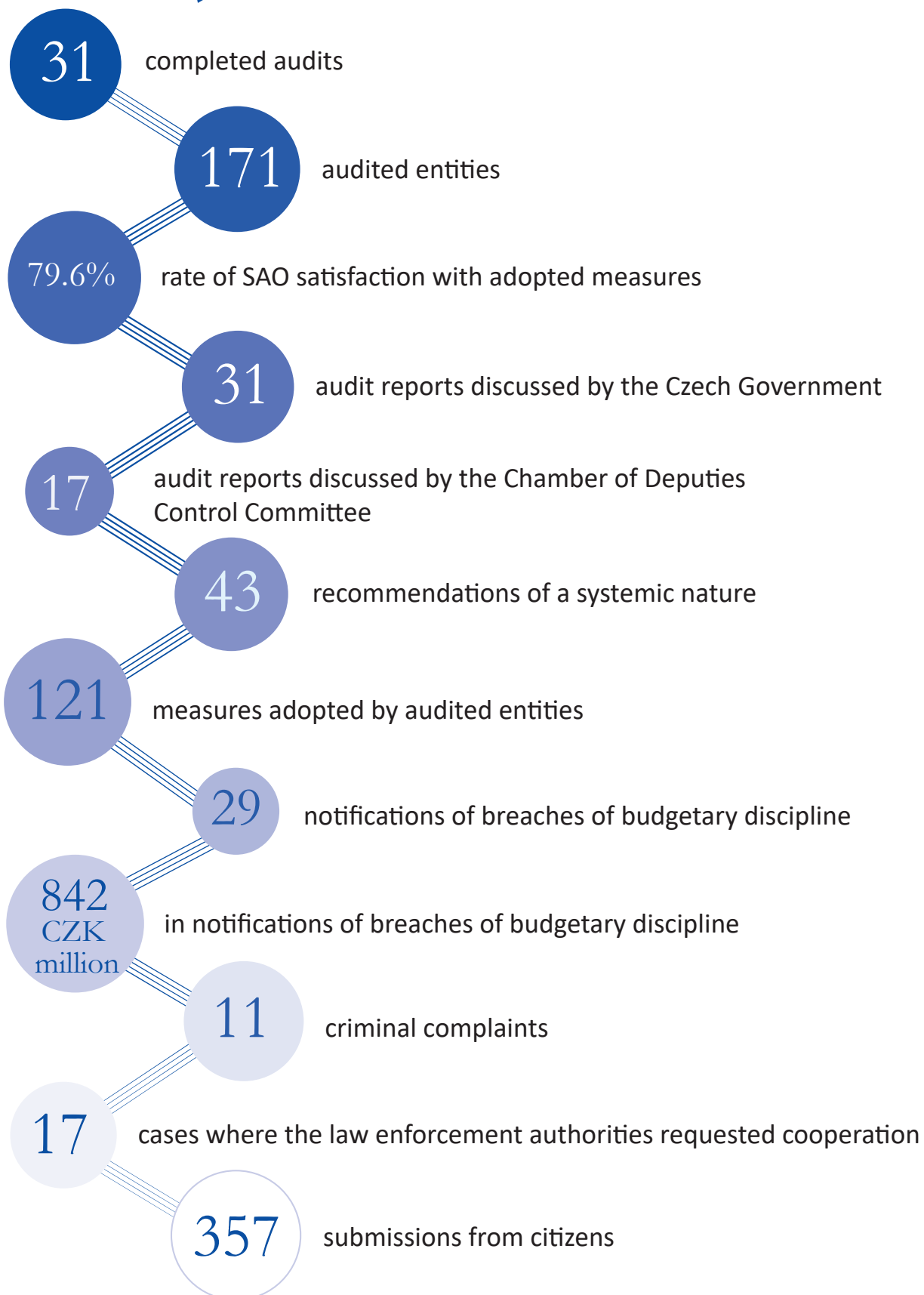


THE SAO IN 2018



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Opening message from the SAO president

Dear readers,

in addition to its standard duties at national level, the Supreme Audit Office was fully engaged in international activities in 2018. We have been chosen by EUROSAI, the international organisation of 50 audit institutions, to be the next presidency country. That means that we are preparing the 2020 EUROSAI Congress in Prague, a highly important and prestigious international event at which we will take over the organisation's presidency for the coming three years.

Our office's *3C – Comparison, Cooperation and Communication* project met with success. The idea is quite simple. We live in a dynamically evolving world facing new threats, ranging from the sustainability of life on our planet, global warming, and energy, water and food shortages to fundamental changes in society, ageing population and, say, the search for sources of funding for public services.

Every country has to wrestle with these issues, and the role of courts of auditors and audit institutions is no longer limited to coming up with answers at the national level. We want to find examples of good practice in countries tackling similar problems; we want to show what results these countries achieved and how they achieved them – in short, everything we can draw inspiration from. Sharing this information and these practices produces a fundamental change in the quality of the messages supreme audit institutions transmit to society. And that is our priority – ensuring our results are as useful as possible.

The Supreme Audit Office's annual report contains a number of such comparisons. Unlike the private sector, which adapts dynamically to change, the public sector lags significantly behind. In 2018 the World Economic Forum ranked the Czech Republic's competitiveness 29th out of 140 assessed countries, but in terms of public sector performance the Czech Republic was down in 97th place, behind countries like Moldova, Ukraine or Romania.

This comparison is a warning to the public sector that the public administration is not prepared for dynamic changes in society and the adjustments it has made to date are often merely cosmetic.

Adapting to dynamic changes is difficult at any time. The first step towards finding a solution is recognising the gravity of the situation. Realising that we have a cumbersome state that is incapable of completing the motorway network. A state that has failed to respond to the bark beetle calamity. A state where the gap between the centre and the periphery is widening. A state with a shortage of affordable housing. And that this is the case despite the large sums of money that are often spent on these areas.

Let's take a look at our close neighbours or more distant countries to see how they face these and other challenges, and how they deal with them. Government regulation, its need and effect, should be evaluated; the legal framework and its effectiveness in dispute resolution needs to be examined; and Government interventions should be designed with respect to the cost-benefit ratio.

Let's make our state more dynamic and effective.

**Miloslav Kala,
SAO president**

I. Status and Powers of the SAO

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

The existence of the Supreme Audit Office (SAO) is rooted directly in the Constitution of the Czech Republic, which guarantees its independence from the legislative, executive and judicial powers. The SAO thus represents one of the indispensable elements of parliamentary democracy.

More detailed rules on the status, powers, organisational structure and work of the SAO are contained in Act no 166/1993 Coll., on the Supreme Audit Office (the SAO Act). Under this Act, the SAO mainly scrutinises the management of state property and finances collected by law in favour of legal persons, the implementation of revenue and expenditure items of the state budget and the management of funds provided to the Czech Republic from abroad.

The SAO bodies are the President and Vice-President, the Board, Senates and the Disciplinary Chamber. In the interest of ensuring objectivity in the assessment of audit findings and in fundamental questions concerning the SAO's audit powers, the SAO Board and senates decide as collective bodies.

The SAO's independence guarantees that it is not influenced by the legislature, the executive or the judiciary when planning, preparing and conducting audit work. Besides institutional independence, the SAO has appropriate financial autonomy as well. The decisive body in this area is the Chamber of Deputies, which approves the state budget, including the Supreme Audit Office budget heading.

The basis for the SAO's audit work is its audit plan. After being approved by the SAO Board, the audit plan is put before the SAO president; it is presented to the Czech Parliament and Government for their information and published in the *SAO Bulletin*. Audit work results in audit reports, which summarise and assess audit findings. Audit reports are approved by the Board or the appropriate senates of the SAO.

Under its defined powers the SAO performs audits in line with its audit standards, which are based on the international standards of supreme audit institutions. The SAO performs compliance, financial and performance audits.

The SAO's compliance audits check whether the audited activities comply with the law and review the substantial and formal correctness of the audited activities in the scope necessary for achieving the audit goals.

The SAO's financial audits check whether the audited entities' financial statements give a true and fair view of the subject of accounting in accordance with the law. This type of audit is a tool for verifying the accuracy of information that is presented in the closing accounts of state budget headings and which the SAO uses when formulating its opinions on the draft State Closing Account.

The SAO's performance audits assess the effectiveness, efficiency and economy of the use of state budget finances, state property or other finances the SAO audits in line with its powers.

2. SAO Board

The SAO Board is composed of the President, the Vice-President and Members of the SAO. The SAO Board approves the audit plan, audit reports, the draft budget of the SAO submitted to the Chamber of Deputies of the Parliament of the Czech Republic, the closing account of the SAO budget chapter and the SAO financial statements compiled for the the balance-sheet date. The SAO Board also approves the Annual Report, the SAO Board's and senates' rules of procedure, the organisational rules and changes thereto and the disciplinary rules. It decides on appeals against decisions on objections to audit protocols and on objections claiming bias.



Members of the SAO Board; from left: Mr Jan Kinšt, Mr Jiří Kalivoda, Mr Adolf Beznoska, Mr Jan Stárek, Ms Zdeňka Horníková, Mr Pavel Hrnčíř, Mr Miloslav Kala, Mr Vladimír Koniček, Mr Josef Kubiček, Mr Jan Vedral, Ms Jaromíra Steidlová, Mr Roman Procházka, Ms Hana Hykšová, Mr Daniel Reisiegel, Mr Jan Málek, Mr Petr Neuvirt.

Members of the SAO carry out audit work and draw up audit reports. They manage audits from the authorisation to perform audit to the approval of audit reports. In the following overview, audits whose audit reports were published in 2018 are marked in blue and audits not completed in 2018 are in green.¹

The Chamber of Deputies of the Parliament of the Czech Republic ("the Chamber of Deputies") elected Mr Jan Kinšt, Mr Vladimír Koniček and Mr Roman Procházka to the position of a Member of the SAO in 2018.

¹ In the Annual Report, audits are referred to by the number under which they are listed in the audit plan for the given year. The texts of the audit reports published in 2018 can be found in the *SAO Bulletin*.

Table 1: Overview of audits conducted in 2018

SAO Member	Member since	Number of audits managed by the SAO Member up to the end of 2018	Audits managed by the SAO Member in 2018	
			Completed	Not completed
Mr Jiří Adámek	Apr 25, 2001	46	17/32 17/33	–
Mr Adolf Beznoska	Mar 14, 2017	4	17/17 18/10	18/18 18/28
Mr Pavel Hrnčíř	Dec 11, 2009	22	17/26 18/01 18/02	18/27
Ms Hana Hykšová	Feb 13, 2014	12	17/02 17/25	18/06 18/35
Mr Jiří Kalivoda	Sept 17, 1993	70	17/12 17/27	18/19 18/22
Mr Jan Kinšt	Jan 25, 2018	3	–	18/33 18/34
Mr Vladimír Koniček	Dec 4, 2018	0	–	–
Mr Josef Kubiček	Jun 10, 2014	13	17/21 18/12	18/08 18/29 18/32
Mr Jan Málek	Jun 21, 2016	8	17/09 17/35 17/36	18/16 18/21 18/24
Mr Petr Neuvirt	Dec 21, 2010	29	17/15 17/23 18/04	18/17 18/23
Mr Roman Procházka	Jan 25, 2018	1	–	18/36
Ms Hana Pýchová	Oct 24, 2014	8	17/13 17/16 17/20	–
Mr Daniel Reisiegl	Apr 30, 2010	25	17/24 17/34	18/05 18/07 18/31
Mr Jan Stárek	Jun 4, 2015	9	17/19 17/29	18/11 18/14 18/20 18/30
Ms Jaromíra Steidlová	Nov 16, 2006	28	17/18 17/31 18/15*	18/13 18/25
Mr Jan Vedral	Apr 25, 2001	55	17/14 17/22 17/30	18/03 18/09 18/26

* Audit no 18/15 was removed from the audit plan by SAO Board Resolution no 4/VI/2018 of May 21, 2018.

3. SAO management

The SAO management consists of employees directly subordinate to the SAO President. These are the Senior Director of the Audit Section, the Senior Director of the Administrative Section, the Director of the SAO President's office, the Board secretary, the Director of the Security Department and the Director of the Internal Audit Department.



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

4. Mission and benefits of the SAO's work

The SAO continues to be a long-term reliable and trustworthy partner and provider of independent and objective feedback on the functioning of the Czech Republic. The SAO's mission² is to provide objective information on the state's management of public funds and property. This information is not just important to the SAO's key partners, i.e. the Czech Parliament and the Czech Government as the bodies responsible for the correct control and management of public funds: it is also necessary for the general public and the functioning of external control as such.

In line with its strategy, the SAO focuses mainly on those areas that present a risk in terms of the Czech Republic's current and future development and competitiveness. Outputs in the form of audit reports, statement on the implementation of the state budget, opinions on the state closing accounts and other outputs of the SAO's work provide information on the legality, effectiveness, economy and efficiency of public spending. The SAO's objective, targeted and comprehensible reports and recommendations lead to the remedy of shortcomings and to a positive shift in the management of public funds and property, with the promotion of good practice in that field.



The most important benefits of the SAO's work include making the concerned bodies eliminate identified shortcomings and making the responsible authorities adopt systemic measures. The results of audits also have an important preventive effect on other entities not targeted by a particular audit, encouraging them to avoid similar management and control errors, as well as improving accountability in public administration and the enforceability of the law in general. That is linked to the results of the SAO's work in the field of assessing the working of legislation and making legislative recommendations. Last but not least, and although it is not the primary goal of audit work, the SAO delivers a key impact in the form of carrying out its obligation to report in cases where it identifies a breach of budgetary discipline or facts indicating commission of a crime.

5. Audit plan for 2018

The SAO audit plan, which is the fundamental basis for the performance of audit work, determines the focus and timing of audits in the budgetary year. It is a key tool for exercising the SAO's audit powers in line with the SAO Act. The SAO's audit plan is compiled independently in line with the SAO's powers guaranteed by the Constitution of the Czech Republic. The SAO's independence is also

² The SAO's mission is part of the *Strategy of the Supreme Audit Office for 2018–2022*.

exercised in accordance with the best practice of audit work done by supreme audit institutions in line with the key principles of INTOSAI³. The Constitution of the Czech Republic, the SAO Act and international practice are the fundamental pillars underpinning the exercise of its powers.

When compiling the audit plan the SAO focuses mainly on those areas that are important for the lives of citizens, the efficiency of public administration and the Czech Republic's competitiveness in international comparison. For that reason, the SAO mainly applies a risk-based approach with a view to identifying real risks in areas where there is a likelihood that the principles of effectiveness, efficiency and economy will not be respected or the law will be violated. The SAO's ultimate goal is not merely to find shortcomings in the state's financial management: above all, it is to improve financial management in the relevant areas based on measures to remedy the shortcomings.

This endeavour played a central role in the compilation of the audit plan for 2018. The audits included in the 2018 audit plan were based largely on suggestions arising out of the SAO's own independent monitoring and analysis work. The plan also featured two audits designed on the basis of external instigations from the Chamber of Deputies and the Senate of Parliament of the Czech Republic.

Problem areas targeted by the SAO's 2018 audit plan included:

- **state revenues from the taxation of labour and environmental policy;**
- **the digitisation of tax proceedings;**
- **state support for enterprise, research and innovation;**
- **development of the roads and waterways infrastructure and support for regional transport;**
- **investment and management of property in the defence sector;**
- **state support for the non-profit sector and the fight against poverty;**
- **state support in social services and youth employment;**
- **state support in the field of air quality and measures to mitigate the impact of drought;**
- **management of public health insurance finances;**
- **state support for regional healthcare;**
- **digitalisation of education in schools;**
- **state support for agricultural production;**
- **state support in the field of crime prevention;**
- **reliability of financial information through which institutions are accountable for state budget finances management.**

A number of these topics are part of the long-term strategic areas of the SAO's audit work. They are also key areas of Government policy.

The audit plan for 2018 was approved by the SAO Board at its 23 October 2017 session. 32 audits were approved in total. During 2018 one audit was cancelled and four other audits were added, making a total of **35** audits.

An overview of the audits included in the 2018 audit plan, and their specific focus and timing, is presented in Annex 1. The audits were commenced in sequence during the year in line with the timetable. Depending on the start time and audit duration, the planned completion dates (i.e. approval of the audits' audit reports) are in 2018 and 2019.

³ The *Mexico Declaration on SAI Independence* approved by the XIX Congress of the International Organisation of Supreme Audit Institutions in Mexico in 2007; ISSAI 10.

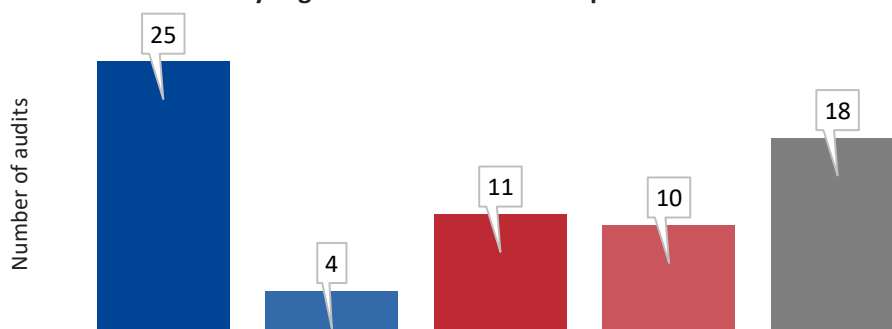
II. Assessment of Audit and Analysis Work in 2018

1. Opening summary

The assessment of audit and analysis work presented in this section is based mainly on the results of audits that were completed in 2018 when their audit reports were approved by the SAO Board. In addition, the assessment draws on findings from the SAO’s statements on the Draft State Closing Account for 2017 (“SCA statement” or “SCA position statement”) and on the report on economic development and the implementation of the Czech state budget for the first half of 2018, information from *EU Report 2018* and other findings from the SAO’s analysis and monitoring work.

In 2018, **31 audits** were completed, with 26 of them launched in 2017 in line with the audit plan and 5 in 2018. The audits implemented the SAO’s mandate in various segments of its competence according to Section 3 of the SAO Act, as shown in Chart 1. The audits covered all segments of the SAO’s competence except for financial management by the Czech National Bank and the issuance and amortisation of Government securities⁴. An overview of audits completed in 2018 is given in Annex 2. The audits mainly targeted the 2014–2017 period.

Chart 1: Number of audits by segments of the SAO’s competence in 2018



Under Section 3 of Act no 166/1993 Coll. the SAO audited:

- management of state property and finances collected by law in favour of legal persons with the exception of finances collected by municipalities or regions under their independent jurisdiction;
- state closing account
- implementation of the state budget
- management of finances provided to the Czech Republic from abroad and of finances for which the state has assumed guarantees;
- public procurement

NB: One audit may cover several segments of competence.

⁴ These are areas audited by the SAO at longer intervals.

The completed audits scrutinised property and funds at **171 audited entities** in line with the focus and goals of the audits. The audited finances and property of the state was worth **CZK 114 billion**. In systemic terms, the audits covered state finances and property amounting to **CZK 1,216 billion**. 29 notifications of a breach of budgetary discipline with a financial value of at least **CZK 842 million** and 11 criminal complaints were filed (as detailed in Section III).

171	audited entities
31	completed audits
43	recommendations of a systemic nature
17	audit reports discussed by the Chamber of Deputies Control Committee
121	measures adopted by audited entities
31	audit reports discussed by the Czech Government
79.6%	rate of SAO satisfaction with adopted measures
CZK 842 million	in notifications of breaches of budgetary discipline
11	criminal complaints

The SAO regards the discussion of audit reports with key partners in the Czech Parliament and Government as crucial for promoting the results of audits. The Chamber of Deputies Committee on Budgetary Control discussed 17 audit reports in 2018. The Government's discussion of audit reports was key. Having discussed 31 audit reports and the identified shortcomings and systemic recommendations, the Government imposed 121 corrective measures, which the SAO judged to be fully or partially satisfactory for the shortcomings or recommendations. If effectively implemented, these measures should help improve the state's financial management in the given areas. The SAO can thus declare that the degree of satisfaction with the adopted measures as evaluated by the SAO was almost **80%**.

The above shows that the SAO scrutinised a significant portion of public funds in 2018 and delivered significant benefits, both financial and non-financial. However, it is mainly the tangible results of the SAO's audit and analysis work providing valuable objective information on the state's financial management that lie behind the figures presented above. Every such output should be a good opportunity to put things right wherever there are deficiencies.

The SAO's findings point to the following key strengths and weaknesses in the state's financial management in the previous period:

Strengths

- + **State budget surplus in 2018**
- + **Favourable economic growth in the Czech Republic**
- + **Low rate of unemployment, pay growth in private and public sectors**
- + **Falling Government debt and smaller share of gross domestic product**
- + **Significant increase in state budget tax revenues as a consequence of positive economic growth factors**
- + **Year-on-year increase in state budget investment expenditure**
- + **Faster drawdown of revenues and expenditure from the EU/FM budget for the 2014+ programming period**
- + **Czech Republic fulfilled the financial indicator for drawdown of European subsidies for 2018**



Weaknesses

- **Planning a state budget deficit at a time of economic growth and poor quality of the budgeting process**
- **Soaring state current expenditure and related risk of unsustainable public finances in the future**
- **Tax administration's insufficient preparedness for the growth in e-commerce**
- **Insufficient tax streamlining and simplification for taxpayers**
- **Fragmentation of the research, development and innovation support system; Czech Republic's results lag behind by international benchmarking**
- **Slow execution of strategic investments in roads infrastructure and insufficient progress in speeding up authorisation processes for construction projects**
- **Uneconomical spending on MoLSA information systems and continuing dependency on suppliers**
- **Failure to implement measures to improve air quality and achieve the Czech Republic's energy efficiency targets**
- **Structure and volume of real estate do not correspond to the Czech army's needs and puts a needless burden on the state budget**
- **Little use of centralised procurement in state administration to cut costs and reduce paperwork**
- **Failure to make use of public procurement's potential to deliver savings in purchasing by university hospitals and non-transparent use of financial bonuses**
- **Support for large food industry firms to the detriment of small and medium-sized agricultural enterprises**
- **Absence of meaningful evaluation of the effectiveness of support for industrial zones and competitiveness of small and medium-sized enterprises**
- **Poor design of the housing support system; poor coordination of housing support tools and increase in socially excluded localities**
- **Unsystemic funding of repair, modernisation and development of 2nd and 3rd class roads; state subsidies deliver insufficient improvements in road quality**
- **State subsidies have little impact on the condition of rail rolling stock; failure to comply with the timetable for opening up the public rail transport market, as a tool for optimising state expenditure**
- **Insufficient use of accounting information on management of state budget finances, which substantially reduces the benefits of accounting reform**

Favourable economic growth and state budget results in 2018.

The 2018 results showed that the Czech Republic was doing well. The period of economic growth was reflected in positive macroeconomic data linked, for example, to growth in gross domestic product (GDP) and in final household consumption, falling unemployment and a fall in Government debt as a proportion of GDP. The high domestic consumption was driven by pay growth in the private and public sectors and by increasing public sector activity, reflected in rising state revenues, especially tax revenues and revenues from social security insurance payments.

The state achieved a positive result in the implementation of the state budget in 2018, with the originally planned state budget deficit of **CZK 50 billion** becoming a **CZK 2.9 billion** surplus. Besides the previous positive influences mentioned, increased revenues from the EU/FM budget, better drawdown of finances for projects funded out of operational programmes and better drawdown

of investment finances also played a role. Despite the positive year-on-year increase in investment spending in 2018, however, its share in total budget expenditure continues to fall short of the values from the period of the economic crisis. The swifter utilisation of EU/FM budget funds at the end of the year nevertheless remains slightly below the EU average.

Long-term systemic obstacles endanger the future sustainability of public finances.

The excellent macroeconomic and state budget developments have long concealed systemic obstacles, however, which will impact on the Czech Republic's future results and competitiveness. The favourable state budget results for 2018 are no guarantee of healthy public finances in the longer term. The SAO has pointed out that current expenditure is rising and little progress has been made towards both strategic investments and important reforms – these still largely exist on paper in conceptual or strategic documents instead of being put into effect. Other negative factors include inefficiencies in the state's financial management and the poor performance of state administration in certain fields.

In 2018 state budget current expenditure grew by more than CZK 86 billion, which outstripped the CZK 85 billion growth in state budget tax revenues.

In 2018 the Czech Government was also warned about the long-term sustainability of public finances by the National Budget Council, which regards the discrepancies between legislation, future demographic developments and the deferring of pension reform as the chief risk.

According to the forecast for the Czech Republic's population from 2018 to 2100⁵, there will be 2.1 million people aged over 65 in the country in 2020 and 2.4 million in 2030.

Above all, the state has failed to make use of the period of economic growth to draw up a budget that is at least balanced and takes into account the principles of economic cycles. At the same time, implementation of the state budget is highly dependent on economic growth and underestimates the risk of increased current or mandatory Government spending. The compilation of the budget continues to be affected by inaccuracies, most notably the underestimation of revenues and failure to realise expenditure. That was again confirmed by the pronounced differences between the approved budget and the actual results. Although state budget revenues increased by almost **CZK 270 billion** between 2014 and 2018, the planned state budget deficit decreased by just **CZK 62 billion** in that time. The difference between the approved budget and reality was almost **CZK 53 billion** in 2018. Another negative is that the **CZK 86.5 billion** year-on-year increase in state budget current expenditure exceeded the **CZK 84.8 billion** increase in tax revenues, which poses a risk to the sustainability of state budget finances in future.

Important reforms and strategic goals, e.g. simplifying taxes, streamlining tax administration for taxpayers, opening up the public rail transport market, developing the roads infrastructure, digitisation of public administration, improving air quality, achieving energy savings and supporting small and medium-sized enterprise, are being deferred.

Companies in the Czech Republic have to spend 40% more time on fulfilling their tax obligations than the EU and European Free Trade Association average.

One example of this in transport infrastructure is the fact that the motorways network grew by less than 4 km in 2018. Significant progress was not achieved in the streamlining of tax administration for taxpayers: the act on income tax was not simplified, and companies in the Czech Republic have to spend considerably more time on fulfilling their tax obligations.

⁵ Published by the Czech Statistical Office in November 2018; <https://www.czso.cz/csu/czso/projekce-obyvatelstva-ceske-republiky-2018-2100>.

The poor quality of management and control by the responsible authorities hinders the achievement of the goals of numerous state policies.

The state's financial management also failed to move towards good practice in other areas linked to the standard of management and control by the responsible authorities. The upshot is that in a number of areas state administration is not effective at fulfilling the state's indispensable role in meeting social needs.

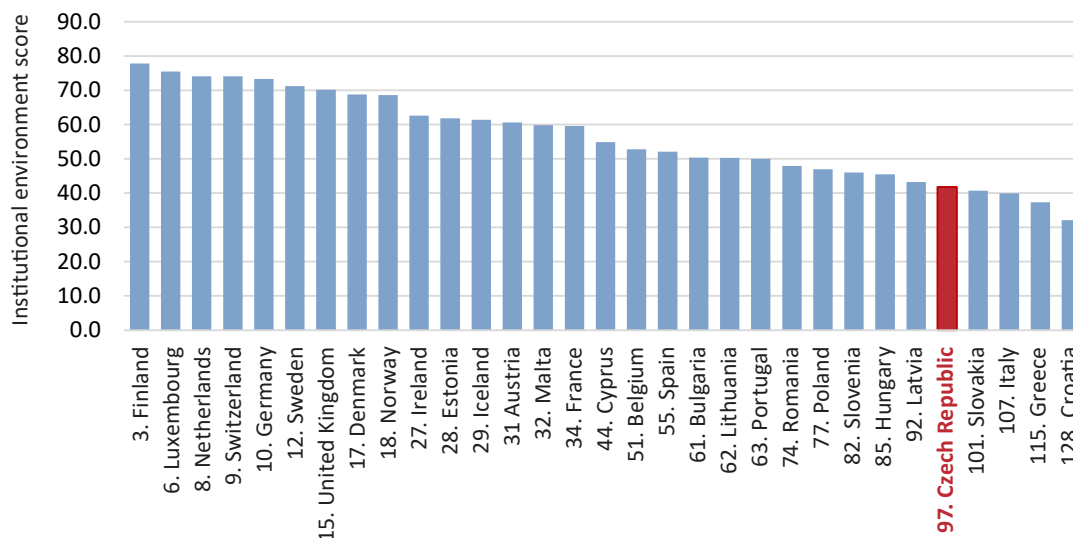
Management and control errors in general are linked to a failure to take responsibility for effective, efficient and economical management of public funds. Formalism, neglect of duties, growing bureaucracy, inefficient processes, inertia and, in a number of cases, a failure to adopt measures to remedy shortcomings identified by previous SAO audits persist. The unsatisfactory design of the audited entities' internal control systems is often another reason for this.

In addition to the above, the SAO repeatedly finds that in certain areas the right conditions for the effective working of Government policies are not in place. The fundamental problems here include fragmentation, unclear powers and responsibilities of the concerned bodies (e.g. in the system of support for research, development and innovation); the absence of effective legislation in certain areas (e.g. in support for social housing); haphazard or non-systematic approaches (e.g. to financing the repair, modernisation and development of 2nd and 3rd class roads); and above all, inconclusive assessment of the effectiveness, efficiency and economy of spending in terms of results and benefits (e.g. in support for business real estate and infrastructure).

Here we can give one example from the field of housing support: Even though the state spent over **CZK 230 billion** on housing support over 20 years, the state's evaluation of the benefits of this support provides little meaningful information. The social housing support system is fragmented, with unclear powers and responsibilities for the various bodies, including municipalities, and the MoRD, as the ministry responsible for this policy, does not have the right tools to coordinate the various bodies' measures. The upshot is that instead of addressing the causes it is the consequences that are dealt with, since the number of excluded localities and the number of people living in them have increased markedly.

The performance of the Czech Republic's public sector lags far behind in international comparison and hinders the country's overall competitiveness.

It is evident that the poor performance of public administration restricts the Czech Republic's overall competitiveness. And that is confirmed by international comparison. According to the regular ranking of countries' competitiveness by the *World Economic Forum's Global Competitiveness Index* (GCI), the Czech Republic did not do too badly in 2018, coming in 29th out of 140 assessed countries, an improvement of three places over the previous year's ranking. However, public sector performance had a negative impact on competitiveness. According to the *public sector performance* indicator that is part of the overall GCI, the Czech Republic was down in 97th place. The Czech Republic is in 24th place out of the 28 EU countries (see chart no 2).

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

Source: *The Global Competitiveness Report 2018*; World Economic Forum 2018;
<http://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf>.

The factors identified by the *World Economic Forum* as causing the biggest problems for public sector performance in the Czech Republic included:

- **burdensome Government regulation;**
- **the future orientation of Government (i.e. the degree to which Government is adapted to electronic transaction forms, economic stability for enterprise, reactions to social changes, demographic development and how long-term the Government's vision is);**
- **the effectiveness of the legal framework for settling disputes;**
- **the level of e-participation, i.e. the standard of online Government services in communication with citizens;**
- **budget transparency.**

Many of these aspects are confirmed by the results of the SAO's audit and analysis work.

The following parts of this chapter take a closer look at the main systemic shortcomings, with recommendations and other information structured in line with the areas the SAO focused on in the previous period. The SAO trusts that they will help better identify and address the existing problems that are important for the Czech Republic's current and future development.

2. Public finances – the favourable results of state budget finances resulting from economic growth are no guarantee of the future sustainability of public finances

Based on its position statements on the Draft State Closing Account and reports on the implementation of the state budget⁶, the results of audit and analysis work and up-to-date data for 2018, the SAO makes comments on the development of the economic situation and the results of the management of public funds.

⁶ In 2018, in accordance with Section 5 of Act no 166/1993 Coll., on the Supreme Audit Office, the SAO submitted to the Chamber of Deputies of Parliament of the Czech Republic its *Statement on the Draft State Closing Account of the Czech Republic for 2017* and its *Statement on the Report on the Implementation of the State Budget of the Czech Republic for the 1st half of 2018*.

It is fair to say that the state achieved positive results as regards public budgets and the state budget in 2018. The improved results of the management of state budget finances were caused mainly by the expected economic growth, which continued to be driven by household final consumption expenditure. This spending was influenced both by consumer confidence and, above all, the high rate of employment, linked to pay growth and the ensuing increase in tax revenues, including social security contributions. The year-on-year increase in investment expenditure and expenditure earmarked for funding projects out of EU and FM resources can also be welcomed. Long-term systemic shortcomings in the compilation and implementation of the budget jeopardise the future development of public finances, however.

The Czech Republic's economic growth continued in 2018, but signs of a slowdown in some important economic sectors could be observed during the year. The labour market was becoming increasingly tense, as it hit the outer limits of its utility. Unemployment was 2.2%⁷ in 2018, yet the unsuitable structure of job-seekers' qualifications is already becoming a risk for the continued development of companies, primarily those in the processing industry and other technical fields.

The attainment of a state budget surplus of CZK 2.9 billion for 2018 can be rated positively, including its impact on reducing Government debt.

The state budget for 2018 approved by the Chamber of Deputies of Parliament of the Czech Republic in the form of the Act on the State Budget⁸ set total revenues at **CZK 1,314.5 billion**, total expenditure at **CZK 1,364.5 billion**, leaving a deficit of **CZK 50 billion**. The deficit planned for 2018 was **CZK 10 billion** lower than in the previous year. Actual total revenues in 2018 attained **CZK 1,403.9 billion** and expenditure **CZK 1,401 billion**, leaving a surplus of **CZK 2.9 billion**.

Table 2: State budget balance, 2013–2018 (CZK billion)

Indicator	2013	2014	2015	2016	2017	2018
Planned balance	-100.0	-112.0	-100.0	-70.0	-60.0	-50.0
Actual balance	-81.3	-77.8	-62.8	61.8	-6.2	2.9
Difference	18.7	34.2	37.2	131.8	53.8	52.9

Source: MONITOR information website and MoF press release of 3. 1. 2019.

A much better balance than originally planned was also achieved in 2018. This trend of considerable differences between plan and reality in recent years is indicative of poor-quality budget compilation methods, where state budget revenues (mainly tax revenues) are undervalued in view of economic development. A better state budget balance than planned cannot ultimately be regarded as a success, as this reduces the predictability, transparency and effectiveness of government spending. In the years 2013–2018, for example, the cumulative difference between planned deficits and the actual state budget results exceeded **CZK 300 billion**.

The compilation of the state budget continues to rely on sustainable economic growth without making allowance for the principles of the economic cycle.

Even though the Czech Republic has displayed decent economic growth since 2014, the SAO has repeatedly pointed out that the Government has not yet been able to propose at least a balanced state budget. Although state budget revenues increased by CZK 270 billion between 2014 and 2018, the planned state budget deficit fell by just CZK 62 billion in that period. The Government is also planning budget deficits for 2019–2021. In 2018 the National Budget Council⁹ drew attention to the unsustainability of public finances in the current situation and the risk of a debt trap in the long-term outlook.

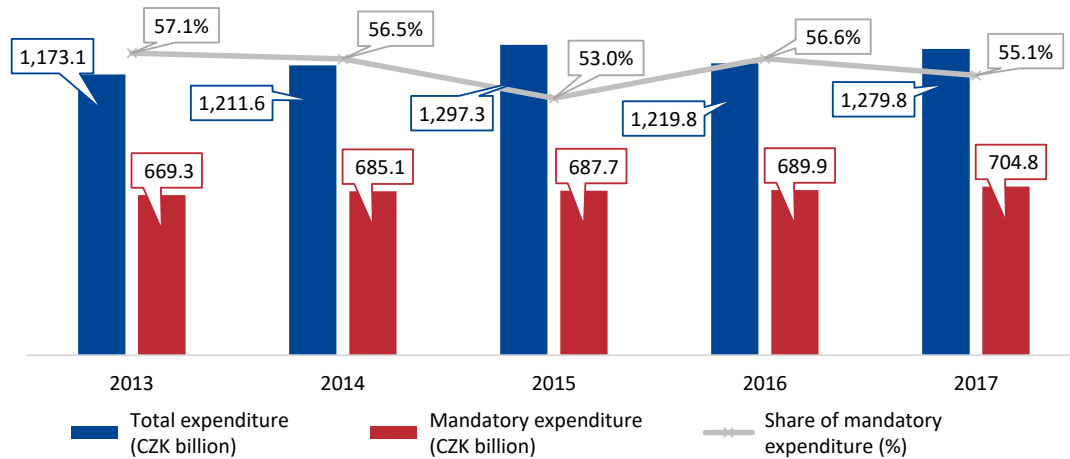
⁷ According to Czech Statistical Office preliminary data as at February 19, 2019.

⁸ Act no 474/2017 Coll., on the state budget of the Czech Republic for 2018.

⁹ Report on the Long-term Sustainability of Public Finances, National Budget Council, October 2018.

The possibility of faltering economic growth and the resulting fall in tax revenues make it necessary to focus on the structure of the expenditure side of the state budget. However, the room for expenditure “rationalisation” is considerably limited by mandatory expenditure which is founded in law and contractual obligations and accounts for approx. **55%** of total spending.

Chart 3: Total and mandatory expenditure, 2013–2017 (CZK billion)

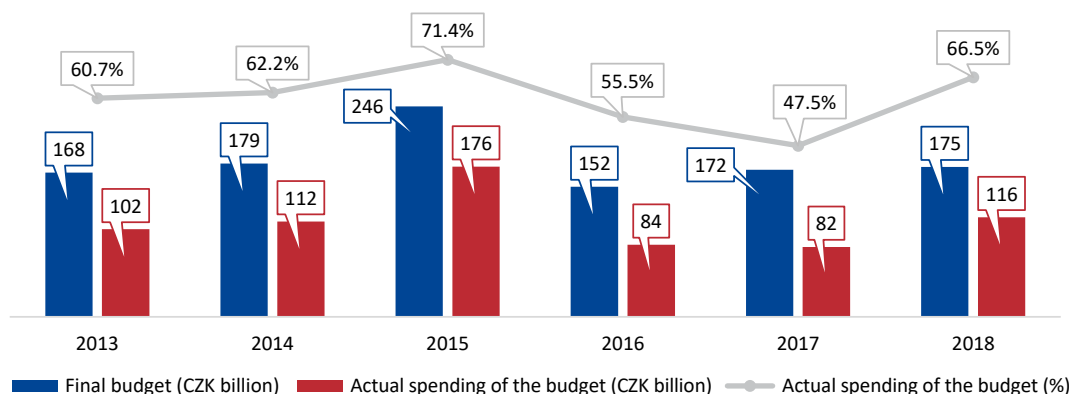


Source: State closing accounts for 2013–2016, Draft State Closing Account for 2017.

Even though state budget finances were influenced by increased government investment activity, ministries were not able to execute a sufficient volume of defined investment projects. As developments since 2013 show (see Chart 4), the Government did not manage to utilise the final budget for capital expenditure. Despite the better result in 2018, when **66.5%** of the final budget was drawn down, drawdown of the final budget for capital expenditure has not reached **75%** once in the past six years.

The overall drawdown of capital expenditure improved in 2018 as a result of the deadline set for the drawdown of the aliquot amount of EU funds for project co-financing.

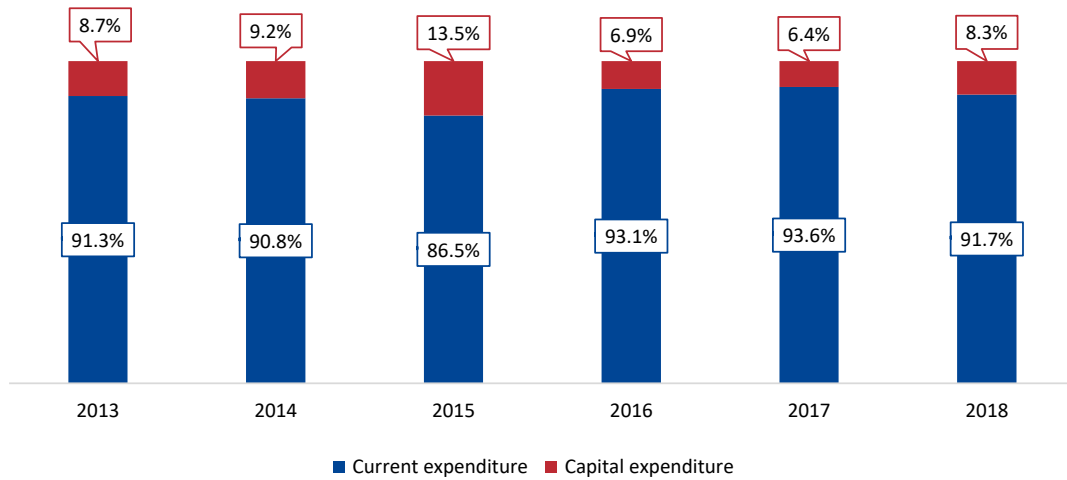
Chart 4: Capital expenditure, 2013–2018 (CZK billion, %)



Source: State Treasury Integrated Information System.

