justification of purpose were allowed to creep into the programme.

Assets acquisition and replacement programmes

Audit No. 07/22 - Poorly designed procedures applied by the Regional Court (RC) in Brno to project management, as well as MJ's ill-conceived and inconsistent control activity caused the investment project to proceed ineffectively over-all. The project fell short of meeting the goal set out in the investment plan, which was to build the Brno Justice Palace and Facility at an estimated cost of CZK 768 million. Even though the project involved an increase of 12 % in basic operational floor area (of offices, workrooms, meeting and conference rooms and courtrooms) during the course of its implementation, the approved project costs up to the day on which the audit by SAO was finished **were up ca. 139 %, reaching CZK 1,837 million**. Insufficient control of the project on the part of the RC, coupled with inadequate and ill-conceived managerial activity of the MJ acting as administrator of the programme, resulted in the MJ being unable to pay the project bills and in the project dragging beyond its intended deadlines.

Audit No. 08/09 - Applications relating to the implementation of the Schengen acquis have been, and also will be further, operated within the framework of the infrastructures of the Ministry of Interior (MI) and the Ministry of Foreign Affairs (MFA) (data transmission lines, servers etc.) together with dozens of other software applications serving other purposes and also with their respective hardware devices. Expenditures pertaining to different specific measures (projects or actions) in the areas of information and communication technologies relating to the implementation of the Schengen acquis cannot be unambiguously identified and separated by technical means in the appropriate sub-programmes.

Audit No. 08/14 - Financing of the State Treasury (ST) building project from state funds was not transparent enough, owing to the fact that the MF even after having approved the programme *Construction, renewal and operation of centrally managed ICT within the sector of Ministry of Finance during the 2005–2010 period*, also comprising a sub-programme called *Integrated State Treasury system, continued financing the ST building project from the programme Development and renewal of the material and technical resources of the MF management and control system*.

Neither the term of „State Treasury“ nor the rules by which the entire ST system should abide is regulated by any legislation. The MF failed to conform to the time schedule of the ST building project.

Processing the programme documentation

- Going ahead with the programmes in absence of any duly processed and approved documentation and with changes to documentation yet to be approved, such as:
- Audit No. 07/19 - The MJ in its capacity of administrator of the programme *Development and renewal of the material and technical resources of the prison services* failed to adequately verify the correctness of cost estimate computations relating to the implementation of

investment projects as per their respective investment plans; in certain cases, this led to the implementation costs rising.

Audit No. 07/24 - Until the time of completion of the audit process, the MEYS in its capacity of administrator of the programme *Development and renewal of the material and technical resources of public universities* failed to submit any change of documentation of this programme for the Government's consideration, and, moreover, failed to proceed in compliance with the Decree on Participation by the state budget in the financing of assets reproduction programmes¹⁰.

- Unauthorised withholding of funds provided under the programme, such as:

Audit No. 07/24 - The Academy of Arts, Architecture and Design in Prague in its capacity of participant in the programme *Development and renewal of the material and technical resources of public universities* paid the value-added tax (VAT), to the amount of CZK 0.9 million, from the subsidy received, while at the same time claiming an entitlement to VAT deduction, thus infringing against the rules of budgetary discipline.

Preparation of investment projects

Audit No. 07/14 - In MF's programme financing information system (ISPROFIN), the MD registered investment projects for which it lacked any clear-cut investment plans and which also failed to incorporate any justification of the construction works involved, and other appurtenances as well.

Audit No. 08/09 - In five out of six selected projects under the sub-programme *Acquisition and renewal of MFA's management and control system ICT*, the MFA failed to produce any documentation in support of their investment plans, as well as any registration sheets and rulings on the participation by the state budget in financing the projects.

Implementation of investment projects

- Infringements against budgetary discipline, such as:

Audit No. 07/09 - Within the framework of an investment project called *Educational Institution (VUM) Nová Role, facade, replacement of windows, reconstruction of kitchen* the Educational Institution and School Canteen at Nová Role committed a breach of budget discipline by spending the sum of CZK 1 million without authorisation.

- Pushing up the cost intensiveness of investment projects and late completion of construction projects, such as:

Audit No. 07/14 - Owing to changes to the scope and parameters of various investment projects introduced by the MD, three cases occurred where the planned execution costs rose by a total of **CZK 186.1 million** while at the same time the projects incurred delays due to the deadlines for completion being moved to later dates.

Furthermore, owing to inadequate project preparation, the total costs of the construction works executed under the project *Reconstruction of MD's facilities* increased by **CZK 73.4 million** above the price agreed in the works contract and the deadline for completion of Phase 1 of the project was delayed nearly nine months.

¹⁰ Decree no. 40/2001 Coll., on Participation by the stage budget in financing assets replacement programmes, (in force as of 06.02.2001), and Decree no. 560/2006 Coll., on Participation by the state budget in the financing of assets reproduction programmes (in force as of 01.01.2007)



2.5.2.3 Subsidy Policy

The subsidy policy of the state is one of the areas upon which the attention of the audits remains focused each year. Various subsidy titles serve to support those activities where the state is prepared to render support but is not prepared to execute the projects on its own. The funds allotted for such subsidy titles constitute a substantial part of the state budget each year and this is why the SAO has repeatedly been paying attention to the related issues and to mapping out the system of subsidies.

Shortcomings identified in audits of the providers of subsidies

– Systemic shortcomings, such as:

Audit No. 07/17 - The goals of the programmes providing subsidies to projects in the areas of physical culture and sports called by the MEYS were never set out in a quantifiable form or in any other clearly formulated manner, thus preventing any evaluation thereof. The goals failed to follow any performance indicators and failed to specify any target values to be reached. Certain risk factors were identified which influenced the efficiency and economy of public spending, such as:

- absence of any interim evaluations of those programmes which are focused on other than investment projects;
- inadequate rules specified for financing non-investment subsidies;
- granting subsidies toward non-investment programmes based on projects elaborated merely in a general manner, i.e., without specifying the scope of activities and the costs thereof;
- descriptive files of the sports facilities were not produced;
- the financing of the area of sports and physical culture, including that sourced from the budget chapter *General Treasury Administration*, was non-systemic;
- insufficient control over the subsidies provided as exercised by the MEYS.

Audit No. 07/24 - Until the time of completing the audit, the MEYS failed to promulgate any implementing regulation appurtenant to the Act on Universities that would regulate the ways and means of handling state budget subsidies allotted for educational, scholarly, research, developmental, artistic or other creative activities as well as the file-keeping of the subsidies provided.

Audit No. 08/03 - The MEYS in its capacity of provider of purpose-orientated and institutional support to research and development:

- failed to clearly define the objective of institutional support to specific university research projects and the terms thereof; some universities took advantage of this and interpreted this type of support as being nearly free for unlimited use. Consequently, this precluded any assessment of effectiveness, economy and fulfilment of the objective of extending institutional support to specific research;
- failed to define the priorities and the orientation in terms of substance of the research plans which it had decided to support. These plans were not evaluated as a whole with a view to the aspect of effectiveness of spending funds sourced from the state budget, and their expected over-all benefits were not evaluated;
- failed to evaluate the objectives and over-all effectiveness of spending on completion of all the research projects involved.



Audit No. 08/07 - In *The Framework Programme for the Support of Technology Centres and Centres of Business Support Services* the Ministry of Industry and Trade (MIT) failed to anchor the principle of monitoring and evaluating as one of the leading principles of EU's economic and social cohesion policy; it failed to monitor the progress of the projects and to evaluate the benefits obtained under the programme.

Audit No. 08/15 – In the audit at the Ministry for Regional Development (MRD), it was repeatedly ascertained that it had not been able to adequately apply the fundamental principles of programme financing when implementing the *State programme of support to tourism*, inasmuch as:

- it set out programme and sub-programme objectives such that were not concrete enough, and of too general a nature;
- it failed to create conditions such that would be adequate enough for determining and evaluating the effectiveness of spending from the state budget. Until the completion of the audit, the MRD failed to elaborate a system that would quantify the revenues deriving from the supported activities;
- it failed to conduct appropriate social-economic analyses that would allow for comparisons to be made between the expected effectiveness for society with that actually achieved on termination of state support.

Audit No. 08/34 - Comparisons of the Government-declared major domains of state policy towards non-governmental not-for-profit organisations (NGOs) for the 2006 to 2008 period revealed that a gradual shift occurred whereby the main areas of support to families were modified, even though the MLSA failed to submit for the Government's consideration any justification of these changes in orientation of thrust of this support which now came to be orientated onto well-functioning families, also failing to produce any overview document that would render an over-all assessment of the utilisation of the funds expended, linked to the standard of the services provided.

- Projects picked out for implementation in non-transparent fashion, and failure to observe the parameters and rules laid down in the documentation, for example:

Audit No. 08/15 - The MRD failed to pay adequate attention to the process of evaluating, assessing and picking out the projects for implementation, thus allowing subjective factors a considerable freedom of play in the allocation of subsidies under the *State programme of support to tourism*. In the final outcome, the entire process of picking out the projects became non-transparent.

Further on, the MRD when implementing this programme tolerated in particular the maximum prices set for the different parameters to be overstepped, adopted different approaches to determine the material indicators when adjudging comparable projects, etc.

- Shortcomings relating to the subsidy allocation rulings, such as:

Audit No. 07/18 - The MLSA in respect of its *Programme of social prevention and crime prevention*, issued in certain cases rulings whereby subsidies were allocated to organisations which never asked for a subsidy, and sent cash to their accounts. It brought organisations that had never taken part in project implementation under an obligation to meet the terms of the subsidy allocation ruling, to assume responsibility for observing the project objective and to utilise the subsidy in an economical manner. As a consequence of this misconduct on the part of the MLSA, the organisations that were the final recipients of the subsidies and the

executing bodies of the project could not be held responsible for the funds expended from the state budget and evaded MLSA's control.

Audit No. 08/34 – The MLSA in its capacity of administrator of the *Family support programme*:

- failed to bring forward evidence in respect of 105 recipients of subsidies in 2006 as to whether or not the respective rulings issued had spelled out the terms under which the subsidy funds could be spent;
- was not able to precisely pinpoint the true volumes of subsidy spending on the *Family support programme* in 2006 and 2007. The existing evidence of actual spending on this subsidy title was in a condition such that precluded any audit to be performed in order to verify whether the data in the closing accounts of the state budget chapter 313 - *Ministry of Labour and Social Affairs* for the years 2006 and 2007 were entered correctly;
- failed to penalise those NGOs which had not discharged their obligations, *i.e.*, had not submitted their annual reports or accounting audits;
- proceeded in a non-standard manner in the case of releasing an extraordinary subsidy for the Fund for Children in Need (FCN). It issued a ruling in respect of an amount totalling **CZK 15 million** for a project bearing a designation different from that shown in the application. The FCN failed to account for its subsidy and the MLSA failed to demand the accounting documents in settlement thereof, nor it has conducted any review of how the subsidy funds were spent.

- Financing in absence of a firmly set financial plan, for example:

Audit No. 08/07 - The MIT when executing its *Framework Programme for the Support of Technology Centres and Centres of Business Support Services* failed to adopt a firmly defined financial plan. This was the reason why the said programme suffered from problems of securing the required funding from the MIT's budget from its very outset; the funds that failed to be provided for amounted to **CZK 220 million, 471 million and 771 million** in 2005, 2006 and 2007, respectively.

- More subsidies provided in parallel to the same project (overstepping the maximum allowable percentage of co-financing from the state budget), for instance:

Audit No. 07/18 - In 2005, applicants in the *Programme of social prevention and crime prevention* received subsidies for the same project both from the Social Services Department of the MLSA and from the Labour Offices, *i.e.*, within the framework of the same state budget chapter 313 - *Ministry of Labour and Social Affairs*. The total sum of these subsidies was higher than the allowable percentage of co-financing from the state budget as set out in the subsidy disbursement rulings. The MLSA failed to remedy the shortcomings relating to overstepping the allowable percentage of co-financing from the state budget and continued disbursing the subsidies under the same terms even in 2006. Thus, in the years 2005 and 2006, the volume of co-financing from the state budget was exceeded by **CZK 3.2 million**.

The MLSA and MI proceeded in contravention of Act No. 248/1995 Coll.,¹¹ because they awarded subsidies in parallel, of total worth of CZK 0.8 million, to generally beneficial companies toward the same project.

- Failures to respect the terms under which subsidies were allocated, for instance:

¹¹ Act No. 248/1995 Coll., on generally beneficial companies and on modifications and amendments of certain other acts.



Audit No. 08/07 - The MIT when implementing its *Framework Programme for the Support of Technology Centres and Centres of Business Support Services* failed to respect the condition imposed by the pertinent EU regulation on regional public support, to the effect that subsidies should be channelled to the most disadvantaged regions. The MIT awarded the greatest volume of funding to the most developed region - the capital city of Prague.

Furthermore, the MIT subsidised the sum of **CZK 24 million** to a recipient that failed to meet one of the essential conditions required under the programme in question that at least 50 % of its annual turnover should derive from export sales of project deliverables or of project follow-up products.

Shortcomings identified in audits of subsidy beneficiaries

- Cases of unjustified spending, such as:

Audit No. 07/17 - Czech Sport Association (CSA) in its capacity of recipient of subsidies under the programme *Maintenance and operation of facilities for sports and physical culture* (responsible for an economical and efficient utilisation thereof in compliance with the non-investment project subsidy rulings issued) disbursed funds to various local sports unions and sports clubs against deficient invoicing documents lacking any listings of the works performed and supplies delivered. Thus, the CSA has disbursed **CZK 0.5 million** in 2005 and **CZK 0.5 million** again in 2006.

The Association of the Sport Federations of the Czech Republic committed a breach of budgetary discipline by spending, in 2006, non-investment funds totalling **CZK 0.3 million** for purposes not eligible as per the methodology instruction (e.g., to pay for gifts or to finance advertisements and promotional activities).

- Failure to respect the terms spelled out in the subsidy allocation rulings, for instance:

Audit No. 08/15 - It was found out that the recipients of subsidies failed to abide by the binding conditions under which they were allowed to use the subsidies, as laid down in the rulings on co-financing the projects of the *State programme of support to tourism* from the state budget.

Loans and repayable financial assistance vehicles sourced from the state budget

Audit No. 07/15 - The MF when disbursing repayable financial assistance (RFA) during the 2004 to 2006 period failed to enter the data on the RFAs provided in the central registry of subsidies, in spite of the fact that this had been an obligation imposed upon the Ministry each year since 1998 by a Government resolution and, since 2007, by the Budget Rules Act. Data which ought to have been recorded during the period under scrutiny involved amounts totalling **CZK 465.2 million**. In three out of the eight cases under scrutiny, the MF failed to present appropriate documentation pertaining to the settlement of the RFAs disbursed, which however is an obligation imposed upon the beneficiaries by the Budget Rules Act, also specifying that information on how the funds were used.

The MF when administering the accounts receivable from state loans and RAFs, acted in contravention of the Accountancy Act and the Budget Rules Act in that it failed to account for the disbursement of the RAFs and for the debts that had arisen. Concerning one part of the accounts receivable worth **CZK 195 million** it failed to produce relevant documentation of origin, whereas concerning other accounts receivable worth nearly **CZK 262 million** in total it failed to prove that claims by the state, to the effect that these funds were repayable loans, had been asserted on time.

The MF transferred the outstanding debt of **CZK 434 million** from the RAFs to the accounts receivable from state guarantees already extended, in contravention of the Budget Rules Act.

2.5.2.4 Public procurement

In audits focused on public procurements, the SAO has repeatedly been encountering similar shortcomings, mainly in the areas of adopting wrong public procurement procedures, of splitting larger contracts to smaller ones, or of imprecise specifications of the scope of tender. Repeated findings confirm that there is insufficient will or ability on the part of the auditees to address this state of affairs.

Awarding of public contracts and evaluation of bids

- Failures to abide by the stipulations of the Public Procurement Act and wrongly chosen methods of awarding public procurement contracts, such as:

Audit No. 07/12 - Public contracts for acquisition or operation of information systems designed for financing the EU Structural Funds and the Cohesion Fund were awarded by the MLSA and the MF to a single tenderer based on a Call, in a situation where the conditions for adopting this method of awarding the contract had not been met.

Audit No. 07/20 - The CP although required to abide by the Public Procurement Act whenever awarding any public contracts failed to do so, such as in the following cases:

- when concluding a contract for janitor services it failed to apply a supplier selection process as required by the said Act. During the period from May 2005 until August 2007 it paid the subcontractor a total of **CZK 13.3 million** for cleaning services;
- it concluded a construction works contract, of estimated worth of **CZK 600 million**, at the same time when it commissioned the elaboration of project documentation therefor.

Audit No. 07/24 - The Academy of Performing Arts (APA) in Prague awarded a lower-than-limit public procurement contract for a project called *APA - Implementation in part of measures resulting from e-audits* directly to a contractor with whom it concluded services contracts of total worth of **CZK 2.3 million** exclusive of VAT.

Audit No. 08/06 - The MLSA awarded a **CZK 148.2 million** public procurement contract, for a project called *Assistance to the long-term unemployed in the Ostrava and Most regions*, to a tenderer who failed to produce full evidence of having met the qualification criteria and, thus, should have been excluded from the public tender.

While implementing the project, the MLSA repeatedly paid for services that were never duly documented by the contractor. In spite of the requirement of executing the project implementation tasks in a manner as economical as possible imposed upon the MLSA as a government department, it reimbursed the contractor for certain costs associated with services that had been performed uneconomically.

- The subject of the contract was not specified precisely and correctly, resulting in uneconomical expenditures, such as in the following case:

Audit No. 07/20 - The CP concluded contracts within a brief space of time ahead of the effective date of the Public Procurement Act, even though it had been unable, at the time of signing the contracts, to adequately outline or specify the subject and scope of the contract, to determine the price and, in certain cases, even to decide on the applicable deadline for completion. For example, it documented the progress of execution during the 2005 to 2007

period of a framework contract dated in 2004 by means of purchase orders totalling CZK 97.2 million. According to accounting records however it paid out CZK 116.7 million, *i.e.*, **CZK 19.5 million** above the said sum.