Even though capital expenditure took a greater share of total state budget expenditure in 2018 than in previous years, capital expenditure’s resulting share (**8.3%**) falls short of 2013 to 2015, as the following chart shows. Capital expenditure’s share was lower even than it had been during the period of economic crisis: in 2009, for example, it **11.4%**.

Chart 5: Current and capital expenditure as a proportion of total expenditure (%)



Source: State Treasury Integrated Information System.

Thanks to the increased drawdown of claims from unused expenditure, in particular unused capital expenditure, claims from unused expenditure fell by **CZK 36.5 billion** as at January 1, 2019. However, the SAO continues to regard these claims' magnitude as a risk for the future implementation of the state budget.

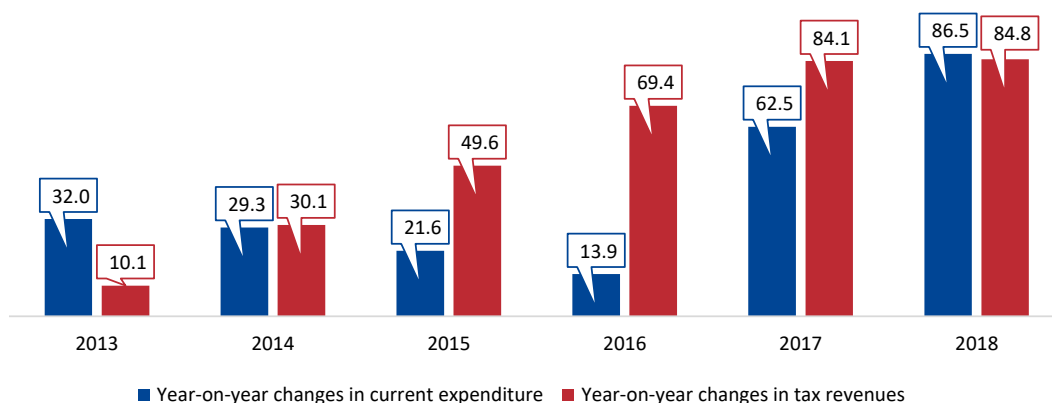
Table 3: State of claims from unused expenditure as of 1 January in the years 2013–2019 (CZK billion)

Indicator	2013	2014	2015	2016	2017	2018	2019
Claims from unused expenditure	133.2	146.6	154.9	151.2	157.7	167.6	131.1

Source: Closing accounts of state budget chapters.

The year 2018 brought another pronounced year-on-year increase in current expenditure, which even exceeded the year-on-year growth in tax revenues. The increasing current expenditure, combined with a possible economic downturn and the related fall in tax revenues, poses a risk to the sustainability of state budget financial management.

Chart 6: Year-on-year changes in current expenditure and tax revenues, 2013–2018 (CZK billion)

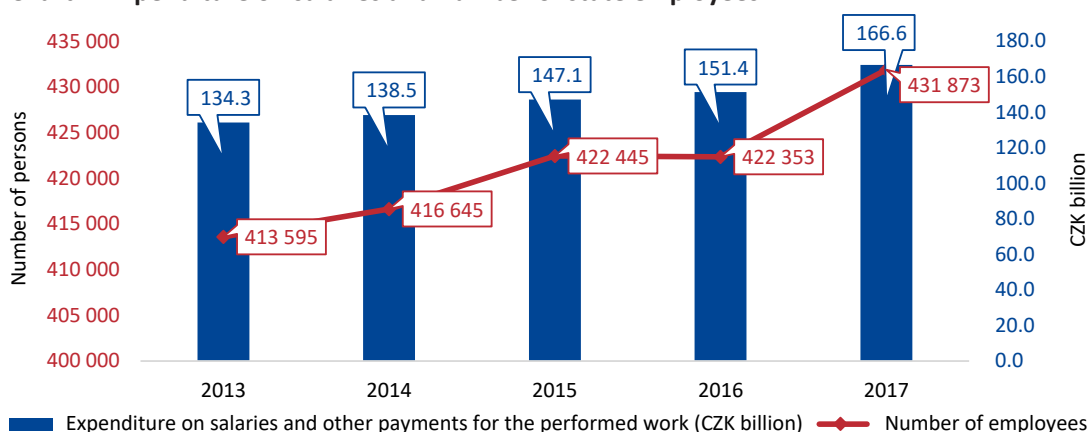


Source: State Treasury Integrated Information System.

Besides increasing mandatory expenditure on social benefits and pensions, rising expenditure for salaries of public sector employees (e.g. civil servants, doctors, teachers *et al.*) has a major impact on the growth of current expenditure. In addition to salary increase, current expenditure is pushed up by the constantly increasing number of public sector employees. The number of state employees increased by more than **18,000** between 2013 and 2017.

The number of public sector employees increased by more than 18,000 between 2013 and 2017 and the amount spent on salaries increased by more than CZK 30 billion. The public sector is supposed to swell by another 16,000 employees in 2019, with expenditure to increase by CZK 23 billion¹⁰.

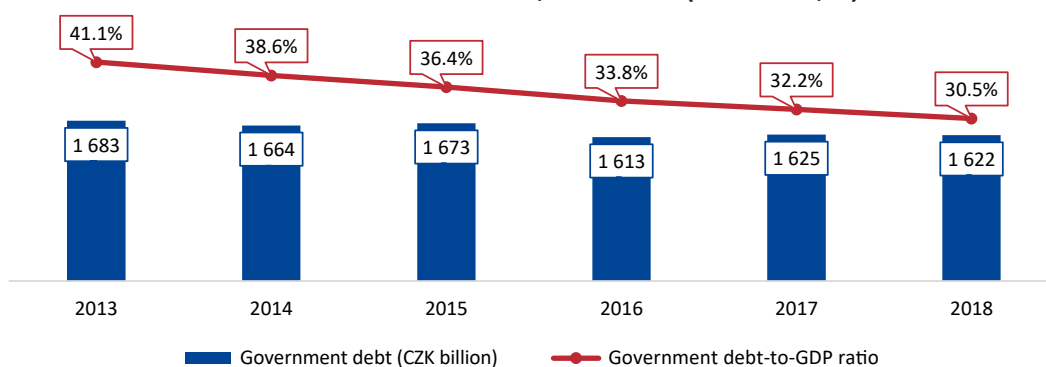
Chart 7: Expenditure on salaries and number of state employees



Source: State closing accounts for 2013–2016, draft state closing account for 2017.

Government debt fell in 2018 by **CZK 2.7 billion** year-on-year to **CZK 1,622.0 billion** and its share in GDP is also falling thanks to the Czech Republic’s good economic situation. The composition of Government debt has begun to change since 2014, with the internal debt increasing at the expense of the external debt. Government debt is the main component of public debt and as regards its share in the gross domestic product, the Czech Republic is one of the countries with the smallest share in the EU.

Chart 8: Government debt and its ratio to GDP, 2013–2018 (CZK billion, %)



Source: Draft State Closing Account for 2017 and MoF press release on February 15, 2019.

¹⁰ According to documentation accompanying the draft state budget of the Czech Republic for 2019.

Certain negative factors that present significant risks to healthy and sustainable public finances as the principal objectives of budgetary responsibility have for long impacted on the management of state budget finances. The following factors are particularly serious:

- **failure to make use of the potential of economic growth for putting in place the right conditions for the long-term sustainability of public finances making allowance for the rules of the economic cycle;**
- **budget compilation methods that result in marked differences between planned and actual revenues and expenditure and undermine the predictability, transparency and effectiveness of the management of public funds;**
- **the lack of a link between budget expenditure and performance indicators and measurable policy goals so that they are binding on the administrators of budget chapters; that leads to a reduction in the budgetary responsibility of budget chapters' administrators for the transparency, effectiveness, efficiency and economy of the management of public funds;**
- **the persisting inability of budget chapters' administrators to draw down planned expenditure for programme and project funding in consequence of projects' and procurement procedures' insufficient preparation, including inefficient processes and ineffective legislation;**
- **the lack of emphasis on responsible budgetary policy – the high dependency of budget implementation on economic growth and the underestimation of the risks of the growth in current expenditure (e.g. owing to population ageing, increase in the number of public sector employees) and other planned expenditure (e.g. discounts) without securing sources of funding.**

The state is planning state budget deficits in the coming years as well. A state budget deficit of CZK 40 billion is planned for 2019. The same deficit is envisaged for 2020 and 2021.

The state plans to spend CZK 6 billion on transport discounts for seniors and students in 2019.

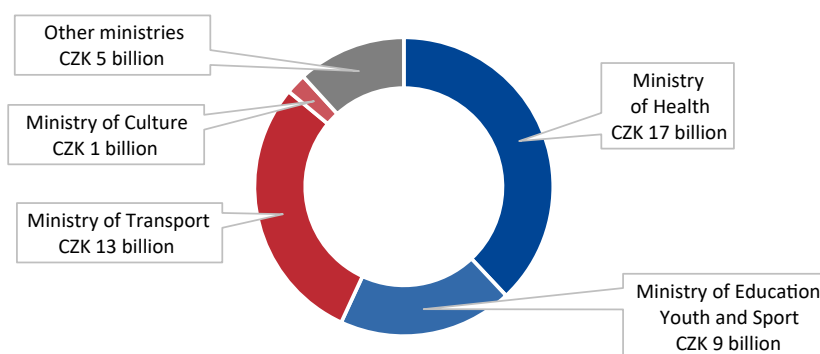
In 2018 the SAO conducted one audit touching on risks to the state budget linked to guarantees provided by the state¹¹. Audit no **17/34** scrutinised whether the Ministry of Finance (MoF) proceeded according to the law when establishing, keeping records of and implementing state guarantees and whether the rules for managing receivables from implemented state guarantees are set and followed in a way minimising the risks of state budget losses. The SAO's key findings were:

- At the end of 2016 the MoF registered guarantees worth **CZK 439 billion**. In the years 2013 to 2016 the state budget finances spent in connection with state guarantees and collateral amounted to **CZK 13.6 billion**. In 2017 the state of guarantees fell sharply by **CZK 190 billion**, largely because of the reduction of the guarantee provided to the Czech National Bank for the sale of Investiční a poštovní banka. Consequently, state guarantees amounted to **CZK 248 billion** at year-end 2017. The SAO identified certain minor shortcomings in the recording and reporting of state guarantees and their disclosure in the state closing account. The audit also found, however, that information on the size of commitments of contributory organisations for which the state is liable under the terms of Act no 218/2000 Coll.¹² is not part of the state closing account or even of the closing accounts of the relevant state budget chapters. According to a calculation by the audit team, these commitments increased by 42% between 2014 and 2016 to reach approx. **CZK 34 billion** and constitute a potential risk for the state budget if they have to be covered. The SAO therefore recommends eliminating this shortcoming in the legislation and making it obligatory to provide information about the size of this type of commitment. Commitments of the state's contributory organisations reached almost **CZK 45 billion** by the end of 2017; see Chart 9, broken down by Government department.

¹¹ By means of guarantees the state assumes the obligation to pay, in certain situations, the financial commitment of a specific debtor the state decided to stand surety for. These are standard guarantees, most commonly for Czech Rail and the Rail Track Administration, and non-standard guarantees, which include guarantees linked to the sale of Investiční a poštovní banka, or state guarantees linked to export insurance and financing.

¹² Act No. 218/2000 Coll., on the budgetary rules and amending certain related acts (the budgetary rules).

Chart 9: Commitments of contributory organisations established by individual ministries as at December 31, 2017



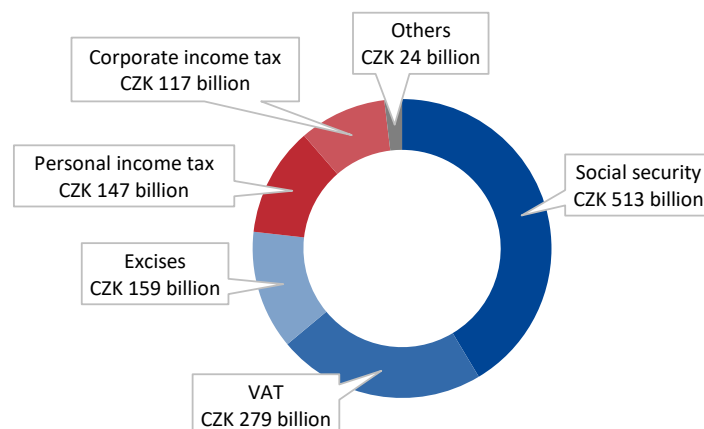
NB: not including estimated accounts payable.

Source: MONITOR information website.

3. State revenues – VAT administration does not guarantee the proper collection of tax on e-commerce, even though the volume of transactions is increasing dynamically; significant progress was not achieved in streamlining and simplifying the tax system

Creating sufficient sources of public finances is an essential condition for fulfilling the needs and goals of the state’s expenditure policies. That is why the SAO has constantly given priority to the collection and management of state revenues and the efficiency with which they are achieved. Tax revenues account for the largest proportion of state revenues. The positive trend of increasing tax revenues in practically all major tax items continued in 2018. These tax revenues, including social security revenues, amounted to almost **CZK 1,239 billion**¹³ in 2018, accounting for **88%** of total state budget revenues. The biggest items are social security premiums, value added tax, excises, personal income tax and corporate income tax. Revenues from the EU/FM budget also increased year-on-year alongside tax revenues.

Chart 10: Volume and structure of state budget tax revenues in 2018



Source: State Treasury Integrated Information System.

¹³ According to an MoF press release of January 3, 2019.

The SAO completed two audits in the field of tax policy last year, targeting the issue of the fight against tax evasion in the context of VAT collection and administration in the dynamically growing e-commerce segment and measures against tax evasion and illegal tax optimisation of connected entities in the context of corporate income tax:

- Audit no **17/12** – *Administration of value added tax;*
- Audit no **17/21** – *Administration of corporate income tax.*

In audit no 17/12 focusing on the administration of VAT in cross-border e-commerce in the audited period of 2015–2017 the SAO assessed how the EU and Czech VAT administration systems are designed, how the financial authorities proceed when collecting VAT and how effective the control system is. In addition, the working of the new voluntary taxation system called the minimum one-stop shop (MOSS)¹⁴ was scrutinised in collaboration with the Federal Court of Auditors of Germany. The audit results reveal the serious finding that VAT administration under the MOSS system and outside it is not sufficiently prepared for e-commerce and does not guarantee that cross-border transactions are duly taxed. The SAO also found significant defects in the financial administration's work to track down and check taxable persons.

- In the event of goods being sent or selected services being provided between countries, the country of consumption is responsible for collecting VAT. However, that country has limited possibilities for identifying whether a transaction took place and whether it was correctly taxed, because if the taxable entity itself does not report the transaction, the tax administrator in the country of consumption will not find out about it. The audit showed that the tax administration authorities are not aware of the value of sent goods and provided selected services or of the value of the VAT paid to the CR. The significance of this kind of business is borne out by the fact that demonstrably effected transactions from the Czech Republic amounted to almost **CZK 107 billion** between 2015 and mid-2017. The audited financial authorities did not do enough to track down and check persons obliged to pay VAT. Attempts to track them down were random and the exception rather than the norm. The SAO has, however, identified and promoted examples of good practice from other EU countries such as Great Britain, Finland, Latvia and Bulgaria.
- In the SAO's judgement, the launch of MOSS achieved its goals, reducing paperwork for tax administrators and taxable entities alike; the willingness of taxable entities to pay tax to the country of consumption has even increased. Nevertheless, the SAO believes that there is still room to make tax administration more effective, e.g. by widening the special scheme and increasing the responsibility for correctly paying tax to the country in which the tax entity registered its business to MOSS.

The financial administration does not know the total amount of VAT that should have been paid to the state on e-commerce.

In 2018 there were almost 43,000 e-shops registered in the Czech Republic and the value of online transactions amounted to almost CZK 140 billion¹⁵.

The SAO recommended a number of measures regarding the EU and Czech legislation. At the EU level, the recommendations mainly concern increasing the responsibilities and powers of countries in which suppliers are domiciled or registered so that these countries handle as much of the VAT administration as possible on behalf of all countries of consumption. In addition, the powers of tax administrators as regarding obtaining information from third parties (providers of payment, postal and courier services and e-marketplaces) should be strengthened and these powers should be put to sufficient use. At national level, the most important measure is to start systematic searching and checking in the field of e-commerce.

¹⁴ Mini One Stop Shop – MOSS. This scheme was launched throughout the EU from January 1, 2015 with a view to cutting paperwork for businesses by not requiring them to register for VAT in every Member State in which the services are consumed.

¹⁵ Source: www.ceska-ecommerce.cz.

Based on the results of the SAO audit, the Czech tax administration will start actively searching for entities not fulfilling their tax obligations and declared a number of measures to improve e-commerce VAT administration. The European Court of Auditors has also turned its attention to this issue. The implementation of the MOSS scheme is increasingly important after it was extended to the sending of goods in the 2019–2021 period.

The MoF and the General Financial Directorate (GFD) both agreed with the SAO's principal findings and adopted or declared the adoption of a number of measures to improve the administration of VAT in the field of e-commerce, e.g. the establishment of a new unit to track down taxpayers who are not fulfilling the statutory conditions for VAT registration. To make control work more effective after the MOSS scheme is extended, the administration of taxes will not be done by the Financial Office for the South Moravian Region for the entire Czech Republic, but this will be done by the appropriate local financial offices. The Customs Administration is prepared for changes affecting imports of small consignments that will take place in connection with the adoption of the "e-commerce VAT package" from January 1, 2021.

In audit no 17/21 the SAO targeted the administration of corporate income tax. After VAT and social security premiums, corporate income tax is the third largest revenue for public budgets. The total tax collected in the audited period of 2013–2016 was CZK 565 billion. The SAO identified illegal tax optimisation in international transactions between entities connected in terms of personnel and capital as the greatest risk.

- One risk area identified in tax administration in the audited period was transfer prices, or transactions carried out between entities connected in personnel or capital terms at home and abroad. Corporate income tax is not harmonised in the EU, which enables taxpayers to perform undesirable optimisation via connected entities abroad or tax havens. The EU has adopted several directives concerning international information exchange and laying down rules to combat tax avoidance practices. Because of the lengthy legislative process, the Czech Republic implemented the EU directive governing tools for detecting illegal tax optimisation into national legislation after a delay of several months, and then successfully took part in international information exchange. As regards the impact of information exchange, the GFD quantified the proceeds in the audited period at **CZK 103 million** in direct taxes (i.e. corporate income tax and personal income tax). The SAO also stated that the Financial Administration of the Czech Republic did not react to the risk of abuse of koruna bonds in good time, as it started to check the taxation of koruna bonds issued in 2012 as late as in 2017, i.e. five years later, and only did so in response to information from the media or from the public or information arising out of sessions of the budgetary committee of the Chamber of Deputies of Parliament of the CR. As a result, the three-year statute of limitations for imposing tax had expired for at least 15 taxpayers.

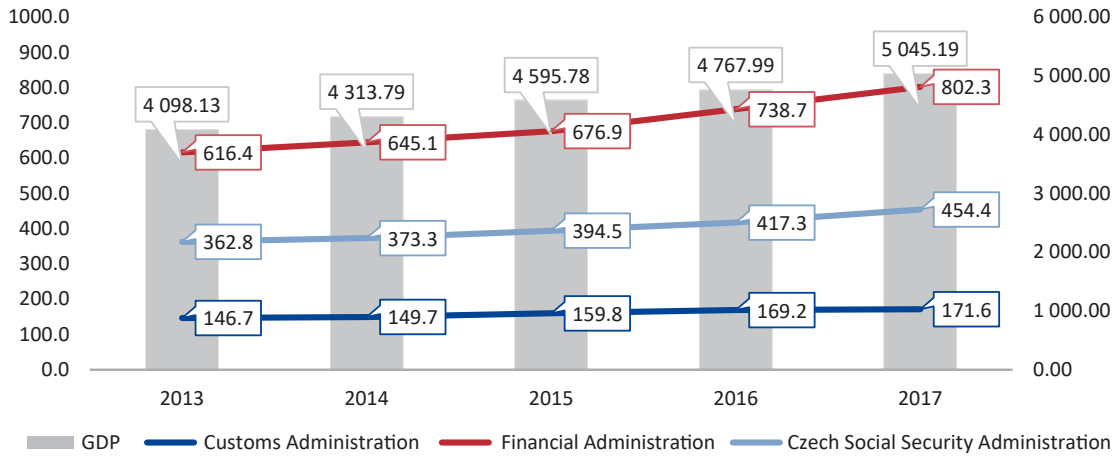
The statistics on the results of the financial administration's control work were overstated in 2015 and 2016. For 2015 the GFD stated that additional tax of almost CZK 1.8 billion was levied on the basis of its checks. After appeals that were filed by the entities but were not factored into the financial administration statistics, the figure was in fact CZK 850 million. A similar thing happened in 2016, when the GFD again published a figure of CZK 1.8 billion, while the reality was just under CZK 1.1 billion.

The fight against tax evasion, making tax collection more effective and cutting paperwork for taxpayers have long ranked among the Government's key priorities in tax policy¹⁶. For that reason, the SAO has long monitored and evaluated the effectiveness and costliness of tax collection and of measures linked to preventing and detecting tax evasion and streamlining tax administration for taxpayers.

¹⁶ See e.g. national reform programmes of the Czech Republic for 2016 to 2018.

The following charts show how the collection of income taxes and spending on tax collection evolved in the years 2013–2017.

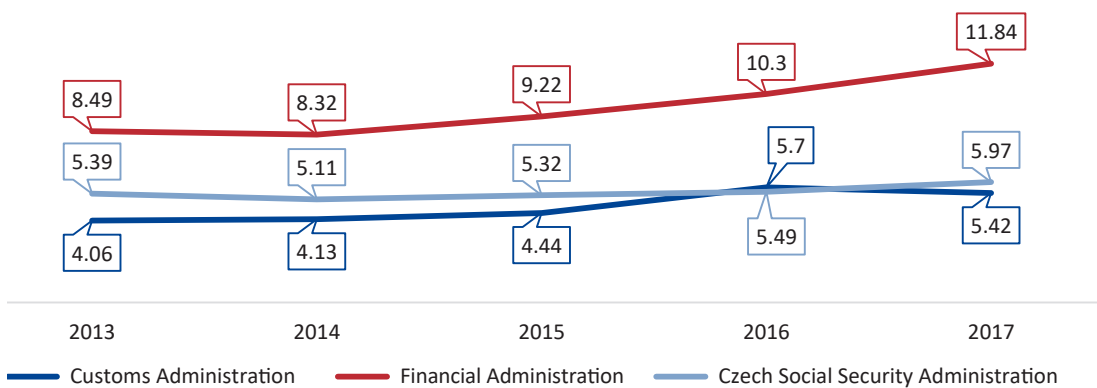
Chart 11: Total tax collected and GDP, 2013–2017 (CZK billion)



Source: Information on the work of the Financial and Customs Administration of the Czech Republic, annual reports of the Czech Social Security Administration, Czech Statistical Office.

The chart shows that collected taxes grew by more than **CZK 300 billion** between 2013 and 2017, i.e. almost **27%**. The development of GDP for this period makes it clear that the main reasons for the increased tax collection are strong economic growth, salary growth and the related consumption by the population. The increase in the amount of collected tax was also affected to a smaller degree by other factors, e.g. the introduction of control statements and electronic sales records (since 2016), but their impact has not yet been credibly quantified by the MoF, as the SAO pointed out in its position statement on the Draft State Closing Account for 2017. There was a significant increase in the amount of collected excises and income taxes. Property taxes, which are less tied to economic development, have a negligible impact on the total amount of collected tax. In the long term, tax revenues’ high dependency on economic growth may pose a risk to the sustainability of state budget revenues.

Chart 12: Total expenditure on tax collection, 2013–2017 (CZK billion)



Source: Information on the work of the Financial and Customs Administration of the Czech Republic, annual reports of the Czech Social Security Administration.

Spending on tax administration soared, rising by **CZK 5.3 billion**, i.e. **29%**, in 2017 compared to 2013. The biggest year-on-year rise came in 2017, when expenditure was **CZK 1.7 billion** higher than in the previous year. The biggest factor was the increase in spending on salaries, which rose by **CZK 1.2 billion**. The converted total average number of registered employees increased by **175** year-on-year, reaching **15,448** in 2017.

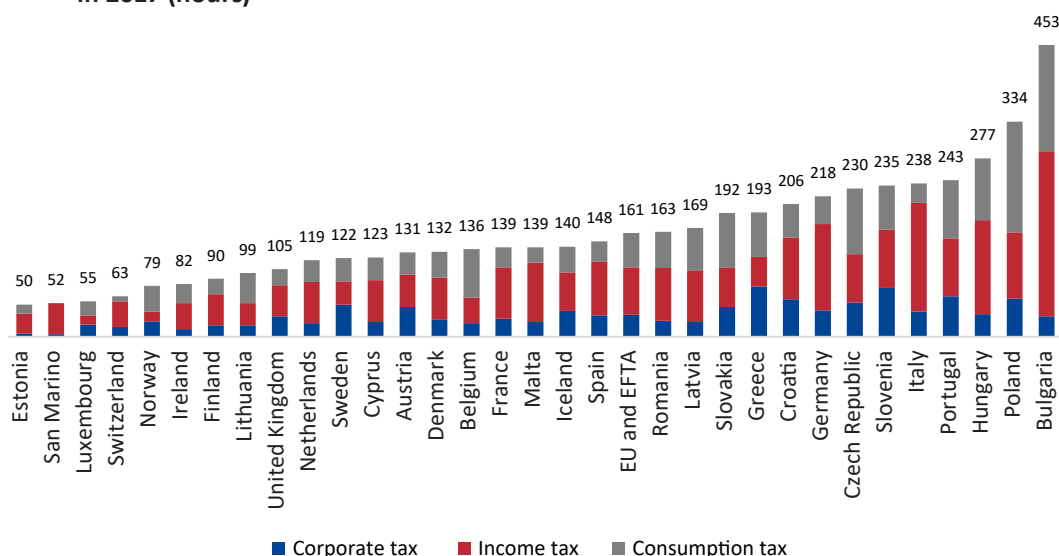
A comparison of total tax revenues and expenditure in the years 2013–2017 reveals that expenditure increased at a faster rate than revenues, which shows that tax administration’s cost-effectiveness declined. At the same time, the magnitude of tax revenues was largely driven by the positive economic situation and growing household consumption.

In recent years the Czech Republic has also focused on introducing measures to fight tax evasion, especially in the VAT field. The development of the tax burden indicates that these measures, such as control statements, had a positive impact primarily on compliance with the regulations and on the fulfilment of obligations by VAT payers, i.e. a preventive effect. That said, significant progress has not been made towards reducing the administrative burden linked to the administration and payment of taxes. Quite the opposite: some measures introduced to fight tax evasion have brought extra paperwork both for taxpayers and tax administrators. Even though control statements, for example, are fully electronic, the time spent on administrative work has increased for VAT payers.

No real progress was made in terms of reducing taxpayers’ administrative burden when complying with tax obligations. Firms in the Czech Republic have to spend more than 40% more time on tax compliance than the average for EU/EFTA countries.

According to the *Time to comply* indicator, which is regularly assessed by the World Bank and PricewaterhouseCoopers (PwC) and measures the amount of time required by taxpayers to fulfil their tax obligations, **230 hours** had to be spent on fulfilling tax obligations in the Czech Republic in 2017, which continued to be far more than the EU and EFTA average (**161 hours**); see Chart 13. Firms in the Czech Republic have to spend **53 hours** on corporate income tax; **75 hours** on taxes on labour (i.e. personal income tax, including mandatory social contributions for employees); and **102 hours** on consumption taxes (corresponding to VAT and excises)¹⁷. The introduction of control statements in 2016, for example, added a further **14 hours**¹⁸ to the time required to fulfil VAT obligations.

Chart 13: Time required to comply with tax obligations to the state in EU and EFTA countries in 2017 (hours)



Source: [pwc.com/gx/en/services/tax/publications/paying-taxes-2019/explorer-tool.html](https://www.pwc.com/gx/en/services/tax/publications/paying-taxes-2019/explorer-tool.html).

So far, the necessary progress in cutting paperwork for taxpayers, simplifying taxes and making tax administration more user-friendly for taxpayers has not been achieved.

¹⁷ See <https://www.pwc.com/gx/en/services/tax/publications/paying-taxes-2019/explorer-tool.html>.

¹⁸ According to the *Paying Taxes 2018* report; The World Bank Group and PwC 2017.

The MoF, for example, agreed with the conclusions of audit report no **16/21**¹⁹ that the personal income tax system is confusing and complicated, with numerous exemptions and forms of relief. That makes tax administration more complicated and increases the administrative burden on taxpayers, without making the collection of this tax more effective. The MoF pledged to prepare a brand new income tax act and a *MOJE daně (My taxes)* website that should make electronic communication with the authorities more effective. According to the MoF, the *My taxes* project should deliver a simpler tax system. In addition to the new income taxes act, this simpler tax system should include self-assessment, individualisation and an electronic website for tax administration.

The MoF had already announced this project in response to the results of audit no **15/17**²⁰, linked to the collapse of the Single Collection Points (SCP) project that was supposed to simplify the collection and administration of taxes and insurance premiums.

As the new income taxes act under preparation has not yet entered the legislative process and the *My taxes* project still awaits implementation, improvements cannot be expected in the near future.

4. Government expenditure areas – achieving the goals of Government policies is hindered by recurring management and control errors

The following parts of the annual report are devoted to the results of the SAO's audit and analysis work in the main expenditure areas of Government policies covered by the SAO last year.

They include a summary of the SAO's significant findings concerning both the achievement of policy goals and shortcomings and any recommendations intended to help policymakers apply good practice and better management of public spending wherever necessary. The findings should also function as objective assurance for the general public in terms of where the state stands in various areas and where change is necessary to ensure taxpayers' money is spent correctly. In other words, to ensure that the state is able to deliver the necessary value for its citizens in line with the objective requirements and thus to fulfil its indispensable role as well as possible. And additionally, to ensure that the state's interventions contribute to improving the country's global competitiveness. Attaining maximum value for money is a necessary precondition of that.

According to the results presented in the following passages, broken down by policy areas, the system for management and control of public funds did not always ensure that public spending was compliant with the legal regulations, effective, efficient and economical.

If we are to summarise the similar and recurring types of management and control shortcomings as the reasons for the state not always being able to achieve policy goals in the manner described above, the main systemic shortcomings include:

- **the absence of effective legislation** (audit no **17/02** in the field of support for social housing);
- **a haphazard and unsystematic approach** (e.g. audit no **17/09** in the field of funding the repair, modernisation and development of 2nd and 3rd class roads);
- **fragmentation, authorities' unclear powers and responsibilities** (e.g. audit no **17/15** in the system of support for research, development and innovation);
- **failure to assess the effectiveness, efficiency and economy in providing support** as regards the results and benefits of the support (e.g. audit no **18/01** in the field of support for business real estate);

¹⁹ Audit report no 16/21 – *Income tax administration and the impacts of legislative amendments on state budget revenues* was published in volume 4/2017 of the *SAO Bulletin*.

²⁰ Audit report no 15/17 – *Funds spent on measures related to streamlining of tax and insurance collection and administration, mainly within the project "Setup of Single Collection Point for state budget revenues"* was published in volume 4/2016 of the *SAO Bulletin*.

- **unequal treatment of applicants for support and lack of transparency when awarding subsidies** (e.g. audit no **17/26** in support under the *Rural Development Programme* and prioritising large firms over small and medium-sized enterprise);
- **poor preparation of projects and delays in programme implementation** (audit no **17/16** in the *Programme of Care for National Cultural Treasures*);
- **failure to make use of a competitive environment when awarding contracts to achieve cost savings** (audit no **17/33** in the field of costs of railway level-crossing safety);
- **insufficient control work and failure to implement measures to remedy shortcomings** (e.g. audit no **17/22** in the field of ICT projects for the disbursement of social benefits).

4.1 Efficient public administration and eGovernment – not implementing measures to solve ICT development problems makes the digitisation of public administration much more expensive; the Czech Republic continues to lag far behind in developing online state services

In 2018 the SAO followed up the findings it had made in previous years when auditing information technologies and the digitisation of public administration. In its audit work the SAO mainly focuses on projects and information systems that are viewed as high-risk. And not just high-risk from the SAO's point of view, but because of their social ramifications.

It has become clear that there has been a long-term failure to solve the problems associated with information and communication technologies, so they remain a major cause of uneconomical and inefficient spending.

Persisting problems in the expansion of the digitisation of public administration include haphazard management of ICT resources, insufficient staffing capacities and dependency on external ICT contractors.

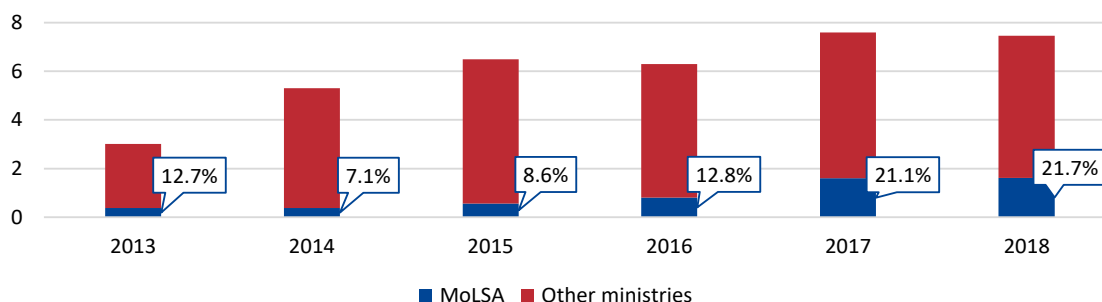
These factors have an impact on the amount the state has to spend on ICT every year. Data from the *State Treasury Integrated Information System (STIIS)* reveal that departments spent a total of **CZK 12.6 billion**²¹ in 2018. Total expenditure may be higher, though, as this figure did not include budgetary items that may comprise other related spending than merely direct expenditure on ICT.

Through regular and systematic monitoring and risk analysis the SAO identified enduring and grave problems in the field of the MoLSA's information systems that had already been covered by audit no **12/35**²². The data in Chart 14 show that the MoLSA has long failed to cut spending on ICT – spending has risen sharply every year since 2014. In 2018, when it was four times higher than in 2013, expenditure on ICT exceeded **CZK 1.6 billion**, accounting for over **21%** of all ministries' total spending on ICT, which amounted to **CZK 7.5 billion** in 2018.

²¹ Selection of budget items 5042, 5162, 5168, 5172, 6111, 6125.

²² Audit no 12/35 – *Establishment of the Labour Office of the Czech Republic and management of state budget's and the EU's property and funds related to the establishment and activity of this office and to preparation and implementation of projects in the area of welfare disbursement information systems* (audit report published in volume 3/2013 of the *SAO Bulletin*).

Chart 14: Ministries' expenditure on ICT and share of MoLSA spending, 2013–2018 (CZK billion, %)



Source: STIIS data, budgetary items 5042, 5162, 5168, 5172, 6111 and 6125.

NB: The data for ministries do not include other organisational units of the state or contributory organisations falling under the relevant state budget chapter.

The SAO therefore conducted audit no **17/22** in 2018, focusing again on the MoLSA's information systems supporting the agenda of disbursement of non-insurance social benefits and benefits under state employment policy²³. To make the performance of this agenda efficient and economical, the MoLSA planned to re-award these systems by tender, thus eliminating the dependency on a sole contractor. The MoLSA had not achieved this goal by the end of the audit or even by the end of 2018. The audit results flagged up problems that are not isolated and can to some degree be detected in other state administration bodies that function as information system administrators. The SAO's audit of the MoLSA revealed the following key problems:

- The MoLSA does not have sufficient staffing capacities in ICT for basic activities, which it resolved by outsourcing. In 2017 alone the MoLSA spent a total of **CZK 149 million** on the outsourced services. The MoLSA's staff shortage resulted in a strong dependency on ICT service providers. The MoLSA thus hindered the achievement of the strategic goal of strengthening its own competences and managing ICT development and operation efficiently. At the same time, it was discovered that the contractual prices of roles arising out of negotiated procedure without publication are much higher than the contractual prices of roles arising out of open procedures (see Section II.5.2 for details).
- The dependency on contractors was also evident in project management, as the MoLSA transferred some of its decision-making powers in the preparation and execution of major ICT projects to external entities. The ICT staffing shortage, strong dependency on ICT contractors and haphazard management of ICT resources impacted on the economy of spending in the MoLSA budget chapter. Delays in the re-awarding of agenda systems in a competitive environment meant that the MoLSA continued to be dependent on contractors for the operation, development and administration of these information systems.
- One result of the delay in the launch of new information systems was the continued operation of existing systems whose monthly operating costs are **CZK 30.2 million** higher than the price of the new systems achieved through competition. The SAO worked out that this increased the cost of operating the existing information systems by at least **CZK 363 million** in 2017 alone. The SAO judged the procedure followed by the MoLSA to be uneconomical spending. If the new information systems are launched within the deadlines in 2018 and 2021, the MoLSA will spend a further **CZK 794 million** uneconomically.

In this audit the SAO also assessed the execution of measures imposed on the MoLSA by the Government after the completion of audit no **12/35** in order to eliminate shortcomings. The SAO stated that the MoLSA had only carried out three of the six measures. One of the remaining measures was supposed to be the commencement of an open award procedure for the provision

23 This involved four information systems: the state social support IS, material need and social services IS, *OK Služby register* IS and employment policy IS.

of system integration services in 2014, which the MoLSA failed to do. The SAO judged this state of affairs to pose a risk of uneconomical expenditure of state budget funds to the tune of up to **CZK 185.2 million**.

Having assessed all these audit findings, the SAO filed a notification of a breach of budgetary discipline exceeding CZK 737 million in value with the tax office and also filed two criminal complaints touching on several circumstances. Based on the identified and evaluated shortcomings, the SAO recommended that the MoLSA, in line with the *Development Strategy for Public Administration ICT Services*, took measures to reduce its dependency on information system and ICT services contractors and end the operation of the existing agenda systems as soon as possible, while simultaneously ensuring a problem-free transition to new technologies.

The continuing dependency on ICT contractors and its negative impact on state expenditure was declared by the SAO in audit no **17/24** as well. This audit scrutinised the design and use of central purchasing in public administration. The SAO found that the MoRD had still not reduced its dependency on a contractor (known as vendor lock-in) in the development and operation of the *Information System on Public Contracts* (IS PC). The SAO checked this by requesting data from the IS PC for audit purposes. For obtaining data of the volume and structure necessary for determining the degree to which central purchasing is used, the MoRD would have paid approx. a further **CZK 150,000** to the external contractor, even though the MoRD is this information system's administrator. Following audit no **15/10**²⁴ the SAO pointed out back in 2016 that the MoRD has handled the modification and operation of IS PC by means of contracts awarded to one and the same contractor ever since the IS PC was created in 2002.

In audit no **17/24** the SAO also stated that the *National Electronic Tool* (NET), which cost over **CZK 230 million** to develop, is supposed to promote the digitisation of the award of public contracts. Although NET contains functionalities to support centralised award processes (e.g. the collection of requirements), almost nobody has used this functionality in NET, not even the MoRD itself. The awarding bodies used other electronic tools that enabled the collection of requirements according to their needs. The SAO also found that the MoRD received requests for the modification of NET in central award processes. The requested modifications of NET were not carried out, however, because the MoRD had not entered into a contract for the development of NET that would enable it to arrange modifications of NET.

Another key area the SAO has been focusing on for a long time is the development of eGovernment, with particular regard to the Czech Republic's standing in international comparison. The SAO mainly drew on the results of the assessed areas of an index monitoring the standard of digitisation of the economy and society (DESI)²⁵, a tool of the European Commission ("the Commission"). Although the Czech Republic's overall score improved by three points in 2018, this improvement had no effect on the resulting ranking, so the Czech Republic stayed in 18th place out of the total of 28 compared European countries.