- Splitting large contracts into several smaller ones and awarding these parts separately, even though the law expressly forbids such procedure, for example:
Audit No. 07/20 - The CP in 16 cases where the estimated contract price would have been higher than CZK 2 million, split the scope of these public procurement projects into several orders.
- Awarding a public procurement contract based on negotiated proceedings without publication, although the law forbids this procedure, such as in:
Audit No. 07/16 - In the case of two public procurement contracts of total worth of ca. **CZK 62.4 million**, the CHMI when picking out the supplier for projects under the assets reproduction programmes awarded the public contracts by way of negotiated proceedings without publication, in spite of this being precluded by law.

2.5.2.5 Management of state assets

Issues relating to the management of state assets have been repeatedly addressed by the SAO in its audits, and yet it continues coming across serious shortcomings. For instance:

Audit No. 08/12 - As at 31. 12. 2007 the LF CR failed to settle the claims of legitimate claimants in respect of transfers of land plots of total worth of **CZK 1,262.9 million**, *i.e.*, 16.47 % of all the claims on record.

Until mid-April 2006, the LF CR continued to give preference to the offer of agricultural land plots pursuant to the stipulations of Act No. 95/1999 Coll., on the conditions applicable to the transfer of agricultural land and forests from state ownership to the ownership of other entities¹², over and above the public offer of such agricultural land plots in settlement of the restitution claims of legitimate claimants¹³. Not even after 17 years has the restitution process been brought to completion.

The LF CR:

- was receiving applicants' submissions to purchase agricultural land plots past the pre-set deadline;
- failed to produce debt inventories;
- concluded a purchase agreement without having received at least an advance payment toward the purchase price;
- in sales of property, it failed to adopt the same procedure in all cadastral areas - no items were offered for sale yet in certain cadastral areas.

Audit No. 07/21 - In 2008 the process of environment-friendly disposal of guided missiles was interrupted. A great number of guided missiles intended for liquidation remained in storage and the monitoring of the technical condition thereof was suspended. Delaying liquidation generates additional storage costs and constitutes a safety and security risk.

Audit No. 08/18 - The Ministry of Agriculture (MA) issued an instruction by which it gave preferential treatment to not-for-profit agricultural organisations to which it was awarding leases

12 Section 7 of Act No. 95/1999 Coll., on the conditions of transfer of agricultural and forest land plots from state ownership to the ownership of other entities and on amendments to Act No. 569/1991 Coll., on the Land fund of the Czech Republic, as amended by subsequent legislation, and Act No. 357/1992 Coll., on inheritance tax, gift tax and real estate transfer tax, as amended.

13 Pursuant to Act No. 229/1991 Coll., on the arrangement of ownership relations to land and other agricultural property.

of unnecessary non-residential property at a mere 30–50 % of the market lease rates commonly applied at the given time and place.

In four cases identified, the MA failed to readjust the duration of lease on expiry of a five-year period following the effective date of the Act on CR assets¹⁴ at which time the lease agreement came to an end, whereupon the MA continued the leases without having any legal foundation for doing so.

Stock-taking

Audit No. 07/14 - The MD proceeded formally when taking stock of its assets and liabilities. It failed to establish the true condition of its land plots and of its unfinished tangible assets (under construction/work in progress), and failed to verify whether the actual condition thereof is commensurate with that entered on the books.

The MD failed to account for the inventory differences in that accounting period in which the stock-taking took place to verify the state of the assets.

Audit No. 08/18 - When taking stock of its assets as of 31.12.2007, the MA failed to ascertain the true state of assets entered in the account 031 - *Land*, thus overrating the assets recorded in the closing balance of the pertinent account by **CZK 55.895 million**. In some cases, the inventory listings did not possess all the mandatory attributes.

Also, the MA failed to determine that certain items, amounting to nearly **CZK 2.5 million** in total as recorded in the account 042 - *Unfinished tangible assets* did not possess attributes that would define them as assets.

Wrong accounting

Audit No. 07/09 - Shortcomings were found in more than one half of audits conducted in a number of educational facilities providing institutional or protective education to check on assets accounting; thus the accounts showing the state of assets were biased in the respective closing statements for 2005 and 2006. Hence, the accounting of the said facilities failed to be kept in compliance with the Accountancy Act.

Subsequently, the MEYS transferred the erroneous data into the over-all balance statement of its organisations financed in part from the state budget, which in turn constitutes a component part of the closing accounts of the budget chapter. This caused a distortion of the over-all budget lines reporting on assets in the closing accounts of the chapter for 2005 and 2006.

Audit No. 07/14 - Accounting by the MD was not conclusive and, in the years 2005 and 2006, reported incorrect closing balances for the account 031 - *Land*, inasmuch as the MD also accounted for and reported on its books land plots over the management of which it did not have any competence, or accounted for them by multiple accounting entries, or in some cases, the land plots could not be found in the cadastral real estate records.

As a consequence of wrong and incomplete accounting, the MD:

- a) overrated the accounts Nos. 021 - *Buildings* and 031 - *Land*:
 - by an amount of CZK 42.941 million in 2004;
 - by an amount of CZK 8,876.127 million in 2005;
 - by an amount of CZK 3,748.357 million in 2006;
- b) underrated the accounts Nos. 021 - *Buildings* and 031 - *Land*:
 - by an amount of CZK 1.991 million in 2005;
 - by an amount of CZK 3.244 million in 2006.



The MD failed to enter in its off balance sheet accounts those real estate assets that were owned by other subjects and used by the MD.

Performance audits

Audit No. 08/01 - The MD underestimated the importance and enforcement of the principles of good outsourcing practice, which constitute a prerequisite for any successful outsourcing. Owing to systemic shortcomings in the implementation of outsourcing, the MD failed to attain some of its implementation targets. It failed to establish evaluation mechanisms such that would allow for monitoring and evaluating the outlays expended on selected outsourced activities and for demonstrably affirming the economic benefits derived from outsourcing.

With most services, the MD only applied one single criterion, namely the lowest bid price. In some cases, however, this criterion proved to be ill-suited from the points of view of quality of the service and of the required flexibility on the part of the subcontractors.

The MD when defining the terms of the contractual relationship failed to adopt an equal approach to all subcontractors, which would be conducive to creating conditions for a long-term and effective cooperation and would ensure that the services will be met to the full extent, in compliance with the needs of the contracting authority. In some contracts, certain data of essential importance for computing the unit price remained unspecified.

Audit No. 08/16 - The PPP project called *Construction of the Justice Palace and Facility at Ústí nad Labem* was approved on the basis of biased calculations; principally, the advantageousness as per the project calculations of having the project implemented by resorting to a PPP was significantly influenced by an unjustified level of risks incorporated into the model of financing the construction works directly from state budget funds.

The construction of the Justice Palace and Facility has been under preparation for a period exceeding five years and is yet to reach completion. The MJ failed to take steps to ensure a regular progress of the project. This can exert adverse impacts on the economy of future construction and operations of the Justice Palace and Facility.

The preparations have been affected by contravention of the envisaged time schedule for implementation of this PPP project as well as to its updated version of May 2008.

Management of state-owned enterprises

Audit No. 07/20 - The CP when engaging in acquisitions, reconstruction and repairs of real estate property was commissioning the production of project documentations as well as the execution of construction works without having arrived at a clear understanding of the conceptual outline of how the projects should be tackled. It initiated the construction works on ill-prepared projects, and was hiring building contractors without having adequately specified the scope of the works in the contracts and without providing access to funding.

The method adopted to select contractors for the project design and project construction works as well as the ways used to purchase fuels for vehicles and various services, mainly of marketing agencies and cleaning firms, failed to be conducive to creating appropriate conditions that would foster effective disbursements of funds for the respective activities being carried out.

The CP failed to keep records of the Postal Museum collections in a way that would allow for an unbiased and conclusive verification. Shortcomings were identified in its collection inventories, in keeping track of the collection's exhibits on loan, and also in the way it approached the stock-taking of the collections. The Postal Museum failed to maintain a full grasp of its collection's exhibits in terms of their value, so as to be able to adopt a special regime of handling the exhibits.

2.5.2.6 Management of finances provided to the Czech Republic from abroad

Audit No. 07/06 - In the case of the MLSA when securing and spending funds required for the implementation of its active employment policy (AEP), it was ascertained that low-level spending on programmes co-financed from the EU budget was due to their long-winded implementation. The main causes underlying low spending included in particular an over-all lack of preparedness for the implementation of programmes co-financed by the EU, cumbersome administration and understaffing. As opposed to planned spending on AEP under programmes co-financed from the EU budget, which was nearly CZK two billion, the actual spending in 2005 was a mere CZK 161 million.

Audit No. 07/11 - The system whereby direct payments were arriving within the framework of pursuing the Common Agricultural Policy (CAP) was basically well-functioning and was in compliance with the requirements set forth for the CAP by the legislation of the European Communities and the CR. Errors were identified in respect of the organisation and execution of financial audits, and also in delegating some of the activities by the Paying Agency. Owing to a shortage of state budget funds, a commercial loan had to be resorted to; the ensuing interest charges amounting to nearly CZK 1.4 million represented an additional burden imposed on the state budget, but on the top of it, the deadlines for disbursement of some of the direct payments were not adhered to.

The shortcomings already identified in the audit conclusion of Audit No. 06/26 - *Finances intended for the implementation of the Common Agricultural Policy* (published in Issue 3/2007 of the SAO Bulletin).

Audit No. 07/12 - The MRD when implementing and utilising the monitoring system of Structural Funds (MSSF) was failing in its capacity of coordinator, inasmuch as the methodology layer of the MSSF for the 2004–2006 programming period lacked the definition of centrally monitored data, sources of these data and their mandatory assignments to the different implementing subjects involved. Implementation by the MRD of the MSSF methodology layer for the 2007–2013 programming period lagged more than seven months behind the Government-set schedule. Inadequate coordination of the implementation effort and of using the MSSF brought about insecurity on the part of the subjects involved at the executive level of implementation of the Structural Funds; as a consequence of this, these subjects were prevented from long-term planning of the development of the information systems operated by them.

The MRD infringed against the rules of budgetary discipline, because it settled a part of the expenditures of the *Ministry of Finance* budget chapter, i.e., paid out a total of **CZK 4 million** over and above the framework of the contract concluded in writing.

The MLSA infringed against the rules of budgetary discipline, because it paid out a total of **CZK 0.9 million** over and above the framework of the contract concluded in writing.

Audit No. 07/23 - In the case of the MRD's participation in the *Joint Regional Operational Programme* geared toward the development of tourism and the regeneration and revitalisation of selected towns and cities, it was ascertained that:

- during the course of managing the programme, changes were made to the rules applicable to subsidy applicants and beneficiaries;
- the beneficiaries were not required to meet some of the conditions laid down in the pertinent rulings, terms and contracts;
- the indicators and parameters used to assess the results (impacts) of the measures adopted and projects undertaken were spelled out in an ambiguous manner, also involving insufficient estimates of the expected values; as a consequence, the interim assessments of benefits were produced based on data which were not credible.



- the MRD failed to attain one of the goals of the tourism outline policy, namely establishing a national tourism information and booking system including a network of the tourism information centres involved;
- in linkage to the amount of support received, it failed to verify sufficiently whether the investment projects were generating any revenues on project completion.

Audit No. 08/02 - In the case of the MRD in respect of its system of administration of the (national and EU) support programmes and in connection with cutting back on the expenditures of the national programmes in favour of those of the EU programmes, it was ascertained that:

- for some programming documents it failed to set the criteria for evaluating the applications submitted (as was the case, for instance, with the housing support programmes);
- when checking on how the providers' obligation to record the data on subsidies in the central record of subsidies (CEDR) was being met, an audit at the MRD involving a sample of 20 subsidy beneficiaries revealed that the data on the subsidies disbursed specifying the amount and the provider could be identified unequivocally for only five of these beneficiaries. For ten other beneficiaries the CEDR system held data that failed to fit onto the project selected, and for the remaining five beneficiaries the CEDR information system did not carry any records whatsoever;
- the tasks deriving from the Government resolution aiming to cut down the expenditures of the national programmes while increasing the share of those programmes which were co-financed from EU funds failed to produce the desired effect.

Audit No. 08/05 - The system whereby state and EU funds allotted for payments relating to the measures adopted by common market organisations are being made available is basically sound and well-operating, meeting the requirements stipulated by the European Communities and CR legislation. Yet the disbursement of payments was not entirely error-free, as demonstrated by the following examples:

- certain shortcomings in the application of the rules of procedure were spotted at the State Agricultural Intervention Fund (SAIF);
- the MA failed to produce annual settlements of exchange rate differences;
- the MA failed to enter its data on subsidies provided in the CEDR;
- the VAT payments by two beneficiaries were ca. **CZK 1.3 million** short of their regulation payments.

Audit No. 08/06 - The project *Support of employment creation in municipalities and in organisations of the non-profit sphere and of retraining* was launched by the MLSA based on a manifest effort at spending the funds from the European Social Fund (ESF) allocated for 2005 before the final deadline of 31. 12. 2007. The justification put forward in respect of the project was formulated as presenting the possibility of funding certain AEP instruments of the state from the ESF, in the form of refunds of costs already defrayed by the Labour Offices during the course of the foregoing periods. However, the project thus conceived failed to respect the fundamental requirements of European Communities legislation concerned with the eligibility of costs and with funding of publicity.

During the period under scrutiny, the Priority 1 of the Operational programme *Human Resource Development* was confronted with the problem of slow spending of the funds. As at the end of 2007, i.e., one year ahead of the termination of this programme's five-year period, the actual level of spending reached a mere 41 % of the financial volume allocated.

2.5.2.7 Management of finances collected by law in favour of corporate bodies

Audit No. 08/11 - The Czech National Health Insurance Company (CNHIC) failed to pay adequate attention to the collection of insurance premiums, e.g.:

- in some cases, the CNHIC's information system did not include the latest data on premiums due and on the outcome of audits carried out in respect of the payment of premiums as well as of audits of the healthcare items reported as delivered;
- the contracts concluded with healthcare institutions did not include specific data and information on the material and technical equipment and on the human resources available therein; they also did not specify the actual scope of healthcare which the respective healthcare institutions are authorised to provide;
- based on the audit of payments the CNHIC assessed a volume of healthcare worth **CZK 42.445 million** illegitimately reported by the hospitals for the period under scrutiny, which however it failed to compensate at the expense of the hospitals as at the time of completion of the audit by SAO;
- CNHIC's accounting was not conclusive and complete, and in the area of accounting for receivables due from the insurance premium payees it did not always connect to the data stored in the information system.

2.5.3 Audit activity in relation to the closing accounts of state budget chapters

Four audit missions of the type of financial audit were completed in 2008, aimed at verifying the correctness of reports submitted for the purpose of compiling the closing accounts of the individual chapters of the Czech Republic's state budget.

In these financial audits, the SAO:

- expressed its opinions on the fair and true view of the subject matter of accounting in the financial statements of the auditees;
- assessed the reliability of their internal management and control systems;
- expressed its judgments of the conformity of book-keeping and accounting with applicable legislation;
- given its assessments of how the Chapter administrators' obligation to compile the closing accounts was met.

These missions having the character of financial audits served as the principal instrument for verifying the information shown in the closing accounts of the state budget chapters, helping the SAO to formulate its opinion regarding the closing account of the state budget.

Table 3: Overview of financial audits whose audit conclusion was approved in 2008

(CZK thousands)

Auditing operation	State Budget Chapter	Financial statements as of	Assets	Incomes	Expenditures	Total absolute inaccuracy in financial statements
07/13	313 – MLSA	31. 12. 2006	79 277 506,45	327 135 895,48	321 094 287,72	2 443 074,02
07/28	372 – CRTB	31. 12. 2006	24 828,44	60,31	48 277,96	41 314,76
08/10	333 – MEYS	31. 12. 2007	8 824 186,31	2 518 842,80	122 711 616,66	716 041,39
08/13	313 – MLSA	31. 12. 2007	77 260 628,96	364 187 456,43	372 639 000,58	10 483 873,92
Total			165 387 150,16	693 842 255,02	816 493 182,92	13 684 304,09

Source: Audit conclusions of the SAO.

Note: The data shown for Audit No. 07/13 represent the sum total of the data for the MLSA and the CSSA, and those for Audit No. 08/13 represent the sum total of the data for the MLSA, the CSSA and the Labour Office of Brno-City.



2.5.3.1 Financial audits completed in 2008 and the outcome thereof

The audits identified certain facts that gave evidence of serious shortcomings in respect of the documents serving the compilation of the closing accounts of state budget chapters.

Conformity of book-keeping and accounting with legislative requirements

– Correctness of book-keeping and accounting

Audit No. 07/13 - The MLSA wrongly reduced the valuation of a building; failed to observe the subject-matter definitions applicable to accounts that carry assets and liabilities; and failed to comply with the mandatory breakdown of incomes by budget lines in respect of the sum total of **CZK 22.9 million**. Furthermore, it failed to account for exchange rate differences, for receivables due from employees on return from business trips abroad, and failed to apply a uniform accounting method to capture the data on intangibles (software).

The CSSA failed to observe the subject-matter definitions applicable to assets-carrying accounts; failed to report the closing balance of the credit on postage stamp imprinting devices (postage meters); failed to adopt the proper breakdown by budget lines.

Audit No. 07/28 - the CRTB failed to account for the resources generated for financing of tangible and intangible assets; failed to observe the subject-matter definitions applicable to assets and liability accounts; and failed to comply with the mandatory breakdown of expenditures by budget lines.

Audit No. 08/10 - the MEYS failed to comply with the mandatory definitions of asset accounts; accounted for assessed rentals and services relating to the use of flats, even though the assessment periods of these claims did not coincide with the accounting period of 2007; and failed to comply with the breakdown by budget lines in respect of the sum total of **CZK 622.4 million**.

Audit No. 08/13 - the MLSA wrongly allocated to improper budget lines the sum total of expenditures of **CZK 2,837.1 million** spent on activities co-financed from EU funds; spent a total of **CZK 34.4 million** to purchase certain applied programming tools, wrongly defraying these costs from the accounts of operating expenditures and wrongly accounting therefor as direct costs.

The CSSA acquired programming software worth **CZK 14.9 million**, which it wrongly classified as operating expenditures, accounting therefor as direct costs of expendables. Items of assets were activated for use, allocating the sum total of **CZK 124.4 million** to wrong asset accounts.

The Labour Office of Brno-City (LOBC) failed to observe the subject-matter definitions applicable to asset accounts.

– Completeness of accounting, e.g.:

Audit No. 07/13 - The MLSA within the framework of investment incentives, disbursed interest-free loans of total worth of **CZK 800.7 million** during the 2000–2003 period, failing to account therefor as debt claims.

Audit No. 08/13 - The MLSA failed to account for the claim on the MF (the National Fund) worth **CZK 215.2 million** based on an application for a subsidy from the EU Structural Funds that had been submitted; it failed to account for all cases relating to tangible and intangible assets.



- Conclusiveness of accounting, such as:

The MLSA, CSSA and CRTB during 2008 and the MEYS, MLSA and LOBC during 2007 failed to keep conclusive books and accounting within the meaning of the Accountancy Act, inasmuch as they did not take stock of their assets and liabilities pursuant to the Accountancy Act, and some of their book-keeping entries were inconclusive.

- Comprehensibility of accounting, for instance:

Audit No. 07/13 - The MLSA in contravention of the Accountancy Act, failed to keep comprehensible accounting books in 2006 in the area of tangible assets (the book-keeping system in this area stemmed from assets-related records which however were not kept in a way that would allow to reliably establish the correctness of valuation of the assets reported), as well as in the area of state social benefits (where the system did not allow to reliably determine the subject matter of the items accounted for and the closing balances reported; it also prevented the verification of any specific accounting items, such as the payment of a specific benefit, or the fact of an identifiable claim arising).

Audit No. 07/28 - The CRTB failed to account for receivables due until the date they were defrayed; further, it accounted for employee liabilities ahead of the time of such claims arising. The accounting of the CRTB did not allow for a reliable and unequivocal determination of the contents of the book-keeping entries documenting account-to-account bank transfers.

- Completeness of financial statements, e.g.:

Audits No. 07/13 and No. 07/28 - In contravention of applicable legislation, the Notes to the financial statements of the MLSA, CSSA and CRTB compiled as at 31.12.2006 failed to incorporate information on the accounting methods used as well as other information that would explain and complement the balance sheet information, being of essential importance for the assessment of the assets and property held by the accounting unit in question.

Audit No. 08/13 - Shortcomings were also identified in the Notes to the financial statements of the MLSA, CSSA and LOBC compiled as at 31.12.2007.

Audit No. 08/10 - The financial statements of the MEYS compiled as at 31.12.2007 failed to incorporate Part X. *Balances and turnover totals in the bank accounts of government departments, of state-owned corporate bodies having relations with the state treasury, and of state funds kept in other banks (i.e., other than the CNB).*

True and fair view of the subject matter of accounting in the auditees' financial statements

Audit No. 07/13 - In view of the over-all extent of irregularities (totalling **CZK 1,553.7 million**) encountered in the financial statements of the MLSA compiled as at 31.12.2006 and in view of the comparisons thereof with the pre-set maximum allowable irregularity ratio of the records (corresponding to a level of materiality of¹⁵ CZK 258.3 million) it is clear that the **said financial statements of the MLSA fail to give a true and fair view of the subject matter of accounting for the financial year 2006**, pursuant to the Accountancy Act and other applicable legislation.

Audit No. 07/28 - The over-all extent of irregularities (totalling **CZK 41.3 million**) encountered in the financial statements of the CRTB compiled as at 31.12.2006 and the comparisons

¹⁵ The maximum allowable ratio of bad records, which the users of the statements may still consider as acceptable, was specified in 2006 and 2007, in keeping with the recommendations of the INTOSAI international audit standards, as 0.5–2 % of the value that best represents the extent of financial activities of the accounting unit under consideration.

thereof with the pre-set maximum allowable irregularity ratio of the records (corresponding to a materiality threshold of CZK 1 million) it is clear that the **said financial statements of the CRTB fail to give a true and fair view of the subject matter of accounting for the financial year 2006**, pursuant to the Accountancy Act and other applicable legislation.

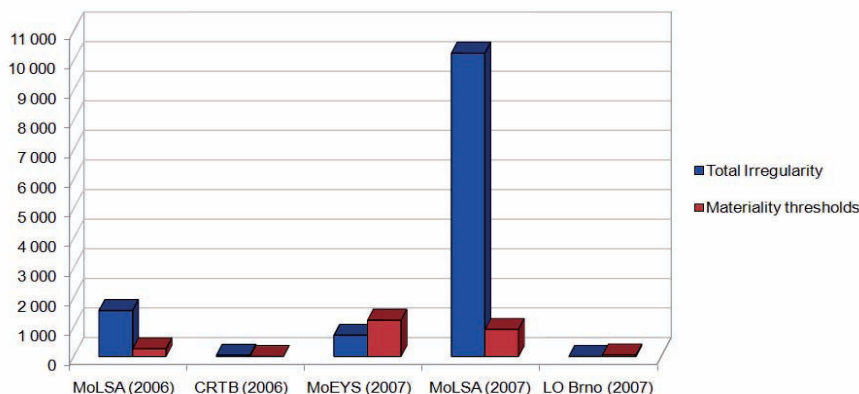
Audit No. 08/10 - The over-all extent of irregularities (totalling **CZK 716 million**) encountered in the financial statements of the MEYS compiled as at 31.12.2007 and the comparisons thereof with the pre-set maximum allowable irregularity ratio of the records (corresponding to a materiality threshold of CZK 1,227.1 million) it is clear that the **said financial statements of the MEYS give a true and fair view of the subject matter of accounting for the financial year 2007**, pursuant to the Accountancy Act and other applicable legislation.

Audit No. 08/13 - In view of the over-all extent of irregularities (totalling **CZK 10,255.3 million**) encountered in the financial statements of the MLSA compiled as at 31.12.2007 and in view of the comparisons thereof with the pre-set maximum allowable irregularity ratio of the records (corresponding to a materiality threshold of CZK 912.1 million) it is clear that the **said financial statements of the MLSA fail to give a true and fair view of the subject matter of accounting for the financial year 2007**, pursuant to the Accountancy Act and other applicable legislation.

The over-all extent of irregularities (totalling **CZK 4.7 million**) encountered in the financial statements of the LOBC compiled as at 31.12.2007 and the comparisons thereof with the pre-set maximum allowable irregularity ratio of the records (corresponding to a materiality threshold of CZK 51.4 million) it is clear that the **said financial statements of the MEYS give a true and fair view of the subject matter of accounting for the financial year 2007**, pursuant to the Accountancy Act and other applicable legislation.

A comparison of the sum total of irregularities identified and the materiality level of financial audits whose audit conclusions were approved in 2008 is shown in the following graph.

Graph 3: Comparison of identified irregularities in total and the materiality thresholds (in CZK million)



Source: Audit conclusions of financial audits (Audit No. 07/13, Audit No. 07/28, Audit No. 08/10, and Audit No. 08/13).

Preparing the closing account of the state budget chapters

The financial statements compiled by the MLSA as at 31.12.2006 (Audit No. 07/13) and the financial statements compiled by the CRTB as at 31.12.2006 (Audit No. 07/28) **did not constitute reliable background information for compiling the closing accounts of the state budget chapters 313 - Ministry of Labour and Social Affairs and 372 – Council for Radio**

and *Television Broadcasting of the CR* in 2006, pursuant to Decree No. 419/2001 Coll.,¹⁶ All the irregularities identified were aggregated in data tables shown in the closing accounts.

The financial statements compiled by the MLSA as at 31.12.2007 (Audit No. 08/13) **did not constitute a reliable background information for compiling the closing accounts of the state budget chapter 313 - Ministry of Labour and Social Affairs** for 2007 pursuant to Decree No. 419/2001 Coll., All the irregularities identified were aggregated in data tables shown in the closing accounts. The financial statements compiled by the LOBC as at 31. 12. 2007 (Audit No. 08/13) constituted a reliable background information for compiling the 2007 closing account of the state budget chapter 313 - *Ministry of Labour and Social Affairs*.

The financial statements compiled by the MEYS as at 31.12.2007 (Audit No. 08/10) constituted a reliable background information for compiling the 2006 closing account of the state budget chapter 333 - *Ministry of Education, Youth and Sports*.

Budget discipline

Infringements against budgetary discipline within the meaning of Section 44 of the Budget Rules were ascertained in Audits Nos. 07/13 and 07/28. They included the following:

- Audit No. 07/13 - The MLSA incurred expenditures totalling **CZK 1,3 million** even before the pertinent budgetary measure was adopted;
- Audit No. 07/28 - The CRTB incurred expenditures totalling **CZK 1.8 million** even before the pertinent budgetary measure was adopted.

Further findings relating to financial audits

Audit No. 08/13 - The MLSA in the account 069 – *Other long-term financial assets* of its financial statements compiled as at 31.12.2007, reported holdings of assets of total worth of CZK 7,089.03 million. The issues relating to holdings were scrutinised by the SAO in 2006 within the framework of its Audit No. 06/20 – *Closing account of the state budget chapter “Ministry of Industry and Trade”* (of which the audit conclusion was published in Issue 1/2007 of the SAO Bulletin), and also in 2007 within the framework of its Audit No. 07/13. The SAO stated that the problem of accounting for and reporting property holdings of the state is complicated and requires comprehensive amendments, and that the regulations which govern accounting are inadequate and ambiguous in this area. This situation has persisted, and for example, the allocation of accounting entries relating to property holdings to specific accounts of the mandatory charter of accounts depending on the degree of influence of, or control over, the various subjects involved is lacking the required criteria, bearing in mind that it is the property holdings of the state in its capacity of a corporate body which is at issue here.

The MLSA transacted a swap of real estate property located at Lannova 1235, Prague 2. The finding as per Audit No. 07/13 cast serious doubts of principle on the issue of economic advantageousness of this swap. An analysis of expert opinions showed that the swap agreement ought to have incorporated a clause on settling the difference in value of the real estate units being swapped, this difference amounting to CZK 137.2 million.

¹⁶ Decree No. 419/2001 Coll., on the extent, structure and deadlines relating to data submitted for compiling the draft state closing account and on the extent, structure and deadlines for compiling the draft closing accounts of relevant state budget chapters..

2.5.3.2 Share of audited expenditures out of the total expenditures sourced from the state budget

Under the 2008 audit plan, the missions having the nature of financial audits scrutinized 53.91 % of the total expenditures incurred by accounting units that are appurtenant to the various chapters of the state budget. The sum total of these expenditures is exclusive of the expenditures of the chapters 396 – *State debt*, 397 – *State Financial Assets Operations* and 398 – *General Treasury Administration* (these chapters do not constitute accounting units).

2.5.3.3 Systematic execution of the financial audit

The process of systematic auditing of the state budget chapters is represented in the following table, which contains all the important chapters of the state budget, as well as information on how the reviews having the nature of financial audits are performed.

Table 4: Overview of performed financial audits in respect of individual state budget chapters

State budget chapter	2002	2003	2004	2005	2006	2007	2008
306 Ministry of Foreign Affairs							
307 Ministry of Defence							
309 Office of the Public Defender of Rights					x		
312 Ministry of Finance							
313 Ministry of Labour and Social Affairs						x	x
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	x	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					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						x	
375 State Office for Nuclear Safety			x				

Source: Audit conclusions of the SAO.

Note: Audits that were performed in the respective state budget chapter in the respective calendar year.

2.6 Auditees' internal control systems

- Inadequate internal control of finances sourced from the state budget, such as:

Audit No. 07/16 - The ME failed to provide for control of the measures adopted, in the area of information safety and security, at its subordinate organisations subjected to audits: CENIA, the Czech Environmental Information Agency, and CHMI.

At the ME, no control and no audit of expenditures for information and communication technologies sourced from the state budget took place during the 2004–2006 period. The internal audit and financial audit section of the ME did not undertake any control, and equally, no controls were undertaken on the part of the Ministry of Informatics.

The CHMI failed in its task of regularly performing annual controls that would look into the observance of licence agreements pertaining to installed computer software.

Audit No. 07/19 - The MJ failed to provide for supervision over the internal control system of the prison services, for the purpose of an early detection of any shortcomings affecting the process of implementation of investment projects and the accounting practice; as a consequence, this brought about infringements against budgetary discipline.

Audit No. 08/06 - The MLSA conducted preliminary controls at a time antecedent to the time at which the liability concerned came into existence; thus, the controls suffered from serious shortcomings, failing to fulfil their basic objective, which was to check on the correctness of an operation before that operation was executed. More shortcomings were also identified in respect of preliminary controls conducted at a time antecedent to payment.

Audit No. 08/08 - The MF in its capacity of administrator of the SFAO chapter failed to provide for a control to be carried out in this area, within the meaning of the Act on Financial Audits.

Audit No. 08/09 – During the period under scrutiny the MFA failed to undertake an audit of the funds spent on information and communication technologies acquired for the purpose of implementation of the *Schengen acquis*.

- Reliability of internal management and control systems, e.g.:

Audit No. 07/28 - Throughout 2006, the CRTB lacked a properly adjusted, effective system of internal controls that could detect soon enough, evaluate and minimise any risks connected with accounting-related activities.

Audits Nos. 07/13 and 08/13 - In 2006 and 2007, the MLSA and the CSSA lacked a sufficiently effective system of internal controls that could detect soon enough, evaluate and minimise any risks connected with accounting-related activities and could prevent the occurrence of the shortcomings identified during the audit.

Audit No. 08/10 - In the case of the MEYS during 2007, the preliminary control acted as a fortifying factor, whereas the interim and post-implementation controls were so adjusted in advance as to be able to identify any irregularities in the financial statements that were subsequently detected by the SAO audit and to adopt all the remedial measures determined in the foregoing control, for which the MEYS set for itself the implementation deadline of 2007.

2.7 Information on the publication „EU REPORT 2008“

For the first time in its history, the SAO has published a publication entitled EU REPORT 2008 – *Report on EU Financial Management in the Czech Republic*.

The mission of this report was to present information on the structure and fundamental operating principles of the EU budget and also to summarise the experience acquired through SAO's own audit activity, to compare it with that deriving from audits performed by European institutions, and to highlight the shortcomings encountered in the financial management of those EU funds that are of concern to the CR. By publishing the report, of which the first edition covered the 2004–2007 period, the SAO intends to contribute to raising the awareness of the issues being confronted in managing the EU funds in the ranks of the institutions in charge of the funds as well as among the general public.



III. Evaluation of other SAO activities

1. Other SAO activities related to audits

1.1 Opinions regarding the interim report on the state budget process and the draft of the state closing account

The SAO submitted to the CD PCR opinions regarding the state closing account of the Czech Republic proposed by the Czech Government for 2007 and regarding the Government report on the progress of implementation of the state budget of the Czech Republic for the first half of 2008 pursuant to Section 5 of the SAO Act.

The SAO's opinion regarding the proposed 2007 state closing account was formulated (as stipulated by the SAO Act) so as to highlight the experience and findings deriving from SAO's audits, i.e., it focused mainly on appraising the closing accounts of budget chapters and summarised the most serious and recurring shortcomings, referring to the relevant audit conclusions approved by the SAO Board and published in the SAO Bulletin. General conclusions were drawn from the results of financial audit type reviews performed by the SAO.

Furthermore, the SAO drew attention to certain fundamental problems encountered in implementing the 2007 state budget. An essential part was the assessment of the Government document that the SAO regards as sufficiently detailed in view of the analytic approach adopted in processing the commentaries. However, a fundamental deficiency is perceived by the SAO in the generally inadequate assessments of efficiency, economy and effectiveness of the budget funds expended. The core of the problem resides in the currently applicable system of budget planning where neither the specific indicators nor the cross-sectional indicators employed in the different budget chapters are designed for the most part as performance-orientated targets, making it impossible to subsequently compare the results actually achieved with the intended objectives. Also, the SAO drew attention to persisting problems in the structure and progress of implementation of the state budget, such as:

- the high proportion of mandatory expenditures;
- the impacts of reshuffling budget finances between budget chapters and reserve funds;
- overestimations of incomes from the EU and shortcomings affecting the system of financing the EU funds;
- the risks associated with involving privatisation funds in replenishing the state funds;
- the shortcomings encountered in the reporting of state financial assets and liabilities;
- the risks associated with granting state guarantees.

When assessing the closing accounts of the different budget chapters the SAO has observed that the shortcomings affecting the mandatory subject-matter content as well as the scope of the closing accounts of the chapters keep reappearing and that, in spite of repeated criticism voiced by the SAO, no long-term improvement on the part of the chapter administrators can be noted.

The SAO's opinion on the Government's state budget implementation progress report for the first half of 2008 gave an assessment mainly of the degree of progress made towards the state budget targets. The SAO has pointed out the negative long-term trend of the public budgets debt as has drawn attention to the growth of expected indebtedness of certain state funds (in particular, the SAIF and the State Environmental Fund). The level of debt is still far from



alarming by international comparison but its acceleration in recent years, in spite of being substantially offset by privatisation receipts, is a warning sign. The SAO has repeatedly drawn attention to these circumstances and to the gradually weakening influence of the dwindling privatisation resources, which in coming years will pose an increasingly serious risk to the further development of public budgets deficit.

1.2 Opinions on draft legislation

Pursuant to Section 6 of the SAO Act, both Chambers of the Parliament of the Czech Republic and the bodies thereof are 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 activities. In 2008 the Legislative Sub-committee of the Audit Committee of the CD PCR considered the SAO documents relating the potential amendment of Act No. 166/1993 Coll., on the Supreme Audit Office, as amended.