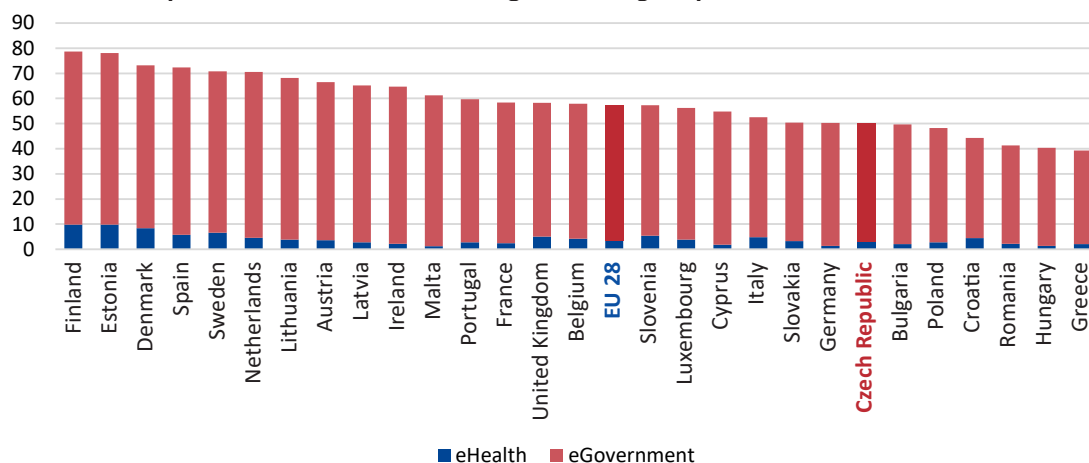
Even though the Czech Republic achieved its biggest progress in the DESI indicator of digital public services, which mainly informs about the standard of eGovernment, it continues to lag a long way behind the EU average, with the Czech Republic coming 22nd out of EU countries. The Commission rated online contacts between public authorities and citizens with one of the lowest scores in the EU (see Chart 15).

A significant amount of money will be spent on ICT in the coming years as well. In 2018 the Division of the Chief Architect of the Ministry of the Interior approved ICT projects with investment costs of approx. CZK 16 billion. In terms of the financial volume of the approved projects, the key bodies are the MoI, for which the Division of the Chief Architect approved 20 projects worth a total of CZK 6.5 billion, and the MoLSA, for which the Division approved 30 projects worth a total of CZK 3 billion.

²⁴ Audit no 15/10 – *Funds spent on the National Infrastructure for Electronic Public Procurement and its utilisation for purchase of selected commodities* (audit report published in volume 3/2016 of the *SAO Bulletin*).

²⁵ The *Digital Economy and Society Index 2018* composite indicator assesses the following aspects: connectivity, human capital, use of internet services, integration of digital technology, digital public services; European Commission 2018; see <https://ec.europa.eu/digital-single-market/en/desi>.

Chart 15: Comparison of countries according to the “digital public services” indicator in 2018



Source: European Commission, DESI 2018 “digital public services” indicator.

The Czech Republic continues to lag far behind EU countries in the development of digital public services (eGovernment). The rate of online contacts between public authorities and citizens is one of the lowest in the EU.

4.2 Research, development and innovation – support must be tied to qualitative results and private sector involvement must expand if the Czech Republic’s innovation performance should improve

In the long-term outlook, research, development and innovation (RDI) is one of the key drivers of improved productivity, economic growth and sustainable development. It is also a necessary requirement and simultaneously an opportunity for overall societal development and progress. Support for RDI is therefore one of the EU’s top priorities, and the Czech Republic is one of the countries that has committed itself to providing an appropriate level of support.

Audit no **17/15** completed in 2018 is another in a series of audits focusing on the key area of RDI. The goal of the audit was to scrutinise the entire system of support for RDI, both institutional (i.e. support of the institutions encompassing RDI) and special-purpose support (i.e. support for specific projects). The audit mainly looked at whether the system put in place for evaluating the benefits of money spent on RDI is achieving the defined goals and helping improve the Czech Republic’s innovation performance in international comparison. State budget expenditure on RDI in the years 2014 to 2016, which the audit targeted, amounted to **CZK 83 billion**, shared almost equally by institutional and special-purpose support. This systemic audit followed up the previous audits nos. **15/06**, **15/27** and **16/19**²⁶.

The audit detected serious defects in the RDI support system, most notably the fragmentation of the support system, the ineffectiveness of the support system and its inability to eliminate long-standing shortcomings. When evaluating research, the RDI support system in the Czech Republic is highly dependent on evaluation of the quantitative results of research work without a direct link to its quality. The audit also revealed significant defects in the design and evaluation of special-purpose support programmes and the unsuitable design of the evaluation of research organisations for the provision of institutional support.

²⁶ Audit no 15/06 – State budget funds and European structural funds earmarked for financing of operational programmes with respect for project sustainability (audit report published in volume 1/2016 of the SAO Bulletin); audit no 15/27 – State funds earmarked for special-purpose support of research and development within the budget chapter of the Technological Agency of the Czech Republic (audit report published in volume 4/2016 of the SAO Bulletin); audit no 16/19 – State funds earmarked for special-purpose support of research and development via the budget chapter of the Grant Agency of the Czech Republic – Czech Science Foundation (audit report published in volume 3/2017 of the SAO Bulletin).



The audit findings included the following:

- The performance of key tasks in research, development and innovation is not linked to direct and clear responsibility. The fragmentation of the system is also documented by the fact that the Czech Republic had **12** RDI support providers under some type of programme in 2017. There were **62** such programmes running in 2017. The RDI support system put in place was mostly ineffective, as most of the strategic goals²⁷ had not been achieved by the end of 2015. The assessment revealed that just one of the four principal goals and eight of a total of 21 measures had been implemented. Substantial progress was not achieved in the majority of the identified problem areas. There has been no success in rolling out the kind of measures that would lead to significant improvements in areas where the Czech Republic has long lagged behind. The Czech Republic's significant failure at creating patents has been stated every year for at least 15 years. The low degree of cooperation between the public and private sectors is also a persisting long-term problem. To date assessments of cooperation between the public and private sectors in RDI show that the steps taken to promote this cooperation were either not taken or ineffective.
- Institutional support focusing on long-term conceptual development, which amounted to almost **CZK 43 billion** in the audited period, was divided between an ever-growing number of research organisations, regardless of their development concepts and RDI priorities. The Government Council for Research, Development and Innovation assessed research organisations using quantitative results, usually the number of published articles, instead of taking into account the quality of the institutions and their results. In institutional support, only the Czech Academy of Sciences performed its own assessment putting greater emphasis on the specific missions of research organisations and the quality of their research work. Moreover, the rules put in place by the MoEYS enabled non-transparent utilisation of institutional support.
- In international comparison the support system in the Czech Republic is less effective, as the Czech Republic's innovation performance is lagging further and further behind the European average despite the rising expenditure on R&D in the public sector. The Czech Republic is also set to miss the national target of spending **1%** of GDP on research, development and innovation in 2020. According to the Czech Statistical Office, public expenditure in 2017 stood at **0.70%** of GDP.

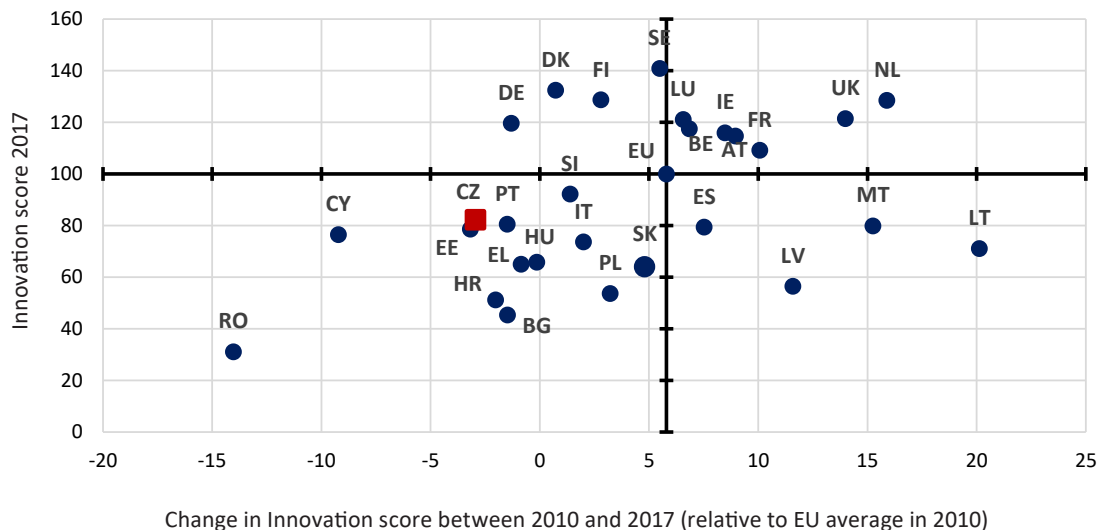
The unclear definition of responsibility in RDI was reflected in preparation of the update of national RDI policy between the MoEYS and Council for Research, Development and Innovation, or in innovation between the MoIT and Technology Agency of the Czech Republic.

²⁷ According to the main strategic document for 2013–2015, which was the *Updated National Policy for Research, Development and Innovation for 2009–2015 with an Outlook up to 2020*.

It is in RDI support's impacts on innovation performance that the Czech Republic has the biggest problems. The Czech Republic has constantly lagged behind in innovation performance as measured by the European Innovation Scoreboard²⁸ (EIS). If the Czech Republic's innovation performance stood at **90%** of the average EU innovation performance in 2010, in 2017 the Czech Republic's innovation performance was just **82%** of the average EU performance achieved in that year (see Chart 16). It is clear from this that the average innovation potential of EU countries is growing, while the Czech Republic's performance is falling. This is the fourth largest fall among EU countries. The comparison between the Czech Republic and its key trading partners is even more stark: Germany, for example, stands at **120%** of the EU average and Austria at **115%**.

Although more public money was spent on RDI support (the difference between 2010 and 2017 was almost 16 percentage points more than the EU average, according to EIS), the Czech Republic's innovation performance fell by 8 percentage points compared to the EU average between 2010 and 2017.

Chart 16: International comparison of innovation performance according to the European Innovation Scoreboard (%)

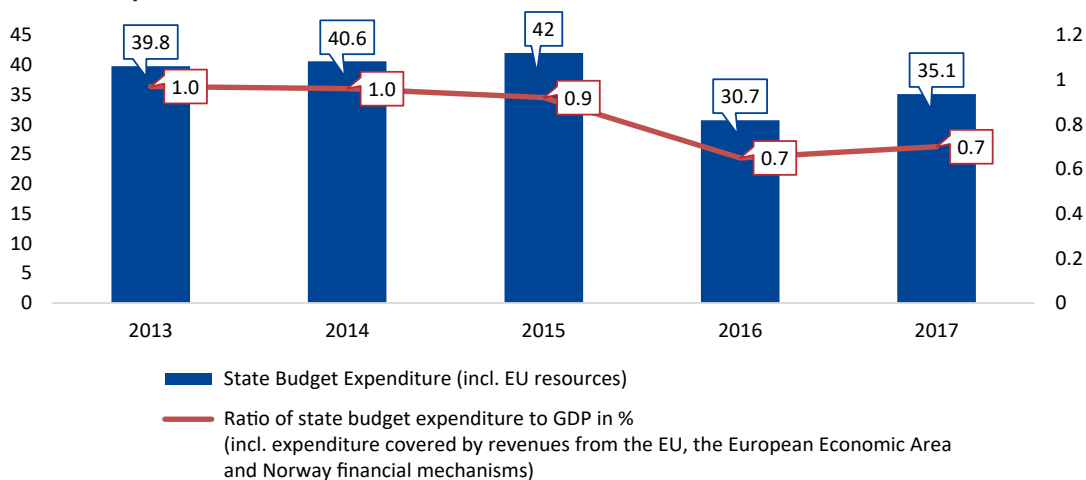


Source: European Innovation Scoreboard 2018.

The SAO regards the fragmentation of the RDI support system, the insufficient link to evaluation of the quality and utility of results and the low level of private sector involvement as the main reasons for the Czech Republic's poor innovation performance.

As the SAO pointed out in its Position Statement on the Draft State Closing Account for 2017, state budget expenditure of **CZK 35.1 billion** in 2017 may have been **CZK 4.4 billion** higher than in the previous year, but it was below the figures from 2013 to 2015 (see Chart 17), when mainly investment expenditure on building new research centres under operational programme *Research and Development for Innovation 2007–2013* was drawn down. As the SAO concluded in audit no **15/06**, **CZK 24.4 billion** will have to be spent out of the state budget on financing their operation for the five-year sustainability period. Yet numerous new centres were unable to secure additional sources of funding, particularly from contractual research and international grants, as had originally been envisaged. In this context the SAO mainly draws attention to the fact that their operation will put pressure on additional state budget expenditure in the coming years. The results of audit no **17/15** therefore show that private sector involvement must be intensified and the utility of results must be improved.

28 European Innovation Scoreboard, European Commission.

Chart 17: Expenditure on RDI 2013–2017 and its ratio to GDP

Source: State closing accounts for 2013–2017.

In connection with the audit results, the SAO welcomes a number of measures adopted by the Government to make RDI support more effective in future.

The key measure is preparation of a new management system that is to be based on more intensive communication with the individual support providers, more effective evaluation, elimination of ineffective support and stronger motivation to involve the private sector in research activities. The way new programmes of special-purpose support are judged and existing programmes evaluated will be changed. A new methodology for assessing and evaluating project proposals will be adopted. At the same time, a new methodology for evaluating research organisations (known as Methodology 2017+) is gradually being implemented up to 2019, intended to ensure support going to research organisations is based on a qualitative evaluation of their results. The main conceptual material for RDI support in the Czech Republic – national RDI policy – valid after 2020 and currently being worked on, will also respond to the shortcomings identified by the SAO's audit. All the measures listed above should lead to more effective support in future, the elimination of long-standing shortcomings and improved innovation performance. The SAO will continue to monitor the effectiveness of the measures taken to boost the Czech Republic's innovation performance.

4.3 Transport – the development of transport infrastructure and services continued to be hindered by inefficient processes in preparation of construction projects, a non-systematic approach and failure to meet the deadline for opening the rail passenger market

High-quality transport infrastructure is essential for the development of the country and its competitiveness and for providing services to citizens that meet the current requirements for economic and societal development. In the field of transport infrastructure, the SAO has long focused on areas where the state of affairs is unsatisfactory. The aim is not only to point out the shortcomings and their causes, but also to contribute to the implementation of effective corrective measures. The long-standing state of affairs in a number of areas, however, points to inadequate action by the relevant authorities to adopt systemic solutions to the most problematic obstacles hindering the development of transport infrastructure and services, including taking responsibility for the necessary changes.

In 2018 the SAO completed audits scrutinising the following areas:

- ensuring the safety of rail operation and passengers (audit no **17/33**);
- acquiring and replacing rolling stock (audit no **17/35**);
- repair, modernisation and development of the network of 2nd and 3rd class roads co-funded from national and European sources (audit no **17/09**).

The results of the audits of rail transport showed that insufficient definition of priorities when selecting projects for execution and insufficient definition of the outcome expected from investments are a persisting systemic problem.

Significant room for improvement was also identified in the wastefulness with which subsidies are used. The SAO's findings therefore pointed to the potential for savings in spending on projects.

- As the SAO found in audit no **17/33** targeting the safety of rail operation and passengers, the Ministry of Transport (MoT) did not draw up a comprehensive analysis for the safety of rail operation, an analysis that would have identified the highest-risk level-crossings, set a timetable and defined the amount of money necessary for improvements. That is despite the fact that the Government had instructed the MoT to draw up such an analysis by the end of 2008 on the basis of the SAO's findings from the previous audit no **07/25**²⁹. Consequently, the most dangerous stretches of track and places were not made safer. That is despite the MoT spending **CZK 2.6 billion** in the audited period of 2013–2017. This spending in these years did not result in a reduction in the number of incidents on level-crossings. In the audited period there were on average **162** accidents per year, resulting in **35** deaths and injuries to **81** people, which is one of the worst records in Europe.
- In audit no **17/35** the SAO stated that the MoT acquired and replaced rolling stock without having set any measurable targets and without the appropriate technical, financial and temporal systemic measures that would effectively tackle the problem of replacing the old rolling stock in the Czech Republic. Consequently, there is no precise specification of the rolling stock target that transport companies are to achieve. The MoT did not assess the impacts of the provided support in terms of its sufficiency and effectiveness.
- As the SAO found in both audits, award procedures did not take place in a sufficiently competitive environment. This may have impacted on the economy of spending on purchases or projects.

For some items there were unjustifiably large price differences: the unit price of the item "assembly box (stand) crossing relay logic device", for example, was on average CZK 18,000 in contracts awarded by the Rail Track Administration – Construction Management East, while in contracts awarded by the Rail Track Administration – Construction Management West the average price was CZK 105,000, almost six times higher.

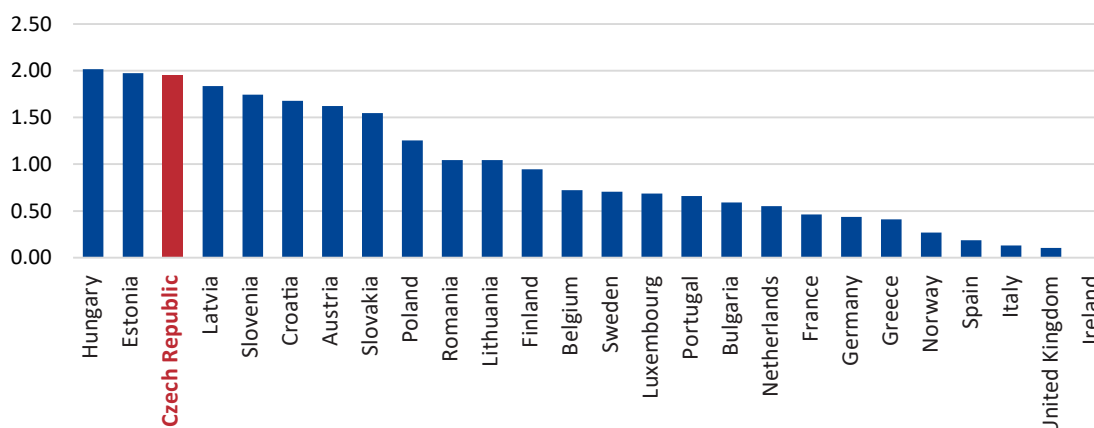
In response to audit no **17/33** the MoT adopted the measure of continuing with the programme to abolish relatively unused level-crossings, especially on special-purpose roads, and to build elevated crossings and propose new technical solutions for "open-on-request barriers" for relatively unused crossings on regional and local railway lines. In this context the SAO recommends continuing implementation of camera systems to prevent risky behaviour by road users.

As data from the European Rail Agency's ERAIL database³⁰ shows, the Czech Republic was one of the worst EU countries in terms of the number of fatalities on level-crossings in relation to population size in the years 2013 to 2017. There are almost two deaths on railway crossings per million inhabitants every year in the Czech Republic. To compare: in Poland the figure was 1.3 deaths per million per year, in Bulgaria 0.6 and in Germany 0.4³¹ (see Chart 18).

²⁹ Audit no 07/25 – Funds allotted for ensuring railway security and passengers' safety (audit report published in volume 3/2008 of the SAO Bulletin).

³⁰ ERAIL – European Railway Accident Information Links – database of information linked to railway safety in EU countries and other European countries.

³¹ According to the *Analysis of the Response to Crisis Situations on Level Crossings* drawn up in 2017.

Chart 18: Average annual number of fatal accidents on level-crossings in EU countries per million inhabitants, 2013–2017

Source: <https://erail.era.europa.eu/safety-indicators.aspx>; TK03 indicator (number of deaths does not include suicides).

State support was not sufficiently effective in the acquisition and modernisation of rolling stock. Thanks to the way the rules are defined, the sole beneficiary of a subsidy for acquiring rolling stock was Czech Rail, for which the provided subsidy of CZK 4.6 billion in the years 2008–2018 made up just 10% of the finances for rolling stock renewal, and the subsidy’s impact on changing its rolling stock was therefore relatively insignificant. The age structure of this transport company’s rolling stock did not improve significantly.

That had already been pointed out by the SAO in audit no **10/24**³². The overall effectiveness of support was also influenced by the insufficient opening up of the rail market to competition and the failure to use this advantage to design better services for passengers, including rolling stock meeting modern transport requirements. The SAO’s other findings in audit no **17/35** included:

- The provision of a subsidy for the acquisition of rolling stock was made conditional on the conclusion of a contract on a public service commitment. But the market has long remained closed, as pointed out by the SAO’s audit no **15/22**³³. Securing public service commitments not through a bidding process but by direct award, e.g. extending contracts with the sole transport company Czech Rail, cannot be regarded as sufficiently transparent, according to the SAO. The support’s impact on changing the unsatisfactory age structure of Czech Rail’s rolling stock, as decided on by the MoT, was relatively minor. From 2008 to 2018 Czech Rail modernised or bought new rolling stock worth a total of **CZK 44.5 billion** not including VAT; the subsidy accounted for just 10.4% of that. The vast majority of the cost of rolling stock renewal, i.e. **CZK 39.9 billion** or almost **90%**, was financed out of Czech Rail’s own and external funds (bank credit and bonds). Despite the gradual reduction in the average age of Czech Rail’s rolling stock, its age structure is still unsuited to the existing and expected future requirements of transport service customers and the public for high-quality and modern regional and long-distance rail transport. More than a third of Czech Rail’s fleet is over **30 years** old, i.e. at or beyond the threshold of moral and technical obsolescence.

That state support has a very little influence on tackling the problem of obsolete rolling stock is demonstrated by the fact that between 2006 and the end of the SAO audit the MoT had supported the acquisition or modernisation of 129 pieces of Czech Rail rolling stock, while the company owned 4,271 pieces of rolling stock at the end of 2017; 1,500 of these vehicles were over 30 years old.

³² Audit no 10/24 – *Funds earmarked for the acquisition and restoration of rail track vehicles* (audit report published in volume 2/2011 of the SAO Bulletin).

³³ Audit no 15/22 – *State budget funds for public service in railway passenger transport* (audit report published in volume 3/2016 of the SAO Bulletin).

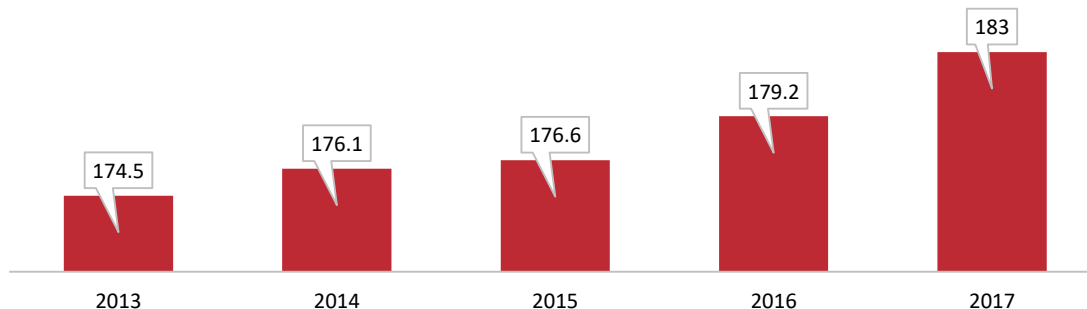
The SAO continues to regard the opening up of the public services market to new rail transport companies and investors as an effective tool for optimising state expenditure in the field of passenger rail transport.

Even though the volume of passenger rail transport is growing constantly (see Chart 19), Czech Rail continues to play the dominant role in passenger transport. This is despite conceptual plans for giving private transport companies greater access to public passenger rail transport. The MoT did not comply with the timetable for opening up the market, approved by the Government in 2011 and updated in 2014.

Czech Rail accounted for 92% of passenger transport services in 2018.

According to these targets, passenger rail transport provided as a public service was meant to have been provided on 12 long-distance lines by companies selected by tender; after the update, the number was reduced to six long-distance lines. The MoT has still not resolved the issue of fare and tariff integration that would enable passengers to use various operators' services for a uniform tariff price. The existing ten-year contract with Czech Rail will expire in 2019, so the MoT and the regions will have to award the majority of contracts again. The MoT said³⁴ that it would not have time to award the majority of railway line routes by tender, so the procedure will be direct award.

Chart 19: Development of passenger transport on the railways (millions of passengers)



Source: 2017 Transport Yearbook of the Czech Republic.

In road transport, after auditing the construction of motorways the SAO focused on lower-class roads, conducting audit no **17/09** which scrutinised subsidies co-funded by the EU and national sources for the repair, modernisation and development of the network of 2nd and 3rd class roads in selected regions³⁵.

The SAO states that the funding of the repair, modernisation and development of 2nd and 3rd class roads out of the budget of the State Transport Infrastructure Fund (STIF) is not systematic, because STIF finances were provided on an extraordinary basis depending on the finances currently available, and no specific measurable goals were defined that would make it possible to evaluate the overall benefit of the expenditure. Subsidy beneficiaries did not monitor whether the costs of the construction work done were proportionate, as a result of which there were substantial differences in the unit prices for work. The SAO's findings included:

- The owners of 2nd and 3rd class roads made use of EU financing from regional operational programmes and regional finances. In addition, STIF finances of **CZK 7.4 billion** were provided in 2015 and 2016 on the basis of a Government resolution. This money was provided without knowledge of the regions' needs and without setting specific measurable goals. Even though the STIF provided billions of koruna in subsidies, it did not assess either the benefits or the efficiency of the money provided, e.g. the extent of improvements in road quality. Equally,

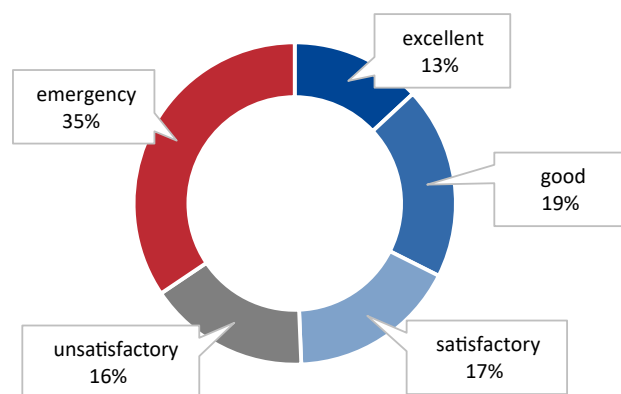
³⁴ See <https://zpravy.aktualne.cz/ekonomika/doprava/stat-se-pripravuje-na-to-ze-bude-muset-vsechny-zeleznicni-tr/~3b1a639ce68911e8bf040cc47ab5f122/>.

³⁵ In the regions of South Bohemia, Liberec, Moravia-Silesia, Pardubice and Pilsen.

the subsidy beneficiaries did not systematically assess the unit costs of the work done or define the expected value of public contracts. They left it to external contractors to define the expected value of public contracts, without checking how this value was determined. Data obtained when auditing four regions (South Bohemia, Liberec, Moravia-Silesia and Pardubice) and selected projects revealed that repairing one kilometre of 2nd and 3rd class roads cost on average from **CZK 1.5 million to CZK 14 million**. The supreme audit institution of the Slovak Republic conducted a similar audit in 2014, which showed that the prices for repairing roads in regions of Slovakia ranged from approx. **CZK 1.8 million to CZK 5.8 million** per kilometre. The conducted audit exposed the risk of continued unsystematic financing because the state's financial involvement in this area has not been comprehensively assessed and defined. A further **CZK 7.4 billion** was earmarked in the STIF budget for 2nd and 3rd class road repair in 2017 and 2018.

The quality of the 2nd and 3rd class road network is unsatisfactory. According to data from 2016 covering five selected regions³⁶, over **50%** of the total road network's length was in critical or unsatisfactory condition (Chart 20).

Chart 20: Quality of 2nd and 3rd class roads in selected regions



Source: Audit no [17/09](#); magazines of the Society for the Development of Road Transport in the Czech Republic.

The quality of the Czech roads network is alarming by international benchmarking as well. According to data from the World Economic Forum assessment report from 2018³⁷, the Czech Republic is in **68th** place out of **140** assessed countries in terms of road quality. The Czech Republic was down in **23rd place** out of **28** EU countries. It is clear from the above that the unsatisfactory quality of roads in the Czech Republic is one of the factors holding back efforts to improve the country's competitiveness.

In its outputs, whether audit reports or position statements, the SAO has long drawn attention to the fact that speeding up the preparation of transport infrastructure construction projects in terms of the EIA process, planning and building permit procedures and preventing the deliberate blocking of projects is hindered by ineffective processes and inadequate legislation.

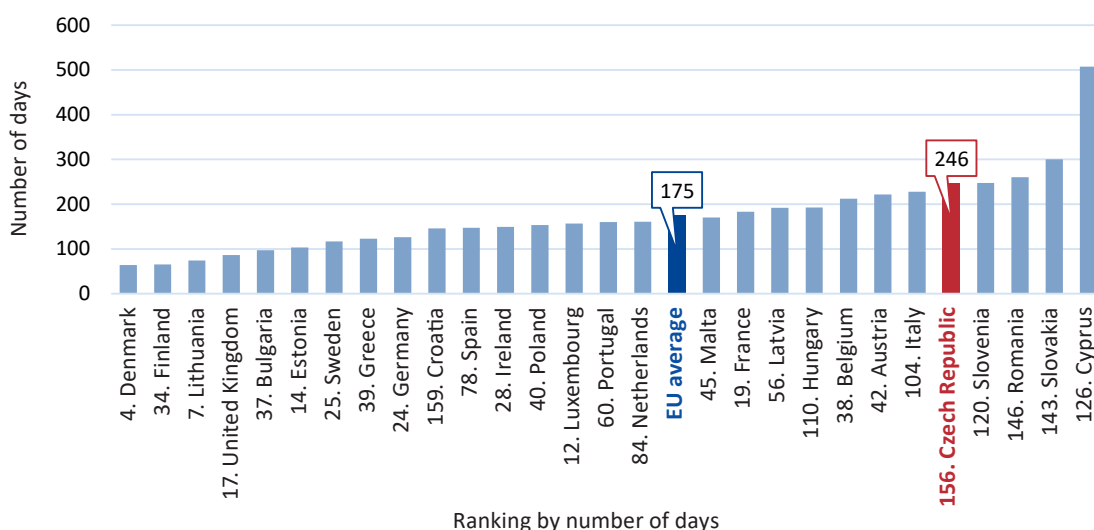
³⁶ Pilsen Region /PLZ/, Liberec Region /LIB/, Central Bohemian Region /STČ/, Olomouc Region /OL/ and Hradec Králové Region /KH/.

³⁷ *The Global Competitiveness Report 2018.*

The low efficiency of construction project preparation processes is confirmed by the World Bank indicator rating the bureaucracy involved in obtaining building permits. According to this indicator, which also reflects the amount of time and number of steps required to process building permits, in 2018 the Czech Republic came **156th** out of **190 scrutinised countries** of the world and occupied one of the bottom rungs for EU countries (see Chart 21). The Czech Republic fell even **17 places** down on 2014. **246 days** and **21 actions** were necessary for obtaining building permission in the Czech Republic in 2018, while in 2014 the figures were **143 days** and **24 actions**³⁸. The lengthening process duration has become a significant negative actor in housing construction as well as transport projects, for example (see Section II.4.5).

The amount of time necessary for obtaining building permission increased by 72% from 2014 to 2018. The figure of 246 days ranks the Czech Republic among the worst countries in the EU.

Chart 21: Number of days required to obtain building permits in EU countries



Source: *Doing Business 2019*, Word Bank Group, 2018.

NB: The number by the country name shows the country’s standing out of 190 countries according to the index of the overall bureaucracy involved in obtaining building permits.

These problems in preparation of construction projects are demonstrated by road building, for example, which lags far behind the strategic objectives. In audit no **17/05**³⁹ the SAO found that the preparation of motorway construction projects, from the time when an affirmative EIA is issued to the time when building permission is obtained, lasted on average **13 years**, four years longer than the time identified in the previous audit. The motorway network grew by just **79 km** from 2013 to 2017, i.e. on average **16 km** a year. To hit the target of building an additional 2,073 km of motorway by 2050 it would be necessary to open 25 km of motorway a year on average, starting in 2018. Just one complete new section of motorway **3.77 km**⁴⁰ long was opened in 2018, however.

The total motorway network was enlarged by just 3.77 km in 2018. Of the 12 priority motorway construction projects, 7 were commenced; 5 construction projects were not started.

³⁸ *Doing business 2015*, Word Bank Group, 2014.

³⁹ Audit no 17/05 – *Construction, modernisation and reconstruction of motorways* (audit report published in volume 1/2018 of the *SAO Bulletin*).

⁴⁰ Postoloprty – Bítovceves section of the D7 motorway Prague – Slaný – Chomutov.

Of the 12 priority motorway construction projects, seven were commenced; five construction projects were not started. An exemption from a repeated EIA was arranged for these priority motorway building projects that were meant to have started in 2015 and 2016 according to transport strategies, or one project (D49 motorway) in 2013. The five construction projects were not started because building permission had not been issued, planning permission proceedings were taking place or award procedures were taking place.

One of the reasons is the ineffective procedure followed by the responsible authorities for eliminating inefficient processes and legislative obstacles. The situation is best encapsulated by the state of affairs where the first effective legislation could be the amendment of Act No. 416/2009 Coll.⁴¹ from July 2018, i.e. four years after the Government declared that it would streamline the bureaucracy surrounding building permission for line construction projects, including EIA and the conditions for buying up affected land parcels.

The amendment of Act no 416/2009 Coll. modified the time limits for various kinds and stages of procedure and makes it possible to expropriate the necessary land if the defined conditions are satisfied. It permits disputes over compensation to take place after the fact, so that the dispute does not block the issuing of building permits. Another amendment of this act currently under discussion would enable better use to be made of joint proceedings for transport infrastructure construction projects and would limit the number of binding position statements and consents required for decisions to be issued. Whether and how these changes will actually speed up the preparation of transport infrastructure construction projects will be scrutinised by further SAO audits done after an appropriate interval.

4.4 Enterprise – one basic requirement if enterprise support is to be efficient is that the support is awarded on the basis of meaningful assessment of benefits and impacts on improving businesses' competitiveness and value added

Support for enterprise and investment is a core policy of the state intended to improve businesses' competitiveness. The state supports entrepreneurs through subsidies, refundable financial assistance and loans, and provides investment incentives or tries to make use of other financial instruments such as capital inputs. The department responsible for this area is the Ministry of Industry and Trade (MoIT), under which the support is financed out of state funds in the context of national programmes and European Union finances through operational programme *Enterprise and Innovation for Competitiveness* (OP EIC).

In 2018 the SAO completed audit no **18/01**, focusing on support for industrial zones and business real estate out of the state budget. The audit also targeted the real estate and infrastructure of small and medium-sized enterprises subsidised out of European Union finances. The MoIT spent a total of **CZK 27 billion** on this support between 1998 and 2017. Here the SAO followed up its findings from audits of support for industrial zones in 2004 and 2009 and support for business infrastructure from 2016⁴².

The SAO points out that one fundamental and enduring shortcoming of support for enterprise and investment is the absence of full and meaningful assessment of this support's benefits that would prove its economic efficiency and the declared results.

⁴¹ Act no 416/2009 Coll., on speeding up the construction of transport, water and energy infrastructure and electronic communications infrastructure, as amended by Act no 169/2018 Coll., amending Act no 416/2009 Coll., on speeding up the construction of transport, water and energy infrastructure and electronic communications infrastructure, as amended, and other related acts.

⁴² Audit no 03/31 – *State budget funds earmarked for investments in industrial zones*, which the SAO performed from November 2003 to March 24, audit report published in volume 2/2004 of the *SAO Bulletin*; audit no 08/29 – *Funds allotted for programmes of support for development of industrial zones and regeneration of brownfields*, which the SAO performed from September 2008 to March 2009, audit report published in volume 2/2009 of the *SAO Bulletin*; audit no 16/01 – *EU and state budget funds earmarked for financing of interventions within Operational Programme Enterprise and Innovation with focus on the fulfilment of objectives*, audit report published in volume 1/2017 of the *SAO Bulletin*.

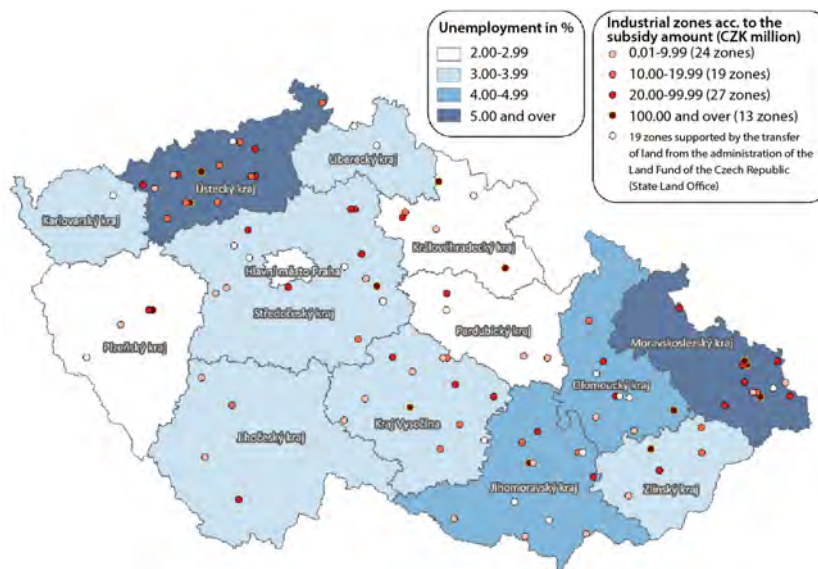
These shortcomings are linked to the erroneous predictions of the support’s considerable benefit to the state budget or the failure to monitor the impacts of support for small and medium-sized enterprises on increasing their competitiveness, cutting overheads and delivering high value added.

The main findings of audit no **18/01** were as follows:

- In 2004 and 2009, further to the results of audits nos. **03/31**⁴³ and **08/29**⁴⁴, the SAO pointed out that there was no meaningful assessment of the benefits of support for industrial zones, but this state of affairs has not been rectified. The SAO had to state that in almost **20 years** neither the MoIT nor CzechInvest had created a meaningful and comprehensive system for assessing the effectiveness of support for industrial zones. That was despite spending of **CZK 12 billion** on support for industrial zones over that period. To specify the benefits of the support, the MoIT and CzechInvest use a calculation that ignores some fundamental state revenues and expenditure (investment incentives, the traffic overloading of roads, transport access, reduced safety of regions etc.). The data they work with are also incomplete and inconclusive. With a few exceptions, the zones are being occupied by investors (average occupancy rate of approx. 80%), but the actual benefits for the state budget and regional development are practically not monitored at all by the MoIT, and investors are not obliged to provide data for evaluating the benefits. In some regions, support for industrial zones brought problems with increased crime, inordinate traffic on roads and damaged roads, deteriorating environmental conditions etc. The MoIT also did not monitor whether companies in the vicinity of the supported zones were being closed down.

One example of an unoccupied zone is Holešov with an area of 280 hectares, on which the state spent CZK 1.1 billion: the occupancy rate is just 2% of the site. There is also a risk that the Přerov-Bochoř zone under preparation and approx. just 20 km from Holešov will be under-occupied.

Figure 1: State-supported industrial zones, 1998–2017



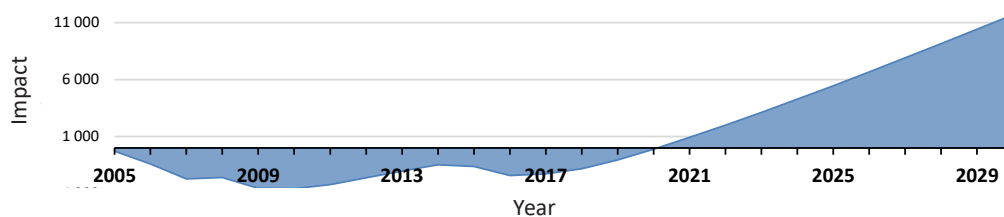
Source: Audit no **18/01**.

⁴³ Audit no 03/31 – *State budget funds earmarked for investments in industrial zones* (audit report published in volume 2/2004 of the SAO Bulletin).

⁴⁴ Audit no 08/29 – *Funds allotted for programmes of support for development of industrial zones and regeneration of brownfields* (audit report published in volume 2/2009 of the SAO Bulletin).

- According to the MoIT's imprecise calculations, the expenditure to date on support for industrial zones is greater than the total revenues. The MoIT's original expectation that it would provide support up to the end of 2009 with an expected benefit of almost **CZK 25 billion** for the state has not been realised. Quite the opposite: in reality the impact on the state budget in 2014 was negative, i.e. state expenditure was **CZK 1.5 billion** higher than the benefit from the support. The MoIT deferred a positive benefit until 2021 (see Chart 22).

Chart 22: Expected cumulative impact of support for industrial zones from 2005 to 2030 on the state budget (CZK million)



Source: MoIT.

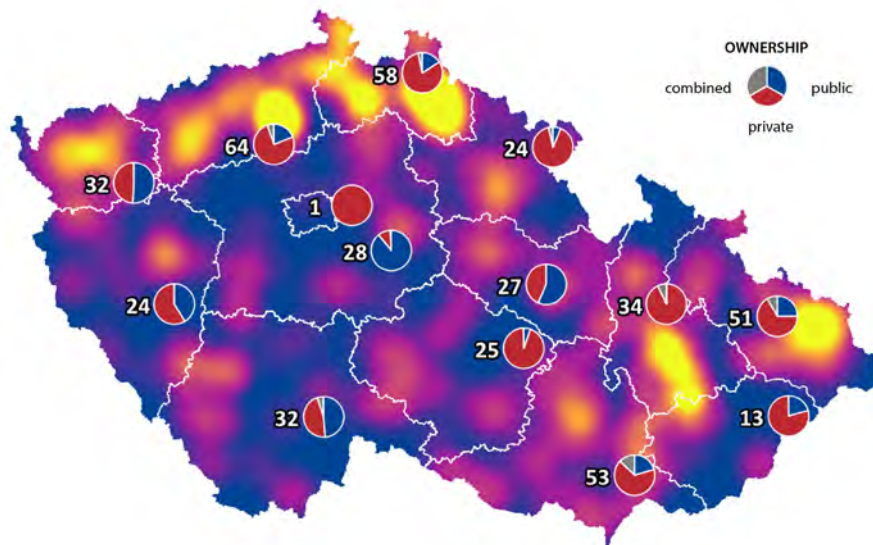
- One intended benefit of support for business real estate and infrastructure under the *Real Estate 2014–2020* programme for small and medium-sized enterprises is their transition to production ensuring competitiveness, reduced overheads, high value added and greater success on international markets. Although **CZK 751 million** was spent on **252 projects** under the *Real Estate 2014–2020* programme out of EU funds up to June 2018, the MoIT did not follow these projects up with an assessment whether the businesses are registering the expected benefits. For half of the audited sample of **12 projects**, it has not been confirmed yet that the support had made the businesses more competitive, reduced their overheads and brought success on international markets.

The SAO also draws attention to the failure to achieve the strategic objective of reducing the number of brownfield sites⁴⁵ and the takeover of agricultural land for new build projects in line with the principles of sustainable development. Under this objective, the regeneration of brownfield sites is supposed to be preferred over building industrial zones on greenfield sites.

As the results of audit no **18/01** showed, since 2010 the MoIT has not supported the creation of any industrial zones on brownfield sites. **96%** of the total of 102 supported zones were built on greenfield sites, and four more new greenfield site zones are being considered, including the occupation of agricultural land.

⁴⁵ Brownfields are real estate (land, buildings, complexes) that is insufficiently used, neglected and possibly also contaminated; they cannot be used appropriately and effectively without regeneration; they are legacies of industrial, farming, residential, military or other activities.

Figure 2: Brownfield sites in the Czech Republic (accumulation in the Czech Republic, number of brownfields and structure of their total area by type of ownership in the regions)



NB: Accumulation in a territory – from min. to max. on a scale from violet to yellow.

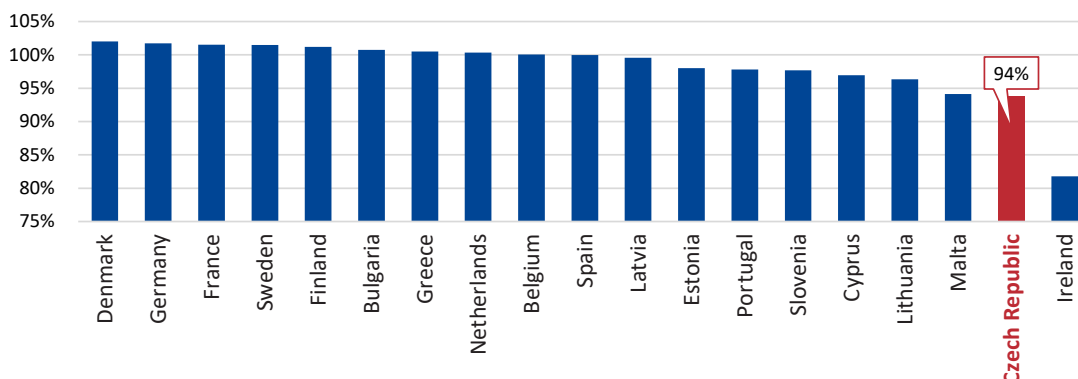
Source: www.brownfieldy.eu, state as at 22. 1. 2019; drawn up by SAO.

According to CzechInvest data from the public part of the brownfield sites database⁴⁶, as at January 22, 2019 there were **466 brownfield sites** in the Czech Republic that were considered as top priority for regeneration. Almost 1,100 hectares out of a total area exceeding 2,300,000 ha were in public ownership.

Based on the conducted audit, the MoIT submitted a material to the Government adopting measures designed for a comprehensive assessment of the society-wide impacts of the support, initiating the provision of additional information by applicants on the positive impacts on the development of society as part of sustainability reports and, above all, for fulfilling the strategic objective of prioritising support for brownfield site regeneration.

In its Position Statement on the state closing account, the SAO also flagged up the fact that the ownership structure of production factors and the proportion of non-residents meant that the outflow of profits is greater in the Czech Republic than in the vast majority of European countries. Measured by the ratio between gross domestic product and gross national income, less than **95%** of the profits generated in the Czech Republic remained here in 2017, putting the Czech Republic second last in the ranking of European countries (see Chart 23). The Czech Republic’s ratio between domestic value added and exports has long ranged from **50% to 62%**, which also puts the Czech Republic on the bottom rungs in the EU. More targeted support, focusing on Czech companies and activities with higher value added, including activities driving research and innovation and support for start-ups, ought to bring improvements. The SAO pointed out, however, that the impact of this support has not yet been assessed by the relevant authorities.

46 See www.brownfieldy.eu.

Chart 23: Ratio between gross national income and gross domestic product in selected European countries in 2017 (%)

Source: Eurostat.

4.5 Housing – implementing housing policy requires the state’s coordination role to be fulfilled and social housing to be defined, including the responsibilities of the concerned entities

The state’s role in the field of housing is to create a stable environment strengthening personal responsibility and to support the public’s motivation to provide for themselves. But the state also has to put in place the right conditions and tools to help those who, for objective reasons, are unable to provide for their own housing needs. The key principles of the state’s housing policy are economic proportionality, i.e. respecting elementary economic principles, the sustainability of public and private finances and the state’s responsibility for putting in place the right conditions enabling individuals to exercise their right to housing⁴⁷.

Given this policy’s importance and its impact on one of the most fundamental needs of citizens, the SAO has regarded housing as one of its audit priorities in the past years. In 2018 the SAO completed audit no **17/02** focusing on support for social housing. This was the culmination of a series of audits⁴⁸ targeting housing support.

Housing support is also significant in terms of the amount of money the state spends on it. Between 1997 and 2017 the Ministry of Regional Development (MoRD), State Housing Development Fund (SHDF), the MoF, the Ministry of Labour and Social Affairs (MoLSA), the Ministry of the Interior (MoI) and the Ministry of the Environment (MoE) provided state finances totalling **CZK 232.4 billion**. At least **CZK 2 billion** of European Union finances was spent on housing support in 2016 and 2017. The main forms of support are subsidies and credit for investments in housing, energy saving subsidies, contributions towards building saving and mortgages and social contributions or top-up allowance for housing. Through subsidies alone the state contributed to the creation of at least **22,500** social housing units⁴⁹. In addition, the state finances social work and social services linked to housing.

Between 1997 and 2017 the state, through various entities and housing support measures, provided CZK 232 billion of public money; despite that, the support is not properly coordinated.

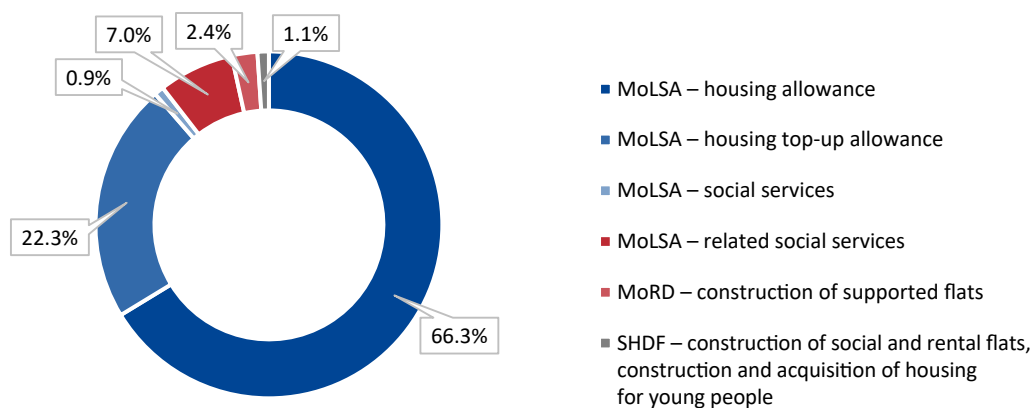
⁴⁷ *Housing Concept of the Czech Republic up to 2020*, revised in 2016.

⁴⁸ Besides audit no **17/02**, also audit no 15/18 – *Funds earmarked for housing support* (audit report published in volume 3/2016 of the *SAO Bulletin*) and audit no 09/24 – *Funds earmarked for housing support programmes*, (audit report published in volume 3/2010 of the *SAO Bulletin*).

⁴⁹ Taken from the audit report from audit no 15/18 (1997 to 2012, amounting to CZK 137.8 billion) and from the Ministry of Regional Development material: *Selected Housing Data 2017*, MoRD, June 2018 (2013 to 2017, amounting to CZK 94.6 billion, number of supported housing units).

Chart 24 shows the proportions of finances paid out by the state from 2012 to 2016 on audited interventions in social housing. As the chart reveals, the majority of this money was provided by the MoLSA and the lion's share of funding went on the housing allowance and housing top-up allowance (almost 89% of the total funding provided by the said entities). In the field of social housing, from 2012 to 2016 the MoLSA spent **CZK 40.6 billion** on housing allowance, **CZK 13.7 billion** on the housing top-up allowance, **CZK 4.3 billion** on related social services and **CZK 0.5 billion** on social work⁵⁰.

Chart 24: Proportions of finances paid out for audited interventions and to support the construction and acquisition of housing for low-income or otherwise vulnerable groups of the population



Source: Audit no 17/02.

The key and long-term shortcomings the SAO has identified through its audit work are major obstacles to the efficient implementation of housing support policy and achieving their goals, especially in the field of social housing.

The SAO regards the following findings as the most serious:

- **The state support system intended to achieve the goals of the housing concept is fragmented.**
- **Measures in the field of housing are supposed to be coordinated by the Ministry for Regional Development, which lacks adequate tools for this.**
- **The role of municipalities remains unclear.**
- **There is no act on social housing.**
- **The state spends a considerable amount of money in connection with housing, but fails to evaluate the benefits of this support in a meaningful way.**
- **State benefits for housing may help reduce the number of people at risk of poverty or material deprivation, and in some cases thus prevent social exclusion, but they do not help tackle the causes.**

This assessment is based on the results of audits that gave rise to the following findings:

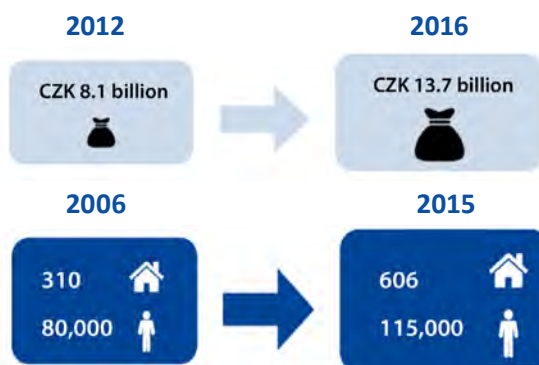
- In audit no 15/18 the SAO drew attention to shortcomings consisting in the MoRD's non-functioning coordination role, a failure to clarify the roles of municipalities and the state and a failure to monitor the benefits on spending for the target groups of people. The SAO stated that several ministries have powers in the field of housing, which disrupts the working of the MoRD's coordination role and its ability to push through housing policy objectives. And that is despite the fact that the MoRD is by law responsible for coordinating the activities of ministries and other central bodies in state housing policy, including coordinating the funding

⁵⁰ According to audit no 17/02 (2012 to 2016, housing allowance, housing top-up allowance, social services and social work).

of these activities. Although the MoRD spent a total of **CZK 4.9 billion** on acquiring more than **9,000 rental apartments** between 2003 and 2015, applicants for subsidies did not have to prove that they needed apartments and the MoRD did not even monitor whether these apartments were actually being used by the target groups of people for the given purpose. Using a sample of supported housing units, the SAO found that a quarter of them were not rented to the target group of people. Even after 18 years of providing this support the MoRD did not have a meaningful evaluation of the benefits of housing support. That is despite having spent **CZK 1.8 billion** on these subsidies between 2011 and 2015 alone.

- The SAO made similar findings in audit no **09/24**. The MoRD practically did not coordinate at all the activities of other ministries in support of housing; it did not have accurate information on the level of support provided by other ministries; and it did not assess the effectiveness of the support provided.
- In audit no **17/02** the SAO concluded that the existing housing support for low-income or otherwise vulnerable groups was not helping tackle the causes of social exclusion or of the risk of social exclusion effectively. Support from the MoLSA is based mainly on providing the housing allowance and housing top-up allowance. Although the MoLSA paid out almost **CZK 60 billion** on audited interventions between 2012 and 2016, the problem of social exclusion got worse. The number of socially excluded localities grew from **310 with 80,000 inhabitants** in 2006 to **606 with 115,000 inhabitants** in 2015. The annual amount paid out by the MoLSA on audited interventions grew by more than **68%** between 2012 and 2016. What is more, the MoLSA did not evaluate the various instruments' impacts. The housing allowance and housing top-up allowance, on which the MoLSA paid out **CZK 54.3 billion** between 2012 and 2016, are neither motivational nor preventive in nature. Although they reduce the number of people at risk of poverty, they do not help solve the cause of the problem.
- Audit no **17/02** also showed that the basic attributes of the social housing system are not defined. In particular, the concept of social housing itself is not defined, and neither is the target group of people social housing is supposed to be intended for. One of the goals of the social housing concept since 2015 has been the passing of a law on social housing that would precisely define these terms. No such law has been enacted to date, however.

Although the amount of money spent on housing allowance and housing top-up allowance has soared, the number of social excluded localities almost doubled and the number of inhabitants of socially excluded localities grew by almost half (more than 40%).

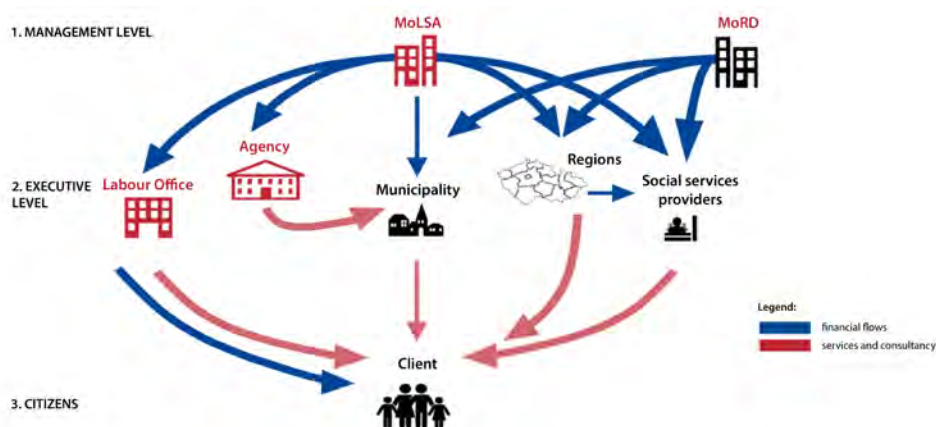


The shortcomings in the design and working of the social housing support system as defined above do not put in place the basic preconditions necessary for successful implementation of the state concept of social housing⁵¹, which is supposed to ensure that people who meet the criteria defined by law have dignified conditions for housing and to reduce the likelihood of their falling into poverty.

⁵¹ Concept of Social Housing of the Czech Republic 2015–2025 is a framework document setting the course for developing a system of social housing in the Czech Republic.

The fragmentation of the social housing support system and the need to coordinate the impacts of instruments and various measures are borne out by the schematic representation of the links between the various entities supporting social housing. The Competences Act requires the MoRD to coordinate housing policy activities by ministries and other central authorities. But the MoRD does not have sufficient tools to push through housing policy objectives so that the system is effective and delivers efficient spending of public money. In addition, numerous entities at both state administration level and self-Government level are involved in addressing the issue of housing for low-income or otherwise vulnerable population groups. These are primarily the MoLSA, the Labour Office of the Czech Republic, the Office of the Government of the Czech Republic and municipalities. These entities have the appropriate powers and responsibilities, but in some cases these are not clearly defined and applied. This also encompasses the Agency for Social Inclusion (“the Agency”), which is part of the Office of the Czech Government and was set up for a finite period up to 2022. The Agency, which is supposed to carry out social inclusion activities, including housing, does not possess powers and responsibilities in this area on the basis of a legal regulation or any powers and competences vis-à-vis other partners.

Figure 3: Entities involved in housing support for low-income or otherwise vulnerable population groups



Source: Audit no 17/02.

The SAO points out that the constant postponing of the enactment of a law on social housing that would define the social housing support system, the target groups of the population and the rules for providing housing support mean there is a risk that the availability of housing for various vulnerable groups will continue to worsen and the number of people affected will grow.

The enactment of a law on social housing has been one of the goals of the concept of social housing since 2015. The role of municipalities still remains unclear. One consequence is the different approaches taken by municipalities in this area and the different economic possibilities.

Based on the above findings of SAO audits, the key authorities announced a series of measures to put in place the right conditions for achieving the goals of housing support. These including the following:

- The MoRD revised the housing concept and declared that it will improve the subsidies monitoring system, will design a mechanism for monitoring the benefits of support and the use of the supported housing units, and will reduce administrative expenses for banks.
- In response to the results of the SAO audit, the MoLSA stated it would draft legislation on the calculation of benefits and changes affecting the social services system and social work, including pushing for salary increases for social workers; it stated that it was working to improve data monitoring, was planning to revise and update the concept of social housing and would help draw up an act on social housing.

- The Labour Office of the Czech Republic stated that it was stabilising the number of employees in units working on the material need agenda, would constantly monitor the number of relevant investigations, would emphasise the methodology and performance of social investigations and evaluate their effects, would focus on getting benefit recipients onto the labour market, would continue to cooperate with municipalities' social workers and would coordinate joint action by the Association of Towns and Municipalities of the Czech Republic and the Association of Local Self-Governing Units of the Czech Republic.
- In its programme declaration⁵², the Government declared it would adopt an act on social housing that would systematically tackle the housing shortage on the supply side. It will ensure housing support is targeted so that the numbers of people experiencing a housing emergency would be reduced and rental housing would be accessible for all population groups. The Office of the Government also proposed amending the act on social services.

The SAO will continue to evaluate the adoption and effectiveness of the announced measures and plans. According to up-to-date information, however, an act on social housing is not currently being prepared. The adoption of an act on affordable housing is currently being discussed.

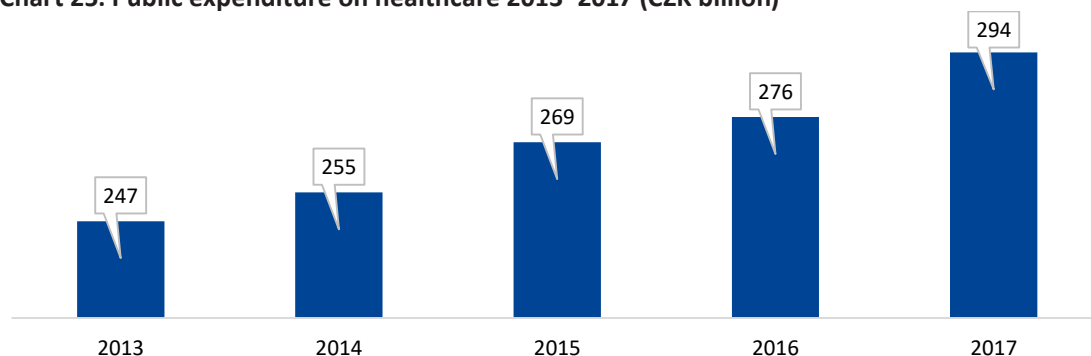
The SAO assessed the results of its audit and analysis work in the field of state support for housing in the summary *Report on Housing in the Czech Republic*, which it published in 2018⁵³.

4.6 Healthcare – making greater use of award procedures could cut costs and make purchasing more transparent

The reasons for the SAO's long-term and systematic focus on healthcare are the large sums of money spent and the non-transparency of purchasing without award procedures. That is why the main focuses of SAO's audit work in healthcare are state hospitals' and other state medical facilities' financial management and the performance of the role of the Ministry of Health (MoH) as the responsible authority for healthcare. The SAO's principal endeavour is to detect room for improvement in their financial management, identify the causes of the unsatisfactory state of affairs and provide healthcare organisations with recommendations that would make their work more effective.

Public spending on healthcare involves huge sums of money that have been increasing since 2013, as Chart 25 shows⁵⁴. Public spending on healthcare amounted to **CZK 294 billion** in 2017, with the cost of acute care reaching **CZK 160 billion**.

Chart 25: Public expenditure on healthcare 2013–2017 (CZK billion)



Source: Healthcare yearbooks for 2013–2017.

The SAO completed three audits in the field of healthcare in 2018. Two focused on the financial management of the National Institute of Public Health (audit no **17/13**) and the National Institute of Mental Health (audit no **17/14**). The results of audit no **17/13** are described in Section II.5.1 of

⁵² See <https://www.vlada.cz/cz/jednani-vlady/programove-prohlaseni-vlady>.

⁵³ See <https://www.nku.cz/assets/publikace-a-dokumenty/ostatni-publikace/zprava-o-bydleni-v-ceske-republice.pdf>.

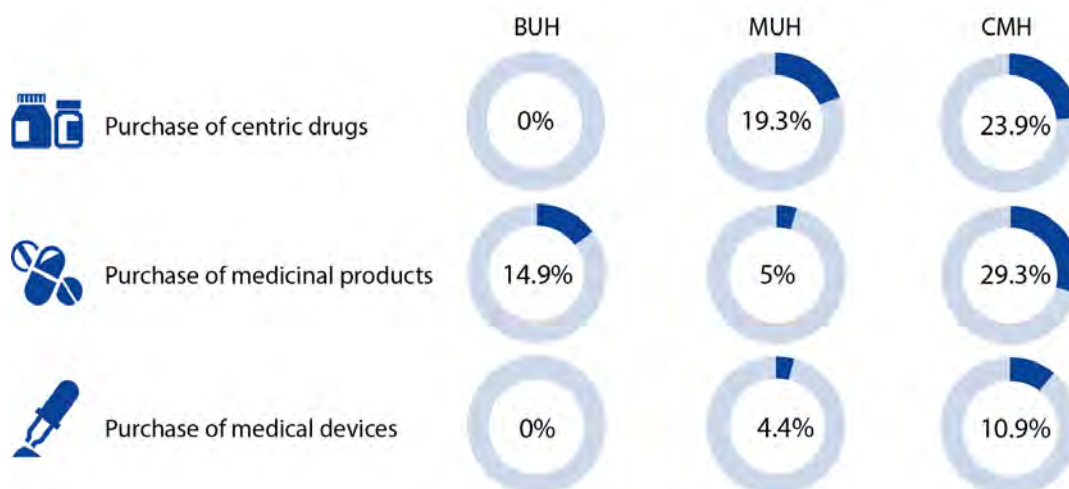
⁵⁴ The data apply to 189 acute care hospitals.

this annual report. The third audit (audit no [17/19](#)) focused on the payment of the costs of the work of three selected university hospitals: Brno, Motol and the Central Military Hospital.

When auditing university hospitals in recent years, the SAO has regularly drawn attention to fundamental and recurring shortcomings in their financial management, especially in the purchasing of medicaments and medical equipment. The SAO has audited all university hospitals in the CR since 2012. In its previous audits (audits nos. 12/23⁵⁵ and 16/28⁵⁶) the SAO repeatedly pointed out that university hospitals bought medicaments and medical equipment too often at significantly different prices without open award procedures and that the acceptance and use of bonuses was non-transparent, non-systematic and without clearly defined rules. Despite all the measures imposed to tackle shortcomings from the previous audits, the SAO identified almost identical shortcomings in audit no [17/19](#).

- Brno University Hospital (BUH) and Motol University Hospital (MUH), which were founded by the Ministry of Health, and the Central Military Hospital – Military University Hospital Prague (CMH), founded by the Ministry of Defence (MoD), bought medicaments and medical equipment worth **CZK 15.9 billion** from 2014 to 2016, very often without award procedures and usually directly from suppliers. BUH, for example, did not hold any tenders at all for purchases of specialised centre medicines and medical equipment. As the SAO found in the audited sample, BUH used award procedures for on average **5%** of purchases, MUH **9.6%** and CMH **21.4%**. Figure 4 shows the executed award procedures on an audited sample of selected identical medicaments and medical equipment expressed as percentages.
- The SAO also identified significant room for cost savings, drawing attention to the considerable differences in the prices of identical medicines and medical equipment paid by various university hospitals. The biggest percentage difference was as much as **449%** in medicaments and **110%** in medical equipment. One reason for the different prices was the size of financial bonuses provided by the supplier. The process of negotiating and using bonuses was different in each university hospital and showed signs of non-transparency. In some cases, it was merely an oral agreement, yet the value of total bonuses for medicaments and medical equipment in the years 2014 to 2016 was around **CZK 1 billion**. The absence of clearly defined rules meant that university hospitals treated bonuses differently in award procedures. The hospitals did not usually take them into account in award procedures. One example of good practice was CMH, whose procedure the SAO regards as transparent as it defined the offer price and bonuses as some assessment criteria in award procedures so that the end price was the lowest.

Figure 4: Proportion of executed award procedures (%)



Source: Audit no [17/19](#).

⁵⁵ Audit report no 12/23 – *Funds spent by selected university hospitals on their operational costs* was published in volume 3/2013 of the *SAO Bulletin*.

⁵⁶ Audit report no 16/28 – *Funds spent by selected university hospitals on settlement of their operational costs* was published in volume 6/2017 of the *SAO Bulletin*.

The SAO draws attention to a serious systemic shortcoming in health insurance linked to bonuses. The acceptance, reporting and use of bonuses from suppliers in the healthcare system is non-systemic, and their existence enables the maximum payments covered by health insurance companies.

The receipt of bonuses did not influence the reporting of provided medical services to various health insurance companies, as the university hospitals agreed on payments predominantly in some lump-sum form with health insurance companies. In the case of MUH, for example, it was found that lump-sum payments accounted for approx. 99% of payments for provided healthcare services from health insurance companies in 2014 and 2015.

The SAO also looked at how the founders of university hospitals fulfilled their obligations and identified a risk in the provision of money to the audited hospitals⁵⁷. During 2016 the MoH issued an empowerment act within the meaning of Article 106(2) of the *Treaty on the Functioning of the European Union* for services of general economic interest⁵⁸ to BUH and MUH for the field of investments. The MoD issued no rules covering the provision of money, even though the SAO drew attention to the risk in this area as part of audit no 15/38⁵⁹.

The SAO sees room for cutting costs when purchasing medicaments and medical equipment and for transparent procedure when selecting suppliers: this can be achieved by making greater use of award procedures in line with the Act on Public Procurement⁶⁰.

Recommendations

The SAO issued the following recommendations based on the shortcomings found in audit no 17/19:

- **recommendations for founding organisations (ministries):**
 - the MoH should pay attention to the development strategies drawn up by hospitals and draw up its own development concept for the organisations it directly manages;
 - the MoH and MoD should define precise rules for the acceptance, reporting and use of bonuses from suppliers;
 - the MoH should check the effectiveness of and justification for the existence of the BUH endowment fund and weigh up the reasons for its continued existence;
- **recommendations for hospitals:**
 - medicaments and medical equipment should be purchased in a transparent manner via award procedures;
 - in award procedures, the price including any bonuses to be provided should be defined as a criterion.

The SAO considers it very important that the MoH accepted the SAO's recommendations as effective assistance and acted on the results of this and previous audits, in particular audit no 16/28, by implementing a number of measures to remedy the identified shortcomings in university hospitals' financial management:

- E.g. in the form of order of the minister no 13/2018⁶¹, which set rules for the award of public contracts, gaining and using bonuses and reporting them to health insurance companies. Whether the rules are clear, adequate and effective will only be known when the SAO audits university hospitals again in the future, however.

⁵⁷ Article 107(1) of the *Treaty on the Functioning of the European Union*.

⁵⁸ A service of general economic interest is a service for a particular group of citizens or society as a whole which the public authorities regard as essential for cultural, social or societal reasons.

⁵⁹ Audit no 15/38 – *State property and funds allotted to the state-funded organisation "Vojenská lázeňská a rekreační zařízení" (Army Spa and Recreational Facilities)* (audit report published in volume 1/2017 of the *SAO Bulletin*).

⁶⁰ Act no 134/2016 Coll., on public procurement.

⁶¹ In Article 3 of Order no 13/2018 *Selected Principles of the Transparent Financial Management of Directly Managed Organisations of the Ministry of Health in the Field of Goods and Services Purchasing*, ref. no MZDR 16781/2018, effective from September 1, 2018, the Ministry of Health imposed an obligation on subordinate university hospitals to properly substantiate and document every exemption from the use of award proceedings to select contractors.

- Another direct effect of the audit helping to remedy a negative phenomenon – the huge price differences for identical medicaments or medical equipment paid by various hospitals – is the MoH's move towards central purchasing. In mid 2018 the health minister decided to run a pilot project for joint purchasing of selected commodities (medicines and medical material) by state hospitals. Joint purchasing should deliver both financial savings and reduced bureaucracy linked to public procurement. The measure's effect will be unknown until a follow-up audit is conducted.

The SAO welcomes all the measures taken by the MoH and hopes that the MoH will continue to take systemic steps to boost transparency and make the financial management of the hospitals it directly manages more efficient.

Last year, SAO audit no 17/14 both focused on financial management by the contributory organisation National Institute of Mental Health (NIMH) and, above all, sought to answer the question whether the MoH, as the founding organisation, has a plan for further funding its operations and activities. The audit results showed that the MoH was not fulfilling its obligations as founder sufficiently. Not only does MoH know the NIMH's real financial requirements, it paid no attention to options for funding it in 2020. What is more, the MoH did not check its financial management once between 2014 and the end of the SAO audit.

- The NIMH's fundamental mission is to perform scientific and research work focusing on mental health and mental illness. It also provides medical services, however, with both inpatient and outpatient care. The NIMH was founded in 2015, largely with the help of European subsidies under operational programme *Research and Development for Innovation*; its headquarters are in a new building in Klecany that cost approx. **CZK 700 million** to acquire. The launch of the NIMH cost roughly a further **CZK 200 million**. Operating costs, which totalled **CZK 222 million** in 2016, were mainly covered out of national funding. To date, more than a quarter of the NIMH's operating costs has come out of the *National Sustainability Programme* that comes under the MoEYS (it received **CZK 60 million** from this programme in 2016). But the programme will terminate in 2020 and the NIMH will lose its sole major guaranteed source of revenues, as it does not receive a regular contribution towards operating costs from the MoH as its founder.

Recommendations

The SAO considers it necessary that the MoH clarify the system for the further financing of the NIMH's operations sufficiently in advance before funding under the *Sustainability for the National Institute of Mental Health* project ceases. In its position statement on the SAO's audit report the MoH accepted this recommendation and pledged to draw up an NIMH funding plan during 2018, including a recapitulation of possible sources of financing and clarification of the role of contributions from the founder in the funding of the NIMH.

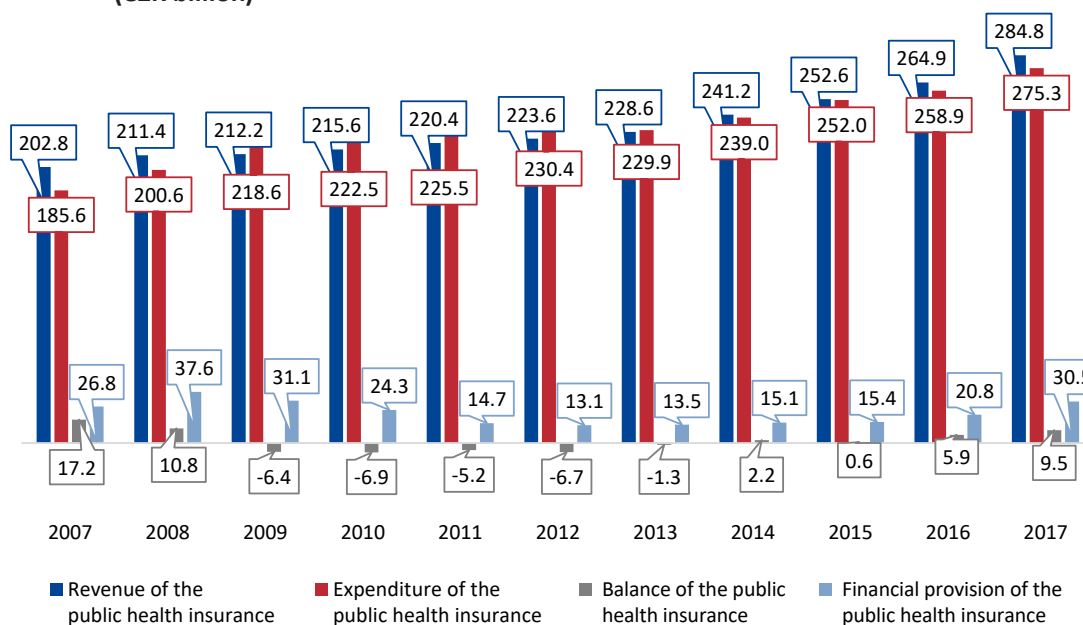
Financial balance in the public health insurance system

The Czech system of public health insurance works well in comparison to other health systems in developed countries. Spending on healthcare as a percentage of GDP is relatively low, but even so the system delivers full healthcare to the whole population. The SAO points out that in the period of economic growth health insurance companies did not create sufficient provisions that would guarantee balanced budgets in periods of lower economic growth, and thus also a reduction in the premiums collected for public health insurance. At the same time, the state did not put in place the legislative conditions for the creation of such provisions. The public health insurance system ended 2017 **CZK 9.5 billion** in the black. At the same time, the financial balances on health insurance companies' current accounts increased by **46.5%** to reach **CZK 30.5 billion** (see Chart 26). These balances thus

According to the Czech Statistical Office's Czech population forecast for 2018–2100, the Czech population will include 2.1 million people aged 65+ in 2020 and 2.4 million in 2030.

exceeded **10%** of total expenditure in the public health insurance system. For the second year running, the Czech economy's dynamic growth has meant that health insurance companies are creating significant provisions for periods with reduced premiums collection. The rate of these provisions is still below that in 2007 and 2008, so the system is less stable than in that period.

Chart 26: Revenues and expenditure in the public health insurance system of the Czech Republic (CZK billion)



Source: summary evaluation of the development of public health insurance results in the individual years.

According to the SAO, while the public health insurance system is currently stabilised, this does not mean that it is financially sustainable in the medium-term or long-term outlook, when the system will be confronted by the impacts of population ageing and the development of new, expensive medical technologies. The state will not be able to guarantee high-quality healthcare paid for out of public money without a fundamental change in the funding of healthcare.

4.7 Environment – the state is failing to implement measures and achieve goals for air quality and energy savings

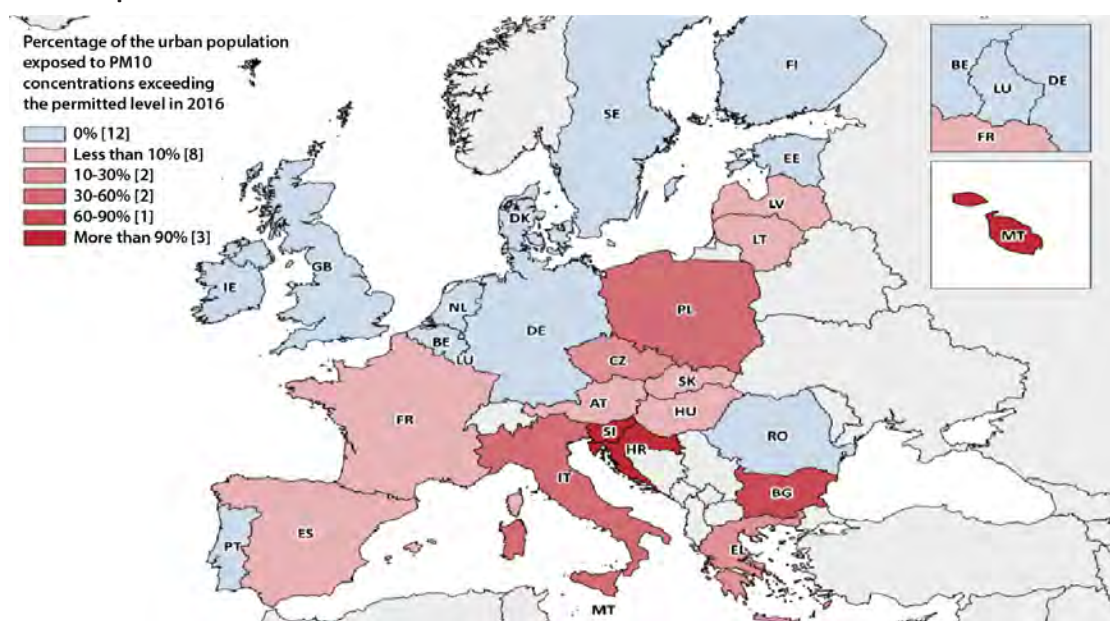
The principal aim of state policy on the environment is to ensure a healthy and high-quality environment for citizens, to contribute significantly to the efficient use of all resources and to minimise the negative impacts of human activity on the environment. The methods for protecting the environment are set out in *State Environmental Policy of the Czech Republic 2012–2020* ("the Policy"). The main thematic fields include protecting the climate and improving air quality; the goals are to reduce greenhouse gas emissions, lower the level of air pollution, promote efficient and environmentally friendly use of renewables and improve energy efficiency. The SAO has paid systematic attention to how the state works towards these priorities of the Policy. In doing so, it seeks to identify the most important causes of the unsatisfactory state of affairs and make recommendations for effective corrective measures.

The SAO again turned its attention to these two environmental priorities in 2018, completing two audits focusing on:

- the implementation of measures to improve energy efficiency under operational programme *Enterprise and Innovation for Competitiveness* (OP EIC) (audit no [17/23](#));
- the implementation of measures in support of improving air quality under operational programme *Environment* (OP Env) and the *National Environmental Programme* (audit no [18/04](#)).

Air pollution, both in the Czech Republic and throughout Europe, is one of the highest-risk environmental factors causing early deaths and increasing the incidence of a broad range of illnesses. The most problematic issue currently in terms of harm to human health is the level of concentrations of particulate matter PM⁶². International comparison revealed that the level of air pollution in various European states differs considerably, as can be seen in Figure 5, which shows the percentage of the populations of EU countries exposed to PM₁₀⁶³ concentrations exceeding the permitted air pollution threshold in 2016. 18 of the 31 European countries had concentrations above the permitted limit. According to the European Environment Agency (*EEA – Air pollution country fact sheet 2018*), 11.9% of the population was exposed to PM₁₀ concentrations exceeding the permitted limit. That put the Czech Republic in 8th place, among the countries with worse air quality in Europe.