In inter-departmental rounds of comments conducted pursuant to the Government's Legislative rules the SAO gives expression to its opinion in respect of items of draft legislation which are of concern to the SAO in its capacity of a government department or which fall within its scope of competencies. A total of 131 items of draft legislation were submitted to the SAO for assessment in 2008. The findings deriving from SAO's audits were reflected e.g., in formulating SAO's comments on the amendment of the Act on Agriculture and the Act on the State Agricultural Intervention Fund, as well as on the draft amendments of the Public Procurement Act and the Concessions Act. Traditionally, special attention was also paid to drafts of implementing regulations appurtenant to the Budget Rules Act and the Accountancy Act, as well as to the proposed modifications of the system of taxes and tax proceedings. The SAO submitted specific comments in respect of a total of 48 legislative proposals.

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	18	15
Implementing decrees for acts regulating areas subject to the SAO scrutiny	17	14
	96	19

1.3 Support for Best Accounting Practice

Support for the best accounting practice pervading the SAO's activity makes a substantial contribution to an effective, high-quality drafting and pre-treatment of accounting and financial information, representing a basis of responsible, well-founded decision-making and good financial management at all levels. In view of its statutory position, the SAO plays an important role in this area, manifested by its focus on:

- setting up auditees' accounting systems such that comply with the fundamental requirements imposed on accounting, *i.e.*, correctness, completeness, conclusiveness and comprehensibility;
- emphasizing the importance of information published by the auditees and advancing its high reliability and completeness;
- perfecting the auditees' internal control systems, aiming to ensure an adequate level of risk management;



- pointing to the necessity of undertaking systemic and/or legislative changes in cases where the existing legislation either fails to adequately cover some significant accounting, auditing or financial issues or covers these issues in an equivocal manner.

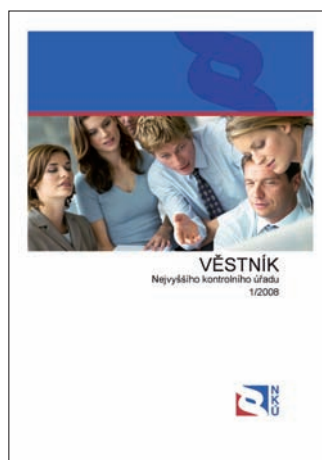
Effective support of the best accounting practice is also contingent upon an extensive knowledge base, which is equally indispensable for assessment of any systemic measures proposed in the area of accounting. This base can be acquired and maintained by incessant monitoring of world developments and by setting up platforms for exchange of information, but also by providing access to this information. This is why in 2008, the SAO provided a translation of the IPSAS manuals (outlining the International accounting standards for the public sector), which have been made accessible over the Internet for anyone interested in these problems.

In May 2008, the SAO held an international seminar which proved to be an important event facilitating the exchange of information and experience in the area of state assets valuation.

2. Communicating with the public

2.1 Publishing activities

The SAO Bulletin (Volume XVI) was published in four quarterly issues appearing at the end of each calendar quarter. A total of 34 audit conclusions were published in these issues; one of them concerned an audit completed in 2007. Also published were an audit plan, its supplements and amendments, and the annual report for the previous calendar year. Also, the audit results were published on the SAO website, www.nku.cz, on a regular basis.



Up-to-date information on the SAO's competencies, organisational structure and activity were published on the SAO website in compliance with pertinent legislation.

The publication *Report on the Results of the Parallel Audit of the Administration of Value Added Tax in the Czech Republic and in the Federal Republic of Germany* appeared in April 2008.

The trilingual publication presented the VIES system (Value Added Tax Information Exchange System) and informed about value added tax administration audits that had taken place in cooperation of the SAO and the Federal Court of Audit (Bundesrechnungshof). The report was released to the public.

For the first time in its history, the SAO published the EU REPORT 2008 – *Report on EU Financial Management in the CR* (cf. Section II. 2.7) in May 2008. The report was released to the public.

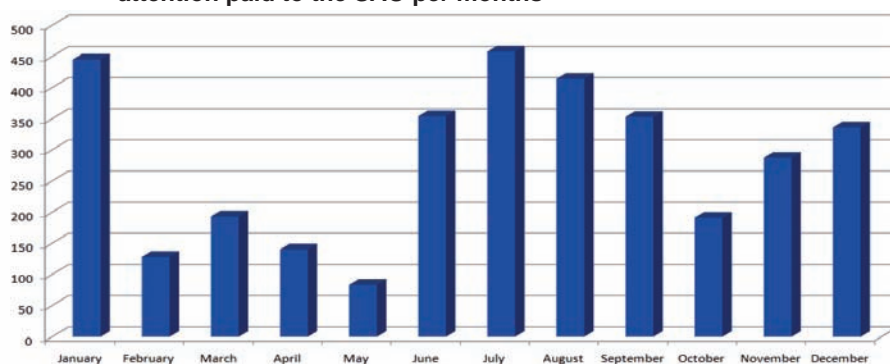
The *Report on implementation of the NATURA 2000 NETWORK in Europe* appeared in print in November 2008. The coordinated audits, designated *Implementation of the Natura 2000 system*, aimed to evaluate the progress attained in implementing the tasks to which the EU Member States



became committed by Directive 79/409/EEC on the conservation of wild birds in its valid wording and by Directive 92/43/EEC on the conservation of natural habitats and of wild fauna and flora in its valid wording, *i.e.*, creating the Natura 2000 system. The institutions which took part in this audit during the 2007–2008 period included the supreme audit institutions of France, the CR, Estonia, Finland, Hungary, Austria and the United Kingdom of Great Britain and Northern Ireland.

A report entitled *Summary of the media presentation of the Supreme Audit Office* was produced in 2008. This report incorporated a summary of SAO's media presentations throughout the year. Graph 4 shows media attention paid to SAO broken down by months. Overall, the SAO was mentioned in 3,382 cases in the media in 2008.

Graph 4: Summary of media attention paid to the SAO in 2008 – development of media attention paid to the SAO per months



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

Three requests in writing pursuant to Act No. 106/1999 Coll., on free access to information were submitted in 2008. The first one requested a copy of SAO's opinion dated in the year 2000 on the Government draft of the Budget Rules Act. The request was processed within the time period allowed by law and the document requested was delivered to the applicant. In another request, a citizen living abroad who felt to be persecuted by various institutions requested information as to whether the SAO kept records on his person. Having checked on its records the SAO responded to this application by informing the applicant that it did not keep any records on him. A third request submitted concerned the privatisation (that took place in 1995) of what formerly had been a healthcare facility in Prague 8. In spite of the fact that in this case the request could have been shelved on grounds of SAO's incompetency (mistake of venue), certain sources in the public domain were tapped to collect information on the case in question (privatisation based on a Government decree promulgated pursuant to Act No. 92/1991 Coll., on the conditions of transfer of state-held assets onto other subjects) and these were communicated to the applicant, together with guidance information on what would be the appropriate method for her to proceed when submitting requests for information.

In 2008, the SAO also had to deal with a number of queries that were outside the scope covered by Act No. 106/1999 Coll., on free access to information. These queries included submissions by students who were confronted with the issues of audit systems and the activities of audit institutions in their student projects. In December, the SAO submitted its comments on the draft wording of a major amendment of Act No. 106/1999 Coll., prepared by the MI.

The SAO does not charge any fees for responding to requests for information.

2.3 Citizens' submissions

In 2008, the SAO Communications Department recorded **478 submissions from citizens and institutions**. On top of the submissions received in writing there was a growing number of

submissions made over the telephone, as well as of calls in person by aggrieved claimants and inquirers. The probable reasons may include the growing openness of SAO's work towards the media as well as its helpfulness towards both citizens and institutions addressing themselves to the SAO.

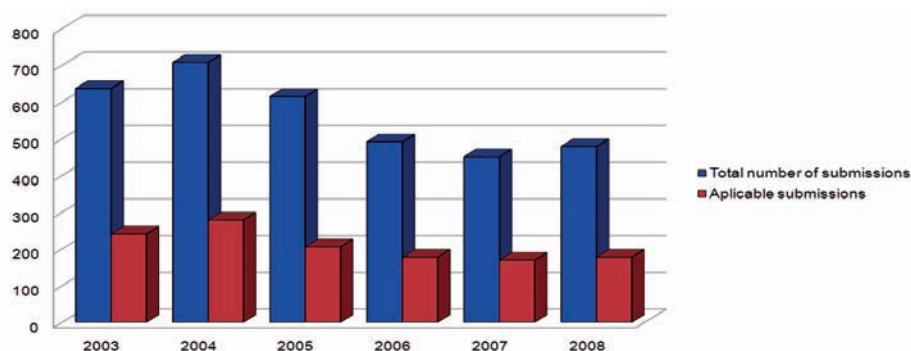
Structurally the subject-matter of the submissions has remained the same - most of them are private law based submissions entirely out of the range of any potential audits, including submissions focused on social aspects (critical of the quality and cost of housing), the social services, energy, healthcare services and medical drugs. The counts of these submissions remain more or less constant, amounting to 44.8 % of the total volume. The rate of submissions voicing criticism of public administration and management of public assets and finances also remains basically unchanged (at 36.1%). Equally, the submissions complaining about the performance of local governments maintain their constant share (9.8% of all submissions). The remainder (amounting to 9.3 %) are submissions difficult to classify by their topics, and various queries incl. requests for information pursuant to Act No. 106/1999 Coll., on free access to information. There were few submissions so far voicing criticism of the spending of European funds but it is evident that their share will grow higher as these funds will come to be spent to a greater extent. The group of submissions difficult to classify by topic has become quite marginal. Similarly, the share of requests for information pursuant to Act No. 106/1999 Coll., on free access to information has been negligible; this however is due to the SAO's position which is different from those of other bodies of state administration, as well as to the complexity of the Act on free access to information.

Those submissions that refer to topics actually related to SAO's audit competencies (so-called applicable submissions) serve as supplementary information material used in planning the audit missions as well as in preparing missions already scheduled. In 2008, the submissions thus exploited were mainly focused on the topics of road-building, support of energy generation from renewables, and the activities of the LF CR and of public universities.

Table 6: Development in the number of received submissions and their applicability in the years 2003–2008

Year	2003	2004	2005	2006	2007	2008
Total number of submissions	636	707	614	491	450	478
Number of Applicable submissions	240	278	205	177	169	177
Applicable submissions (%)	37,8	39,3	33,4	36,0	37,6	37,0

Graph 5: Overview of the total number of received submissions and their applicability in the audit activity in the years 2003–2008



3. International cooperation

The international cooperation in 2008 was orientated mainly on EU-related activities and on the participation by the SAO staff in the audit bodies of international agencies (such as the European Organisation for the Safety of Air Navigation or the European Defence Agency). The SAO representatives also took part in a number of seminars and workshops organised by international institutions and training centres. The SAO maintained bilateral cooperation mainly with the supreme audit institutions of the Slovak Republic, the Federal Republic of Germany and the European Court of Auditors (ECA).



Heads of several SAIs visited the SAO (left: Mr Jacek Jezierski (Chairman of the SAI of Poland) with the SAO President, Mr František Dohnal; middle: President of the Czech SAO and Chairman of the Indonesian SAI, Mr Anwar Nasution, signing the Memorandum of Understanding; right: Director of the Swiss SAI Mr Kurt Grüter at his visit to the SAO).

A total of 58 events abroad took place in 2008, of which 13 events were held within the framework of the EU; also, five meetings with international partners were devoted to coordinated audits; eight events were connected with the SAO's membership in the International Organisation of Supreme Audit Institutions (INTOSAI) or the European Organisation of Supreme Audit Institutions (EUROSAI). Also attended by the SAO representatives were, i.a., one conference, two congresses and nine workshops and seminars.



President and several representatives of the SAO at the VII EUROSAI Congress in Krakow

The VII EUROSAI Congress was the principal event held in the field of international cooperation in that year; it took place in Krakow, Poland, in the month of June. The event was attended by more than 200 delegates representing 48 supreme audit institutions from European countries, the ECA, the regional associations of INTOSAI, EUROSAI, and other organisations. The main topics debated at the congress included the establishment of an audit quality management system within a supreme audit institution and the audits of social programmes (i.e., audits of programmes in the field of education and audits of programmes focused on professional integration of the disabled).

Another important event of international cooperation of the EU Member States' audit institutions was the meeting of the Contact Committee of the Heads of the Supreme Audit Institutions (SAIs) of the EU Member States and the ECA, held early in December in Luxembourg. One of the topics discussed at the meeting was the EU budget reform. The participants also discussed the revised Lisbon strategy for 2008–2010.



Contact Committee of the heads of the EU Member States' SAIs and the ECA

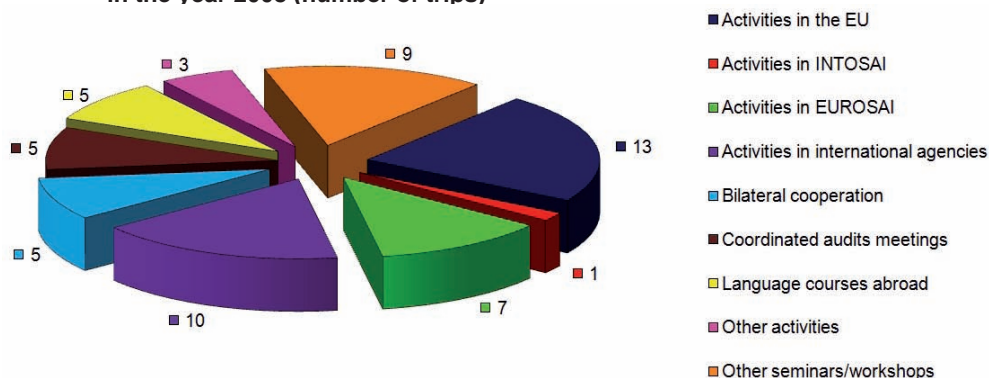
In 2008, the SAO experts took part in Working Group meetings dealing with various audit topics – such as the financial management at the EU level, the environment, Structural Funds, common auditing standards, VAT etc. Some SAO staff also availed themselves of the opportunity to attend language courses abroad.

In response to invitations by heads of SAIs, the SAO President accompanied by a delegation paid calls to the supreme audit institutions of France, Lithuania, Latvia, Hungary, and the Slovak Republic. He also took part in a regular meeting of the Presidents of supreme audit institutions of the Visegrád 4 countries, Austria and Slovenia that took place in Graz, Austria in the autumn.



Presidents of SAIs of the Visegrád 4+2 countries (from left: head of the SAI of Hungary, Austria, Poland, Slovenia, the Slovak Republic, and the Czech Republic)

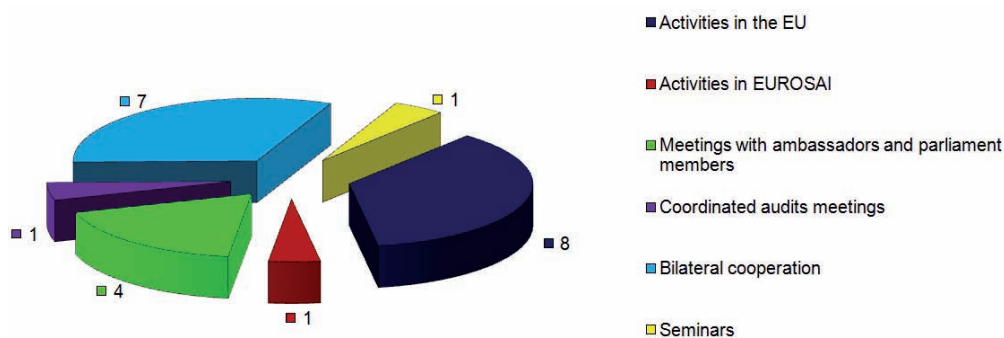
Graph 6: International trips of the SAO representatives and staff in the year 2008 (number of trips)



The SAO organised a total of 22 international events in the Czech Republic in 2008. These included official courtesy calls by the heads of audit institutions from Slovenia, Bulgaria, Poland, Indonesia and Switzerland; a visit by members of the Audit Committee of the Lithuanian Parliament; a visit by a delegation of Parliament members from the Committee on Finance, Budget and Currency of the National Council of the Slovak Republic and a delegation of the Committee for Public Finance Control of the Parliament of Slovenia; a presentation by an ECA member, and several more working meetings held within the framework of international cooperation (Federal Republic of Germany, Slovak Republic).

Also, the SAO in its capacity of project leader of the INTOSAI Working Group on Environmental Auditing has assumed the managing role of a project called *Sustainable Energy*. Here the objective is to elaborate a document (manual) that will serve as an aid in conducting audits focused on renewable energy resources. Information on this project can be found at the SAO website.

Graph 7: Number of international events organised by the SAO in the CR in 2008



In May, the SAO organised an international seminar entitled *Presentation and Measurement of National Government's Assets with a Special Attention to IPSAS*, attended by more than 30 representatives from 14 countries. The participants included not only the representatives of the supreme audit institutions but also the representatives of the International Federation of Accountants, the ECA, the Chamber of Auditors of the CR, the Ministry of Finance of the Slovak Republic, and world-renowned professionals specialising in accountancy and international accounting standards. The seminar agenda included discussions and presentations on the international accounting standards applicable to the public sector. The seminar was linked to the accounting reform being prepared, which is expected to also exert a significant impact on SAO's audit activity.



Participants of the IPSAS seminar

In November, the SAO prepared a seminar of the EUROSAl Training Committee devoted to the topic of *Auditing of Social Security Systems*, which elicited a lot of interest abroad and came to be attended by 80 experts from 31 SAIs, the European Commission (EC), and the ECA. The most prominent seminar participants included the Auditor General of Malta, Mr Anthony C. Mifsud, and the Auditor General of New Zealand, Mr Kevin Brady. Presentations were delivered at the seminar by guests from abroad as well as by experts from the SAO, the University of Economics, the MLSA and the Czech National Disability Council. The seminar took the form of plenary sessions and specialised workshops in which the participants considered three topics – the *ESF, Social Services Support*, and *Fraud and Abuse in Social Security Systems*.