Figure 5: Percentage of the urban population exposed to PM₁₀ concentrations exceeding the permitted level in 2016



Source: EEA – *Air pollution country fact sheet 2018*.

What is alarming is that in 2017 approx. 5,700 people died in the Czech Republic because of air pollution⁶⁴ and 39 smog situations lasting a total of 3,757 hours were declared. Air quality is considerably influenced by dispersal conditions, however. Audit no 18/04 drew attention to the fact that the Czech Republic’s air quality did not improve from 2015 to 2017, even though the state is spending billions of koruna on it. The values of some of the main pollutants⁶⁵ continue to exceed the legally defined limits. There is therefore a risk that the Czech Republic will miss its 2020 immission limits targets⁶⁶. The biggest air polluters in the Czech Republic include transport, industry and households.

62 PM (particulate matter) is solid particles or (solid) dust particles.

63 PM₁₀ – i.e. coarse particles in the context of suspended PM particles.

64 According to *Report on the Environment of the Czech Republic for 2017*, MoE.

65 Mainly PM (PM is divided by size into coarse particles (PM₁₀) and fine particles (PM_{2.5})); benzo(a)pyrene (BaP) and nitrogen dioxide (NO₂).

66 The immissions limit is the highest permissible level of air pollution expressed in units of concentration by mass.

- At system level the SAO scrutinised the funding of air quality improvement in 2015 to 2018 out of both OP Environment's priority axis 2: *Improvement of air quality in human settlements* and the *National Environmental Programme* (NEP), amounting to a total of **CZK 10.6 billion**, with **CZK 9.9 billion** of that coming from OP Environment. Based on the audit, the SAO identified significant risks that the air quality targets defined for 2020 will be missed⁶⁷. Regarding support under the NEP for improving air quality, the SAO flagged up the absence of quantifiable and measurable goals that would be a fundamental precondition for evaluating the priority area (air quality) under this programme. Consequently, the State Environmental Fund (SEF) performed no assessment of whether the supported projects had a genuine impact on improving air quality in the CR.
- Scrutiny of the implementation of various measures, interim evaluations and the development of emissions led the SAO to the conclusion that the Czech Republic's priority measures for improving air quality are not being executed adequately and in good time. Seven of the 23 priority measures were not executed by the required deadline or even by the completion of the SAO audit in September 2018. These include cutting the share of fossil fuels used in local household heating, speeding up the replacement of the fleet of passenger cars or making greater use of alternative power systems for freight transport. Another six measures are being implemented, but are unlikely to be completed on time and to the required extent. The SAO also concluded that the Czech Republic's strict national emission targets for 2020, i.e. targets that must not be overstepped, will be hard to hit, given that the speed and rate of emissions reductions has been gradually declining or stagnating in recent years. For example, emissions of fine particles that are among the main pollutants may have fallen by **12%** between 2005 and 2016, but they would have to fall by a further **42%** to comply with the 2020 limit.

The strict national emission limits for 2020 will be hard to comply with.

The funding system via OP Environment is designed in a way that the replacement of old-fashioned and unsatisfactory sources of local household heating that are a major source of air pollution in the Czech Republic are primarily supported. CZK 6.4 billion was earmarked for households out of priority axis 2 of OP Environment in the years 2015–2017. The SAO found that supporting the replacement of old-fashioned boilers⁶⁸ with low-emissions heating sources was speeding up the reduction of emissions in this sector. It also pointed out, though, that the financial allocations for the first two calls for applications would only cover the replacement of approx. 10% of old-fashioned boilers, of which there are estimated to be 570,000 in the Czech Republic.

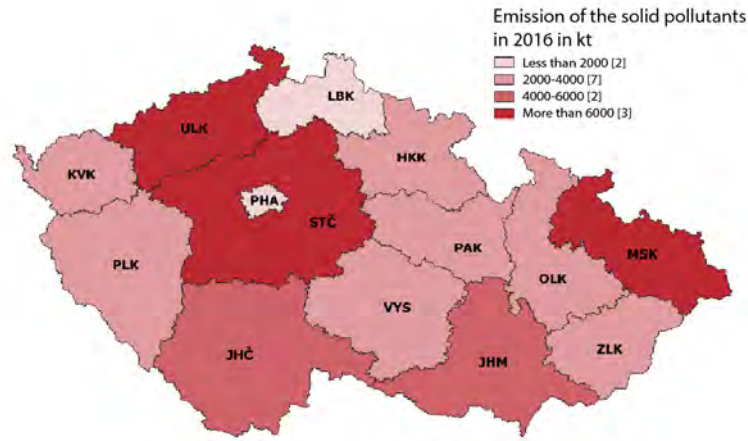
The SAO drew attention to the fact that the OP Environment support target is the replacement of approx. 14% of unsatisfactory old-fashioned boilers, while in the years 2015–2017 the first two calls for applications covered approx. 10% of these boilers. The resulting effect of the ban on using these boilers in 2022 will depend on the level of compliance with the ban and the enforceability of the ban.

When OP Environment was being designed, local heating was a source of a significant portion of pollutant emissions in the "respiratory zone", which is key in terms of the effects of air pollution on human health. Figure 6 shows the evolution of the generation of solid pollutants for 2016 in the Czech Republic by region. It is clear that the level of emissions of these substances differs markedly in different parts of the country.

⁶⁷ The Czech Republic again set a target of complying with the immissions limits laid down by law, this time by 2020, by means of measures at national level defined in the *National Programme of Emissions Reduction of the Czech Republic* approved at the end of 2015 and at a regional level in air quality improvement programmes issued by the MoE in the first half of 2016.

⁶⁸ Boilers of emissions categories 1 and 2 as per CSN EN 305-1, the operation of which will be prohibited with effect from 1.9.2022 under Act no 201/2012 Coll.

Figure 6: Generation of solid pollutants in the Czech Republic for 2016



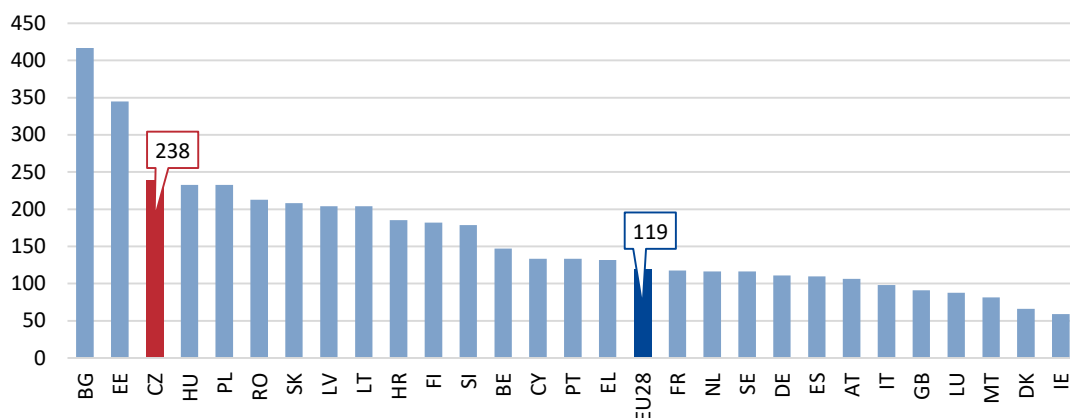
Source: Czech Hydrometeorological Institute.

NB: Solid pollutants comprise PM₁₀ and PM_{2.5}.

Given the major influence of cross-border transmission on the level of air pollution in the Czech Republic and Poland, the SAO recommended that the Ministry of the Environment (MoE) hold cross-border consultations with Poland when preparing the national programme for reducing air pollution.

Another priority of the NEP linked to climate protection and air quality improvement and targeted by the SAO in 2018 was improvements in energy efficiency. Improving energy efficiency is another of the *Europe 2020* strategy objectives. One of the indicators monitored by Eurostat in this context is energy intensity in European countries. This indicator is derived from the ratio between gross inland energy consumption and gross domestic product. The ratio is expressed in kilograms of oil equivalent (KGOE)⁶⁹ per unit of GDP. Countries' energy intensity is determined by the structure of their economy. And in particular, whether a country is oriented more towards services or industry. For that reason, the Czech Republic has the third highest energy intensity in the EU. The Czech economy's energy intensity is more than double the EU average (see Chart 27).

Chart 27: Comparison of EU28 countries' energy productivity in 2016 (KGOE per € 1,000)



Source: <http://ec.europa.eu/eurostat/cache/infographs/energy/bloc-4b.html>, Eurostat data.

In 2018 the SAO completed audit no 17/23, focusing on support provided out of OP EIC to small, medium-sized and large firms for achieving permanent energy savings in the industrial sector. The audit checked how the Ministry of Industry and Trade (MoIT) and the Agency for Enterprise and Innovation distributed subsidies. At system level, the amount audited was CZK 4.7 billion.

69 Standardised unit of energy.

The audit showed that energy savings were minimal at the end of 2017, mainly owing to the slow drawdown of money, the long time taken for approving subsidy applications and the lack of interest in the support. The SAO's other findings included:

- The Czech Republic's inland energy efficiency target of new energy savings of **51.1 petajoules (PJ)**⁷⁰ by 2020 would be missed. The SAO found the main risk of failing to deliver the planned savings in OP Environment, whose contribution to achieving this goal is key. **20 PJ** was supposed to be saved by 2020 thanks to subsidies out of OP Environment, but the energy savings had not reached even 1% of the predicted value by the end of 2017. There is therefore a significant risk that the planned **20 PJ** energy savings at the level of the specific target of OP Environment will not be achieved. Another key factor for evaluating achieved energy savings is cost-effectiveness, based on data on the specific subsidy per 1 GJ of savings. In 15 audited projects the SAO found that the average specific subsidy per 1 GJ of saved energy came out at approx. **CZK 2,200**, whereas the original expectation had been **CZK 1,000**.
- Meeting the targets for increased energy efficiency is mainly endangered by the slow drawdown in priority axis 3 of OP EIC. Just **13%** of the allocation of **CZK 22 billion** of EU finances earmarked for energy savings had been approved in legal documentation and less than **3%** of this money⁷¹ had been drawn down, i.e. approx. **CZK 600 million**. To speed up the drawdown, the MoIT created a credit fund in 2017 that applicants for the support could use. The lack of demand for the support meant that not one loan was provided out of this fund, however. Another cause was the long process of subsidy application approval. Although the average duration of the approval process is coming down, assessing project applications took on average **404 days** in 2017.

From SAO's the long-term perspective, one fundamental enduring negative phenomenon in the provision of support is the failure to evaluate its benefits or impacts. The SAO again drew attention to the insufficient design of indicators for monitoring and evaluating the benefit of projects and the axis goals in the context of this audit:

- To monitor performance at the level of axis 3, the MoIT used the indicator of "number of enterprises receiving support" and to assess the goal of improving energy efficiency in the enterprise sector it used the statistical indicator of "net final energy consumption in industry". The supported projects' specific benefit for energy savings cannot be ascertained using indicators like this. The MoIT will not be able to check whether goals are achieved in the case of the financial instrument for the *Energy Savings* programme either.

The state does not evaluate whether supported projects genuinely contribute to improved air quality or improved energy efficiency.

In response to the detected shortcomings (audit no **17/23**) hindering the achievement of the Czech Republic's inland energy efficiency target, the MoIT adopted a number of measures affecting control and methodological work and seeking to simplify assessment criteria and speed up the approval of applications for support out of priority axis 3 of OP EIC.

The SAO is critical of the fact that measures adopted in response to shortcomings identified in previous audits nos. 16/01⁷² and 13/17⁷³ were not fully executed, even though the MoIT declared these measures in the relevant position statements on the SAO's audit reports discussed by the Government. Above all, shortcomings in the design and performance of control work by the MoIT and Agency for Enterprise and Innovation applying to the 2007–2013 programming period remained unresolved. These shortcomings continue to exist and were again detected in the subsequent 2014–2020 programming period in OP Employment.

⁷⁰ The Czech Republic's contribution of 51.1 petajoules (PJ) towards achieving the EU target for energy efficiency as per amending Directive 2009/125/ES a 2010/30/EU and repealing Directives 2004/8/ES and 2006/32/ES.

⁷¹ State of contracting and drawdown as of 20 April 2018 according to statistics published by the Enterprise and Innovation Agency.

⁷² Audit report no 16/01 – *EU and state budget funds earmarked for financing of interventions with Operational Programme Enterprise and Innovation with focus on the fulfilment of objectives* was published in volume 1/2017 of the SAO Bulletin.

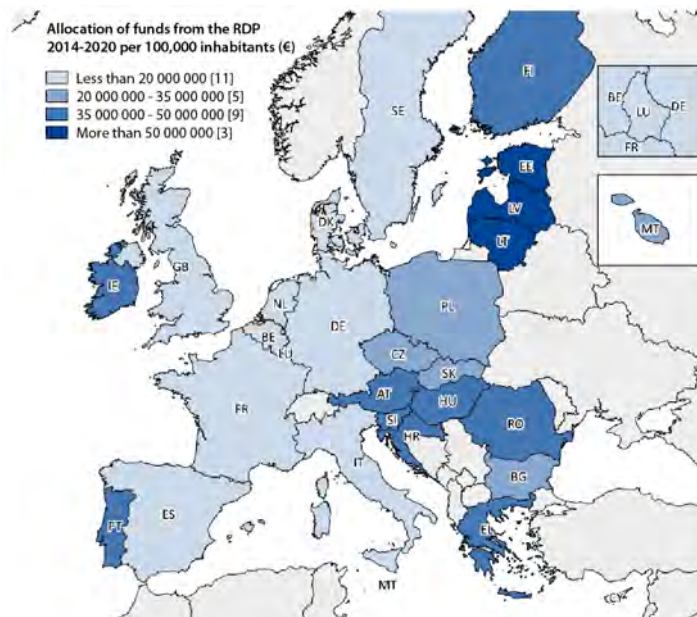
⁷³ Audit report no 13/17 – *EU and state budget funds earmarked for the implementation of Operational Programme Enterprise and Innovation* was published in volume 2/2014 of the SAO Bulletin.

Despite the billions of koruna spent under the NEP on climate protection and air quality improvement, the targets set by the Czech Republic in air quality and improved energy efficiency will not be achieved by 2020.

4.8 Agriculture – the conditions and rules in place mean that support is predominantly provided to large food industry companies to the detriment of small and medium-sized firms

Improving the competitiveness of Czech agriculture is one of the top priorities of the Czech Republic’s agricultural policy up to 2030⁷⁴. EU funds are one of the main sources of funding for support for agriculture, and in particular the *Rural Development Programme* (RDP), which is designed to support the competitiveness of agriculture, ensure that sustainable use is made of natural resources and climate measures and achieve balanced development of rural economies. **€2.3 billion** was earmarked for the Czech Republic in the RDP. Figure 7 breaks down the level of support from 2014–2020 rural development programmes in EU Member States and a proportionate indicator of the level of support per 100,000 inhabitants. With support of **€22 million per 100,000 inhabitants**, the Czech Republic came 16th out of the 28 countries.

Figure 7: Level of RDP 2014–2020 support in Member States and proportionate indicator of the level of support per 100,000 inhabitants (€)



Source: Regulation (EU) of 1305/2013 of the European Parliament and of the Council of 17 December 2013 on support for rural development by the European Agricultural Fund for Rural Development (EAFRD) and repealing Council Regulation (EC) No 1698/2005; Eurostat.

As part of its audit work in agriculture and European subsidies, the SAO tries to find answers to the questions whether the state channels subsidies into the defined support areas in line with the rules set by the state and whether effective and necessary projects helping achieve programme goals and measures are selected and financed.

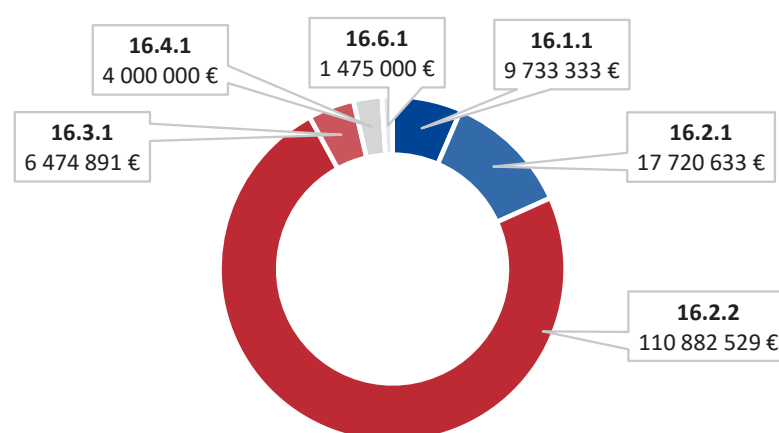
In audit no **17/26** the SAO focused on European subsidies provided under the *Rural Development Programme of the Czech Republic for 2014–2020* (RDP), *Cooperation* measure. Subsidies under this measure are intended to strengthen research, technological development and innovation in agriculture and to help small and medium-sized firms. The measure’s total allocation is over **€150 million**.

⁷⁴ Czech Government Resolution no 392 of May 5, 2016, on Strategy of the Department of the Ministry of Agriculture of the Czech Republic with an Outlook up to 2030.

The MoA earmarked over CZK 2.8 billion of the measure's total allocation of CZK 3.8 billion⁷⁵ (i.e. 74%) on a single specific area promoting development of agricultural products processing, where it set such rules that most of the approved applicants were large food industry companies that spent the subsidy on buying machinery, technologies and building alterations rather than on development and innovation. Small and medium-sized enterprises, for which the subsidies were originally intended, are not supported, either because of the complicated subsidy conditions or because the MoA selected such areas of support these enterprises are not interested in. The upshot is that the support does not work in three of the six areas (operations), and these are the areas that were supposed to help small and medium-sized firms.

Chart 28 shows that most of the money is allotted to operation 16.2.2 supporting development in agricultural products processing, which means that the entire *Cooperation* measure is implemented mainly through this one operation.

Chart 28: Total public expenditure on various operations of M16 *Cooperation* measure⁷⁶ (€)



Source: Information from audit report no [17/26](#).

The SAO's other findings in audit no [17/26](#) included:

- The MoA treated applicants in various operations unequally. It advantaged large processing companies, which can repeatedly apply for subsidies under operation 16.2.2, the biggest operation in financial terms, because the MoA did not set caps on support per beneficiary over the programming period in the context of this operation. The SAO also pointed out that spending on science, research and innovation, which is a key element of the *Cooperation* measure, was negligible. As it found, this accounted for roughly **1%** of expenditure in 46 audited project applications.
- The SAO also detected shortcomings in the way the goals of the *Cooperation* measure were set and implemented: these were hard to assess as at the end of 2017 because the MoA had released full funding for just five projects, as the MoA did not set any initial or target values for monitoring the benefit of the *Cooperation* measure in terms of the goals of *Europe 2020*.

The SAO stated that the drawdown conditions and rules designed by the MoA pose a significant threat to the selection of effective and necessary projects and to achieving the goals of the *Cooperation* measure.

⁷⁵ Conversion using the European Central Bank rate as at December 29, 2017: 25.535 CZK/€.

⁷⁶ Operation 16.1.1 *Support for operational groups and European Innovation Partnership projects*; operation 16.2.1 *Support for the development of new products, procedures and technologies in agricultural primary production*; operation 16.2.2 *Support for the development of new products, procedures and technologies in processing and marketing agricultural products*; operation 16.3.1 *Equipment and resource sharing*; operation 16.4.1 *Horizontal and vertical cooperation among actors in short supply chains and local markets*; operation 16.6.1 *Horizontal and vertical cooperation in sustainable production of biomass for energy production, food production and in industrial processes*.

As part of this audit the SAO also paid attention to procedures that are supposed to ensure that support is provided to those applicants that meet the defined subsidy conditions and are eligible. Applicant eligibility is an issue that encompasses possible conflicts of interests, as described in greater detail in Section II.5.2 of this annual report.

The MoA agreed with the SAO's reports and adopted measures to remedy the shortcomings identified by the audit. In particular, the MoA declared that it would:

- **extensively modify and simplify the rules for two unsuccessful operations so that there is greater demand for these forms of cooperation and the rules are more accommodating towards applicants, in particular micro-firms and small and medium-sized firms;**
- **analyse all the reasons for the low take-up and adjust the conditions so that in the next programming period they motivate small and medium-sized businesses to participate more in these types of operation;**
- **improve the work of assessment commissions in the sense of boosting the transparency of project assessment when selecting projects for financing.**

In many cases, however, the MoA will only move to remedy the identified shortcomings in the next programming period.

Findings from audits targeting RDP 2007–2013 brought information about errors in the subsidies provision system that helped the MoA design the 2014–2020 programming period. The MoA introduced criteria for selecting projects on the basis of their feasibility, effectiveness and economy, for example. There was an improvement in the setting of limits for eligible expenditure, where the MoA defined and specified maximum limits for eligible expenditure. Shortcomings still persist, though, especially as regards project selection in terms of quality, effectiveness and necessity and the setting of goals and monitoring of the effects and benefits of the support.

4.9 Education – the real impact of state policy on support for children's and young people's free time cannot be evaluated without goals being set for what the state wants to achieve

The aim of state support in the field of children and young people is to help improve young people's quality of life, mainly by allowing them to develop their personalities so that they can adapt their requirements to the constantly changing environment and utilize their creative and innovative potential in practice and in active participation in society.

In 2018 the SAO focused its attention on support for work with children and young people, which is based on the *Concept of Support for Youth for 2014–2020* (Concept 2020) and is implemented by the MoEYS through *programmes of state support for work with children and young people for non-Governmental non-profit organisations* ("the Programmes"). In audit no **17/17** the SAO checked how the MoEYS awarded subsidies to NGOs to support work with children and young people and found a whole series of fundamental errors.

As the guarantor of state policy on children and young people, the MoEYS was not informed about other ministries' implementation tools used to realise Concept 2020 or about the amount of money channelled into this area every year out of public budgets.

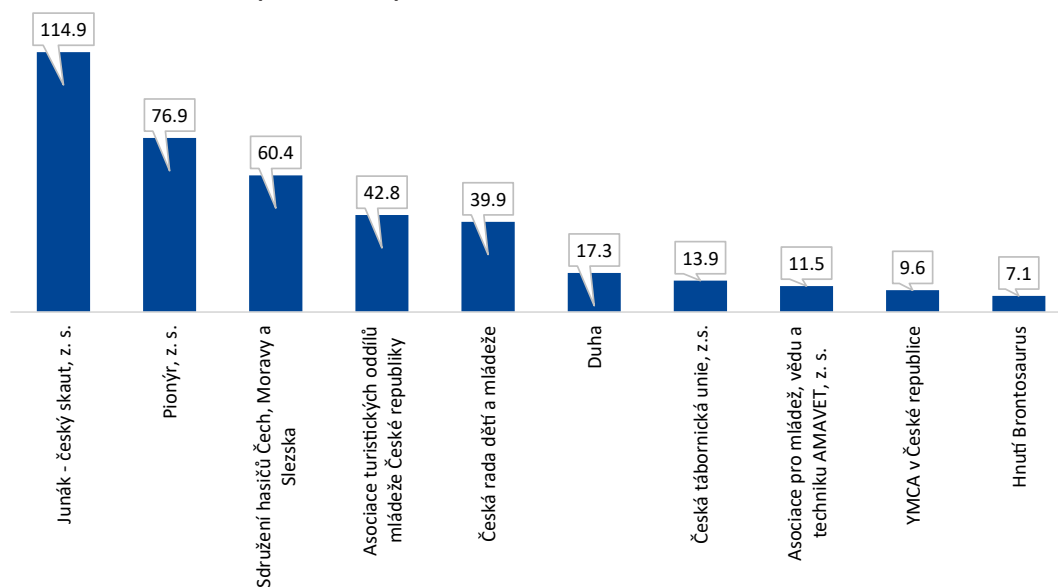
Even though the MoEYS provided subsidies worth CZK 509 million through the Programmes, their impact on the target group was impossible to evaluate objectively. The MoEYS did not define any measurable targets in either Concept 2020 or the Programmes themselves. By violating the defined conditions for providing subsidies, the MoEYS created a non-transparent environment and unequal conditions for subsidy applicants. It even violated its own rules and legal regulations.

- More than a hundred organisations regularly received support under the audited Programmes. Half of all the money distributed in the audited period went to three organisations, as Chart 29 shows. The MoEYS's assessment and selection of projects for support in 2014 and 2015 was non-transparent, and subsidy applicants were not even able to find out what criteria would be used to assess their projects. The MoEYS did not make the project assessment and selection method transparent until 2016. When administering applications, the MoEYS did not discard applicants who did not meet binding conditions; and it violated its own rules, the Government's principles and the legal regulations in the process of providing subsidies.
- In the context of the audited projects the SAO found that in 2014, when beneficiaries could apply for a **10%** or **20%** increase in subsidies already approved, the MoEYS in some cases increased the subsidy by approx. **90%** to **360%** of the original amount. It moreover approved subsidies totalling almost **CZK 62 million** for eight projects even though the applicants did not send a modified budget in the correct form or did not meet the deadline for submitting the modified budget. The MoEYS also supported projects of two beneficiaries that applied for over **CZK 2 million** in subsidies for organisations with auxiliary activity clubs, even though they had no such activity clubs.

It was not clear from the MoEYS materials what it wants to achieve by supporting work with children and young people. The only indicators monitored in the audited period were the amount of money paid out and the number of supported organisations.

In the case of six beneficiaries, the SAO judged the shortcomings to be violations of budgetary discipline with a value exceeding **CZK 1 million** and sent a notification to the appropriate tax administrators.

Chart 29: Ten beneficiaries drawing down the largest cumulative volume of subsidies from 2014 to 2016 (CZK million)



Source: Information from audit report no [17/17](#).

These errors found in the audited projects are evidence that the MoEYS’s internal control system in the administration of support applications and in the provision of this support did not work; the same applied when the implemented projects were subjected to follow-up audit. By not performing rigorous checking of billing after the completion of projects, it accepted without comment billings that showed:

- that ineligible costs were paid out of subsidies;
- individual budgetary items and total project costs were not complied with;
- billings were incomplete or inaccurate.

Recommendations

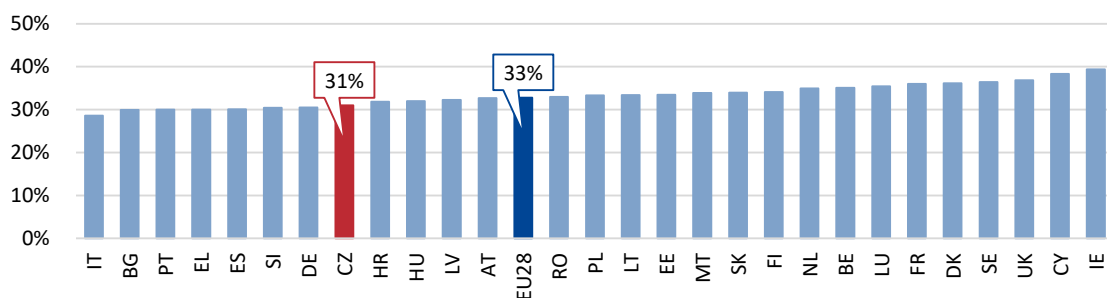
Given the series of grave errors in the administration of subsidies caused by the failing of control mechanisms, the SAO recommended that the MoEYS primarily focus on the correct design and functionality of its internal control system and thus rigorously ensure compliance with the Act on Financial Control. The SAO also recommended weighing up the creation of legislation on work with children and youth or at least on support for work with children and youth, as it is the case in other European countries like Slovakia, Germany or Austria.

On the other hand, the SAO welcomes the MoEYS’s moves to stabilise the field of work with children. The MoEYS has recently taken steps to ensure greater stability of key NGOs working with children and young people; having satisfied the defined criteria, these NGOs were awarded a certificate of *recognised organisation for work with children and young people*. In October 2017 it signed contracts on long-term cooperation with these NGOs, guaranteeing them a certain minimum subsidy amount for the specified period. These multi-year contracts are used in other European Union countries, e.g. Belgium. The SAO regards the MoEYS’s efforts to ensure a greater degree of financial certainty for NGOs working with children and young people as a step in the right direction for stabilisation.

The SAO also considers highly important that the MoEYS responded to the SAO audit by adopting measures to set measurable targets and indicators for subsidy programmes, to check the final assessments of projects and to evaluate subsidy programmes. The MoEYS should also work on interim assessment of progress towards the goals of Concept 2020, on the preparation of a final evaluation of Concept 2020 and on preparation of a new youth support concept after 2020.

Children and young people accounted for 31% of the total population of the Czech Republic in 2017. This was the 8th lowest share in the EU, according to Eurostat data. As Chart 30 shows, in 2017 the highest share of children and youth in the EU was found in Ireland (39%) and the lowest in Italy (29 %). It is interesting to look at examples of non-EU countries, where the share is far more pronounced. That includes Iceland, where children and young people make up 41% of the population, or Turkey with 48%.

Chart 30: Percentage share of children and youth in the total population in 2017



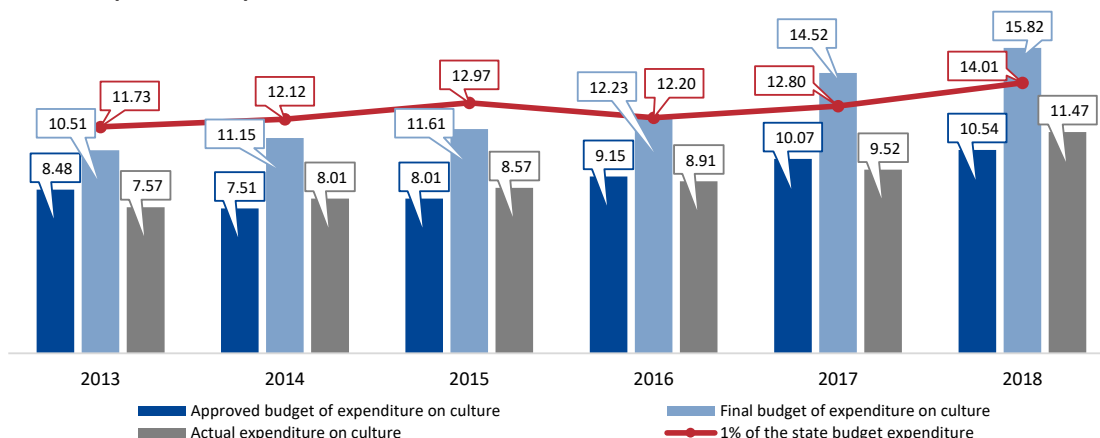
Source: Eurostat.

4.10 Culture – insufficient preparation of the programme and its projects resulted in the implementation period being extended and caused slow drawdown of funds for care for national cultural treasures

In the field of care for cultural heritage, the SAO’s audits seek to systematically cover investments in care for immovable and movable assets of outstanding cultural and historic value.

The Government’s long-term aim is to increase spending on culture to 1% of state budget expenditure. Since 2016, final budgeted spending on culture has hit this target, and in 2017 and 2018 budgeted expenditure on culture even exceeded it, as Chart 31 shows. Nevertheless, spending actually drawn down on culture was lower in both years, amounting to **0.74%** of state budget expenditure in 2017 and **0.81%** in 2018. There has been a long-term inability to spend on culture the amount defined as appropriate by the Government.

Chart 31: Expenditure on culture and its share of state budget expenditure 2013–2018 (CZK billion)



Source: MONITOR information website.

NB: Expenditure reported under section 33 – *Culture, Churches and Media* was included in expenditure on culture without subsection 333 – *Activities of registered churches and religious societies*, 334 – *Media* and paragraph 3362 – *Activity of the central state authority in the field of the media* (pursuant to Decree no 323/2002 Coll., on the budget composition).

Less than **66%** of the final budget for expenditure on culture was utilised in 2017, mainly as a result of the low drawdown in programme financing. The least successful programmes in drawdown terms included the *Programme of Care for National Cultural Treasures* (“the Programme”), which is the largest in terms of volume; this is a clear example of insufficient preparation of projects in programme financing, when the budgeted funds for the year in question are not utilised. Every year, earmarked but unused funds are then shifted to claims from unused expenditure and included in the budget in the following years. Available budget finances of **CZK 4.7 billion** and **CZK 4 billion** were unutilised by the MoC in 2017 and 2018 respectively.

The state is unable to make full and effective use of the existing funding for culture.

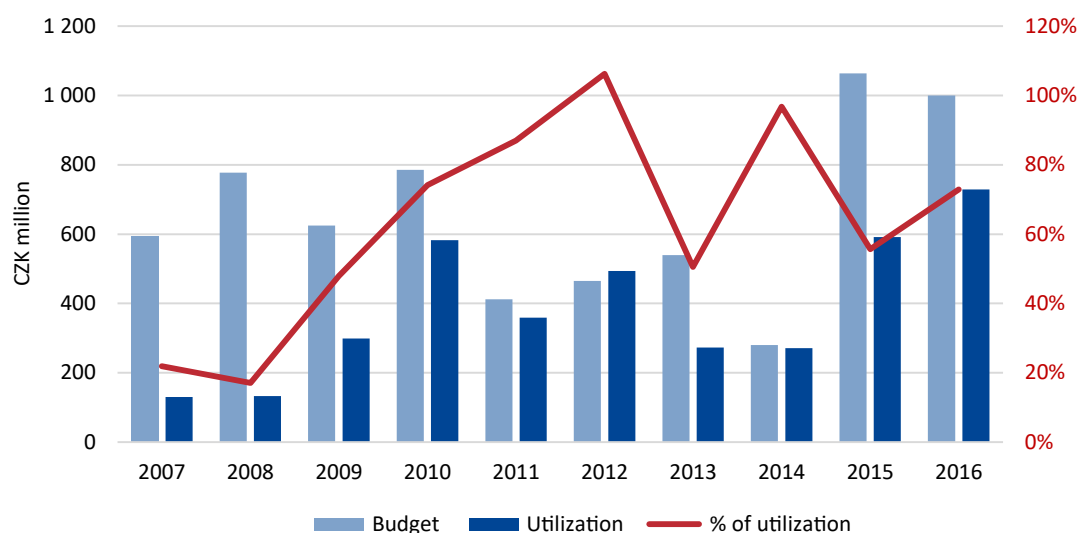
The SAO has repeatedly drawn attention to this systemic shortcoming in audits of the programme of care for cultural heritage. The SAO drew attention to inadequate preparation of the *Programme of Care for National Cultural Treasures* and poor control work by the MoC when it audited the programme back in 2012 (audit no 11/05⁷⁷). These problems led to substantial

⁷⁷ The audit report from audit no 11/05 – *Funds earmarked for the Programme for the care of national cultural treasure in state ownership* was published in volume 1/2012 of the SAO Bulletin.

changes in the programme, the extension of its implementation (including delays to the projects that were carried out) and the associated slow drawdown of the allocation. Even though the MoC declared in 2012 that it would pay increased attention to checking the programme’s projects, these shortcomings persisted. This fact was confirmed by the SAO in the follow-up audit of the programme, audit no 17/16 in 2018, when the SAO stated that the programme’s effectiveness was constantly being undermined by the fact that it was not going ahead as envisaged in terms of both content and timing.

- The programme that was supposed to be completed in 2014 was extended by six years by the MoC. The main reason for extending the programme was delays in the execution of construction projects. The SAO found that the difficulty of the construction work had been underestimated in the audited projects; there was insufficient preparation; unrealistic deadlines were moved back; the definition of the construction project was changed; and the project price was increased. New projects were being added to the programme at a time when it was originally supposed to have been completed. By the end of the SAO audit in 2017, the MoC had utilised just **CZK 4.2 billion** of the total funding of **CZK 10 billion**, i.e. **42%**; even though the programme is supposed to end in 2020, there is a risk it will be extended further.

Chart 32: Utilisation of programme funds involving claims from unused expenditure



Source: Closing accounts of the MoC budget chapter 2007–2016; MoC data as at October 20, 2017.

- The SAO also drew attention to cases of uneconomical use of Programme finances. In consequence of the extraordinarily long time it took the MoC to approve the tender documentation (**21 months**) for the selection of a contractor to build a new central depository of the Museum of Decorative Arts in Prague, the depository was built at the same time as its historic building was being repaired. The museum therefore had to relocate its collections and employees to alternative premises, which pushed up state budget expenditure by **CZK 11 million**.

As the SAO pointed out in its position statement on the Draft State Closing Account for 2017, the efforts to increase state budget expenditure on culture pose a risk that the increased amount will be used ineffectively. This risk is also signalled by the SAO’s finding that the money available for programmes is drawn down slowly, because projects are not properly prepared, and in some cases uneconomically.

The programme is a clear example of insufficient preparation of projects in programme financing, as a result of which budgeted finances are significantly under-utilised in the given year.

When checking the measures to remedy shortcomings identified in audit no **11/15**, according to which the MoC was supposed to pay increased attention to control work in the projects under the Programme, the SAO found that the MoC fulfilled this measure solely for one of two selected projects and performed almost no control of the individual projects. In response to the results of audit no **17/16** and their discussion by the Czech Government, the MoC again adopted measures designed to increase the number of inspections of subsidy beneficiaries and measures to ensure that the MoC did not inordinately prolong the preparation process for investment projects. The MoC will also make it compulsory for participants in investment projects with subsidies exceeding **CZK 100 million** to submit a feasibility study accompanying the investment project.

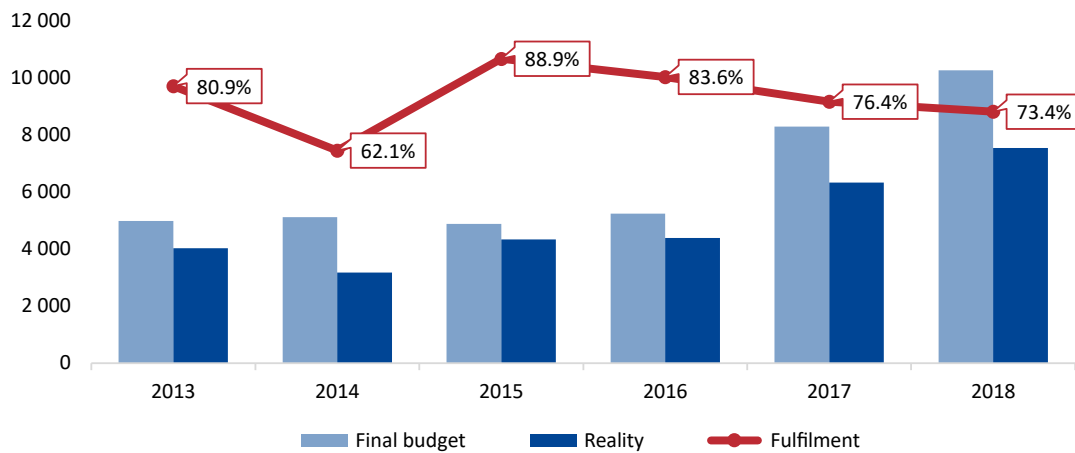
4.11 Defence and security – a real definition of current and future needs, in terms of both real estate and other factors, is one of the requirements for efficient use of state finances

Defence and security is a long-term and continuous process the SAO pays systematic attention to. One widely debated issue of recent times is how the responsible authorities use budgeted finances to achieve the goals of the state's defence and security policy. In 2018, for example, the financial management of both the MoD and MoI ended with almost the same level of unutilised budget funds amounting to several billion koruna. The SAO strives to draw attention to these shortcomings in the management of state resources and to make recommendations to help improve the unsatisfactory state of affairs.

In 2018 the SAO completed three audits targeting:

- management of real estate assigned to the tasks of the Army of the Czech Republic ("the Army") in audit no **18/02**;
- financial management of state firm Military Forests and Estates of the Czech Republic in audit no **18/10**;
- management of public archives in the Ministry of the Interior (MoI) in audit no **18/12**.