Participants of the ETC seminar



Presentation for the EU Member States' ambassadors



Equally, the SAO organised a presentation, focused on the status and activities of the SAO, for ambassadors of EU countries to the CR and for representatives of the MFA.

Last but not least, the events organised during the course of 2008 also included three audit missions of the ECA and four visits that took place within the framework of two EC audit missions in which the SAO representatives took part as observers.

A list of the designations of the ECA and EC audit missions in the CR in 2008 is given below:

- Audit for the statement of assurance (DAS) as to the reliability of the accounts for the budget year 2007 with focus on education and culture related expenditures;
- Expenditures of the European Agricultural Guidance and Guarantee Fund;
- Audit for the statement of assurance (DAS) as to the reliability of the accounts for the budget year 2008 with focus on traditional own resources;
- Audit mission by the EC relating to cross compliance;
- *Audit mission by the EC relating to PHARE 2003 funds.*

In 2008, the Presidents of the SAIs named below signed three reports on coordinated audits conducted jointly with foreign audit institutions. These included the *Report on the Results of the Parallel Audit of the Administration of Value Added Tax in the Czech Republic and in the Federal Republic of Germany* (participated by the SAIs of the CR and the Federal Republic of Germany), the *Report on the Results of the Coordinated Audit of Air and Ozone Layer Protection and Implementation of Related International Agreements* (the SAIs of the CR, Slovakia, Slovenia and Austria) and the *Report on implementation of the NATURA 2000 NETWORK in Europe* (the SAIs of the CR, Estonia, Finland, France, Hungary, Austria and the United Kingdom of Great Britain and Northern Ireland).

As an observer, the SAO participated in another audit performed jointly with the supreme audit institutions of the Visegrad Group and Austria; the topic was management and control systems in the area of EU Structural Funds.

4. Internal audit

The activity of the Internal Audit Department stems from Act No. 320/2001 Coll., on financial audits in public administration and on amendments to certain acts (the Financial Audits Act). The 2008 plan of internal audits was based on the medium-term plan of internal audits for the 2008–2010 period, which set out the priorities and reflected the needs of the SAO from the viewpoint of the results reached hitherto in its activity and of its envisaged intentions and goals. As part of the assessment of the risks identified, this has also been the first time that the impact of such risks on the implementation of SAO's Vision was examined.

In 2008, the Internal Audit Department undertook and brought to completion a total of four audits.

Table 7: Overview of internal audits performed in 2008

Audit No.	Focus of the audit
07/05	Audit of SAO's redundant assets disposal – <i>system audit</i>
08/01	Audit of internal control system – <i>system audit</i>
08/02	Audit of operating the company-owned vehicles – <i>system audit</i>
08/03	Audit of risk management in the framework of powers delegated – <i>system audit</i>

The internal audits did not bring any serious findings within the meaning of the provisions of Section 22(6) of the Financial Audits Act. The SAO President has set appropriate deadlines by which the responsible executives are to remedy any minor shortcomings identified in the course of the internal audits. The progress of implementation of the remedial measures is being monitored and evaluated by the Internal Audit Department.

In addition to the audits undertaken, the Internal Audit Department was also active in methodology and consulting during 2008.

5. Management of the funds allocated to the SAO budget chapter in 2008

5.1 Observance of the mandatory indicators of the SAO budget chapter

The 381 budget chapter – *Supreme Audit Office* was approved by Act No. 360/2006 Coll., on the state budget of the Czech Republic for 2008. No budget measures were adopted during the course of 2008 that would re-adjust the level of the mandatory indicators of the approved budget.

Table 8: Implementation of mandatory indicators of the budget (revenues and expenditures) in 2008 (CZK thousand)

Indicator	Approved budget	Implementation	Percentage implementation
<i>Aggregate indicators:</i>			
Total incomes	1 421	22854,38*	1 608,33
Total expenditures	620 805	572 297,61*	92,19
<i>Specific indicators:</i>			
Incomes	1 421	22854,38*	1 608,33
Expenditure covering performance of the SAO tasks	620 805	572 297,61*	92,19
of which:			
Reimbursement for expenses associated with the function	4 262	2 775,23	65,12
Non-investment transfers to international organisations	150	101,67	67,78
Other expenditures of the SAO	616 393	569 420,71	92,38
of which:			
use of the reserve fund	-	17 405,92	-
<i>Cross-sectional indicators:</i>			
Employees' pay and other payments for work done	266 226	240 340,41	90,28
Pay of employees with a fixed-duration or temporary employment contract	242 756	220 959,10	91,02
Mandatory insurance premiums paid by the employer	94 297	82 453,08	87,44
Transfer of the Cultural and Social Needs Fund	4 855	4 419,18	91,02
Expenditures on the programme 281 010 financing	72 780	83 236,06*	114,37

* including extra-budgetary finances from the reserve fund

Incomes

The organisations own revenues were CZK 5,448.46 thousand, i.e., 383.42 % as against the approved budget. Table 8 indicates the incomes including the transfer of extra-budgetary cash from the reserve fund.



Expenditures

Total expenditures excluding extra-budgetary funds amounted to CZK 554,891.69 thousand, *i.e.*, 89.38 % of the approved budget. The figure shown in the Table includes the extra-budgetary cash from the reserve fund and the transfer of unused cash from the financing of assets replacement programmes to the said fund.

Salaries with their associated expenditures constitute the largest share (57.18 %), followed by assets replacement expenditures (14.54 %).

In 2008, all indicators which are mandatory for the budget chapter 381 - Supreme Audit Office were adhered to.

5.2 Expenditures of assets replacement programmes

Spending from budget funds included the expenditures on Programme 281 010 – *Development and renewal of the material and technological resources of the Supreme Audit Office*, specifically, on its information and communication technologies and on replacements of its assets. Here the total spending was CZK 65,830.14 thousand, on top of the funds expended from the reserve fund, outside the budget.

5.3 Mandatory audit

The annual financial statements of the SAO were audited in compliance with the stipulations of Section 33(3) of Act No. 166/1993 Coll., on the Supreme Audit Office in its valid wording. In the auditor's opinion, *“the financial statements and financial reports give a true and fair view of the assets and liabilities as well as the financial standings as at 31.12.2008 and the 2008 incomes and expenditures of the Supreme Audit Office, in compliance with the Czech accounting standards”*.

6. SAO staffing and organisation

6.1 SAO staffing

As at 31.12.2008, the total SAO workforce was 441, including 311 staff who were employed in the Audit Section; of these, 257 were auditors, 35 were senior auditors and 19 were other staff.

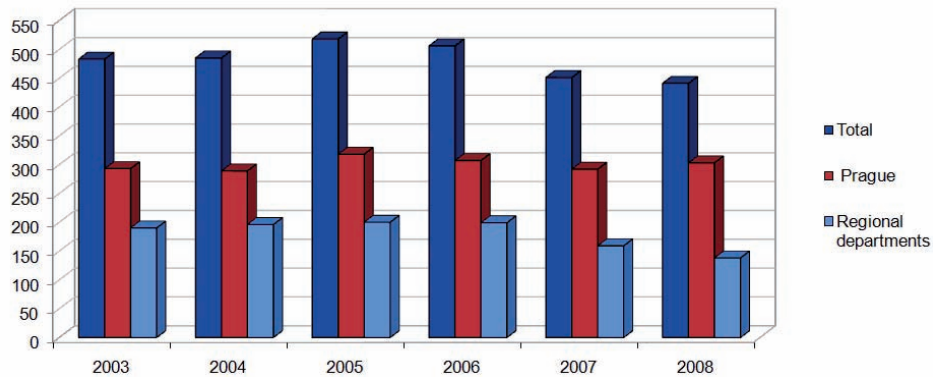
During the course of 2008, 63 new employees were recruited while 63 employees left (but there were additional workforce movements due to maternity leaves and parent leaves). Out of the 63 employees who terminated their employment, five (8 %) were old-age retirees and 21 (33 %) left in direct or indirect consequence of organisational changes that occurred in 2007.

Not even in 2008 was it possible to attract a sufficient number of new, adequately qualified employees, and the number of staff has remained lower than optimal. This is a persistent problem which is particularly notable in the work teams focused on financial audits.

**Table 9: Overview of the number of SAO employees in the years 2003-2008
(total state of the workforce as of 31.12. of the given year)**

	2003	2004	2005	2006	2007	2008
Total number	483	485	518	506	451	441
<i>of which: Prague</i>	293	289	318	307	292	303
<i>regional departments</i>	190	196	200	199	159	138
audit section in total	338	342	366	363	320	311

Graph 8: Overview of the number of SAO employees in the years 2003–2008 (total state of the workforce as of 31.12. of the given year)



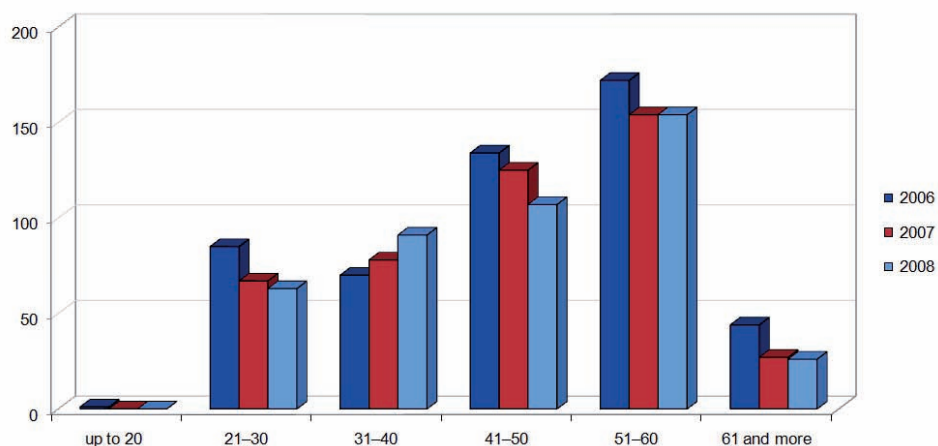
The age structure of SAO employees as at 31.12.2008 is shown in Table 10 and is contrasted with 2006 and 2007 figures.

Table 10: Age structure of the SAO staff in the years 2006–2008

Age structure	Number of employees					
	2006		2007		2008	
	<i>total</i>	<i>of which female</i>	<i>total</i>	<i>of which female</i>	<i>total</i>	<i>of which female</i>
up to 20	1	0	0	0	0	0
21–30	85	46	67	33	63	32
31–40	70	46	78	55	91	62
41–50	134	92	125	85	107	72
51–60	172	92	154	81	154	88
61 and more	44	14	27	8	26	6
Total	506	290	451	262	441	260

In 2008, the average age of SAO employees was just upwards of 45 years (45.77) and, thus, experienced a moderate decrease compared to 2007, at which time it was 46.06 years.

Graf č. 9: Overview of the age structure of the SAO staff in the years 2006–2008 (total state of the workforce as of 31 December of the given year)





The qualifications structure has remained nearly unchanged since 2007. As at 31.12.2008, a total of 345 SAO employees, *i.e.*, 78.23 %, were university graduates.

Table 11: Qualifications structure of the SAO staff as at 31.12.2008

Qualifications/education	Prague	Regional departments	Total in 2008	% of the total
elementary	0	0	0	0,00
secondary	1	1	2	0,45
secondary with apprenticeship certificate	18	0	18	4,08
secondary with school-leaving exam	65	10	75	17,01
higher vocational	1	0	1	0,23
university*	218	127	345	78,23
TOTAL	303	138	441	100,00

* including bachelor's degree

Professional training

In 2008, educational activities within the SAO were mainly focused on in-depth training and on raising the professional skills of the audit section staff. The specialist focus of the various training events was so devised as to correspond to the audit plan for 2008. The new information about audit methods and procedures thus learnt is subsequently applied in actual audit work.

Particular attention was paid to the training of SAO's recently hired staff. The new concept of entrance training of newly recruited employees was adopted in 2007, with 96 employees enrolled in this system since that time. This initial training has been divided into three separate levels and their contents adjusted so as to fit the requirements of the different sections. Level 1 and Level 2 training are completed by the trainees sitting an examination. Level 3 of the entrance training of audit staff is completed by sitting a final examination held before an examinations commission.

In the area of information technologies, all SAO staff received training in 2008 on the Microsoft Vista operating system and on Microsoft Office 2007.

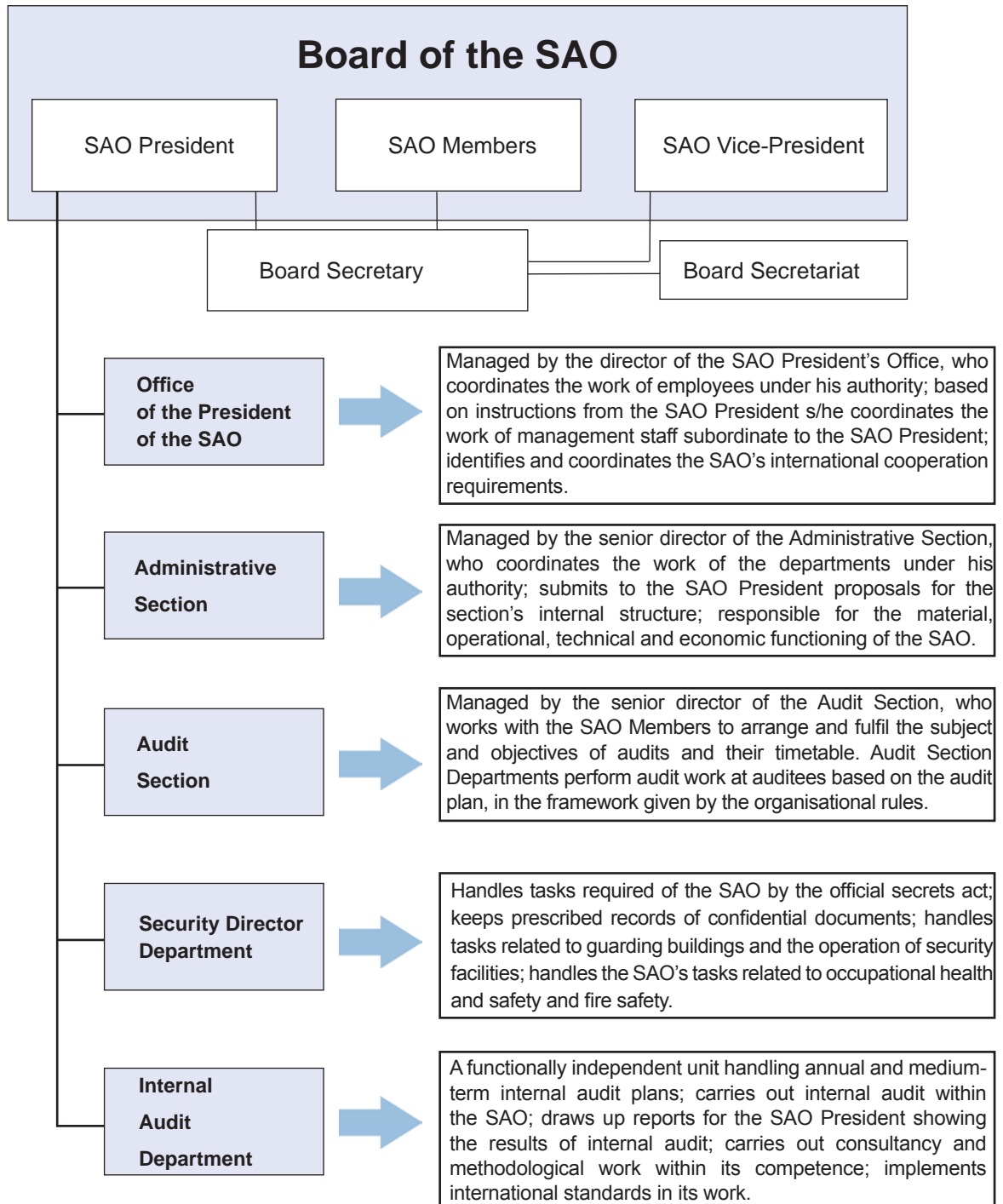
In 2008, the SAO staff striving to raise their language skills had an opportunity to benefit from the use of a system of stimulation instruments assisting the language training. Any employee who can present a language test certificate conforming to the European Framework of Reference can be included in this motivating system.

During the course of the last three years, 105 SAO staff members have successfully passed some of the standardised English, German or French language tests. Thus, almost 24% of all employees have mastered such foreign languages at least at the B1 level of the European Framework of Reference (see Table 12).

Table 12: Employees with an exam at B1 or higher level

Language, exam level	B1	B2	C1	C2
English	25	49	13	-
French	4	2	-	1
German	6	4	1	-

6.2 Organizational structure of the SAO

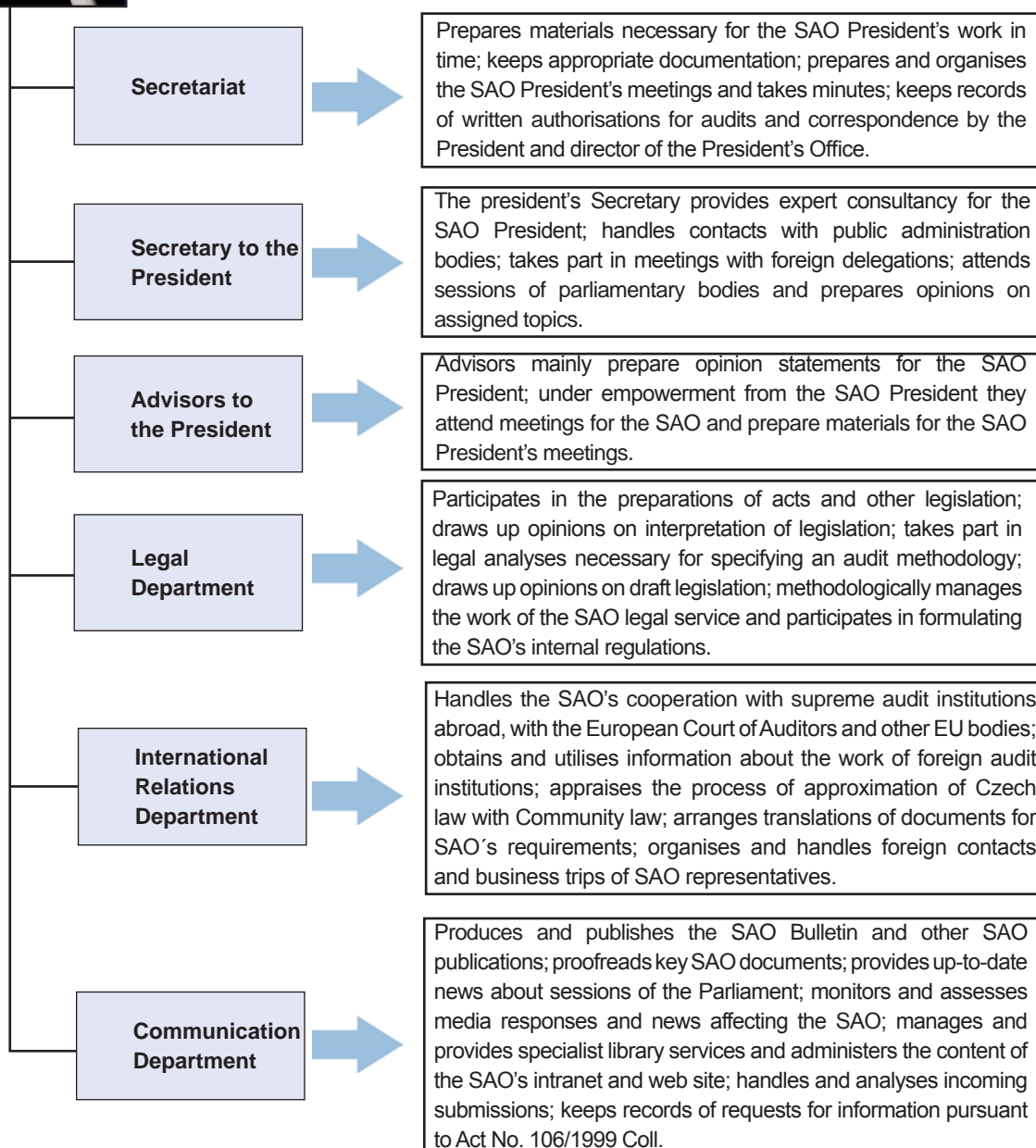


Office of the President of the SAO



Mrs Markéta Kandráčová

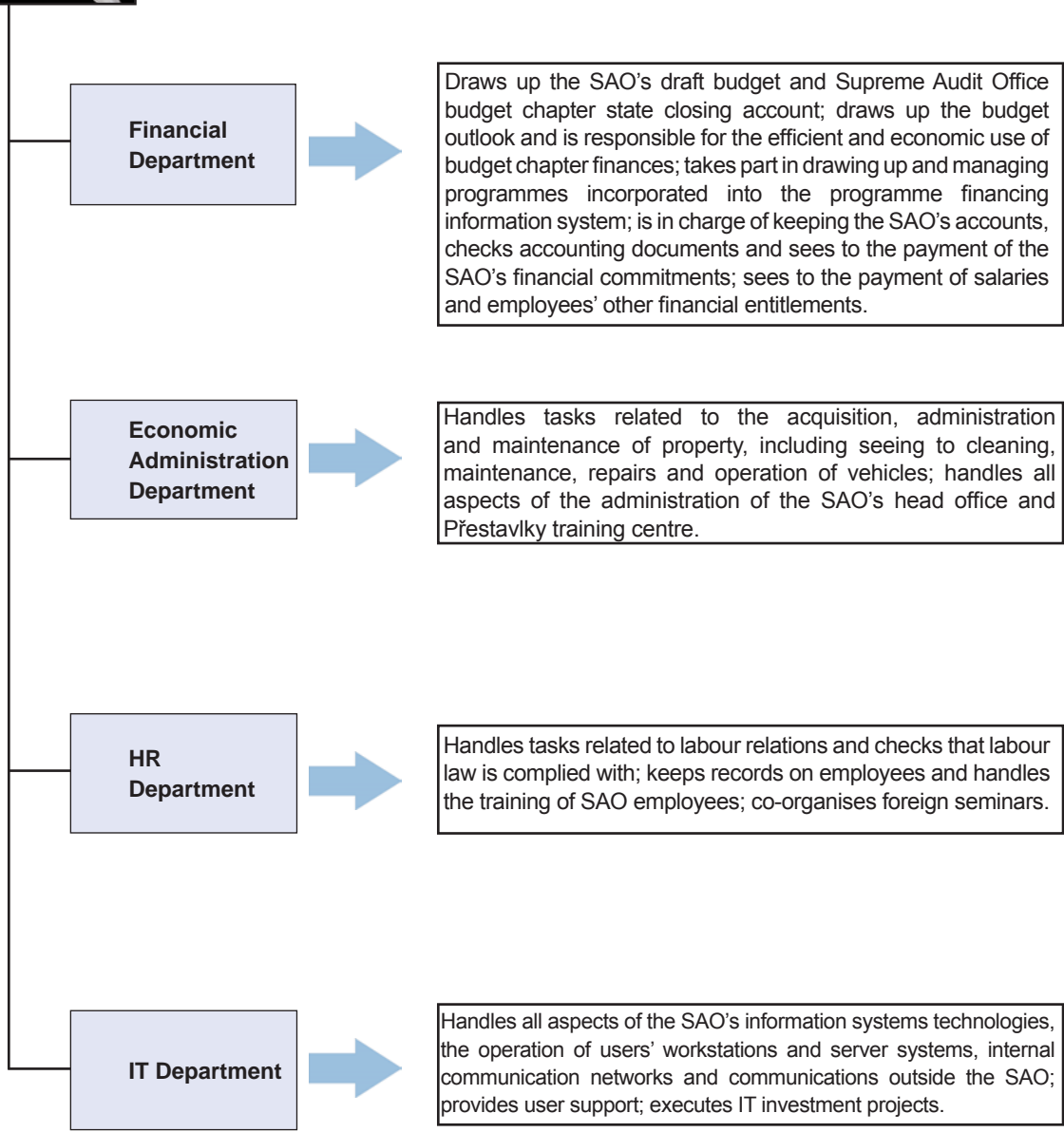
Director of the Office of the President of the SAO



Administrative section



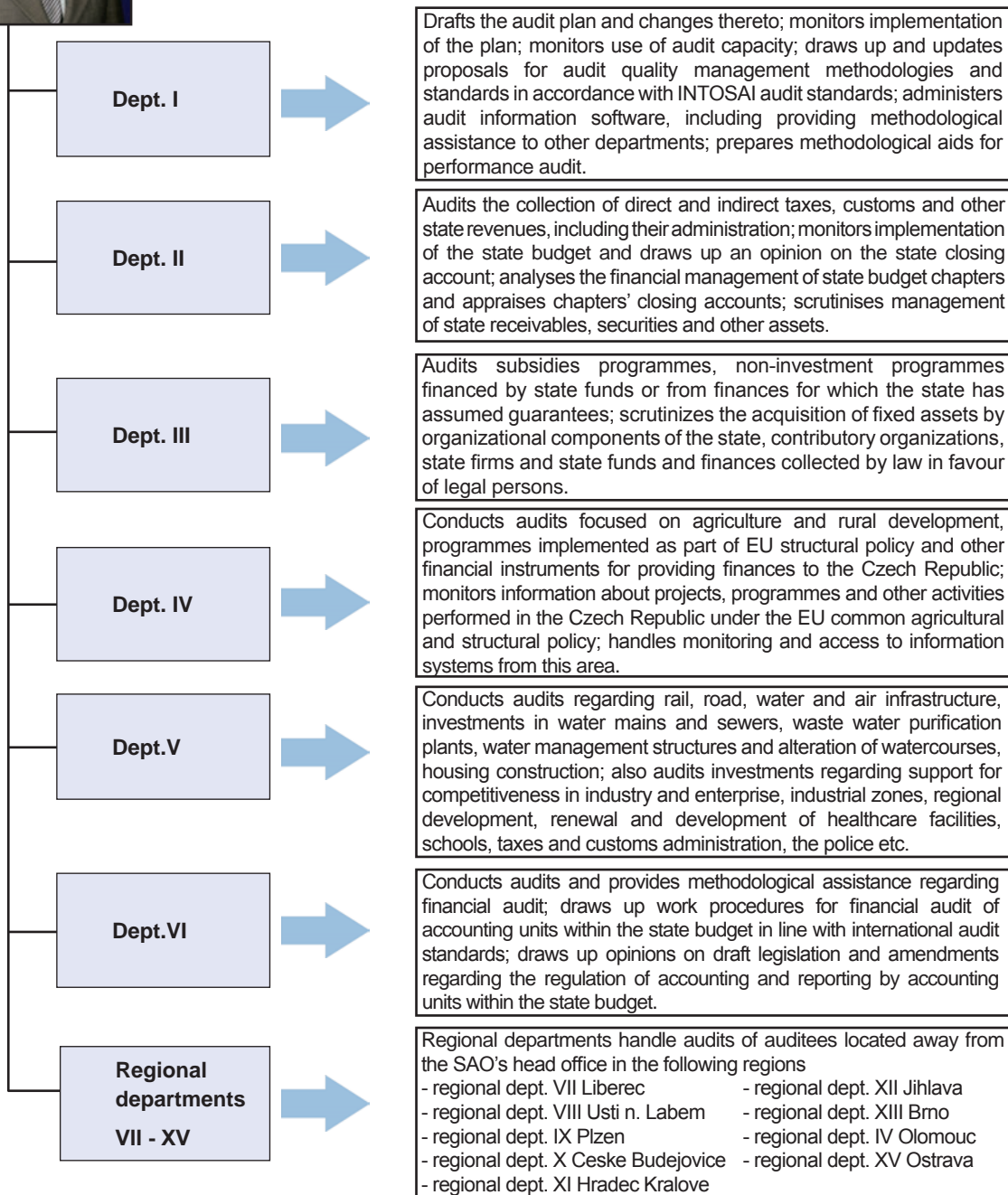
Mrs Ema Bendová
Senior Director of the Administrative Section



Audit section



Mr Petr Neuvirt
Senior Director of the Audit Section





Conclusion

The findings of the SAO evoke interest on the part of politicians, media as well as the general public. On a regular basis, its audit conclusions are subject to reviews by the Audit Committee of the Czech Republic Parliament's Chamber of Deputies as well as the Czech Government.

The Government Ministries concerned presented their standpoints relating to the audit conclusions, accompanied by listings of measures to re the situation, which the SAO regarded as adequate in most cases. However, it can only be demonstrated by future follow-up audits whether the remedial measures will indeed have been undertaken, and the desired impacts achieved.

The results of SAO's audit activity in 2008 highlight certain persistent systemic shortcomings, encountered mainly in the areas of programme funding, public procurement, management of state-owned enterprises, the policy on subsidies, the auditees' accounting systems and the operability of internal audit systems.

The SAO when carrying out audits frequently ascertains that decisions on the disbursement of state funds are taken in response to the situation of the moment, rather than based on long-term strategic and outline policy documents. Their absence or deficiencies thereof, exert negative impacts on the economy, efficiency and effectiveness of spending. This is why planning and preparation of large investment projects will continue to be in the focus of attention of the audits.

The most frequent cause of shortcomings identified by the SAO in its audits is underestimating the internal audit systems. A number of operations on state assets and funds take place based on custom, without any earnest effort - on the part of the various government departments as well as the government agencies - that would involve them in setting up effective and seamlessly operating internal audit systems. Therefore, the discussion launched among the MPs in the Chamber of Deputies of the Czech Parliament, revolving around the topic of effective internal audits, should be regarded in a positive light. Government Ministries as well as private companies are joining this discussion at various profession-dedicated and educational seminars and conferences. Even here, it is possible to see the future role of the Supreme Audit Office, in connection with passing on experience and knowledge.

In 2008, reviews having the nature of financial audits were performed in some 54 % of all the expenditures shown in the closing accounts of the CR's state budget for 2007 at accounting units of the state budget (this normalised percentage excluding those state budget chapters which do not constitute accounting units, and also excluding the *Supreme Audit Office* chapter). In this area, the strategic intention of gradually expanding this type of audits so as to encompass the greatest possible share of state budget expenditures and of conducting audits each year in respect of the highest-volume chapters of the state budget continues to apply. The positive consequences of recurrent audits are manifest from the outcome of the audits where gradual improvements of accounting practices can be noted, coupled with a downward trend of shortcomings identified in terms of either incidence or scope.

Special attention was paid to EU funds in 2008. In mid-year, the SAO published a self-contained document entitled *EU REPORT 2008 - Report on the financial management of EU funds in the CR*, which met with a rather positive acceptance on the part of the institutions concerned as well as of the general public. In view of the growing volume of these funds, the audits thereof will also be paid due attention in the forthcoming years.



In certain cases, the audit results hint at the necessity of adopting legislative amendments, but in most cases it is enough to abide by the existing legislation.

In 2008 again, the activity of the Supreme Audit Office had its share in contributing to a better management of public funds and to a higher degree of compliance with law.

Annexes

Annex 1 to the SAO's Annual Report for 2008

Overview of audits

1. Audits that started in 2007 and were completed in 2008

Audit No.	Subject of Audit	Managed by	SAO Approving Body	Date of Approval	Publication in SAO's Bulletin (Part/No.)
07/06	Financial means allotted for the implementation of active policy of employment	J. Drábek	Board	14.01.2008	1/2008
07/09	Management of educational institutions for execution of institutional or protective education and establishments for preventive educational care	J. Holeček	Senate	15.01.2008	1/2008
07/11	Financial means allotted for CAP implementation - direct payments	J. Kalivoda	Board	28.01.2008	1/2008
07/12	Financial means of the state budget and the EU spent on acquisition and operation of information technologies for drawing finances from the EU Structural Funds and the Cohesion Fund	L. Brynychová	Board	14.01.2008	1/2008
07/13	Closing account of the state budget chapter " <i>Ministry of Labour and Social Affairs</i> "	J. Vedral	Board	14.01.2008	1/2008
07/14	Immovable assets of the Ministry of Defence	Z. Profeldová	Board	17.03.2008	1/2008
07/15	Loans and repayable financial assistance provided from the state budget and the state financial assets	E. Kadaňová	Board	28.01.2008	1/2008
07/16	Financial means of the state budget allotted for establishment, renewal, and operation of information systems and communication technologies of the ME	L. Brynychová	Board	28.01.2008	1/2008
07/17	State property and financial means allotted for activities of selected institutions supporting physical training and sports in the CR	Z. Profeldová	Senate	19.03.2008	2/2008

Audit No.	Subject of Audit	Managed by	SAO Approving Body	Date of Approval	Publication in SAO's Bulletin (Part/No.)
07/18	Financial means of the state budget spent on <i>Programme of social prevention and crime prevention</i>	R. Němeček	Board	31.03.2008	2/2008
07/19	Management of the financial means of the state budget allotted for selected investment activities of the Prison service of the CR	P. Skála	Board	19.05.2008	2/2008
07/20	State property managed by the Czech Post, state enterprise	J. Adámek	Board	19.05.2008	2/2008
07/21	State property and financial means of the state budget allotted for aid defence of the state	L. Zeman	Senate	20.05.2008	
07/22	Construction of the Brno Justice Palace and Facility	A. Macháček	Board	07.07.2008	2/2008
07/23	Financial means allotted for the development of tourism and the regeneration and revitalisation of selected towns and cities within the <i>Regional development programme</i>	M. Hošková	Board	19.05.2008	
07/24	Financial means allotted for public universities focusing on arts	J. Šteidlová	Board	09.06.2008	3/2008
07/25	Financial means allotted for ensuring railway security and passengers' safety	P. Skála	Board	18.08.2008	2/2008
07/28	Closing account of the state budget chapter " <i>Council for Radio and Television Broadcasting</i> "	J. Vedral	Board	14.04.2008	2/2008

2. Audits that started in 2007 and that will be completed in 2009

Audit No.	Subject of Audit	Managed by	SAO Approving Body	Date of Approval	Publication in SAO's Bulletin (Part/No.)
07/27	Financial means of the state budget allotted for organization of the 2009 FIS Nordic World Ski Championships in Liberec, Czech Republic	M. Hošková	Senate		

3. Audits that started in 2008 and were completed in 2008

Audit No.	Subject of Audit	Managed by	SAO Approving Body	Date of Approval	Publication in SAO's Bulletin (Part/No.)
08/01	Outsourcing of the MD to provide activities of general security	L. Zeman	Board	23.10.2008	4/2008
08/02	Financial means provided within the supporting programmes (national and EU programmes)	Z. Profeldová	Board	18.08.2008	3/2008
08/03	Financial means of the state budget chapter "Ministry of Education, Youth and Sports" allotted for research and development	Z. Brandt	Board	01.10.2008	4/2008
08/04	Social insurance premiums receivables - their rise, recovery, and amortization	A. Macháček	Board	15.12.2008	AC was not published in 2008
08/05	Financial means allotted for payments within the CAP – Common Market Organization	J. Kalivoda	Board	12.11.2008	4/2008
08/06	Financial means from the operational programme for Human Resources Development allotted for active employment policy	M. Hošková	Board	15.12.2008	AC was not published in 2008
08/07	Financial means of the state budget spent on support to technology centres and strategic services centres	Z. Brandt	Board	12.11.2008	4/2008
08/08	State financial assets and financial means of the state budget included in the chapter "State Financial Assets Operations"	E. Kadaňová	Board	01.10.2008	4/2008
08/09	Financial means of the state budget spent on ICT in connection with the Schengen acquis	L. Brynychová	Board	23.10.2008	4/2008
08/10	Closing account of the state budget chapter "Ministry of Education, Youth and Sports" in 2007	J. Steidlová	Board	13.10.2008	4/2008
08/11	Financial means collected in compliance with law by the Czech National Health Insurance Company	E. Kadaňová	Board	12.11.2008	4/2008
08/12	Sales of state's real estates managed by the Land Fund of the CR	Z. Profeldová	Board	12.11.2008	4/2008
08/13	Closing account of the state budget chapter "Ministry of Labour and Social Affairs" in 2007	J. Vedral	Board	15.12.2008	4/2008
08/14	Financial means spent on raising of the State Treasury	J. Kalivoda	Board	15.12.2008	4/2008