Despite the positive economic development and the related enlargement of the defence budget, the MoD's inability to execute important modernisation investments, including purchases of new military technology and equipment, is a serious problem in defence policy. The critical situation has lasted for several years now, and in 2018 the MoD again postponed or stopped a number of planned strategic investments. The MoD failed to utilise capital expenditure totalling **CZK 2 billion** in 2017. Although the MoD's capital expenditure budget has been growing since 2015, the success of its utilisation has been declining (see Chart 33). Unutilised capital expenditure even amounted to **CZK 2.7 billion** in 2018. The main reasons for not making full use of the budget included the unrealised purchase of MADR mobile 3D radio-locators worth **CZK 868 million** and the contract for the modernisation of howitzers worth **CZK 1.3 billion** that was scrapped at the start of 2018. Another negative consequence of this was an increase in claims from unused expenditure, which reached **CZK 3.5 billion** as at January 1, 2019.

Chart 33: Final budget and actual drawdown of capital expenditure by the MoD in 2013–2018 (CZK million) and implementation of the budget (%)

Source: State Treasury Integrated Information System.

NB: The data for 2018 apply as at January 17, 2019.

In its position statement on the draft state closing account for 2017 and based on its audit and analysis work, the SAO drew attention to the fact that the MoD, contrary to the NATO trend, reduced its share of expenditure on asset acquisition and replacement in 2010–2017 and increased the share of personnel costs. It is thus fair to say that MoD expenditure in this period was shifted onto the mandatory expenditure side rather than being channelled into investments in necessary renewal and modernisation. Personnel-related mandatory expenditure amounted to over 50% of the approved budget again in 2018.

In 2018, audit no 18/02 targeted the replacement, modernisation and necessity of real estate managed by the MoD and the Army Service Contributory Organisation (ASCO) for Army tasks. In 2015–2017 the MoD and ASCO had more than 32,000 items of real estate worth CZK 62.7 billion⁷⁸ and military complexes covering a total area of 400 km². The SAO audit found that the extent of the MoD and ASCO real estate exceeds the requirements of the present-day Army, has an unsatisfactory structure and is in unsatisfactory condition, and is a needless burden on the state budget. Unused buildings in particular are consequently being neglected, and numerous such buildings are falling into disrepair. The MoD itself estimated that the overall state of neglect of its buildings amounted to a value of CZK 13.4 billion.

- The MoD was not using real estate worth over CZK 6.5 billion and the cost of managing this real estate was CZK 32.5 million in 2017 alone. This was often real estate that the Army stopped using before 2010 in connection with the switch to a professional army (in January 2005). The SAO also pointed out in the strongest possible terms that the MoD was not fulfilling or even respecting the principles and tasks linked to optimising the volume and structure of real estate that the MoD itself defined in the *White Paper on Defence*⁷⁹ (“the White Paper”). That was despite the fact that abiding by these principles would have both reduced the amount of money needed to manage and operate the real estate and helped acquire the finances necessary for investing in the real estate. The MoD did not respect the defined principle of reinvesting funds acquired through the sale of real estate in the renewal of army

Hostels administered by the ASCO were not even 50% occupied in 2015–2017 and six were not used at all, e.g. hostels in Lázně Bohdaneč or Slaný.

⁷⁸ According to the number of items in records of the MoD and ASCO.

⁷⁹ Conceptual document approved by Czech Government resolution no 369 of 18 May 2011, on the *White Paper on Defence*.

buildings, for example: it used just **CZK 780 million** on renewing real estate out of a total sum of **CZK 4.2 billion** that it acquired through sales. The MoD also failed to place the emphasis on the maximum possible proceeds from sales of real estate (another principle). Using a sample of eight sold complexes of real estate, the SAO found that the proceeds from their sale amounted to just **29.1%** of the total price identified by expert analyses.

- According to the *White Paper*, the MoD was also to make its use of accommodation facilities more efficient, which would free up other funds for the renovation of its real estate. In 2014 the MoD proposed terminating the operation of 37 hostels that were underused or loss-making and subsequently selling off 31 of them. The ASCO would thus have saved over **CZK 21 million** a year. In the end the MoD approved the sale of just seven hostels, so over **62%** of the inefficient hostels remained in the defence sector. The ASCO's cumulative loss from the administration and operation of these properties totalled **CZK 25 million** over three years. The SAO judged the operation of these hostels to be inefficient.

If the MoD had rigorously implemented the procedures and tasks which it itself defined in the White Paper, it could have acquired funds for the necessary renovation of army properties in use. The volume of real estate exceeds the current Army requirements, and neither its structure nor its condition is consistent with these requirements, which puts a needless burden on the state budget.

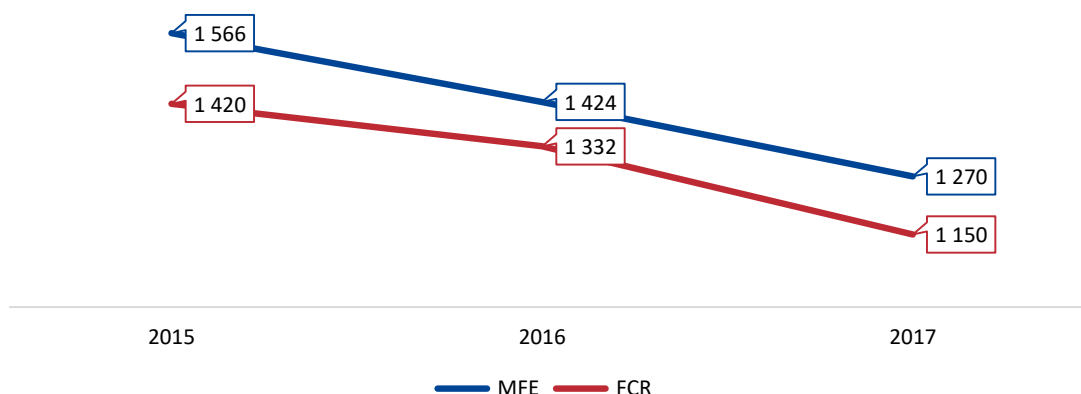
According to information presented at a session of the Committee on Defence of the Chamber of Deputies of Parliament on November 21, 2018, the MoD intends to pay considerable attention to its real estate infrastructure and plans to invest **CZK 1.3 billion** in this area. In view of the reports of audit no **18/02**, in which the SAO found that the MoD itself estimates that the overall state of negligence of buildings to be worth **CZK 13.4 billion**, the amount of the planned investments in real estate appears insufficient unless there is a major reduction in this real estate. This was confirmed by the results of this audit.

Another example of real estate not serving the requirements and tasks of the Army was thrown up by the results of audit no 18/10, focusing on the financial management of state firm Military Forests and Estates of the Czech Republic (MFE). Since 2016 most of MFE's business, i.e. 64%, has taken place on land outside military zones⁸⁰. The Army therefore does not use most of this land for Army training, and MFE's enterprise activities in the territory of the abolished military zones are increasingly moving in the direction of ensuring the right conditions for the development of tourist use (cycle paths, footpaths, information centres, car parks etc.). Even though this was a large proportion of the territories, the MoD, as the founder of MFE, did not specify any conditions or requirements for MFE's business activities in the abolished military zones.

- The total value of MFE assets has increased constantly from **CZK 8.3 billion** in 2015 to **CZK 8.8 billion** in 2017, even though the area of the military zones decreased. MFE did not react to their abolition and did not update its strategy in this context. For 24 years, MFE carried out activities it had no authorisation for: from 1992 to 2016 it carried out maintenance of small waterways, real estate and roads owned by the state both inside and outside military zones, in contravention of its founding charter.
- The SAO also compared the proceeds from the sale of extracted timber between the state firms MFE and Forests of the Czech Republic (FCR). In the audited period, MFE obtained a greater financial yield from timber than FCR, even though the timber was mainly acquired by random extraction by both state firms. MFE obtained on average **CZK 1,420** per m³; FCR on average **CZK 1,267** (see Chart 34). MFE only sells timber that has already been extracted, while FCR sells timber that is still standing⁸¹. MFE's approach proved to be more advantageous in economic terms.

⁸⁰ A delimited part of state territory intended for ensuring the defence of the state and for training the armed forces pursuant to Section 30(1) of Act No. 222/1999 Coll., on ensuring the defence of the Czech Republic.

⁸¹ Sale of standing timber is the right to extract a defined number of trees in a block sale at the highest price.

Chart 34: Comparison of the proceeds from the sale of timber by MFE and FCR 2015–2017 (CZK/m³)

Source: Information from audit no 18/10.

When auditing selected public archives coming under the Mol last year (audit no 18/12), the SAO both scrutinised their financial management and sought to assess the archive materials digitisation process, including the building of the *National Digital Archive*. In doing so, it examined the conditions of care for archive materials and the Mol's conceptual and methodological work in this field.

The SAO has long drawn attention to systemic shortcomings in conceptual work, where non-existent, unclear or insufficiently elaborated concepts are not an effective tool for achieving the defined goals in the given field. This was confirmed by the results of the archives audit. The SAO identified that the Mol only drew up an archives development concept 14 years after the Act on Archives, which imposed this duty on it, entered into effect. At the same time, the Mol's methodological management of archives in the digitisation process was insufficient. The Mol even failed to define a responsible coordinator and timetable for archives digitisation in the current approved concept. Consequently, archives took different approaches to digitising their archive materials and the extent to which digitisation has been completed is currently unknown.

- Most of the digitisation work was done by an external entity that processed **81%** of the total number of over **40 million** completed digitisations⁸² (mainly registers of births, marriages and deaths and land registers). The external entity performed the digitisation at its own cost in return for being allowed to keep one copy of the digitised material and the option of further electronic use. In the SAO's view, it is a significant risk the fact that a substantial portion of the thus created digital versions of archive materials are owned by a private entity and the state has no control over how they are actually used. In addition, the SAO drew attention to the limited functionality of the *National Digital Archive* project, which has been under development since 2004 and currently only enables archive materials to be taken out and received in digital form, which is one of six requirements laid down by the Act on Archives for this area. Having scrutinised the management of state property, the SAO found that at the time of the audit's completion **22** buildings of selected state archives did not satisfy the conditions for storage and care for archive materials.

If a functional archives network is to be established in the Czech Republic and the digitisation process is to be completed, it is necessary that the Mol define specific obligations, goals and priorities in this field and put in place the right conditions for caring for and storing archive materials.

82 Digitisations are digital documents created by digitisation of archive materials.

5. Institutional management

The SAO's audit and analysis work targets management by state institutions as well as the state's expenditure policies. When scrutinising their management and control systems, the SAO mainly focuses on how the institutions manage property entrusted to them and state finances when operating and carrying out their tasks. In more than half the audits the SAO also scrutinises public procurement and compliance with the relevant rules and principles that are essential for economical use of public money. The management of funds provided to the Czech Republic from abroad, especially from the EU budget, remains at the centre of the SAO's attention.

This section summarises the SAO's findings from these areas. The shortcomings identified by scrutiny of compliance with the rules of management and the economy, efficiency and effectiveness of the performed activities indicate that there is still considerable room for enhancing institutions' management processes and improving their efficiency.

5.1 Institutions' financial management – an effective internal control system puts in place the right conditions for effective, efficient and economical performance of state organisations' work

The financial management of state institutions is one of the key areas the SAO targets in its audit work. At this point in time, when the SAO is trying to target its audits mainly at the various expenditure policies of the state, with closer attention devoted to the effectiveness of state policies, auditing state institutions' financial management is also part of this scrutiny. Ten audits dealing with this issue were completed in 2018, focusing on:

- the financial management of selected organisational units of the state ("SOUS") and contributory organisations (audit no [17/13](#) scrutinised the State Health Department ("SHD"); audit no [17/14](#) the National Institute of Mental Health ("NIMH"); audit no [17/20](#) the Further Education Fund ("FEF"); audit no [17/29](#) the Security Information Service⁸³; audit no [17/32](#) the MoT and its selected SOUS; audit no [18/02](#) the MoD and ASCO in the field of real estate of the Czech army; and audit no [18/12](#) selected public archives under the Mol department);
- defrayal of costs from the activities of selected hospitals (audit no [17/19](#));
- financial management by the state firms Czech Post (audit no [17/27](#)) and Military Forests and Estates of the CR (audit no [18/10](#)).

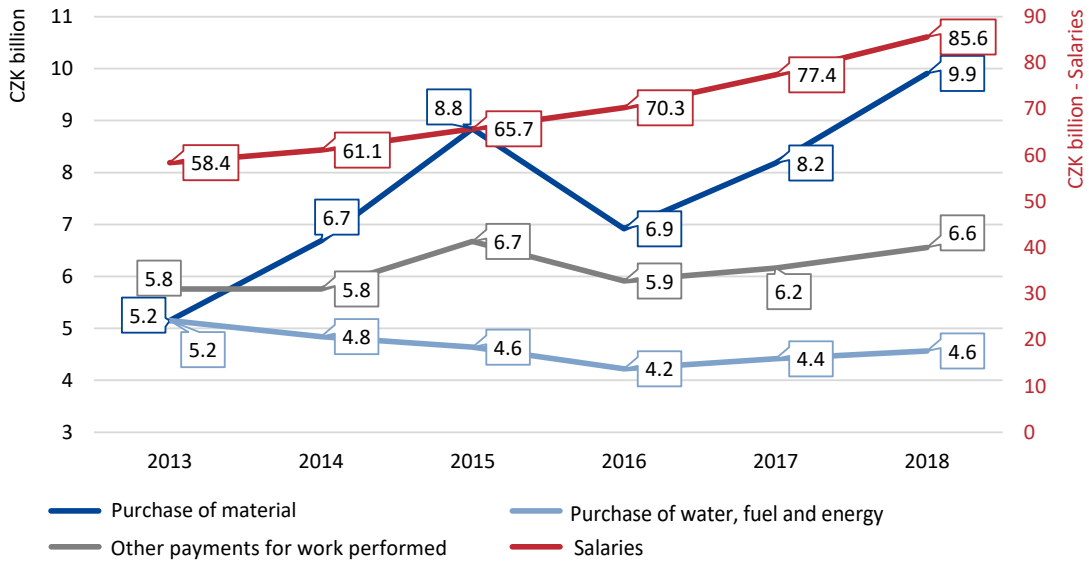
As in the previous years, the SAO monitored spending linked to the operation of state organisations and the management of state property. The year-on-year increase in total state budget expenditure in 2018 was largely driven by current expenditure, which encompasses organisations' operational expenditure. The rising tendency in current expenditure in the first half of 2018 was confirmed in the *Report on Implementation of the State Budget of the Czech Republic for the 1st Half of 2018* and by up-to-date data for 2018 (see also Section II.2).

The state closing account for 2017 shows that a total of **CZK 89.1 billion** was spent on salaries and other payments for work done in 2017; of that total, salaries amounted to **CZK 82.4 billion**, a year-on-year increase of **CZK 7.5 billion**, or **10.1%**, over 2016. Other payments for work done totalled **CZK 6.7 billion**, a year-on-year increase of **CZK 272 million**. Non-investment purchases and related expenditure also increased year-on-year by **CZK 4 billion**. There was also an increase in spending on services – up by **CZK 3.1 billion**; material – up by **CZK 1.5 billion**; spending linked to non-investment purchases, contributions, reimbursements and material gifts – up by **CZK 268 million**; and spending on water, fuel and energy – up by **CZK 184 million**.

The developments in selected items of ministries' non-investment expenditure in 2018 confirm the negative trend of rising current expenditure. As Chart 35 shows, all the ministries' selected items have been increasing since 2016. Of the categories of expenditure shown in the chart, the most progressive increase clearly came in salaries, with spending on this area increasing on average by **6.6%** per year since 2013. Other purchasing under scrutiny has again been growing since 2017 after a decrease in 2016. The biggest year-on-year increase can be observed in purchases of material.

⁸³ This audit was classified and its report was not published.

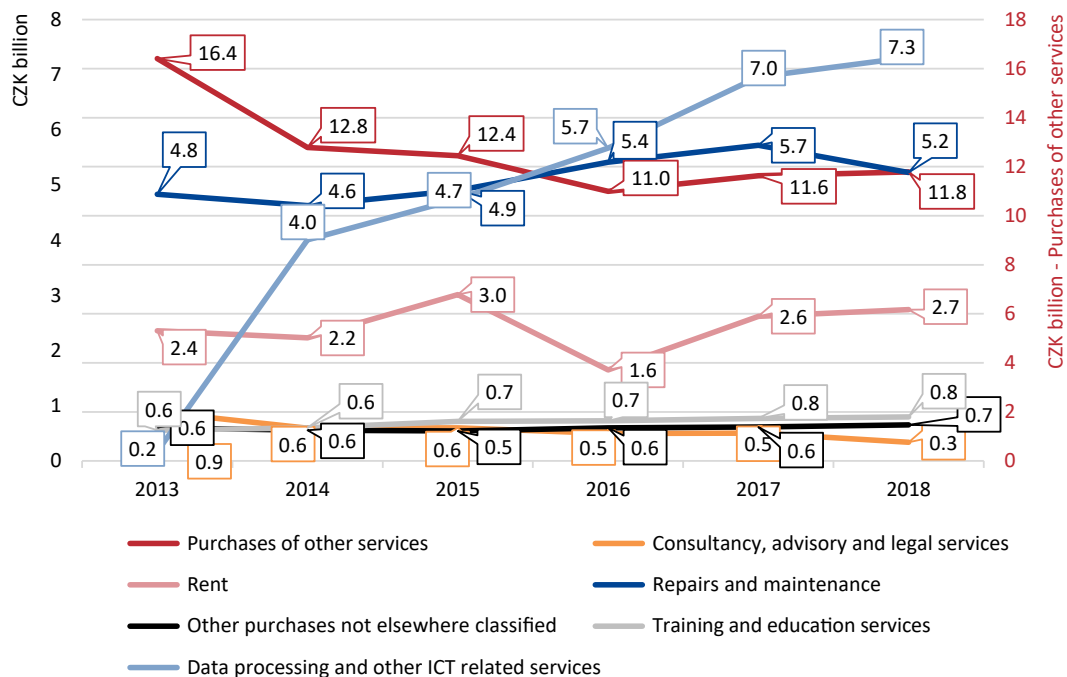
Chart 35: Selected items of non-investment expenditure by ministries, 2013–2018 (CZK billion)



Source: State Treasury Integrated Information System.

Purchases of services are part of non-investment purchases. Chart 36 shows how ministries' expenditure on purchasing selected categories of services has evolved. There has been significant and enduring yearly growth in spending on data processing and services linked to information and communication technologies. Expenditure on purchasing other services in 2017 and 2018 registered the first slight increase following regular year-on-year falls after 2012. There was a significant year-on-year decrease in spending on consultation, advisory and legal services in 2018. Spending on training services and other purchasing not classified elsewhere has long remained almost unchanged. One interesting expenditure item is rent, which has returned to year-on-year growth after a marked fall in 2016.

Chart 36: Ministries' expenditure on selected services in 2013–2018 (CZK billion)



Source: State Treasury Integrated Information System.

The SAO has long paid systematic attention to the costs of selected services, focusing not just on the level of costs but on the efficiency and economy of spending. In 2018 the results of audit work in the field of ICT-related external services pointed to persisting problems linked mainly to dependency on a specific contractor, which have a negative impact on the efficiency and economy of state expenditure. One example was audit no 17/22 targeting the acquisition, operation and development of four IS mainly covering the agenda of the disbursement of non-insurance social benefits and employment-related benefits.

- In this audit the SAO found that the MoLSA, even while trying to free itself from dependency on one contractor, was not able to fill 28 ICT jobs in the audited period and dealt with the shortage of personnel by buying external ICT services (e.g. system integration, project management), spending **CZK 149 million** on this in 2017 alone. The MoLSA thus remained entirely dependent on service providers at the time of completion of the audit. The SAO also concluded that the MoLSA had uneconomically spent **CZK 10.3 million** on external ICT services that the ministry did not make full use of or exceeded the financial limit defined in the signed order and on payments to an external contractor for a strategic document that was not finished. The MoLSA paid over **CZK 8 million** for this development strategy. If the same number of MoLSA employees had worked on it, the cost would have come to approx. **CZK 1.1 million**, by the SAO's calculation. The results of this audit are set out in detail in Section II.4.1.

Many of the identified shortcomings are caused by state organisations' inoperative internal control mechanisms. As the results of audits done in 2018 showed, some audited institutions did not have an effective internal control system capable of the timely detection, assessment and minimisation of risks linked to activities covered by accounting and in the field of purchasing and economic operations. If the audited entities' internal control system had worked, it is likely that the following fatal shortcomings in their financial management that resulted in inefficient and uneconomical spending would never have occurred.

- In audit no 17/13 the SAO found that the State Health Department's internal control system did not function during the audited period and that there was no preliminary checking of purchasing and economic operations by the SHD. In practice, the failure to carry out these legal obligations led, among other things, to inefficient and, above all, uneconomical use of property. For example, the SHD provided housing to its employees without requiring an appropriate payment from them. In particular, the SAO flagged up a case where a management employee paid **CZK 960** a month for a renovated 53 m² apartment in Prague, including payments for energy, water, sewerage and other housing-related items. At a cost of almost **CZK 32 million** the SDH also renovated a catering facility it subsequently left unused for nine months. As the SDH did not appoint any employees to perform preliminary checks of purchasing and all economic operations, it paid an invoice of **CZK 360,000** for technical supervision without a contract and paid erroneous invoices worth **CZK 99,000**, for example.

In connection with the non-functioning internal control system, the SAO drew attention to a number of other serious errors affecting the dividing up of public contracts for supplies of medical material amounting to **CZK 39 million**, purchases of special medical equipment for **CZK 7 million** without a tender and overstepping of the salary limit by almost **CZK 21 million**. The SAO judged these shortcomings to be a breach of budgetary discipline with a total value of **CZK 67 million** and filed a criminal complaint with the criminal justice authorities.

- In audit no 17/14 the SAO pointed out that the NIMH's accounting in 2014–2016 was inaccurate and incomplete. Some of the accounting errors concerned the construction of a new building in Klecany. For example, the NIMH incorrectly specified the various costs factored into the new building's acquisition price, thus wrongly posting an acquisition cost of **CZK 2 million** lower for the asset. The SAO also scrutinised the purchase of 23 items of medical and other equipment – there had been no financial control before any of the items were purchased. The detected errors were partly because the NIMH had not introduced an effective internal control system. The NIMH did not have an internal audit unit, the necessary internal regulations and appropriate internal audit rules.

- In audit no **17/20** the SAO pointed out that the FEF had not implemented an internal control system putting in place the right conditions for the effective, efficient and economical exercise of state administration. In this context, the SAO's audit of 66 internships costing **CZK 4.2 million** revealed that the FEF broke the rules of the *Internships for Young Job-Seekers 2*, paying in full for 13 internships, i.e. almost **CZK 830,000**, even though some of the internship providers and some of the interns did not meet all the defined requirements. The interns, for example, had not taken a mandatory e-learning course of soft skills; some internships lacked a mentor to guide the intern, etc.

Recommendations

Based on the identified facts and shortcomings from audit no 17/14, with particular regard to the unsatisfactory state of internal regulations, the SAO recommended that the NIMH adopt measures to put in place an effective internal control system, and in particular perform an audit of the valid internal regulations and their updates or, where appropriate, introduce internal regulations setting out rules in areas currently unregulated.

The SAO considers it paramount that the NIMH set up an internal audit unit to evaluate all the internal regulations and start making improvements.

In the SAO's opinion, failing to carry out internal control work in the sense of the Act on Financial Control represents a serious systemic shortcoming and simultaneously a risk that the principles of effectiveness, efficiency and economy will not be complied with in the management of state property and finances.

The SAO continues to see considerable room for optimisation in the management of state property and finances. Here, too, the audit results point to equivalent shortcomings in the conduct of state institutions. The most common errors in 2018 concerned surplus real estate, uneconomical spending, and reducing the proceeds from lettings and the use of state real estate free of charge by third parties. Some cases are also an upshot of state authorities' insufficient work or failure to take responsibility for spending in line with the principles of effectiveness, efficiency and economy, even though the law⁸⁴ clearly requires this of them.

- In audit no **17/16** the SAO found that under the *Programme of Care for National Cultural Treasures* a total of **CZK 5 million** was spent on outputs that were not used. These included expositions which were being prepared but had to be dropped by the National Technical Museum because they were too complicated or not ready in time, and project documentation commissioned by the National Film Archive that went unused.
- In audit no **17/32** the SAO stated that the MoT and Roads and Motorways Directorate ("RMD") were ineffective at resolving issues of ownership of land beneath the motorway in Prague-Slivenec from the year 2000 to 2017. Consequently, the MoT paid more than **CZK 47 million** to the landowners on the grounds of unjustified state enrichment and court expenses over a **17-year period**. In the SAO's opinion, the money spent could have been much less if the ownership of the land had been resolved earlier. The SAO also found in 2009 that the Waterways Directorate ("WD") entered into a disadvantageous agreement with a commercial company on a settlement concerning payment for future extra costs associated with the operation of a siding⁸⁵ amounting to **CZK 36 million**. The WD subsequently refused to pay the agreed sum without good reason. It then lost the subsequent court cases and had to pay a further **CZK 64 million** in penalty interest, a contractual penalty and court costs. The SAO judged this procedure to be uneconomical.

⁸⁴ E.g. Act no 219/2000 Coll., on the property of the Czech Republic and its representation in legal relations, and Act no 218/2000 Coll., on the budgetary rules and amending certain related acts (the budgetary rules).

⁸⁵ The extra work is supposed to have been necessary for the company in connection with a project called *Reconstruction of a Rail Bridge on the Kolín – Nymburk Line km 298,866*, whose investor was the WD. The project was audited by the SAO in audit no 14/03 (audit report published in volume 4/2014 of the *SAO Bulletin*).

- The results of audit no **17/32** also showed that the MoT did not factor property with an acquisition price of over **CZK 10 million** into rents; it made this property, along with other kitchen and canteen equipment, available to the tenant and also set a much lower rent than the average rents according to the Czech Statistical Office: the monthly rent set by the MoT was **CZK 127.50/m²**, while the average rent for equivalent premises was **CZK 380/m²**. In seven cases the MoT did not increase the rent year-on-year in line with the consumer prices index, as agreed in the contracts.
- In audit no **18/02** the SAO audit found that the extent of MoD and ASCO real estate exceeds the requirements of the present-day Army, has an unsatisfactory structure and is in unsatisfactory condition, and is a needless burden on the state budget. The MoD was not using real estate worth over **CZK 6.5 billion** and the cost of managing this real estate was **CZK 32.5 million** in 2017 alone. Unused buildings in particular are consequently being neglected, and numerous such buildings are falling into disrepair. The MoD itself estimated that the overall state of neglect of its buildings amounted to a value of **CZK 13.4 billion**.
- In audit no **18/10** the SAO found that Military Forests and Estates of the Czech Republic (“MFE”) built a house at a cost of over **CZK 7 million** as accommodation for the director of the Karlovy Vary division. Given the purpose of the building, the costs were excessive, according to the SAO. Providing accommodation for an employee – even a senior employee – by building a house on a large plot of land goes far beyond the customary perks offered. The house with an area of 233 m² on land covering almost 2,600 m² was in sharp contrast to the housing of other management staff, which ranged from 25 m² to 54 m² of living space.

In response to the SAO’s recommendations from audit no **17/32**, the MoT and RMD are implementing measures to improve the unsatisfactory state of affairs in ownership issues. In the existing building permits the MoT states that it will only build on land which it owns or on which it has a contractual right to build etc. At the same time, the MoT is carrying out legislative work: in connection with an amendment of Act no 416/2009 Coll., for example, a situation where an investor builds on someone else’s land should not arise, partly because the amendment makes possible fast-track expropriation.

According to the SAO, it is essential that audited entities make the necessary changes to ensure that state property is used to perform the defined activities.

The SAO also focuses every year on assessing the drawdown of finances for selected items to cover costs, where it sees room for savings. The results of the SAO’s audit work in 2018 showed that there were again significant differences in unit prices for purchased services or comparable travel expenses between the selected audited entities.

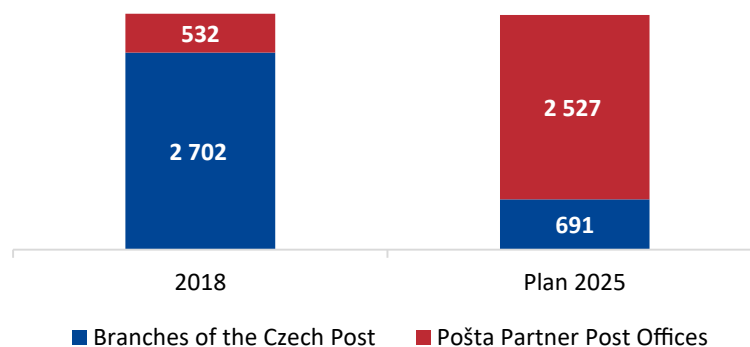
- In audit no **17/32** the SAO concluded from a comparison of unit costs that the Railways Inspectorate (“RI”) had **88% higher** average costs for foreign work trips than other audited state organisations. From 2015 to 2017 the WD had several times higher costs for legal services converted to one employee than the other audited state organisations: these costs per employee were **CZK 34,000** in the MoT, for example, and **CZK 153,000** in the WD. In 2017 the average monthly salary costs per employee grew **by 34%** from 2016 to 2017 in the WD. This increase was linked to the payment of bonuses from unused salary finances because 13 newly created jobs were not filled.
- The unit prices comparison which the SAO performed in audit no **17/33** at the Rail Track Administration (“RTA”) revealed that there were major differences in the prices of some identical items of work in projects awarded by various construction administration units: the price for assembling a “relay apparatus logic stands”, for example, ranged from **CZK 18,000 to CZK 105,000**.

In this aspect of financial management, in audit no 17/32 the SAO welcomed the fact that the MoT and WD had taken measures to eliminate the shortcomings identified in the previous audit no 13/33⁸⁶, mainly in areas leading to cost savings. The WD, for example, had managed to reduce operating costs, restrict the use of external contractors and move from privately owned premises into the MoT building.

In 2018, in audit no 17/27 targeting the financial management of Czech Post, state firm, the SAO again found that although Czech Post had made a profit in the audited period, there was a marked fall in profit from CZK 241 million in 2015 to CZK 78 million in 2017, with both revenues and costs falling. When assessing the economic efficiency of Czech Post, the SAO stated that the indicators for assessing economic efficiency had declined in the five-year period under scrutiny. Profits in 2017 were 31% down on the figure from 2013, mainly because of falling sales of postal services. The total number of complaints about services provided by Czech Post in 2017 increased by 11,000 year-on-year to a total of 66,000 complaints. The majority of the complaints (82%) concerned the delivery of postal consignments. What is alarming is that in this situation the MoI, as the founder of Czech Post, has not drawn up a long-term development concept and did not perform any control work at Czech Post in the audited period.

- In this audit the SAO also flagged up the risk that the savings envisaged from the *Pošta Partner* project, which is designed to transfer the majority of Czech Post establishments to contractual partners (municipalities, individuals and organisations) by 2025, will not be delivered. Partly because Czech Post had not drawn up a strategy for these transfers, it was not able to transfer the branches as originally envisaged so that the target of 691 Czech Post branches and 2,527 “post office partnerships” would be achieved in 2025 (see Chart 37). The SAO concluded that this state of affairs presented a risk that the project completion deadline would be missed, with a possible impact on the company’s finances resulting from the failure to achieve the expected savings.

Chart 37: Number of places of business of Czech Post and Partner post offices – plan and reality as at August 2, 2018



Source: Audit no 17/27; www.ceskaposta.cz.

- When deciding to relocate a branch in Opava from its own building into leased premises, Czech Post did not proceed in the most economical manner, as it worked entirely on the basis of its own rough estimates rather than expert opinions, analysis and research. What is more, Czech Post entered into a lease agreement that contained an unbalanced distribution of rights, obligations and penalties to its own detriment. The SAO also concluded that Czech Post was not proceeding effectively, efficiently and economically⁸⁷ in the use of managers’ own cars. Using a selected sample of 20 managers’ cars it found that almost 64% of the kilometres covered by these cars were for private purposes. The SAO regards that extent of using cars for private purposes as disproportionate.

⁸⁶ Audit report no 13/33 – *State property and funds allotted to the Ministry of Transport and its selected organisational units of the state* was published in volume 3/2014 of the SAO Bulletin.

⁸⁷ According to Act no 77/1997 Coll., on state firms.

Recommendations

Based on the identified and evaluated shortcomings, the SAO formulated a number of recommendations:

- **The MoI, together with Czech Post, should reassess the designated property so that it matches the specification in the founding deed and the actual requirements of the state firm;**
- **In collaboration with Czech Post, the MoI should update the state firm's founding documents in good time so that they correspond to the Act on State Firms and to reality;**
- **Czech Post should evaluate its economic activities so that profitability and economic efficiency are stabilised, partly with regard to the state's payments for the provision of basic postal services;**
- **Czech Post should draw up a uniform and comprehensive concept for the *Pošta Partner* project, with a precise timetable for transferring its branches to Partner post offices, including actual, measurable and assessable benefits and objectives.**

The SAO states that if the long-term and recurring shortcomings in this area are to be eliminated it is essential that the relevant state institutions make effective changes to the internal control systems that will ensure rigorous compliance with legislation on the care for state property and on the expenditure of state finances in line with the principles of effectiveness, efficiency and economy.

It is also necessary, in the SAO's view, for the audited entities to make the necessary changes that will:

- **improve the care for entrusted state property;**
- **ensure money is used to cover essential requirements;**
- **prevent the overuse of external services;**
- **make the performance of day-to-day activities more efficient and deliver savings in the related expenditure.**

5.2 Public procurement – low use of centralised procurement in state administration did not lead to cost savings or reduce the administrative burden

In its preceding annual reports for 2015 to 2017 the SAO repeatedly stated that it saw considerable room in public procurement for making the state more efficient. One of the most pressing problems in public procurement has been the excessive use of negotiated procedure without publication ("NPWP"), which restricts the competitive environment and poses a risk of wasteful spending of public money. The existence of this problem was again confirmed by the results of the SAO's audit and analysis work in 2018.

The SAO regards the frequent award of public contracts without open economic competition, either in the form of NPWP or buying directly from suppliers, as one of the key factors preventing cost-cutting in the state sector. The overuse of these non-competitive procedures, which often result in significantly higher prices, was confirmed by the results of the SAO's audits in 2018 looking at public contracts for the purchasing and operation of ICT and purchasing of medicines and medical equipment.

- In audit no **17/22** the SAO found that the MoLSA, having failed to re-award a contract for information systems for the disbursement of benefits by the end of 2016, ensured their operation in 2017 and 2018 by entering into another contract with the existing systems supplier under NPWP. However, the MoLSA failed to prove that the technical reasons were in place for such procedure and violated the principle of the discrimination ban. The SAO judged this to be a breach of budgetary discipline with a financial impact of as much as **CZK 500 million**. At the same time, the operation of the existing systems led to uneconomical spending, as Section II.4.1 shows.

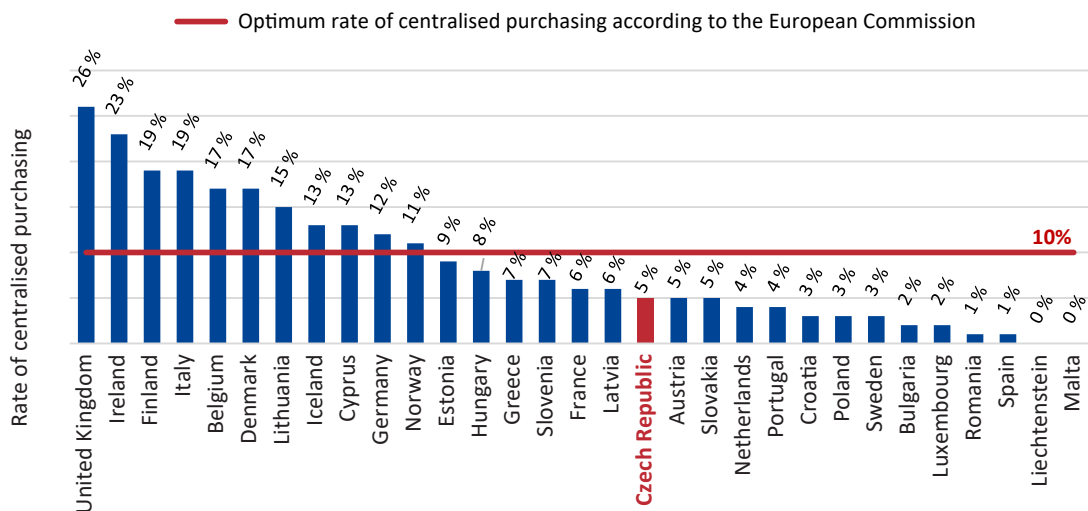
In the 2012–2017 period the MoLSA contracted out system integration services worth over **CZK 303 million** to a single contractor without a tender. The SAO concluded that the MoLSA moreover enabled a fundamental change in the rights and obligations stemming from the concluded contract and violated the discrimination ban. This resulted in an unauthorised use of **CZK 173 million**. In this audit, the SAO also compared unit prices for ICT work achieved in open tender and under NPWP. The comparison revealed that the prices of roles under contracts using open award procedures are significantly lower than the prices of roles under contracts awarded using NPWP. The contractual prices for the role of project manager under open award procedure ranged from **CZK 4,800 to 8,500** per man/day, but under NPWP they ranged from **CZK 14,300 to 24,860**.



- In the years 2014 to 2016, audited university hospitals that spent a total of **CZK 15.9 billion** on buying medicines and medical equipment made minimal use of award procedures as per the Act on Public Procurement⁸⁸, even though they are obliged to use them as public contracting organisations. They mostly bought directly from suppliers. The details of this non-transparent purchasing are presented in Section II.4.6 (audit no **17/19**).

The SAO followed up the issue of uneconomical spending of public money in the context of public contracts last year by scrutinising centralised award procedures. When these are correctly designed and used they can both deliver financial savings and cut bureaucracy and make purchasing processes efficient. International comparison shows that the use of centralised, or “cooperative”, procurement in the Czech Republic lags far behind the EU average. The European Commission regards **10%** as the optimum rate of centralised award procedures; the Czech Republic only achieved **5%** in 2017. This fact is best illustrated by Chart 38.

Chart 38: Rate of use of centralised procurement in selected European countries in 2017 (%)



Source: Public procurement in the EU according to the “cooperative procurement” indicator, accessible at: http://ec.europa.eu/internal_market/scoreboard/performance_per_policy_area/public_procurement/index_en.htm.

⁸⁸ Section 21 of Act no 137/2006 Coll., on public procurement, and Sections 2(3) and 3 of Act No. 134/2016 Coll., on public procurement.

In audit no 17/24 the SAO focused on two parallel systems of centralised procurement: the *ministerial systems of centralised public procurement of ministries* (“ministerial systems”), via which central state authorities have been buying commodities for the requirements of all organisations under a given ministry since 2012, and the *Central State Purchasing* (“CSP”) system introduced two years later for purchases for the whole state administration. In this audit the SAO concluded that the CSP was not working and was not delivering any savings even four years after launch. By contrast, the ministerial systems, which 16 central state authorities are obliged to introduce and use, is functional, in the SAO’s opinion, even though the expected potential was not fully exploited.

The correct working of centralised procurement is predicated on regular assessment. The only benefit of centralised procurement that was assessed was financial savings, but these figures were distorted. The reduction in administrative costs and greater efficiency of purchasing processes were not monitored and assessed for either the ministerial systems or the CSP. By contrast, savings are not quantified on the level of individual public contracts in other countries, where the benefits are evaluated comprehensively.

- It was originally expected that public contracts worth **CZK 45 billion** would be awarded every year through the ministerial systems, but in 2016⁸⁹ the figure was just **CZK 8.2 billion**⁹⁰. Even though this system was supposed to cut paperwork, the exemptions from commodities purchasing and the calculation of savings causes increased paperwork. Only one large public contract, for the purchase of office paper, had been awarded through the CSP system by the end of the audit.

The SAO sees the following as the reasons for the *Central State Purchasing* system’s failure:

- its use is voluntary, unlike the ministerial systems;
- the same commodities can be bought in both central procurement systems. In the case of the *office paper* commodity, for example, it turned out that the office paper bought as the only public contract awarded through CSP in 2016 and 2017 was worth **CZK 47 million**, i.e., the paper was more expensive than paper bought through ministerial systems;
- technical standards or standards for the functional properties of the commodities being purchased have not been approved, even though these are one of the necessary preconditions for the optimal working of CSP;
- there is no electronic CSP-support tool meeting the requirements of central procuring authorities, especially as regards the collating of requirements.

Software products purchasing which the MoI has performed for entities from the entire public administration since 2008 is an example of functional centralised procurement. These purchases allow small contracting organisations to obtain greater discounts, and support from the MoI makes it easier for them to award public contracts and cut administrative costs.

The SAO was unable to judge the degree to which centralised procurement is used in the Czech Republic from the data presented in the *Public Contracts Bulletin*, because the MoRD did not have the necessary data at its disposal, despite it being the administrator of the public contracts information system and the *Public Contracts Bulletin*. The SAO drew attention to the MoRD’s dependency on an information system contractor, known as vendor lock-in, in audit no 15/10⁹¹.

⁸⁹ Data for 2017 were not available during the audit.

⁹⁰ According to the *Report on the Assessment of the Departmental Systems of Centralised Procurement and Central Purchasing by the State for 2016* (also “2016 Assessment Report”). The report for 2017 had not been released by the end of the audit.

⁹¹ The audit report of audit no 15/10 – *Funds spent on the National Infrastructure for Electronic Public Procurement (NIZEP) and its utilisation for purchase of selected commodities* was published in volume 3/2016 of the *SAO Bulletin*.

Recommendations

Based on the shortcomings identified in centralised procurement, the SAO recommended that the existing design of the centralised procurement system should be reassessed; and in particular:

- attention should be focused on cutting administrative costs and evaluating non-financial benefits;
- the centralised procurement process should be fully digitised in line with central contracting organisations' requirements, including monitoring and evaluation of financial benefits;
- the extent of commodities whose purchasing is obligatory should be reassessed with regard to the benefits and negative impacts on centralised procurement.

If correctly designed and used, centralised procurement can both deliver financial savings and cut the administrative burden on the contracting organisations. The SAO points out that its use in the Czech Republic is far below the EU average.

In the field of public procurement, the SAO considers it important to draw attention to the persisting flouting of the legal rules and to incorrect procedures that fail to put in place the basic preconditions for delivering value for money. This mainly involved failing to put in place a sufficiently competitive environment in public procurement and the self-serving division of the subject of a public contract into multiple separate contracts so that they can subsequently be awarded as below-the-threshold contracts or small-scale contracts. This is borne out by examples from audits done in 2018:

- When scrutinising the award of public contracts with a total value of **CZK 731 million** for building projects to increase safety on level-crossings the SAO found that the public contracts were awarded in a low-competition environment. On average, three candidates took part in the tenders, which could have had a negative impact on the bid prices from the Rail Track Administration's point of view and could thus have resulted in wasteful spending on the projects. Wastefulness could have been caused by agreements between contractors before bids were submitted⁹², as the candidates' bid prices for certain projects were clearly derived from the selected candidate's bid price (audit no **17/33**).
- The selection of the supplier of rolling stock consequently did not take place in a sufficiently competitive environment. In six projects Czech Rail acquired 28 pieces of rolling stock for **CZK 4.3 billion**. The public contracts for the supply of this rolling stock were awarded in four award procedures, in each of which it selected suppliers on the basis of a single bid. The SAO concluded that proceeding in this manner did not verify the advantageousness of the price and delivery terms in a competition between multiple suppliers. This may have impacted on the economy of spending on the projects (audit no **17/35**).
- From 2014 to 2016 the State Health Department bought special medical material that was not part of a contract and from one and the same supplier. Instead of responding to the situation by holding an appropriate award procedure, it divided up public contracts worth from **CZK 11 million** to almost **CZK 15 million** into smaller-scale contracts. The SHD thus lost the chance of evaluating the economic advantageousness of other potential bids. The SHD also bought special medical material or servicing in the form of separate orders or contracts or addenda to contracts, without staging the appropriate award procedure pursuant to the Act on Public Procurement⁹³. The SAO judged the SHD's actions to be a breach of budgetary discipline with a value of at least **CZK 56 million** (audit no **17/13**).

The failure to comply with the legally prescribed procedures and to make use of a competitive environment in public procurement has a negative impact on achieving economically advantageous contracts throughout their life cycle.

⁹² Prohibited agreements prior to the submission of bids, known as bid-rigging.

⁹³ Act no 137/2006 Coll., on public procurement.

Reliability and completeness of data on public procurement

The Act on Public Procurement obliges organisations awarding public contracts to publish information (e.g. the outcome of the award procedure) in the *Public Contracts Bulletin* (“PC Bulletin”) and on the contracting organisation’s website. The contracting organisation sends this information to the PC Bulletin using an electronic form, in which it fills in the required information.

The Act on Public Procurement provides that the PC Bulletin is part of the public contracts information system; in technological terms, however, it takes the form of a separate module with its own database and is operated by a different operator. The public contracts information system is a public administration information system which the MoRD is responsible for administering. The MoRD does not possess a dataset of public contracts corresponding to the data published in the PC Bulletin. The PC Bulletin operator is obliged to pass on information published in the public contracts information system database for further use. The MoRD processes these data for statistical purposes and uses them to draw up annual reports on the state of public contracts in the Czech Republic. The MoRD provides selected data from the public contracts information system as open data.

In the field of public procurement, the SAO also systematically monitors and evaluates changes in the volume and structure of contracts as well as scrutinising individual contracts awarded by the state. This analytical work is essential both for effective planning of audit work and for the performance of audit and documenting the actual state of the activities under scrutiny.

The SAO draws attention to long-standing and persisting shortcomings linked to the poor quality of data and information on public contracts. In its audit and analytical work, the SAO repeatedly has to contend with unreliable and incomplete data in THE public contracts information system and open data from the public contracts information system.

The SAO has identified the following fundamental problems:

- **There are no control mechanisms in place for verifying the accuracy of the data entered in the PC Bulletin, which makes it possible for contracting organisations to enter nonsensical financial values and other data or not fill them in at all.**
- **There are discrepancies between the data in the PC Bulletin website and the public contracts information system; these discrepancies arise when data are transferred from the bulletin to the information system.**
- **The poor reliability of open data is negatively affected by the poor-quality data from the public contracts information system from which the open data are provided.**
- **The MoRD accesses the public procurement data in the public contracts information system via pre-defined reports; the MoRD can only get access to all data on public contracts in the information system by paying a fee.**
- **Numerous errors and confusion in the data are caused by the inappropriately regulated form of publication; this applies to the publication of master agreements, for example, addenda or generally weak supervision over contracting organisations’ profiles.**

These problems are documented by the following SAO findings:

- In audit no **15/10** scrutinising the *National Infrastructure for Electronic Public Procurement* (“NIEPP”), it was found that there are differences between the information published by contracting organisations in the PC Bulletin and that stated on public contracts information system forms. These differences arise when data are transferred from the PC Bulletin to the public contracts information system, as the MoRD created them as two technologically separate systems, even though the PC Bulletin is supposed to be one of the public contracts information system modules under the Act on Public Procurement. Other discrepancies arise when data are entered by contracting organisations in the PC Bulletin, as there are no control mechanisms for verifying the entered data. One of the identified discrepancies between the data was inaccurate values for the overall final value of a public contract (the decimal point

was moved two places in the case of several public contracts), but also different CPV codes, different currencies etc. The SAO also detected that there were distorted data in the MoRD's outputs based on erroneous data (e.g. in the *Electronisation Strategy for 2016 to 2020*, it used data from the *Annual Report on the State of Public Contracts in the Czech Republic for 2014*, even though it knew that these data were distorted because forms had been wrongly uploaded into the public contracts information system).

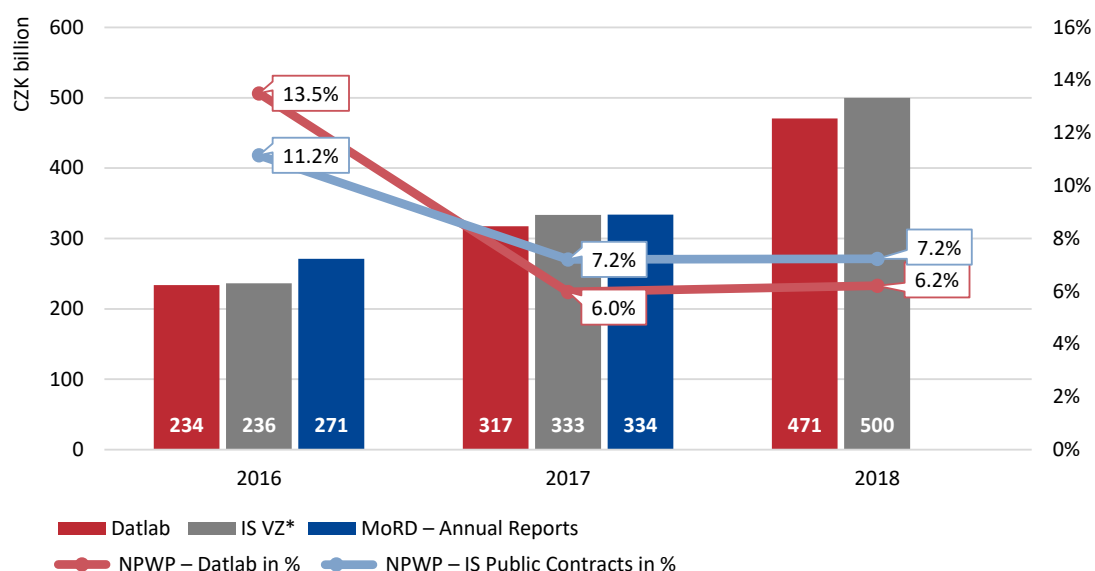
- In audit no **17/24** the SAO was unable to use data from the public contracts information system to verify data presented in MoRD outputs concerning the degree of use of centralised procurement for purchasing various commodities, because some key data are not transferred from the PC Bulletin into the information system, even though contracting organisations fill them in on the forms published in the PC Bulletin (e.g. information about the conclusion of master agreements, on sub-contracts under master agreements and, last but not least, on the fact that a contract was awarded by a central contracting organisation). Even though the MoRD is the administrator of the public contracts information system that should contain data from the PC Bulletin and make them accessible to the general public, the MoRD can only gain access to all the data on public contracts in aggregated form by paying a fee. Providing data from the PC Bulletin for determining the degree to which centralised procurement is used would require paying approx. **CZK 150,000** to the external contractor, according to the MoRD.

In its analytical work the SAO found that open data on public contracts contain incorrect or incomplete values, which hinders their further use.

- E.g. open data as at February 4, 2019 contained below-the-threshold public contract no Z2016-001986, with the final value of the contract stated as **CZK 7.4 trillion** (not incl. VAT), even though a final value of **CZK 3.6 million** (not incl. VAT) is given in another part of the form.
- Some forms published on the PC Bulletin website are not in the information system at all (or in the open data). E.g. the PC Bulletin website shows a form (form F03) for notifying the award of public contract no 522014 with a final contract value of **CZK 29.7 million**, but this form is not present in the information system.
- In open data there are differences from the PC Bulletin as regards the sending date of forms as well, e.g. in the case of contract no Z2016-000733 (form F2016-003214).

The SAO compared the aggregate information on the volumes of public contracts from open data from the public contracts information system and information published by the MoRD in annual reports, the source of which is also data from the information system, with data from the firm Datlab⁹⁴, which acquires information and processes it more comprehensively from the forms published in the PC Bulletin and metadata from the contracting organisations' profiles. When purging prices, it takes into consideration more than ten variables – it compares amounts with and without VAT, expected prices, prices per part etc. It detects and purges unit prices, the implementation of master agreements and purchasing in dynamic purchasing systems. The result is an estimate of the amount actually spent that is more robust than the mere bid price registered in the PC Bulletin. Given the findings of audits concerning the information infrastructure for public contracts (NIEPP), the SAO regarded the Datlab data as reliable and suitable for verifying the data provided by the MoRD from the public contracts information system. The results of the comparison for public contracts awarded by all contracting organisations in total for 2016 to 2018 are shown in Chart 39.

⁹⁴ Datlab operates the VsechnyZakazky.cz website, that provides information about all awarded public contracts in the Czech Republic. Datlab also processes data on public contracts throughout the EU. The European Commission holds up its methodology as an example to Member States.

Chart 39: Volume and share of public contracts awarded under NPWP compared to the total number of public contracts awarded by all contracting organisations in 2016–2018

Source: Datlab data model, open data from the public contracts information system, information from MoRD annual reports on public procurement for 2016 and 2017.

* Public contracts information system report – according to the form send date to PC Bulletin; others according to the award date of the public contract.

The chart shows a marked year-on-year fall in the volume of contracts awarded under NPWP between 2016 and 2017. In reality, though, the actual reduction in the share of public contracts awarded through NPWP need not have occurred, not even following the change in the legislation in 2016. The change in the law resulted in a change to the forms contracting organisations fill in in the PC Bulletin. **Their new design and, in particular, the conversion of these forms into data does not make it possible to identify extra work commissioned under Section 222 of the Act on Public Procurement; according to an analysis by Datlab, this extra work was worth at least CZK 7 billion in 2018. Realistically, however, a much greater volume of extra work can be expected, because some types of contract addenda are now not published at all.** This risk works against the positive developments in the reduction in the use of NPWP. The facts presented above point to enduring risks that public contracts statistics in the public contracts information system will be distorted.

Although these forms reflect the requirements of the European Union, the ministry was given enough leeway to make its own adjustments to their design, to create control mechanisms and to adopt other measures that would result in high-quality data outputs, and thus the effective use of information on public contracts. The forms were not improved.

The comparison results show a difference in the total values obtained from open data of the public contracts information system, information published by the MoRD in annual reports on public procurement (for 2016 and 2017) and the Datlab information from the PC Bulletin and profiles as well. These differences amount to billions of koruna and cannot be viewed as insignificant. In its annual report the MoRD stated that it performs manual corrections of contracts registered in the information system (values, identification of the contracting organisation). There is always a risk attached to frequent manual alterations, and unsystematic manual corrections are moreover a substantial hindrance to follow-up analysis and audit work. Input control mechanisms must therefore be put in place to make it possible to prevent forms being wrongly filled in by contracting organisations.

The unknown methodology governing these manual interventions, the need to purge data sufficiently of evident errors and add missing information, and the absence of certain key fields also result in very poor quality open data on public contracts. The MoRD's analysis work can be described as a "black box": it is practically impossible to verify even utterly elementary information on public procurement.

The MoRD is the administrator of the public contracts information system, part of which is by law the PC Bulletin. The MoRD has got itself into a situation where it is dependent on the information system contractor and its only access to data in the PC Bulletin is via the forms published on the PC Bulletin website. Consequently, it is not easy to ascertain the exact difference between data in the PC Bulletin and the information system or whether any aggregated data from the information system can be regarded as definitive and, if so, what data. The SAO points out that the public contracts information system does not provide reliable and relevant information for users. Having poor-quality open data on public contracts is pointless.

5.3 Management of funds provided to the Czech Republic from abroad – compliance with the n+3 rule in all operational programmes

In 2018 the SAO completed five audits that were mainly devoted to the management of funds provided to the Czech Republic from abroad.

In one case, the audit (KA č. [17/25](#)) targeted support provided from the financial mechanisms of the European Economic Area and Norway; the other four scrutinised funds provided to the Czech Republic from the EU budget. These audits focused on:

- measures to improve energy efficiency under Operational Programme *Enterprise and Innovation for Competitiveness 2014–2020* (audit no [17/23](#));
- the *Cooperation* measure under the *Rural Development Programme of the Czech Republic for 2014–2020* (audit no [17/26](#));
- the repair, modernisation and development of the 2nd and 3rd class roads network in selected regions co-funded out of EU and national finances (audit no [17/09](#));
- measures to improve air quality under OP *Environment* (audit no [18/04](#)).

In line with these audits' priority focus on various expenditure areas of Government policy, the results of these audits, with the exception of audit no [17/25](#), were assessed in the previous sections of this annual report (Section II.4). This section mainly deals with systemic shortcomings and risks concerning the management and control system for funds provided to the Czech Republic out of the EU budget.

In terms of the use of funds provided to the Czech Republic from the EU budget, the past years were influenced by a relatively long delay in the drawdown of the allocation, which was still palpable in 2017, especially when comparing the figures reported for comparable segments of the 2007–2013 and 2014–2020 programming periods, when the Czech Republic was doing worse in the new programming period. In 2018, however, direct comparison of the current programming period with the same segments of the 2007–2013 programming period enables the SAO to state that the implementing authorities gradually managed to overcome the initial delay and speed up the utilisation of the allocation from the European Structural and Investment Funds (ESIF) – especially in terms of the volume of finances in payment applications sent to the Commission (see Table 4).

Even so, the current equalling of the allocation drawdown level with that of the previous programming period does not rule out the risk of a repetition of the situation from 2015, i.e. the final year of eligibility for 2007–2013 programming period expenditure when almost a quarter of the entire allocation remained unutilised. Hectic drawdown obviously brings an increased risk of errors and less emphasis on projects' outcomes or benefits⁹⁵.

⁹⁵ See ECA Special Report 17/2018 – *Commission's and Member States' Actions in the last years of the 2007–2013 programmes tackled low absorption but had insufficient focus on results*, published on 13 September 2018.

Table 4: Comparison of relative figures characterising allocation drawdown in the corresponding segments of the 2007–2013 and 2014–2020 programming periods

Period	Approved projects / global grants	Funds paid to beneficiaries	Funds submitted for certification	Certified funds submitted to the Commission	Period	Funds in legal documents on provision/transfer of support	Funds in paid payment applications	Funds billed in payment applications	Funds in interim payment applicants sent to the Commission
XII. 2010	55.4	26.2	12.2	11.4	XII. 2017	47.1	16.3	12.2	11
VI. 2011	65.3	32.3	21.2	13.7	VI. 2018	57.6	22.0	16.9	13
X. 2011	70.0	36.6	23.7	14.9	X. 2018	64.4	27.4	22.1	18
XII. 2011	70.5	38.6	24.3	17.4	XII. 2018	67.1	31.8	25.7	25

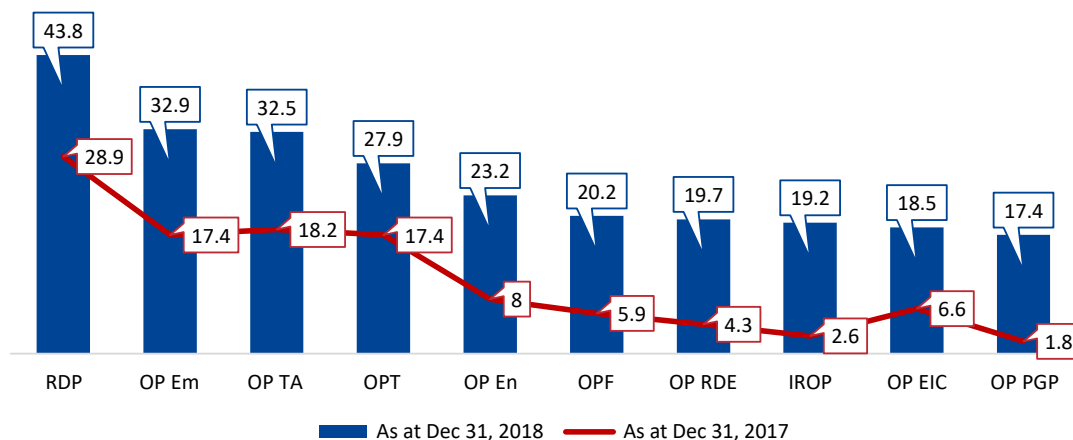
Source: MoRD monthly monitoring report for the 2007–2013 programming period, December 2011; MoRD monthly monitoring report for the 2014–2020 programming period, December 2018. Graphic representation by the SAO.

A comparison of the Czech Republic with other EU Member States at the end of 2018 is less flattering in certain areas. In terms of total interim utilisation of the ESIF allocation (including “pre-financing payments”), the Czech Republic was in **21st** place with a drawdown of approx. **25%**, and the loss of approx. **2.5** percentage points behind the EU average. The Member States in 16th–17th place currently represent the Member State average (United Kingdom and Latvia). The Czech Republic’s position as at 30 September 2018 was even worse in terms of the total volume of funds covered by a subsidy provision decision (or other legal document) correlated to the size of the ESIF allocation. Here the Czech Republic was in **22nd** place, seven places behind the EU average.

2018 was the first year of the 2014–2020 programming period when the n+3 rule had to be complied with at the level of all operational programmes. All the managing authorities complied with the n+3 rule limit at the end of 2018. That means that the entire allocation of 2014 and 2015 had been successfully drawn down, so the Czech Republic will not lose any ESIF funding in that year and can continue to use Union funds to support its regions. In total, payment applications worth more than €5.6 billion were sent to the European Commission by the end of 2018, which fulfilled the n+3 drawdown limit. The operational programmes that best complied with the n+3 rule were the RDP, OP Emp and OP TA. To give a clear picture, in Chart 40 we present a comparison of the financial progress achieved in 2018 compared to 2017. It is clear from the chart that the RDP and IROP achieved the highest percentage increase in drawdown in 2018.

The Czech Republic can utilise almost **CZK 583 billion** (main allocation) for the 2014–2020 programming period. Projects worth more than **CZK 391 billion (67.1%** of the allocation) had been approved by the end of 2018. By the same date, expenditure exceeding **CZK 185 billion (31.8%** of the allocation) had been reimbursed to beneficiaries.

Chart 40: Comparison of the drawdown of EU funds in the 2014–2020 programming period in interim payment applications sent to the European Commission (%)



Source: MoRD monthly monitoring report for the 2014–2020 programming period, December 2018.

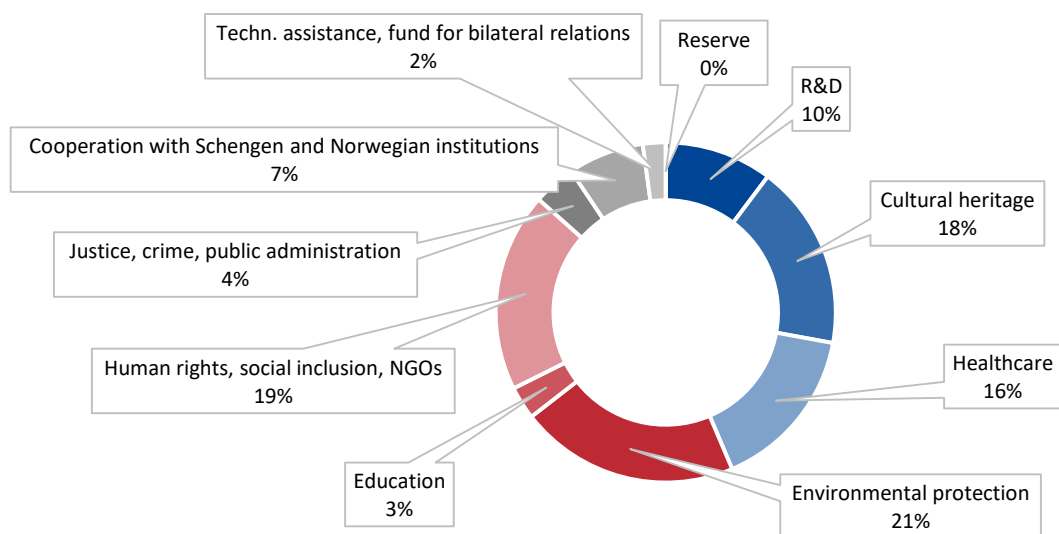
NB: The data apply to the main allocation of a programme in the 2014–2020 programming period, i.e. without the performance reserve.

Despite the n+3 rule being complied with, the state of progress towards the “milestones” as at December 31, 2018 remained a risk. Failure to reach the milestones defined for the Czech Republic for 2018 could result in the Czech Republic not being awarded the “performance reserve”, which on average amounts to 6% of the total allocation, which could lead to a loss of up to CZK 36.2 billion.

In 2018 the SAO completed audit no 17/25 focusing on the support the Czech Republic obtained from 2011 to 2017 under the financial mechanisms of the European Economic Area and Norway (EEA+N). The aim of the support was to reduce economic disparities in the EEA and strengthen ties between the participating countries (Kingdom of Norway, Iceland and Principality of Liechtenstein). The Czech Republic received CZK 3.2 billion under this support in the 2009–2014 programming period. The SAO audit showed that the Czech Republic had managed to utilise almost 91% of the allocated funds by the end of 2017. When scrutinising the implementation system and progress towards the programmes’ goals, however, the SAO was compelled to state that the efficiency of the EEA+N financial mechanisms implementation structure in the Czech Republic was poor and the preparations for drawing down funds took a long time.

- Support from the EEA+N financial mechanisms was provided for a whole series of areas (see Chart 41) and distributed via a large number of 15 thematically targeted programmes, under which 894 diverse projects were executed. The quantity of programmes and the 19 entities involved in them made this system complicated, thematically fragmented and administratively demanding. Yet over 60% of the allocation was divided up between just four programmes. The remaining programmes, by contrast, included those that comprised just one project.
- As regards the goals of the programmes, the SAO found that achievement of the goals could not be demonstrated in 11 of the 14 audited programmes. It was not clear what was supposed to be achieved with the money, as the formulation of goals and the assigned monitoring indicators provided no quantitative or otherwise detailed feedback. The set goals were merely general declarations without measurable criteria, such as “a fairer and more effective judicial system” etc.

The implementation structure of the European Economic Area and Norway financial mechanisms in the Czech Republic was needlessly complicated and administratively demanding in the 2009–2014 programming period.

Chart 41: Areas supported in the 2009–2014 programming period

Source: Memorandum of understanding on the implementation of the EEA and Norway financial mechanisms for 2009–2014.

The results of audit no 17/25 pointed to general problems linked to setting goals for programmes, where it is very hard or impossible to evaluate them. Sustainability also proved to be problematic and highly risky, as the support provider did not perform any checks of projects' sustainability. The SAO had drawn attention to these facts previously (e.g. in audit no 15/06).

Management of funds from abroad and support for eligible enterprises

In its systematic audit work the SAO scrutinises the design, functionality and effectiveness of the management and control systems for individual programmes; in doing so, it assesses the application/project selection and approval process, i.e. decision-making on the provision of support, among other things. It pays attention to the procedures designed to ensure that support is channelled to those applicants who satisfy the defined subsidy conditions and are eligible – this includes the issue of possible conflicts of interests. Specifically, the SAO assesses the processes for verifying the size of an enterprise/applicant, its ownership structure, whether enterprises are connected etc.

One fundamental problem of possible conflicts of interests is identifying the link between specific transactions (projects) and interest groups and bearers of public authority. At present, complicated and confusing ownership and capital links do not permit a systematic approach to judging possible conflicts of interests and it depends entirely on randomly acquired information whether it is verified ad hoc that management and control systems in this area are functional.

When checking the eligibility of applicants, which encompasses the conflict of interests issue, the SAO found the following:

- **The size of an enterprise and its ownership structure were often proven merely by means of sworn statements by applicants, without any verification procedures taking place.**
- **Programmes claiming to support small and medium-sized enterprises actually supported large enterprises generating significant profits, so the support might have been unnecessary.**
- **Some decision-making processes were encumbered by an insufficient audit trail, meaning that they could not be rigorously verified after the fact and were not transparent.**

In its audits (audits nos. **14/26**⁹⁶, **16/01**⁹⁷, **17/06**⁹⁸, **17/23** and **17/26**) the SAO flagged up a number of the aforementioned serious shortcomings, some of which were dealt with in the past while a number of them persist:

- When checking the size of an enterprise and its ownership and property structure, the MoIT, MoA and SAIF relied on sworn statements, even though the size of an enterprise had a considerable impact on the amount of support awarded (audit no **16/01**). With no way of checking this, there was a risk that the support would be provided to an ineligible enterprise. By the end of 2017, for example, the MoIT had not defined a detailed procedure for fully uncovering the ownership structures of support applicants when assessing the size of enterprises. In one case the MoIT, before paying the subsidy, received a complaint expressing a suspicion that the applicant was not a medium-sized enterprise, as it had declared, but a large enterprise. The MoIT did not investigate this suspicion, even though the support for large enterprises was **10% lower**.
- In the case of agricultural subsidies, the MoA advantaged large firms, especially for expensive projects, for which the MoA put in place simpler conditions for acquiring subsidies than for small projects carried out by micro-firms, small or medium-sized enterprises. Subsidies worth millions of koruna are provided to large firms, even though their profits run into the hundreds or tens of millions of koruna and they rank among the main private food industry and agricultural companies in the Czech Republic. In the *Cooperation* measure, for example, specifically sub-measure 16.2.2 funded out of the RDP 2014–2020, as much as **70%** of the subsidy beneficiaries were large firms that were often drawing down subsidies repeatedly, with the amounts running into the tens to hundreds of million koruna per year. Little support and few advantages are provided to micro, small and medium-sized enterprises.

To conclude, it can be said that the SAO has long paid attention to the issue of conflicts of interests and the eligibility of applicants/beneficiaries, but the subsidies audited to date were not covered by the newly adopted Regulation (EU, Euratom) 2018/1046⁹⁹ of the European Parliament and of the Council, applicable since August 2, 2018 and devoted to the issue of assessing eligibility for European subsidies in entities whose position may put them in conflict with the European Union's financial interests. The SAO drew attention to numerous shortcomings, some of which were eliminated and some of which persist.

In line with the requirements of the new financial regulation, the Czech Republic should apply new rules and take suitable measures to prevent conflicts of interests. The European Commission began checking the Czech Republic's compliance with the rules for assessing conflicts of interests at the end of 2018 in response to a notification filed by Transparency International of the Czech Republic. Auditors should check whether the rules were broken when European subsidies were being drawn down and whether any of the subsidy beneficiaries were in a conflict of interests with the EU's financial interests.

⁹⁶ Audit report no 14/26 – *Funds spent on the projects of the Rural Development Programme* was published in volume 2/2015 of the *SAO Bulletin*.

⁹⁷ Audit report no 16/01 – *EU and state budget funds earmarked for financing of interventions within the Operational Programme Enterprise and Innovation with the focus on the fulfilment of objectives* was published in volume 1/2017 of the *SAO Bulletin*.

⁹⁸ Audit report no 17/06 – *EU and state budget funds spent on forestry support* was published in volume 1/2018 of the *SAO Bulletin*.

⁹⁹ Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) no 1296/2013, (EU) no 1301/2013, (EU) no 1303/2013, (EU) no 1304/2013, (EU) no 1309/2013, (EU) no 1316/2013, (EU) no 223/2014 and (EU) no 283/2014 and Decision no 541/2014/EU and repealing Regulation (EU, Euratom) no 966/2012.

6. SAO opinions on the state's financial reporting

6.1 Opinion on the Draft State Closing Account

In 2018 the SAO gave its opinion on the accuracy of reported data¹⁰⁰ in its *Opinion on the Draft State Closing Account of the Czech Republic for 2017*, i.e. its opinion on the completeness and accuracy of the state budget revenues and expenditure reported in the draft SCA.

The main tool used by the SAO for checking the figures is financial audit, which systematically scrutinises the closing accounts of state budget chapters, data submitted for assessing the implementation of the state budget in terms of classification by budgetary composition and data in financial statements. In addition, the method of comparing SCA data with the relevant budget and accounting information systems is used and the internal consistency of components of the draft SCA and evaluation reports is checked.

The SAO expressed the opinion that the data¹⁰¹ contained in the draft SCA for 2017 can be considered accurate¹⁰². However, the SAO has long drawn attention to the fact that closing accounts make minimal use of accrual-based data from financial statements. Given that accrual-based data provide very meaningful information about state budget chapters, the SAO considers it appropriate that the relevant legal regulations place greater emphasis on the use of these data in closing accounts.

6.2 Opinions on the state's financial reporting

The purpose of regularly scrutinising the state's financial reporting is to obtain and present information about its reliability, which makes it possible to boost users' confidence in this information and also help ensure the information is accurate. Accounting units use the financial information to draw up accounts on their financial management, and the data are supposed to be used for monitoring and managing public finances. The utility of this information depends on its reliability, however. For that reason, the SAO devotes part of its capacity to financial audit so that it can check the reliability of financial statements and data for assessing implementation of the budget and closing accounts.

In 2018 the SAO completed the following three financial audits:

- Audit no **17/18** – Closing account of the state budget chapter of the Ministry of the Environment for the year 2016, the financial statements and data for 2016 and data for 2016 submitted for the assessment of fulfilment of the state budget 2016;
- Audit no **17/30** – Closing account of the state budget chapter of the Ministry of Defence for the year 2017, the financial statements and data for 2017 and data for 2017 submitted for the assessment of fulfilment of the state budget 2017;
- Audit no **17/31** – Closing account of the state budget chapter of the Ministry of Agriculture for the year 2017, the financial statements and data for 2017 and data for 2017 submitted for the assessment of fulfilment of the state budget 2017.

Audit results with regard to financial statements

The focus of attention in financial audit is accounting and the compilation of financial statements. The SAO checked whether the audited entities kept their accounts in a manner ensuring that the financial statements they underpin give a true and fair view of the subject of accounting.

¹⁰⁰ These are data presented in books G and H of the draft SCA.

¹⁰¹ I.e. data presented in books G and H of the draft SCA 2017.

¹⁰² For more on the opinion on the accuracy of SCA data see www.nku.cz/assets/publikace-a-dokumenty/stanoviska-nku-ke-statnimu-rozpoctu/stanovisko-k-szu-2017.pdf.

Table 5: Results of financial audits with regard to financial statements (CZK billion)

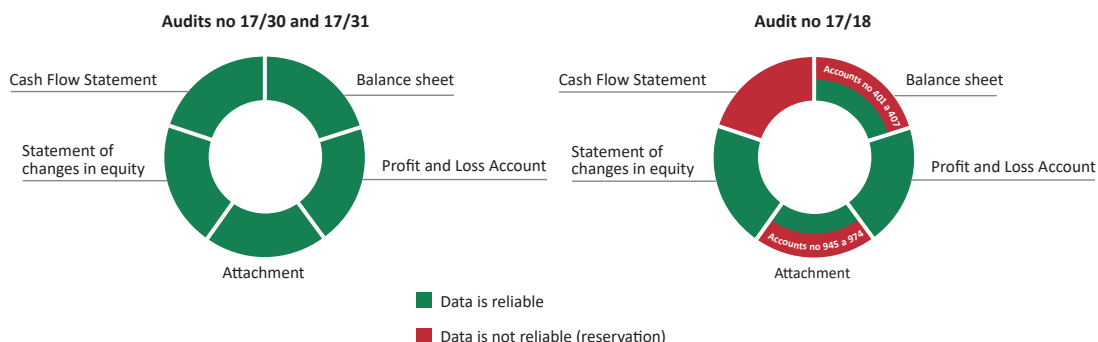
Audit no	Audited entity	Type of financial audit ¹⁰³	Audited volume			Quantified inaccuracies	Key inaccuracies	Corrected errors (interim audit)	Opinion on financial statements
			Net assets	Costs	Revenues				
17/18	MoE	Ex post	13.745	20.909	18.162	1.698	<ul style="list-style-type: none"> • Incorrect valuation of greenhouse gas emission allowances (CZK 0.518 billion) • Failure to account for contingent receivables from received security (CZK 0.727 billion) • Failure to account for contingent liabilities from contracts (CZK 0.229 billion). 	x	Opinion with reservation owing to significant misstatements
17/30	MoD	Interim	131.212	53.694	5.967	0.405	<ul style="list-style-type: none"> • Incorrect accruing of revenues from sale of surplus aircraft (CZK 0.149 billion) • Incorrect accounting for building renovation (CZK 0.054 billion) • Incorrect accruing of costs (CZK 0.026 billion). 	3.000	Unmodified (affirmative) statement
17/31	MoA	Interim	19.921	47.067	33.063	0.000	x	1.600	Unmodified (affirmative) statement
Total	x	x	164.878	121.670	57.192	2.103	x	4.600	x

Source: audit reports from the audits.

The audit results showed that in two cases the SAO issued an affirmative statement on the financial statements, but in one case significant misstatements were found, leading to a statement with reservation being issued (see Chart 42). It also became clear that financial audits commenced during the audited period (interim audit, when the audited entities have the chance to correct most of the identified misstatements before compiling their financial statements) led to a significant reduction in the error rate in financial statements and thus also to greater reliability of the information presented.

¹⁰³ Ex post financial audit scrutinises data from issued annual financial statements; interim financial audit starts before the accounts are closed and financial statements issued.

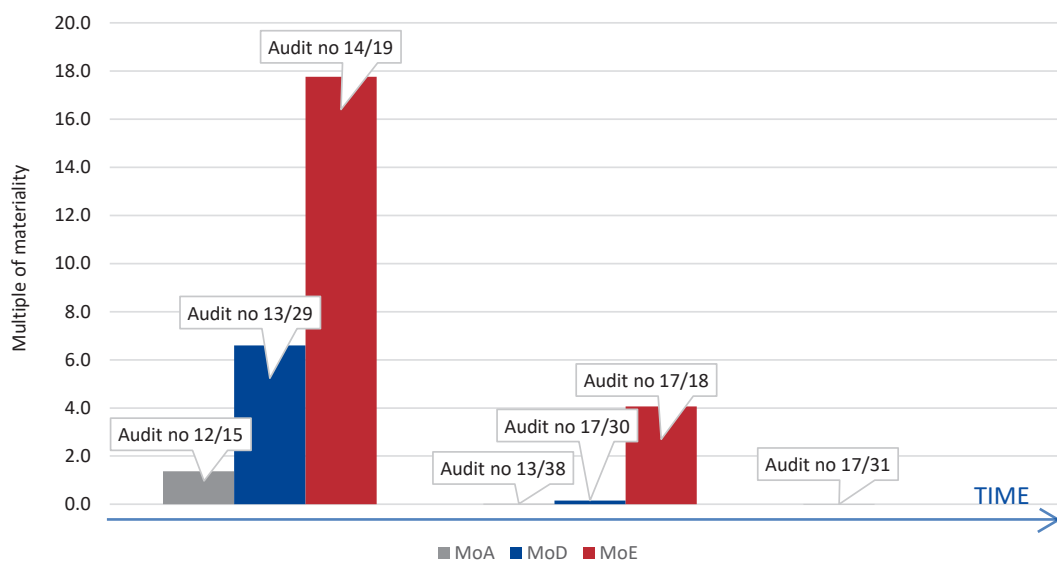
Chart 42: Opinions on financial statements issued as part of audits nos. 17/18, 17/30 and 17/31



Source: Information from audit reports.

It is also fair to say that systematically repeated SAO audits contribute to greater reliability of the reported data, which has a positive impact on the informational value of data in financial statements of specific audited accounting units and also on the utility of consolidated accounting statements for the Czech Republic. This conclusion is demonstrated by the following Chart 43, which presents an assessment of the inaccuracies identified in financial audits done at the aforesaid audited entities over time and with regard to the materiality¹⁰⁴ stipulated for assessing the reliability of financial statements.

Chart 43: Development of inaccuracies with regard to materiality in audited entities over time



Source: Audit reports.

¹⁰⁴ Materiality (i.e. the value of inaccuracies that can reasonably be expected to influence, either individually or in aggregate, economic decision-making by users of financial statements) is the criterion used to assess the reliability of financial statements. In line with good practice, this is usually set at approx. 2% of the value that best represents the character of the accounting unit. This can be assets or total costs, for example.

Results of audits with regard to financial reporting

As part of its financial audit work, the SAO also scrutinises data for assessing the implementation of the state budget and the financial statements compiled from them.

Table 6: Results of financial audits with regard to financial reporting (CZK billion)

Audit no	Audited entity	Type of financial audit	Audited volume		Quantified inaccuracies	Key inaccuracies	Corrected errors (interim audit)
			Revenues	Expenditure			
17/18	MoE	Ex post	3.964	1.965	0.081	Misclassification of revenues and expenditure	x
17/30	MoD	Interim	1.071	2.702	0.116	Misclassification of revenues and expenditure	0.000
17/31	MoA	Interim	9.544	9.475	0.013	Misclassification of revenues and expenditure	0.100
Total	x	x	14.579	14.142	0.210	x	0.100

Source: Audit reports.

The table shows no significant inaccuracies were found in the audited financial reports. This influenced the SAO's opinion on the draft SCA for 2017 (see Section II.6.1).

Audit results with regard to closing accounts of budget chapters

Scrutiny of the covering reports accompanying the audited closing accounts revealed isolated shortcomings concerning a failure to present some of the information required by the legal regulations. No significant inaccuracies were found in numerical sets and table annexes containing data from financial statements.