Audit No.	Subject of Audit	Managed by	SAO Approving Body	Date of Approval	Publication in SAO's Bulletin (Part/No.)
08/15	State programme of support to tourism	P. Skála	Board	23.10.2008	4/2008
08/16	PPP Project <i>Construction of the Justice Palace and Facility at Ústí nad Labem</i>	J. Adámek	Board	12.11.2008	4/2008
08/18	Management of the state property by the Ministry of Agriculture	J. Steidlová	Board	15.12.2008	AC was not published in 2008
08/34	Financial means of the state budget allotted for family support	R. Němeček	Board	18.08.2008	3/2008

4. Audits that started in 2008 and that will be completed in 2009

Audit No.	Subject of Audit	Managed by	SAO Approving Body	Date of Approval	Publication in SAO's Bulletin (Part/No.)
08/17	Financial means of the state budget spent on environment-friendly disposal of useless ammunition and related activities of the Ministry of Defence	L. Zeman	Board		
08/19	Financial means allotted for the waterways and ports development and modernization	J. Adámek	Board		
08/20	Financial means of the state budget allotted for the church and religious organizations	L. Zeman	Board		
08/21	Management of state enterprises founded by the Ministry of Health	A. Macháček	Board		
08/22	Financial means allotted for wastewater treatment	R. Němeček	Board		
08/23	State property management and management of the state budget financial means provided from the chapter " <i>Ministry of Culture</i> " by government agencies	M. Hošková	Board		
08/24	Closing account of the state budget chapter " <i>Energy Regulatory Office</i> "	J. Vedral	Board		
08/25	Financial means allotted for LEADER and LEADER+ implementation in the framework of the CAP	L. Brynychová	Board		

Audit No.	Subject of Audit	Managed by	SAO Approving Body	Date of Approval	Publication in SAO's Bulletin (Part/No.)
08/26	Financial means allotted for construction of the Brno – Vienna (R52) road connection	P. Skála	Board		
08/27	Financial means allotted for mending and maintaining of roads	J. Adámek	Board		
08/28	State property a financial means of the state budget in the chapter <i>"Ministry of Education, Youth and Sports"</i>	J. Steidlová	Board		
08/29	Financial means allotted for programmes of support for development of industrial zones and regeneration of brownfields	Z. Brandt	Board		
08/30	State property management by the Ministry of Defence	J. Vedral	Board		
08/31	State property management of the Czech Consolidation Agency after its termination	Z. Profeldová	Board		
08/32	Financial means of the state budget allotted for the construction of the International Clinical Research Centre in Brno	R. Němeček	Board		
08/33	Financial means allotted for the construction of the Masaryk University Campus in Brno	A. Macháček	Board		
08/35	Repayable financial assistance provided by the Ministry of Industry and Trade and Ministry of Agriculture	A. Macháček	Board		
08/36	Financial means collected in compliance with the law by the Military Health Insurance Company of the CR	E. Kadaňová	Board		
08/37	Financial means spent on counselling service provided by the central public administration bodies	L. Brynychová	Board		
08/38	Financial means allotted for support programmes for energy production from sustainable energy resources and for energy savings support	Z. Brandt	Board		

Note: Board of the SAO consists of the SAO's President, Vice-President, and Members.
Senates are collective bodies of the SAO composed of three and more SAO Members.

Overview of audits whose audit conclusions were approved by the SAO and were discussed by the Audit Committee of the Chamber of Deputies of the Parliament of the Czech Republic in 2008

Committee resolution	Date of session	Audit No.	Government material No.	Government resolution No.	Summary of Committee resolution
262	06.11.2008	06/27	863/07	842/07	The AC I. takes cognisance of (a) the audit conclusion; (b) MF's opinion on the audit conclusion as contained in the Government document.
261	06.11.2008	06/33	1138/07	866/07	The AC I. takes cognisance of (a) the audit conclusion; (b) MF's opinion on the audit conclusion as contained in the Government document.
256	05.11.2008	08/34	1526/08	1301/08	The AC I. takes cognisance of (a) the audit conclusion; (b) MLSA's opinion on the audit conclusion as contained in the Government document; II. declares that the activity of the MLSA during the period under scrutiny was in contravention of the Acts: (a) No. 218/2000 Coll., on Budget rules and on amendment to certain related Acts (budget rules); (b) No. 320/2001 Coll., on financial audits in public administration and on amendments to certain acts (the Financial Audits Act); (c) No. 499/2004 Coll., on archiving and document filing services; III. declares that the MLSA (a) failed to evaluate the utilisation of the funds spent; (b) entered untruthful data in the SCA chapter 313 – <i>Ministry of Labour and Social Affairs</i> ; (c) was altering, without justification, the terms applicable to the allocation of funds while these funds were being disbursed; (d) adopted non-standard procedures when handling the SB funds; (e) has an inadequate management and control system, provoking a severe risk that the funds can be disposed of in an uneconomical fashion; IV. invites the Minister of Labour and Social Affairs to submit to the AC, on or before 31.03.2009, a report detailing the implementation of remedial measures adopted in respect of the Audit Conclusion No. 08/34 for 2008.



Committee resolution	Date of session	Audit No.	Government material No.	Government resolution No.	Summary of Committee resolution
255	05.11.2008	07/04	1738/07	35/08	The AC I. takes cognisance of (a) the audit conclusion; (b) MT's opinion on the audit conclusion as contained in the Government document; II. declares that the MT (a) failed to create conditions, during the course of the time period under scrutiny as applicable (<i>i.e.</i> , from 1. 01. 2000 until 31.12.2006 and, in the case of construction works in progress, until 31. 07. 2007), that would be conducive to an economical disposal of the funds involved; (b) failed to implement the measures detailed in SAO's Audit Conclusion No. 04/26 and made mandatory by Government resolution No. 1177/05; (c) in respect of some of the evaluation criteria, tolerated a formal evaluation to be undertaken when adjudging the projects appurtenant to the Operational programme <i>Infrastructure</i> ; III. invites the Minister of Transport to submit to the AC, on or before 31.12.2008, (a) an information on the implementation of the measures defined based on the audit conclusion; (b) a „methodology aid“, including the information on the process by which this methodology aid - manual was produced.
254	05.11.2008	07/22	1291/08	1300/08	The AC I. takes cognisance of (a) the audit conclusion; (b) MJ's opinion on the audit conclusion as contained in the Government document; II. declares that (a) the preparations for and the process of securing approval of the investment project entitled <i>Construction of the Brno Justice Palace and Facility</i> took place during the term of office of Minister Pavel Němec; (b) the Justice Palace and Facility project in Brno failed to be adequately managed by the Regional Court in Brno; (c) the RC in Brno failed to transmit the required information in full to the AC of the CD PCR; (d) in respect of the Brno Justice Palace and Facility the RC and the MJ proceeded in an uneconomical manner until July 2006; (e) the management and control system of the organisations being established exhibits a high risk of handling the funds in an uneconomical manner; III. invites the Minister of Justice to submit to the AC, on or before 31.03.2009, (a) a draft proposal of the changes to be adopted in respect of the management and control system of the organisations being established; (b) an evaluation of and a proposal for the process of implementing the investments; (c) a proposal of the options available for resorting to criminal liability charges in respect of the persons involved in the steering control process; (d) a proposal outlining the responsibilities of the tender committee members in relation to the calls for tender taking place as part of the public procurement process.
250	05.11.2008	07/12	246/08	230/08	The AC takes cognisance of (a) the audit conclusion; (b) the opinions of the MIT, MF, MRD, MLSA and CRD on the audit conclusion as contained in the Government document.

Committee resolution	Date of session	Audit No.	Government material No.	Government resolution No.	Summary of Committee resolution
248	11.09.2008	06/32	1272/07	984/07	The AC I. takes cognisance of (a) the audit conclusion; (b) MI's opinion on the audit conclusion as contained in the Government document; II. invites the Minister of Interior to submit to the AC, on or before 31.12.2008: (a) a report detailing the recent remedial measures adopted in respect of managing MI's real estate assets; (b) a report on the management of the MI Services Facility as at 30.09.2008.
247	11.09.2008	07/09	318/08	443/08	The AC I. takes cognisance of (a) the audit conclusion; (b) MEYS's opinion on the audit conclusion as contained in the Government document; II. recommends to the Minister of Education, Youth and Sports to regularly organise, during the given accounting period, training sessions for all government agencies aiming to ensure the adoption of adequate procedures in assets accounting, as well as of appropriate stock-taking operations and asset disposal operations in respect of assets designated for discarding (see the measures based on the audit conclusion as outlined in the Government document).
246	11.09.2008	07/03	44/08	92/08	The AC I. takes cognisance of (a) the audit conclusion; (b) MD's opinion on the audit conclusion as contained in the Government document; II. invites the Minister of Defence to submit to the AC, on or before 30.09.2008, an evaluation of the remedial measures imposed by Government resolution No. 92/2008.
245	11.09.2008	05/31	238/08	235/08	The AC I. takes cognisance of (a) the audit conclusion; (b) the information of the MH in respect of the audit conclusion as contained in the Government document; (c) the information of the MF in respect of the audit conclusion as contained in the Government document; II. invites the Minister of Health to submit to the AC, on or before 31.12.2008, a report on the results of follow-up audits focused on the measures adopted and implemented by the Occupational Health Insurance Company for Employees of the Banking, Insurance and Building Industry and the METAL-ALIANCE Health Insurance Company to eliminate the shortcomings identified by the SAO.
243	10.09.2008	07/19	1174/08	1103/08	The AC I. takes cognisance of (a) the audit conclusion; (b) the opinion of the MJ on the audit conclusion as contained in the Government document; (c) the measures adopted to eliminate the shortcomings identified in the AC as contained in the opinion presented in the Government resolution on the AC concerned; II. declares that the activity of the CR Prison Service during the period under scrutiny was in contravention of the Act No. 50/1976 Coll., on town and country planning and the building code, Act No. 218/2000 Coll., on budget rules, Act No. 563/1991 Coll., on accountancy, Act No. 40/2004 Coll., on public procurement, and MF Decree No. 40/2001 Coll., on participation by the state budget in financing assets replacement programmes.



Committee resolution	Date of session	Audit No.	Government material No.	Government resolution No.	Summary of Committee resolution
241	10.09.2008	07/11	327/08	437/08	The AC I. takes cognisance of (a) the audit conclusion; (b) MA's opinion on the audit conclusion as contained in the Government document; (c) the opinion of the SAIF on the audit conclusion as contained in the Government document; II. recommends to the Minister of Agriculture: (a) to eliminate all the shortcomings still persisting in the legislative activity, and particularly to clarify the differences in opinions existing between the SAO and the MA or the SAIF; (b) to undertake audits focused on spending of subsidies, to an extent and at so many applicants as may be required by the national and European regulations; (c) to arrive at a settlement of exchange rate differences; (d) to ensure that the MA pays adequate attention to evaluations of the results of audit missions conducted by EU bodies, so as to prevent the CR from having to return any funds to the EU budget; III. invites the Minister of Agriculture and the SAIF Director to submit to the AC, on or before 30. 10. 2008, a report on the current situation regarding the elimination of the shortcomings identified.
239	10.09.2008	05/35	308/08	439/08	The AC I. takes cognisance of (a) the audit conclusion; (b) the opinions of the MF, MT, MLSA, MRD, MIT, MA and MFA on the audit conclusion as contained in the Government document; II. invites the Minister of Finance to submit to the AC, on or before 30.09.2008: (a) a draft wording of the Decree on the valuation of state holdings; (b) an information on the progress of introducing proper accounting in the chapters 396 – <i>State debt</i> , 397 – <i>State Financial Assets Operations</i> and 398 – <i>General treasury administration</i> .
237	10.09.2008	05/27	224/08	231/08	The AC I. takes cognisance of (a) the audit conclusion; (b) MF's opinion on the audit conclusion as contained in the Government document; II. declares that the CCA was spending the funds in an uneconomical, ineffective and inefficient manner.
227	22.05.2008	07/13	306/08	848/08	The AC I. takes cognisance of (a) the audit conclusion; (b) MLSA's opinion on the audit conclusion as contained in the Government document; II. declares that the MLSA has introduced neither an operational accounting system nor an operational internal audit system; III. declares that the activity of the MLSA was in contravention of the Acts No. 563/1991 Coll., on accountancy, No. 218/2000 Coll., on budget rules, No. 219/2000 Coll., on CR assets, No. 40/2004 Coll., on public procurement, No. 320/2001 Coll., on financial audits; IV. declares that (a) the SAO's findings have repeatedly identified shortcomings of a systemic character which are the consequence of an inadequate management system and an ineffective control system; (b) the measures proposed are not systemic and are not sufficiently specific; V. invites the Minister of Labour and Social Affairs to submit to the AC, on or before 31.07.2008, a proposal of systemic measures to be taken towards creating an operational accounting system and an operational internal audit system.

Committee resolution	Date of session	Audit No.	Government material No.	Government resolution No.	Summary of Committee resolution
226	22.05.2008	06/20	291/07	400/07	The AC I. takes cognisance of (a) the audit conclusion; (b) MIT's opinion on the audit conclusion as contained in the Government document; (c) MIT's information on the progress towards implementing the systemic measures to upgrade the accounting system; III. declares that during the period under scrutiny, the activity of the MIT was in contravention of the Acts No. 563/1991 Coll., on accountancy, No. 320/2001 Coll., on financial audits; III. invites the Minister of Industry and Trade to submit to the AC, on or before 31.07.2008, a draft proposal of systemic measures to be taken within the framework of the transition to the actual accounting system and of forming an operational system of internal audit that would also embrace the organisations under the Ministry's direct control; IV. invites the Minister of Finance to submit to the AC, on or before 15.08.2008 pursuant to Resolution No. 219 of the AC, a draft proposal of how to deal with the issues of valuation of state holdings in business undertakings.
225	22.05.2008	07/26, 06/21	1/08, 452/07	37/08,	The AC I. takes cognisance of (a) Audit Conclusion No. 07/26; (b) MEYS's opinion on the AC as contained in Government document No. 1/08; (c) Audit Conclusion No. 06/21; (d) the opinion of the MEYS on the AC as contained in Government document No. 452/07; II. declares that the MEYS has introduced neither an operational accounting system nor an operational internal audit system; III. declares that for a long time the activity of the MEYS has been in contravention of the Acts No. 563/1991 Coll., on accountancy, No. 218/2000 Coll., on budget rules, No. 320/2001 Coll., on financial audits; V. invites the Minister of Education, Youth and Sports to submit to the AC, on or before 31.07.2008, a proposal of systemic measures to be taken towards building an operational accounting system and an operational internal audit system.
224	22.05.2008	07/28	789/08	905/08	The AC I. takes cognisance of (a) the audit conclusion; II. declares that for a long period of time the activity of the CRTB was in contravention of the Acts No. 563/1991 Coll., on accountancy, No. 218/2000 Coll., on budget rules, No. 320/2001 Coll., on financial audits; III. invites the CRTB Chairman to submit to the AC, on or before 30. 06. 2008, a report on the progress towards implementing the stipulations of Act No. 320/2001 Coll., on financial audits, from the effective date thereof.
220	15.05.2008	05/33	1546/06, 1894/06	1184/06	The AC I. takes cognisance of (a) the audit conclusion; (b) MF's opinion on the audit conclusion as contained in the Government document; (c) the opinion of the MLSA on the audit conclusion as contained in the Government document.



Committee resolution	Date of session	Audit No.	Government material No.	Government resolution No.	Summary of Committee resolution
219	15.05.2008	05/25	562/06	468/06	The AC I. takes cognisance of (a) the audit conclusion; (b) the opinions of the MF, MRD and MIT on the audit conclusion as contained in the Government document; II. invites the Minister of Industry and Trade and the Minister for Regional Development to submit to the AC, on or before 15.08.2008, an analysis of the current situation in respect of the state-owned enterprises; III. invites the Minister of Finance to submit to the AC, on or before 15.08.2008, a conclusive listing of these state holdings, together with a draft proposal of the process to be adopted to enforce the ownership rights in these asset holdings.
218	14.05.2008	06/38	180/08	233/08	The AC I. takes cognisance of (a) the audit conclusion; (b) MD's opinion on the audit conclusion as contained in the Government document; II. invites the Minister of Defence to submit to the AC, on or before 31.05.2008, a report detailing the potential impacts of adoption, if approved, of the Government bill on mitigating certain property-related wrongs inflicted on churches and religious societies during the period of lack of freedom, on the settlement of property relationships between the state on the one hand and the churches and religious societies on the other hand and on amendments of certain acts (the Act on Property Settlement with Churches and Religious Societies) /Parliamentary issue 482/ in respect of the management of the state-owned enterprise Military Forests and Estates.
217	14.05.2008	06/35	290/08	442/08	The AC I. takes cognisance of (a) the audit conclusion; (b) MEYS's opinion on the audit conclusion as contained in the Government document; II. invites the Minister of Education, Youth and Sports to submit to the AC a Government-approved outline policy of development of the information and communication technologies in the sector of education.
203	03.04.2008	05/26	V226/06	988/06	The AC takes cognisance of: (a) the audit conclusion; (b) MD's opinion on the audit conclusion as contained in the Government document.

Committee resolution	Date of session	Audit No.	Government material No.	Government resolution No.	Summary of Committee resolution
202	03.04.2008	05/38, 07/06, 07/08	1241/06, 298/08, 1759/07	950/06, 440/08, 39/08	The AC I. takes cognisance of (a) the audit conclusion in the process of negotiation; II. declares, on the basis of the audit conclusion already discussed, that: (a) the activity of the MLSA during the periods from 2003 until 2006 under scrutiny, was in contravention of the Acts No. 563/1991 Coll., on accountancy, No. 435/2004 Coll., on employment, No. 218/2000 Coll., on budget rules, No. 219/2000 Coll., on CR assets, No. 320/2001 Coll., on financial audits; (b) the SAO's findings have repeatedly declared that shortcomings of a systemic nature persist, which are due to an inadequate management system and an ineffective control system; (c) the systemic shortcomings found to exist within the framework of the Programme 213 210 related to the renewal and development of Labour Offices; III. invites the Minister of Labour and Social Affairs to submit to the AC, on or before 31.05.2008, proposals on how to deal, in a systemic manner, with the organisation and management of the MLSA and of organisations under the Ministry's direct control; II. invites the Minister of Labour and Social Affairs to submit to the AC, on or before 31.05.2008: (a) an economic analysis, including risk assessment, and an evaluation of the effectiveness of the active employment policy instruments that have been adopted since the year 2000; (b) a policy outline of sector development pursuant to Section 22 of Act No. 2/1969 Coll., on the establishment of ministries and other central bodies of state administration of the CR; (c) the reports from MF's audits conducted since 2000; (d) the conclusions from external audits conducted since 2000; (e) a report on the actual condition of the documentation pertaining to the Programme 213 210, including the MF's opinion thereon; (f) a report detailing the actual measures adopted and the methodology of management and control pursued in the area of upgrading MLSA's fixed assets replacements.
187	21.02.2008	06/19	1024/07	840/07	The AC takes cognisance of (a) the audit conclusion; (b) MD's opinion on the audit conclusion as contained in the Government document.
186	21.02.2008	05/14	632/06	732/06	The AC takes cognisance of (a) the audit conclusion; (b) MD's opinion on the audit conclusion as contained in the Government document.
173	17.01.2008	06/30	1167/07	988/07	The AC takes cognisance of (a) the audit conclusion; (b) MRD's opinion on the audit conclusion as contained in the Government document.



Committee resolution	Date of session	Audit No.	Government material No.	Government resolution No.	Summary of Committee resolution
172	17.01.2008	06/26	1259/07	983/07	The AC I. takes cognisance of (a) the audit conclusion; (b) MA's opinion on the audit conclusion as contained in the Government document; (c) the opinion of the SAIF on the audit conclusion as contained in the Government document; II. recommends to the Minister of Agriculture: (a) to eliminate all the shortcomings still persisting in the legislative activity, and particularly to clarify the differences in opinion existing between the SAO, the MA and the SAIF; (b) to undertake audits focused on spending of subsidies, to an extent and at so many applicants as may be required by the national and European regulations; (c) to eliminate the shortcomings identified in the area of decision-making regarding the return of subsidies and to ensure that these unauthorised funds be returned as soon as possible.



Overview of audits whose audit conclusions were approved by the SAO and discussed by the Government of the Czech Republic in 2008

Government resolution No.	Date of session	Government material No.	Audit No.	Measures noted	Measures imposed by the Czech Government	SAO's agreement with adopted measures
1523/08	01.12.2008	1748/08	07/20	YES	The Government takes cognisance of the measures adopted by the MI and by the Czech Post detailed in the opinion on the audit conclusion as contained in the Government document, and invites the Minister of Interior to implement the measures designed to eliminate the shortcomings identified in the audit conclusion as outlined in MI's opinions, at the state-owned enterprise Czech Post, and the MC in respect of the audit conclusion, and to inform the Government, on or before 31.03.2009, on the implementation of the said measures.	YES
1522/08	01.12.2008	1708/08	08/03	NO	The Government invites the Minister of Education, Youth and Sports to implement the measures designed to eliminate the shortcomings identified in the audit conclusion as outlined in the MEYS's comment on the audit conclusion, and to inform the Government, on or before 31.12.2009, on the implementation of the said measures.	YES
1521/08	01.12.2008	1712/08	08/02	NO	Not imposed	YES
1303/08	20.10.2008	1542/08	07/25	NO	The Government invites the Minister of Transport: 1. to implement the measures outlined in MT's comments on the audit conclusion; 2. to inform the Government, on or before 31.12.2008, of the progress attained in implementing these measures; 3. to elaborate and submit for the Government's consideration, on or before 20.12.2008, an analysis of high-risk spots within the system of safety and security of rail transport and its passengers, also setting out an appropriate time schedule for the elimination thereof and defining the funding required therefor.	YES
1302/08	20.10.2008	1511/08	07/19	YES	The Government takes cognisance of the information on the progress of implementation of the measures adopted.	YES

Government resolution No.	Date of session	Government material No.	Audit No.	Measures noted	Measures imposed by the Czech Government	SAO's agreement with adopted measures
1301/08	20.10.2008	1526/08	08/34	YES	The Government invites the Minister of Labour and Social Affairs to perform the tasks, for which the deadline of 31.03.2009 has been set: 1. to inform the Government of the progress of implementation of the measures adopted to eliminate the shortcomings identified in the audit conclusion as contained in MLSA's comments on the audit conclusion; 2. to re-assess the specific objectives of the <i>Plan of action in support of families with children</i> and <i>Outline of support to families with children</i> for the forthcoming period.	YES
1300/08	20.10.2008	1291/08	07/22	YES	The Government assigns the following tasks to the Minister of Justice: 1. to implement the measures adopted to eliminate the shortcomings identified, as contained in MJ's comments on the audit conclusion; 2. to inform the Government, on or before 31.03.2009, of the progress of implementation of the measures adopted to remedy the shortcomings identified.	YES
1104/08	03.09.2008	1160/08	07/24	NO	The Government invites the Minister of Education, Youth and Sports: to inform the Government, on or before 31.12.2008, on the progress of implementation of the measures detailed in MEYS's comments on the audit conclusion.	YES
-	03.09.2008	1291/08	07/22	temporarily suspended	Temporarily suspended, see the Government resolution No. 1300/2008.	NOT YET
1103/08	03.09.2008	1174/08	07/19	YES	The Government invites the Minister of Justice: to inform the Government, on or before 30.09.2008, on the progress of implementation of the measures adopted to eliminate the shortcomings identified in the audit conclusion.	YES
906/08	23.07.2008	1110/08	07/21	NO	The Government invites the Minister of Defence to: 1. implement the measures to remedy the shortcomings as identified in the audit conclusion; 2. evaluate, on or before 23.01.2009, the measures adopted, and to inform the Government and the SAO President on the outcome of this evaluation.	YES

Government resolution No.	Date of session	Government material No.	Audit No.	Measures noted	Measures imposed by the Czech Government	SAO's agreement with adopted measures
905/08	23.07.2008	789/08	07/28	NO	The Government invites the Minister of Culture to inform the Government, on or before 30. 06. 2009, on the elimination of the shortcomings identified in the audit conclusion.	YES
887/08	09.07.2008	1050/08	07/23	NO	The Government invites the Minister for Regional Development to: 1. make the maximum possible use of the experience acquired while implementing the 2004–2006 programming period in the implementation of the 2007–2013 programming period; 2. inform the Government of the measures adopted, on or before 15.09.2008.	YES
-	09.07.2008	789/08	07/28	temporarily suspended	Temporarily suspended, see the Government resolution No. 905/2008.	NOT YET
850/08	09.07.2008	604/08	07/17	NO	The Government assigns a task of implementing the MEYS measures as outlined in the Ministry's comments on the audit conclusion to the Minister of Education, Youth and Sports.	YES
849/08	09.07.2008	769/08	07/18	NO	The Government invites the Minister of Labour and Social Affairs to inform the Government, on or before 31.12.2008, on the progress of implementation of the measures detailed in MLSA's comments on the audit conclusion.	YES
848/08	09.07.2008	306/08	07/13	YES	The Government invites the Minister of Labour and Social Affairs to inform the Government on the progress attained in implementing the measures adopted, on or before 31.12.2008.	YES
847/08	09.07.2008	613/08	07/14	NO	The Government assigns the following tasks to the Minister of Defence: 1. to implement the measures to remedy the shortcomings as identified in the audit conclusion; 2. to evaluate, within the period of 9 months, the measures adopted, and to acquaint the Government and the SAO Member entrusted with supervising the audit on the outcome of this evaluation.	YES



Government resolution No.	Date of session	Government material No.	Audit No.	Measures noted	Measures imposed by the Czech Government	SAO's agreement with adopted measures
-	21.04.2008	306/08	07/13	temporarily suspended	Temporarily suspended, see the Government resolution No. 848/2008.	NOT YET
443/08	21.04.2008	318/08	07/09	NO	The Government assigns a task of implementing the measures in respect of the audit conclusion as outlined in the Government document to the Minister of Education, Youth and Sports.	YES
442/08	21.04.2008	290/08	06/35	NO	The Government: I. has amended Government resolution No. 792/2004 on the Policy on financing the information and communication services at schools after the year 2005, in the wording of Government resolution No. 1219/05, as follows: 1. it abrogates Item II/2a of the said Resolution; 2. the numbering of the item II/2b is changed to II/2a and that of the item II/2c is changed to II/2b; II. invites the Minister of Education, Youth and Sports to elaborate and to submit for the Government's consideration, on or before 30. 06. 2008, the draft outline policy of development of the ICT in the sphere of education.	YES
441/08	21.04.2008	328/08	07/16	NO	The Government invites the Minister of Environment: 1. to implement the measures described in ME's comments on the audit conclusion; to inform the Government, on or before 31.12.2008, of the progress attained in implementing these measures.	YES
440/08	21.04.2008	298/08	07/06	YES	The Government invites the Minister of Labour and Social Affairs to inform the Government, on or before 30.09.2008, on how the measures adopted for the purpose of eliminating the shortcomings outlined in the audit conclusion, as stated in the comments on the audit conclusion, are being met.	YES

Government resolution No.	Date of session	Government material No.	Audit No.	Measures noted	Measures imposed by the Czech Government	SAO's agreement with adopted measures
439/08	21.04.2008	308/08	05/35	NO	The Government invites: 1. the Minister for Regional Development and the Ministers of Labour and Social Affairs, of Finance, of Transport, of Industry and Trade, of Agriculture and of Foreign Affairs to adopt appropriate measures for the purpose of eliminating the shortcomings identified in the audit conclusion and to provide for the observance of lawful procedures; 2. the Minister of Finance: (a) to implement measures for introducing accounting in respect of the budget chapters <i>General Treasury Administration, State Financial Assets Operations and State debt</i> ; (b) to promulgate an appropriate Decree in keeping with the amendment of Act No. 218/2000 Coll., on budget rules; (Section 36, paragraph 4); (c) to inform the Government, on or before 30.09.2008, of the implementation of these measures.	YES
438/08	21.04.2008	307/08	07/15	NO	The Government invites the Minister of Finance: 1. to provide for the implementation of the measures contained in the opinion of the MF on the audit conclusion; 2. to inform the Government, on or before 30.09.2008, of the implementation of these measures.	YES
437/08	21.04.2008	327/08	07/11	NO	The Government invites the Minister of Agriculture: 1. to adopt appropriate measures so as to eliminate the shortcomings identified in the audit conclusion and to inform the Government, on or before 31.08.2008, of the implementation of the measures adopted; 2. to elaborate and to submit for the Government's consideration, on or before 30.09.2008, a proposal on the settlement of exchange rate differences connected with the receipts of EU funds.	YES
235/08	10.03.2008	238/08	05/31	NO	The Government invites the Minister of Health to perform, during the course of 2008, a follow-up audit focused on the measures adopted and implemented by the Occupational Health Insurance Company for Employees of the Banking, Insurance and Building Industry and the METAL-ALIANCE Health Insurance Company to eliminate the shortcomings identified by the SAO.	YES

Government resolution No.	Date of session	Government material No.	Audit No.	Measures noted	Measures imposed by the Czech Government	SAO's agreement with adopted measures
234/08	10.03.2008	177/08	07/10	NO	The Government invites the Minister of Culture: 1. to implement, on or before 30. 04. 2008, remedial measures to eliminate the shortcomings identified in the audit conclusion, as outlined in the opinion on the audit conclusion, including the issuance of an instruction to the programme administrator to prevent any such shortcomings and failures from occurring; 2. to evaluate, on or before 30.09.2008, the measures adopted and to acquaint the Government and the SAO Member who managed the audit therewith.	YES
233/08	10.03.2008	180/08	06/38	YES	The Government takes cognisance of the measures adopted to eliminate the shortcomings identified in the audit conclusion as outlined in the opinion on the audit conclusion, taking cognisance of the fact that the shortcomings thus ascertained were eliminated to the full extent and to the deadlines due; implementation of those measures which are applicable for an indefinite period will continue.	YES
232/08	10.03.2008	164/08	07/07	NO	The Government invites the Minister of Finance: 1. to provide an implementation of MF's opinion on the audit conclusion, in particular the modification of the management acts relating to the issues of the transfer of customs to the EU budget and the SB; 2. to inform the Government, on or before 30.04.2008, of the implementation of the said measures.	YES
231/08	10.03.2008	224/08	05/27	NO	Not imposed	YES
230/08	10.03.2008	246/08	07/12	NO	The Government invites the Ministers of Labour and Social Affairs, of Industry and Trade and of Finance: 1. to adopt appropriate measures to eliminate the shortcomings identified and to provide for the observance of lawful procedures for, and a proper handling of, the SB funds; 2. to inform the Government, on or before 30. 06. 2008, of the implementation of the measures imposed.	YES

Government resolution No.	Date of session	Government material No.	Audit No.	Measures noted	Measures imposed by the Czech Government	SAO's agreement with adopted measures
92/08	30.01.2008	44/08	07/03	NO	The Government invites the Minister of Defense: 1. to implement the measures designed to remedy the shortcomings as identified in the audit conclusion; 2. to evaluate, on or before 30.07.2008, the measures adopted to remedy the shortcomings identified in the audit conclusion and to inform the Government and the SAO Member who managed the audit on the outcome of this evaluation.	YES
91/08	30.01.2008	43/08	07/05	NO	The Government invites the Minister of Industry and Trade: 1. to implement the measures defined in the opinion on the audit conclusion in order to eliminate the shortcomings as outlined in the audit conclusion; 2. to inform the Government, on or before 29.02.2008, of the progress attained in implementing these measures.	YES
39/08	16.01.2008	1759/07	07/08	YES	The Government invites the Minister of Labour and Social Affairs to inform the Government, on or before 30.06.2008, on the progress of implementation of the measures adopted to eliminate the shortcomings identified in the audit conclusion.	YES
38/08	16.01.2008	1848/07	07/01	YES	The Government invites the Minister of Interior to inform the Government, on or before 30. 06. 2008, on the progress of implementation of the measures adopted to eliminate the shortcomings identified in the audit conclusion.	YES
37/08	16.01.2008	1/08	07/26	NO	The Government invites the Minister of Education, Youth and Sports: 1. to implement the measures defined in the opinion on the audit conclusion; to inform the Government, on or before 30.09.2008, of the progress attained in implementing the said measures.	YES



Government resolution No.	Date of session	Government material No.	Audit No.	Measures noted	Measures imposed by the Czech Government	SAO's agreement with adopted measures
36/08	16.01.2008	1733/07	07/02	NO	The Government invites the Minister of Environment: 1. to implement the measures defined in the opinion on the audit conclusion; 2. to inform the Government, on or before 30. 06. 2008, of the progress attained in implementing these measures; 3. to elaborate and, on or before 31.12.2008, submit for the Government's consideration, the draft proposal of measures aimed to implement the Council Directive 96/62/EC of 27.09.1996 on ambient air quality assessment and management.	NO
35/08	16.01.2008	1738/07	07/04	NO	The Government invites the Minister of Transport: 1. to implement the measures defined in the opinion on the audit conclusion, so expanded as to also incorporate the suggestions made by the SAO President; 2. to inform the Government, on or before 30.06.2008, of the progress attained in implementing these measures.	YES



Annex 4 to the SAO's Annual Report for 2008

List of Abbreviations

AC	Audit Committee of the Chamber of Deputies of Parliament of the Czech Republic
AEP	active employment policy
APA	Academy of Performing Arts
CAP	Common Agriculture Policy
CCA	Czech Consolidation Agency
CD PCR	Chamber of Deputies of Parliament of the Czech Republic
CEDR	Central Record of Subsidies
CHMI	Czech Hydrometeorological Institute
CNB	Czech National Bank
CNHIC	Czech National Health Insurance Company
CP	Czech Post, state-owned enterprise
CR	Czech Republic
CRD	Centre for Regional Development of the Czech Republic
CRTB	Council for Radio and Television Broadcasting
CSA	Czech Sport Association
CSSA	Czech Social Security Administration
EC	European Commission
ECA	European Court of Auditors
ESF	European Social Fund
EU	European Union
EUROSAI	European Organization of Supreme Audit Institutions
FCN	Fund for Children in Need
ICT	Information and Communication Technologies
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISPROFIN	Information System of Programme Financing
LF CR	Land Fund of the Czech Republic
LOBC	Labour Office Brno City
MA	Ministry of Agriculture
MC	Ministry of Culture
MD	Ministry of Defence
ME	Ministry of the Environment
MEYS	Ministry of Education, Youth and Sports
MF	Ministry of Finance
MFA	Ministry of Foreign Affairs
MI	Ministry of Interior
MIT	Ministry of Industry and Trade
MJ	Ministry of Justice
MLSA	Ministry of Labour and Social Affairs

MRD	Ministry for Regional Development
MSSF	Monitoring System of Structural Funds
MT	Ministry of Transport
NGO	Non-governmental Organization
NPR I	National Programme of Research I
PPP	Public Private Partnership
RC	Regional Court
RFA	Repayable Financial Assistance
SAI	Supreme Audit Institution
SAIF	State Agricultural Intervention Fund
SAO	Supreme Audit Office
SB	State budget
SFA	State Financial Assets
SFAO	State Financial Assets Operations
SFTI	State Fund for Transport Infrastructure
SISE	Single Information Space for the Environment
ST	State Treasury
VAT	Value Added Tax
VIÉS	Value Added Tax Information Exchange System

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