In its audits of closing accounts, the SAO repeatedly mentioned that more use should be made of accrual-based data, including their use for drawing up closing accounts, and presented a comparison of certain accrual-based and cash-based data (audits nos. 17/18, 17/31). In the case of audit no 17/18 done at the MoE, for example, the SAO stated that the resulting balance calculated on cash-based data from 2016 represented a surplus of CZK 8.6 billion according to financial statements, while the result according to the profit/loss statement was a loss of CZK 2.7 billion.

This cash-based surplus was influenced by significant MoE revenues from the sale of emission allowances; no cash expenditure was linked to them. Emission allowances are a specific asset acquired by the MoE at no cost. Some of them generate subsequent revenues from sale, but a considerable amount is distributed free of charge to operators. Costs from this freely acquired asset are reported in the profit/loss statement compiled on an accrual basis; these freely acquired and divested allowances bring no other revenues or data. When allowances are sold, the costs of discarding them are reported, as well as revenues and proceeds from their sale. The costs of all these operations were consequently much higher than the related proceeds.

In audit report no 17/18 the SAO stated that the accounting regulations do not distinguish between reporting emissions allowances as state property at the MoE accounting entity or at the operator accounting entity, even though it is clear that emission allowances fulfil a different function at the MoE than at operators. If this asset was accounted for with respect to its function in the given accounting entity, it would be possible to report it differently in financial statements.

The audit reports from audits nos. **17/18**, **17/30** and **17/31** were discussed by the Czech Government in 2018. The statements of the audited entities in response to the audit reports revealed an endeavour to eliminate the identified shortcomings; the audited ministries reacted to all the shortcomings presented in the audit reports.

6.3 Promoting good accounting and audit practice

By its very nature, the SAO is not only an audit institution but also a professional institution. It has been involved in international standardisation for accounting and the possibility of using internationally recognized good reporting practice in the public sector of the Czech Republic. In 2018, it provided a translation of the International Public Sector Accounting Standards (IPSAS) handbook. This work, carried out under an agreement with the International Federation of Accountants (IFAC), involved experts from the SAO, experts from the academic sphere (Prague University of Economics), the MoF, and other professional institutions. The translation of IPSAS is freely available on the SAO website¹⁰⁵, helping promote good practice, including training of future experts. In 2018, the SAO held a conference in Prague marking the publication of the IPSAS handbook.

In 2018 the SAO conducted audit no **17/36** to check whether the public finances reform was prepared and executed in a way ensuring that reliable and usable information is reported on the economic situation of the state and accounting entities that are state organisational units and their contributory organisations.

Based on its findings from this audit, the SAO recommended that the MoF:

- **make use of accrual-based accounting information when compiling the state budget, closing accounts of state budget chapters and the state closing account;**
- **formulate general foundations for the state's accounting (what the purpose and goal of accounting are, how to achieve these goals and who the financial statements will be used by) and define certain key components (assets, liabilities, costs, revenues);**
- **tighten up ambiguous or insufficiently regulated areas of the accounting regulations (reporting final corrections¹⁰⁶, state ownership interests in commercial corporations¹⁰⁷ and greenhouse gas emission allowances¹⁰⁸);**
- **conduct a review, in collaboration with the Czech Statistical Office, of the "auxiliary analytical overview" report in order to rationalise it and reduce the number of reported facts;**
- **publish accounting statements for the Czech Republic in the same place as accounting information for state organisations and contributory organisations is published, i.e. on the MONITOR information website, and publish accounting statements additionally for the individual consolidation units of the state and for the higher consolidation units of the state.**

¹⁰⁵ See <https://www.nku.cz/cz/publikace-a-dokumenty/ostatni-publikace/prirucka-mezinarodnich-ucetnich-standardu-pro-verejny-sektor-vydani-2016-id9494/>.

¹⁰⁶ It is not clear how corrections should be fairly recorded in the accounts – whether it is a new cost, or a reduction of revenue, or what cost or revenue is involved.

¹⁰⁷ This is a problem of individual financial statements; it is not clear from the legislation whether organisational units of the state with ownership interests exercise deciding influence, fundamental influence or other influence, or whether, as organisational units of the state that are not legal persons, they can exercise influence at all. This ambiguity has a direct impact on the valuation of ownership interests.

¹⁰⁸ Greenhouse gas emission allowances are a specific asset reported in the Ministry of the Environment's balance sheet. The accounting regulations do not distinguish between the reporting of allowances as a state asset at the MoE accounting entity and at an operator accounting entity, even though it is clear that emission allowances serve a different function at the MoE than at operators. If this asset's function as a long-term intangible asset in the given accounting entity, it could be represented differently in the accounts as well. Neither the existing Czech legislation nor the relevant European regulations make it possible to determine unequivocally at what moment allowances become a long-term intangible asset allotted to the ministry. But a precise determination of the inception of emission allowances has a fundamental significance in terms of determining the moment as of which the allowances are to be accounted for and valued as an asset of the Czech Republic. (Source: audit report no **17/18**.)

The MoF is taking some concrete steps to eliminate certain risks linked to the lack of a conceptual framework: in 2018, for example, it published a document entitled *Summary Concept of New Accounting Legislation 2020–2030* and made it available for public debate. Among other things, this extensive document proposes tackling the lack of a definition of basic terms (e.g. assets), which is criticised by the SAO, and settling it in line with the present-day understanding of accrual-based accounting.

Through its audit work, the SAO helps identify systemic risks and problems in the reporting of accounting and budget data, looks for possible solutions and promotes greater use of accrual-based accounting data on the state's financial situation and performance, e.g. when compiling closing accounts for budget chapters and the state closing account. This is a process whose goal is to ensure that data are usable and reliable for the purposes of accountability and decision-making.

- The SAO's financial audits draw attention to any shortcomings in the reliability of reported data and thus help the responsible authorities avoid them. Interim financial audit resulted in the state's financial information being corrected by a value of almost **CZK 5 billion** in the 2017 accounting year, for example. Consequently, users obtained more accurate data on the state's financial management and the audited entities had the chance to react to the SAO's findings immediately in their accounting and control systems, which increases the value added of financial audit.
- In 2018 the SAO also made use of its findings from scrutinising reported accounting and budget information in the consultation process for draft legislative amendments (e.g. Decree no 323/2002 Coll., on the budgetary composition) and other materials (MoF proposal for unifying the reporting of transfers in the state's accounting).

In 2018 the SAO had a representative as commissioner on the Audit Commission of the European Space Agency. The SAO representative chaired the Audit Commission on behalf of the Czech Republic in 2018. The SAO thus participated in international audits at the highest level. The SAO's experience from audit work in international organisations were then presented in March 2018 at an international expert seminar staged by the SAO.

The SAO created and maintains an automated tool for analysing accounting and financial reporting in order to be able to plan audits better and conduct them more effectively. It also uses some data from open sources, e.g. from the real estate register, the register of contracts or the central records of state budget subsidies.

III. Financial Evaluation of Audit Work

1. Overall financial evaluation of audits

An overall financial evaluation of audit work is performed every year via the indicator of the total volume of audited finances, assets and liabilities. This information gives an insight into the total state budget revenues and expenditure, state assets and liabilities, funds provided to the Czech Republic from abroad and miscellaneous finances (e.g. state funds) audited by the SAO in the previous period. The indicator's value is influenced primarily by the number of audits, their subjects and goals and the length of the audited period.

The total audited amount of **CZK 114 billion** corresponds to audits whose audit report was approved in 2018. This amount does not include data from audits scrutinising the closing accounts of state budget chapters (see Section II.6.2 of this annual report) or data on finances assessed solely at system level (e.g. when auditing strategic and conceptual materials or programme finances as part of audit of their administrators or intermediary bodies). The value of finances audited at system level in audits completed in 2018 was **CZK 1,216 billion**.

2. Discharge of the notification duty pursuant to Act no 280/2009 Coll., the tax code

Based on the facts ascertained, the SAO informs the relevant tax administrators of identified shortcomings mentioned in audit protocols and linked to the audited entities' tax obligations. Specific audit findings can be used by the appropriate tax administrators to launch proceedings that could lead to a decision to impose a penalty for a breach of budgetary discipline.

In 2018, **29** notifications from **13** audits were sent to tax administrators under the notification duty. These notifications were related to the administration of taxes. The total financial loss quantified in these notifications amounted to almost **CZK 842 million**. The largest aggregate amount of **CZK 737 million** was reported on results of an audit designed to check whether the Ministry of Labour and Social Affairs spent state budget funds earmarked for the acquisition, operation and development of selected information systems supporting the agenda of disbursement of non-insurance benefits and the labour market system economically and effectively (audit no **17/22**).

IV. Assessment of Other Activities

1. Cooperation with the criminal justice authorities in 2018

In 2018 the SAO filed **eleven** notifications of circumstances indicating the commission of a crime pursuant to Section 8 (1) of the Criminal Code and based on findings from **six** audits.

In response to the shortcomings found in audit no **17/10** a notification was filed concerning a suspicion of the crime of breach of duty in the administration of entrusted property.

In response to the shortcomings found in audit no **17/13** a notification was filed concerning a suspicion of the crime of breach of duty in the administration of entrusted property and the crime of violation of the economic competition rules.

In response to shortcomings identified in audit no **17/17** **four** notifications were filed concerning a suspicion of the crime of subsidy fraud, and **one** notification of a suspicion of the crimes of breach of duty in the administration of entrusted property and abuse of office.

In response to shortcomings identified in audit no **17/22** **two** notifications were filed concerning a suspicion of the crime of breach of duty in the administration of entrusted property, the crime of violation of the economic competition rules, the crime of negotiating an advantage in the award of a public contract, in public competition and in public auctions, and the crime of abuse of office.

In response to the shortcomings found in audit no **17/32** a notification was filed concerning a suspicion of the crime of breach of duty in the administration of entrusted property.

In response to the shortcomings found in audit no **17/33** a notification was filed concerning a suspicion of the crime of breach of duty in the administration of entrusted property and the crime of violation of the economic competition rules.

It follows from the above that in 2018 the SAO most frequently filed notifications concerned a suspicion of the crimes of breach of duty in the administration of entrusted property and subsidy fraud.

The criminal justice authorities requested the SAO's cooperation in **17** cases in 2018. Further to these requests the SAO provided audit materials from **24** audits. In 2018 the SAO President released **18** employees from their confidentiality duty pursuant to Section 23 of Act no 166/1993 Coll., on the Supreme Audit Office, and on the grounds of important public interest.

2. Opinions on draft legislation in 2018

In interdepartmental consultation under the *Government Legislative Rules* the SAO gave its opinion on draft legislation touching on its competences or concerning it as a state organisation. In 2018 the SAO received for assessment a total of **137** legislative drafts and other materials relating to legal regulation. The SAO issued specific comments on **50** drafts, mainly based on findings from its audit work.

Among the most important legislative drafts commented on by the SAO in 2018 were the Government drafts of an act on lobbying and an act on protection for whistle-blowers submitted by the Office of the Government of the Czech Republic and on a Government draft amendment to the act on free access to information submitted by the Ministry of the Interior. The SAO's comments on these drafts were mostly accepted by proposers of the legislation, but these drafts were not discussed by the Government before the end of 2018.

In November 2018 the SAO expressed its opposition to a Parliamentary deputies' draft of an act on the relocation of certain Government offices, including an envisaged move of the SAO's offices from Prague to Olomouc.

In the consultation procedure for a draft amendment of the Government regulation on salaries in public services and administration submitted by the Ministry of Labour and Social Affairs the SAO proposed adding a new annex detailing pay tariffs applicable to SAO employees, designed in a way preventing unwarranted differences in the pay of SAO employees and state employees. When dealing with the comments submitted on the draft, the MoLSA expressed its agreement with the change in how SAO employees are paid, recommending that this issue be dealt with in the context of an amendment of the Act on the Supreme Audit Office.

The SAO also filed specific comments on the draft of a new decree on cyber security submitted by the National Cyber and Information Security Office, on draft amendments of decrees implementing the budgetary rules act and on the act on financial control submitted by the MoF, and on materials submitted by the MoRD concerning the application of Act no 134/2016 Coll., on public procurement.

As regards draft legislation commented on by the SAO in previous years, the Czech Government, at its session on December 3, 2018, approved a draft act amending Act no 166/1993 Coll., on the Supreme Audit Office, as amended, and other related acts, governing the extension of the SAO's competence to audit the management of public finances and finances provided from public budgets and management of the property of territorial self-governing units (regions and municipalities with extended competence) and the property of legal persons in which the state or a territorial self-governing unit has a majority share of registered capital or in respect of which they are the controlling persons. The Government submitted the draft act to the Chamber of Deputies of the Parliament of the Czech Republic on December 20, 2018 (Parliamentary print no 360). However, the Government did not submit the draft act amending Article 97 of Constitutional Act no 1/1993 Coll., the Constitution of the Czech Republic, as amended, to the Chamber of Deputies, because it agreed with the draft submitted in July 2018 by a group of deputies from the Czech Pirate Party (Parliamentary print no 229) that covered the same issue. The Government expressed a neutral opinion on a related deputies' draft act governing the extension of the SAO's competence (Parliamentary print no 230). The Chamber of Deputies did not debate any of the draft acts on the extension of the SAO's competence during 2018 in the first reading.

Another deputies' draft amendment of the Act on the Supreme Audit Office (Parliamentary print no 236), containing specific rules on the pay of the SAO employees in the form of a new SAO salary code issued by the president of the SAO after approval by the Chamber of Deputies budget committee, was not debated either.

In addition, the legislative process was not completed in 2018 for the act on personal data processing that adapts Czech law to the directly applicable Directive (EU) 2016/679 of the European Parliament and of the Council on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (known as the GDPR).

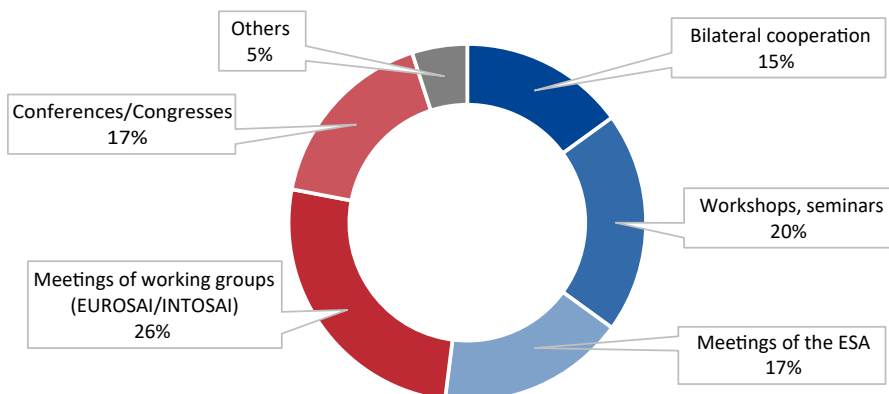
3. International cooperation

The SAO's international cooperation in 2018 focused mainly on activities within working groups of EUROSAI, INTOSAI, the Contact Committee and the European Court of Auditors. There was also bilateral cooperation, mainly with the SAIs of Germany and Slovakia. As the EUROSAI 2020 congress drew near and it became necessary to inform the heads of other SAIs on the congress's vision, the number of meetings at top (presidential) level also increased.

The ongoing cooperation with the European Space Agency (ESA) in the provision of external audit comprised a significant part of the SAO's international cooperation (9 meetings in total).

SAO representatives took part in 54 events abroad, with many of the trips abroad being for meetings of EUROSAI and INTOSAI working groups (14 such meetings in total). SAO representatives' participation in workshops and seminars abroad (11 events) and conferences abroad (9 events) was another significant part of the SAO's international activities.

Chart 44: Number and focus of SAO representatives' trips abroad in 2018



SAO president Miloslav Kala took part in the 49th session of the EUROSAI Governing Board, which took place in Gdansk in mid-March. The SAO has been sending its representatives to the meetings of the Governing Board since 2011, when it became the chair of the GT3 working group for knowledge sharing. As the next congress organiser and president of EUROSAI, the SAO has been a member of the Governing Board and coordination team since 2017. The SAO also leads EUROSAI Strategic Goal 1 on *Professional Cooperation*. The new *EUROSAI Strategic Plan for 2017–2023* was discussed at the Governing Board's 49th session.



49th session of the EUROSAI Governing Board, Gdansk, Poland

During 2018 SAO representatives, as part of bilateral cooperation with the Slovak Republic, completed the self-assessment process for the SAI of Slovakia using the INTOSAI PMF methodology, in which the SAO participates as an external assessor. A meeting was held in Malacky in mid-March. The final meeting was held in Častá-Papiernička in June. During this meeting, the SAO president handed over the *Quality Assurance Statement regarding Self-assessment of the Supreme Audit Office of the Slovak Republic using the MPF Methodology* to President of the Slovak SAI Karol Mitřík.

Another important event was the session of subgroup 2 of the INTOSAI working group on the fight against corruption and money laundering (INTOSAI WGFACML) focusing on preparing a handbook called *Audit of Corruption Prevention in Public Procurement*, which took place in Vienna in April. This subgroup's third meeting was held with a view to discussing the existing and new drafts of parts of the handbook on the audit of corruption prevention in public procurement, which is to build on ISSAI 5700 elaborated by this subgroup. SAO representatives prepared Chapter 2 of the handbook dealing with a definition of public procurement, description of the principles of public procurement, the various phases and types of public contract in relation to the risks of and prevention of corruption into chapter 2 of the handbook, which focuses on defining public procurement. A fourth meeting of this subgroup in Prague in October 2018 followed the Vienna meeting.

A conference with the title *The Role of Supreme Audit Institutions in Enhancing Accountability, Transparency and Integrity in the Public Sector* held in Sofia in May was attended by SAO president Miloslav Kala with representatives of the audit section. The conference took place on the occasion of the Bulgaria's presidency of the Council of the European Union. Among the subjects discussed here was the role of supreme audit institutions in accession talks with Western Balkan countries (Serbia, Montenegro, Macedonia and Albania). The SAO also used the conference to present plans and activities linked to the EUROSAI Congress in Prague in 2020 and the SAO's subsequent presidency of EUROSAI.



Conference entitled The Role of Supreme Audit Institutions in Enhancing Accountability, Transparency and Integrity in the Public Sector, Sofia, Bulgaria

SAO representatives visited the European Court of Audit (ECA) in early June. The purpose of this official foreign travel was to present planned and current activities linked to the preparations for the SAO's Presidency of EUROSAI and for the agenda of the EUROSAI 2020 Congress. One key activity in this regard is the *Benchmarking Information Exchange Project* (BIEP). The SAO seeks to make the ECA its partner in this activity. The advantages lie in the ECA's mandate, which enables it to carry out audit missions in various EU Member States and other countries and to perform international benchmarking. An outline of the ECA's active involvement in workshops at the EUROSAI 2020 Congress was also presented at the meeting.

Another important event was the 18th meeting of the INTOSAI working group on environmental auditing, which was attended by SAO representatives in July. The main goal of the meeting in Bandung, Indonesia, was to present the progress made in the projects forming this working group's work plan for 2017–2019. The key themes of the plenary session were: the quality of the urban environment, sustainable use of soil, reports from joint audits and the issue of environmental auditing. Projects taking place in the 2017–2019 period were also presented at the meeting. During that period the SAO has been leading a project called *Green Cities – Sustainable Urban Development*.



18th meeting of the INTOSAI WGEA working group, Bandung, Indonesia

In September, SAO representatives took part in the plenary session of the Contact Committee – VAT working group, which took place in Warsaw. The main presentations concerned the procedure followed by the tax administration in rolling out new measures to fight VAT evasion, legislative amendments in this field, and assessment of questionnaires sent to Member States' tax administration regarding e-commerce and experience from the fight against VAT evasion in the past decade. The work of the various subgroups was also presented at the plenary session. This working group will be chaired by the SAI of Poland in the coming period.

Another important event was the 16th session of the EUROSAI working group on environmental audit, held in Bratislava at the end of September. This meeting was preceded by a one-day seminar on audit in the field of climate change. The meeting discussed ways to obtain and analyse data and increase the impacts of environmental audit work.

A meeting of the Contact Committee took place in Dubrovnik in mid-October. The meeting included a seminar on the theme of *Interaction with EU Citizens – Opening SAIs*. Here, audit institutions showcased innovative approaches they use in their work. There was also the annual summary of the results achieved by Contact Committee working groups.



Meeting of the Contact Committee, Dubrovnik, Croatia

At the turn of October and November 2018 an SAO representative took part in a study trip to Delhi, India, dealing with audit of state-owned enterprises organised by the International Centre for Information Systems and Audit. This was the 144th study trip organised by this institution and targeting the use of IFS and IFRS international accounting standards, the execution of public and private partnership projects (PPP projects) and issues linked to trends and developments in the public sector. The study trips organised by the institution take place on a multicultural basis, promoting the exchange of ideas and experiences.



Study trip focusing on audit of state-owned enterprises – organised by the International Centre for Information Systems and Audit (ICISA) in Delhi

At the end of October representatives of the SAO and SAI of Germany conducted the 2nd meeting of the team for implementation of strategic goal 1: *Professional cooperation*. The SG1 working group was set up in response to the EUROSAI strategic plan for 2017–2023 and its goal is to promote effective and innovative audit methods and simplify the exchange of knowledge, experience and good practice between European audit institutions. The main items on the agenda were the updating of the group’s plan of operations for 2017–2023, presentation of the results of the work done to date on various issues and a debate on the future of SG1. The SAO representatives informed their colleagues of progress on SAO projects that have been an integral part of the EUROSAI plan of

operations since last year and are continuing to develop successfully. Consequently, BIEP projects, the hackathon, the database of EUROSAI audits and products and training organised within EUROSAI were discussed in Tirana.



2nd meeting of the implementation team of strategic goal 1: Professional cooperation, Tirana, Albania

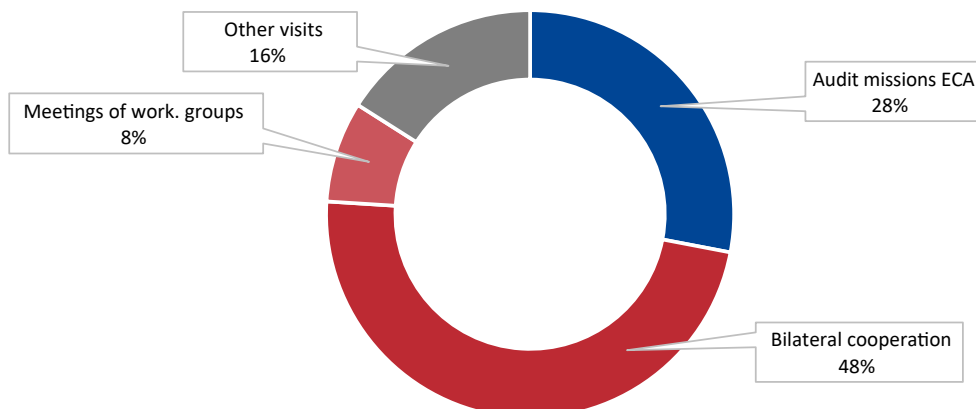
A meeting of representatives of the EUROSAI Governing Board was held in Istanbul in November with the title *Governing as a Team for the Future*. The meeting was organised by the SAI of Turkey to clarify opinions and future expectations with regard to teamwork, i.e. how the Governing Board should manage EUROSAI effectively as a team.

A *EUROSAI Emerging Issues Workshop* was staged after the meeting of the Governing Board to set out the new challenges audit institutions will face in the future. The seminar was based on an online survey organised by the SAI of Finland. Themes that recurred in the surveys returned by 190 participants were presented at the workshop. This topic, prepared under the leadership of the SAI of Finland, should be one of the themes of the 2020 Congress in Prague.

The SAO was also active in organising international events in the Czech Republic in 2018. Out of a total of 25 events, most of them took place under bilateral cooperation (12 events) in connection with the approaching EUROSAI Congress in 2020. Activities involving cooperation with the ECA were also frequent (7 events).

In 2018 the SAO went ahead with the BIEP project, sharing information with other countries' supreme audit institutions. The audit institutions of Finland, Hungary, Germany, Poland, Portugal, Slovakia and the United Kingdom and the European Court of Auditors played an active cooperation role in the context of BIEP. The SAO shared information with the SAI of Slovakia, for example, which in 2018 published analytical information on social housing and a report on preparedness to achieve sustainable development goals (SDG). Information exchange via BIEP made it possible to include international benchmarking in the SAO's audit reports. During the year, SAO representatives presented the results of cooperation under BIEP at several international events and invited other countries to take part in the project.

The structure of international events organised by the SAO is shown in Chart 45.

Chart 45: Number and focus of international events organised by the SAO in 2018

The regular annual meeting between the SAO president and ambassadors of EU Member States and representatives of the Ministry of Foreign Affairs and Representation of the European Commission in the Czech Republic took place in February. The SAO president presented the SAO's international activities, and in particular the SAO's success at the last EUROSAl Congress held in Turkey in May 2017. There, the SAO was awarded the presidency of this organisation in 2020–2023. The BIEP project and 1st public administration hackathon, which the SAO organised in autumn 2017, were also presented to the guests.



Meeting of ambassadors of EU Member States and representatives of the MoFA at the SAO

At the turn of February and March, the presidents of the SAIs of Germany and the Netherlands visited the SAO to support it in its preparations for the EUROSAl presidency. The SAO president acquainted both guests with the presidency vision and the goals the SAO would like to achieve during its presidency. The BIEP and public administration hackathon were also discussed.

In March 2018 the SAO staged a seminar focusing on audit of international organisations and international accounting standards. The aim of the event was to exchange experience, demonstrate various techniques for auditing international organisations and explain the basis of the use of the international accounting standards that underpin the accounting of a number of international organisations. Contributions from foreign guests at the seminar dealt with audits of the European Space Agency, the European Nuclear Research Centre and the United Nations. Representatives of the Chamber of Auditors of the Czech Republic and the Prague University of Economics explained the international accounting standards.



Participants in the Audit of International Organisations and International Accounting Standards seminar

At the end of June, the SAO welcomed a delegation from the Austrian Court of Audit headed by its President and INTOSAI Secretary General Margit Kraker. Possible forms of audit cooperation and the impacts of audit work were discussed at the meeting. Data sharing between audit institutions and open data in public institutions were also discussed.



Visit by the President of the Austrian Court of Audit

Based on prior experience and the long-standing cooperation on joint audits, a meeting was held at the SAO with colleagues from the Slovak SAI in early September. At the meeting, they defined the basic points of a joint international report for coordinated audits aimed at supporting selected areas of climate-energy policy with an emphasis on maintaining the long-term sustainability of public revenues.

In September, President of the Bulgarian SAI Tzvetan Tzvetkov visited the SAO. At the meeting, the Bulgarian side discussed with SAO representatives on financial responsibility in the public sector. The possibilities of cooperation on the BIEP project were also debated. The President of the Bulgarian SAI appreciated the SAO's international work and described the SAO as a leading SAI in Central Europe.



Visit by the president of the SAI of Bulgaria

A meeting between SAO representatives and Federal Court of Auditors of Germany took place at the end of September. The purpose of the meeting was to work on a joint report on the results of a coordinated audit on value added tax. This audit scrutinised the administration of VAT in cross-border e-commerce between traders and consumers. At the meeting, the auditors paid close attention to shortcomings in the legislation or in the procedure followed by tax administrators in the field of VAT in cross-border e-commerce.

Joint assessments and recommendations for improving the administration of VAT in the “Mini One Stop Shop” scheme were formulated and the results of the coordinated audit were summarised. Both audit institutions plan to publish the joint report on the results of the coordinated audit in spring 2019.

Another important event last year was an event to mark the 25th anniversary of the founding of the SAO, which was staged in the Liechtenstein Palace at the beginning of October. At this event, the SAO was honoured to welcome President of the Czech Republic Miloš Zeman and other prominent personalities of the Czech political scene and selected state institutions. The event was also attended by guests from the SAIs of Albania, Hungary, Poland, Slovakia, Slovenia, Turkey and the ECA.



Event to mark the 25th anniversary of the founding of the SAO (Prague, Liechtenstein Palace)

The 16th meeting of the Steering Committee of the INTOSAI Working Group on Environmental Audit was held at the end of October. 12 environmental audit projects, encompassing sustainable development goals, climate change, air pollution, wastewater management and food production, for example, were discussed. The participants also said that audit institutions should lead by example and be more ecological. At the meeting, the SAO tested automatic translators to facilitate communication at international meetings and enable participants to communicate in their mother tongue.



16th meeting of the Steering Committee of the INTOSAI Working Group on Environmental Audit

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

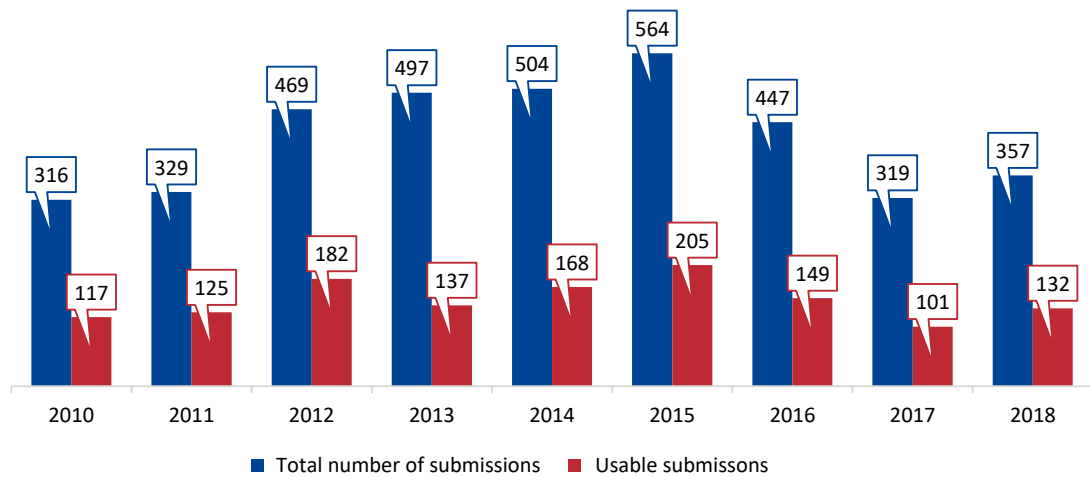
4.1 Provision of information pursuant to Act no 106/1999 Coll., on free access to information

In 2018 the SAO received ten written requests for information under the terms of Act No. 106/1999 Coll., on free access to information, as amended ("the Information Act"). The SAO dealt with five requests by providing the requested information in full, e.g. information about audit competence and performed audits, investments, staffing and internal regulations. The SAO shelved three requests: one because the communicated fee for an extraordinarily extensive search for information and copies of requested documents was not paid; one because the required additional information to the request was not supplied; and one because the requested information was not related to the SAO's competence. One applicant, having been asked to supply the required particulars as per the Information Act, cancelled her request, and the requested information was subsequently provided to her separately from the terms of the Information Act. In one case, the SAO issued a decision rejecting a request in accordance with Section 14(5) of the Information Act, as the applicant did not reword her unclearly formulated request when called on to do so by the SAO. The SAO President subsequently rejected the applicant's subsequent appeal against the decision and upheld the contested decision. No complaints pursuant to Section 16a of the Information Act were filed against the SAO's procedure when handling requests for information. All the requests for information were processed within the statutory deadlines.

4.2 Citizens' submissions

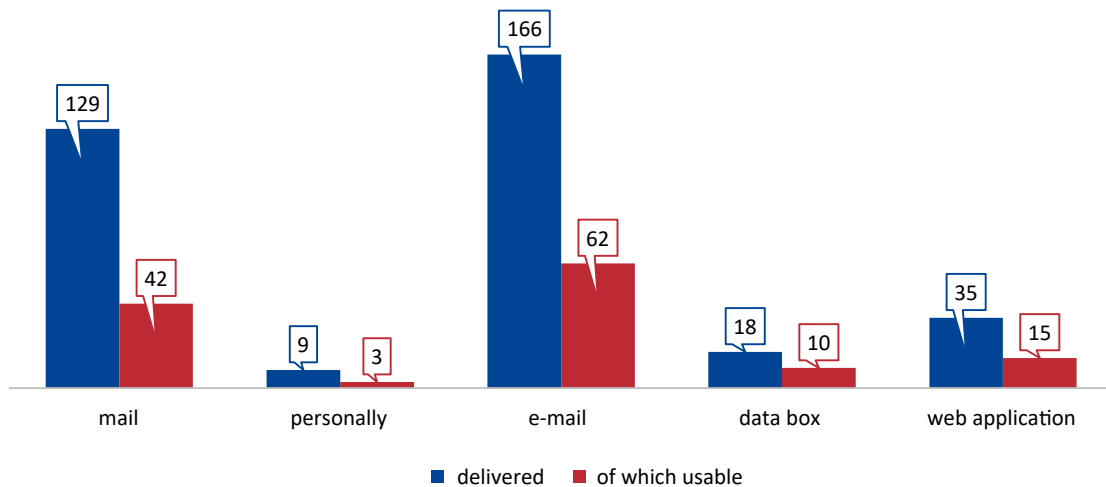
In 2018 the SAO's communication division registered 357 written submissions (suggestions, complaints, requests, enquiries etc.) from citizens and legal entities. The content of all submissions is judged with regard to the SAO's powers and from the perspective of the possible use of information from the submissions in audit work. Submissions concerning areas covered by the SAO's competence are used as a supplementary information source in the context of related planned audits and when preparing ideas for audits in the coming period. In 2018 the SAO received 132 external suggestions that could be acted on, i.e. 37% of the total number of submissions received. In its audit work the SAO mainly made use of findings from submissions focusing on the management of subsidy finances provided from national sources and European funds to state organisations, territorial self-governing units and other beneficiaries; 56 submissions, i.e. 40% of the usable external suggestions, concerned this area.

Chart 46: Overview of the total number of submissions and their usability for audit work, 2010–2018



Most communication – over 60% of submissions – from citizens to the SAO in 2018 was again in electronic form, primarily e-Post, data box and the *Write to us* application on the SAO website.

Chart 47: Breakdown of submissions in 2018 by manner of delivery and their usability



5. Management of finances allocated to the SAO budget chapter in 2018

5.1 Implementation of mandatory indicators of the SAO budget chapter

The approved budget chapter 381 – *Supreme Audit Office* for 2018 was set by Act no 474/2017 Coll., on the state budget of the Czech Republic for 2018.

Table 7: Overview of the implementation of defined mandatory indicators in 2018 (CZK thousand)

	Approved budget	Budget after changes (BC)	Final budget (FB)	Actual	Implementation (BC) in %	Implementation (FB) in %
Summary indicators						
Total revenues	1,013	1,013	–	2,289.73	226.12	–
Total expenditure	678,017	678,017	856,091	575,725.23	84.91	67.25
Total non-tax revenues, capital revenues and received transfers	1,013	1,013	–	2,289.73	226.12	–
in which:						
Total revenues from the European Union budget without the Common Agricultural Policy	616	616	–	311.91	50.67	–
Total miscellaneous non-tax revenues, capital revenues and received transfers	397	397	–	1,977.82	498.19	–
Specific indicators – expenditure						
Expenditure on performance of the SAO's duties	678,017	678,017	856,091	575,725.23	84.91	67.25
Cross-cutting indicators						
Staff pay and other payments for work done	309,681	309,681	312,333	311,202.87	100.49	99.64
Obligatory insurance premiums paid by the employer	105,291	105,291	106,193	105,412.39	100.11	99.26
Transfer to the cultural and social needs fund	5,703	5,703	5,756	5,752.81	100.87	99.94
Salaries of employees only	285,160	285,160	287,813	287,680.97	100.88	99.95
Pay to employees in civil service positions pursuant to the Act on the Civil Service						
Total expenditure co-financed in full or in part from the European Union budget without the Common Agricultural Policy	1,231	1,231	1,231	902.88	73.33	73.33
in which:						
from the state budget	616	616	616	451.44	73.33	73.33
share of the EU budget	616	616	616	451.44	73.33	73.33
Total expenditure held in EDS/SMVS programme financing information system	177,790	177,790	350,615	80,874.42	45.49	23.07

Revenues

Actual revenues in the SAO budget chapter were **CZK 2,289,730**, i.e. 226.12% over the approved budget revenues **CZK 1,012,600**.

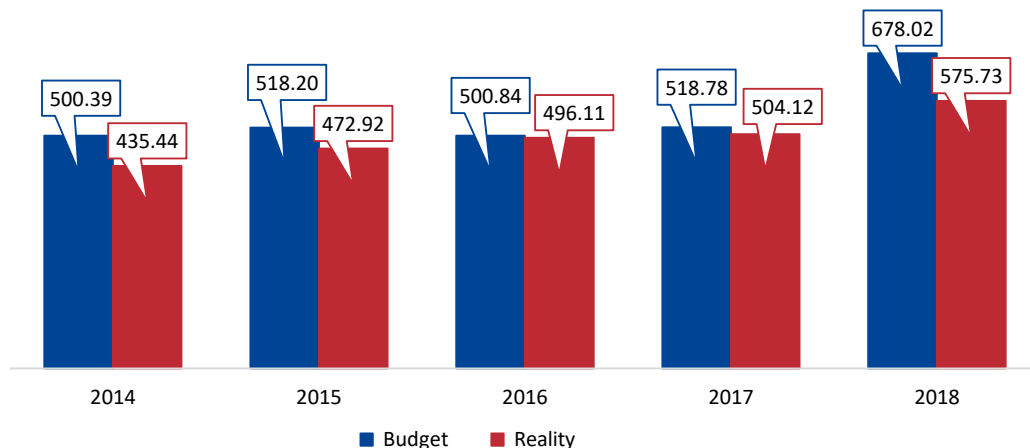
Expenditure

The approved expenditure for the budget chapter was **CZK 678,016,930**; actual expenditure was **CZK 575,725,230**, i.e. 84.91% of the budgeted figure. Savings from previous years totalling CZK 178,074,480 were included into the budget, making the total budgeted expenditure CZK 856,091,410 and was drawn to 67.25%. The biggest expenditure item (CZK 422,368,080, i.e. 77.98%) is represented by expenditures on salaries and other payments for work performed (including expenditures on salaries of SAO representatives) and related expenditures, i.e. statutory insurance premiums and the contribution to the Cultural and Social Needs Fund.

All the mandatory indicators of the SAO budget chapter were fulfilled in 2018.

Chart 48 gives an overview of expenditure in budget chapter 381 – *Supreme Audit Office* from 2014 to 2018. The approved budget grew by CZK 177,224,000 from 2014 to 2018. The main reason for the growth in the budget are funds for salaries, including contributions, which grew by CZK 88,858,000 between 2014 and 2018, and funds of CZK 121,000,000 on the construction of a head office in 2018.

Chart 48: Overview of expenditure in budget chapter 381 – *Supreme Audit Office* according to the approved budget and implementation of the budget for the years 2014–2018



5.2 Claims from unused expenditure

Claims from unused expenditure stood at CZK 161,105,550 as at year-end 2018. Claims amounting to CZK 178,074,480 were factored into the budget in 2018.

5.3 Expenditure on asset replacement programme financing

Budget funds were spent on the implementation of Programme 18101 – *Development and Renewal of the Material and Technical Resources of the Supreme Audit Office from 2011*, specifically on information and communication technologies, on asset replacement and construction of a head office. A total of CZK 80,874,420 was drawn down.

5.4 Information on external audits in the SAO

The audits listed below were performed in the Supreme Audit Office by external bodies in 2018:

- On May 22, 2018 the City of Prague Hygiene Authority performed two inspections in the personnel division focusing on:
 - fulfilment of the obligations imposed on enterprises providing a catering service by Regulation (EC) no 852/2004 of the European Parliament and of the Council on the hygiene of foodstuffs, Regulation (EC) 178/2002 of the EP and of the Council laying down the general principles and requirements of food law, establishing the European Food Safety Authority, Act no 258/2000 Coll., on the protection of public health and amending certain related acts, and Act no 110/1997 Coll., on foodstuffs and tobacco products and amending certain related acts;
 - fulfilment of the obligations imposed on providers of child care services for a children's group of up to 12 children by Sections 8 and 15 of Act no 247/2014 Coll., on the provision of child care services and amending certain related acts, and implementing Decree no 281/2014 Coll., and Section 50 of Act no 258/2000 Coll., on the protection of public health and amending certain related acts, as amended.

The inspection revealed that no shortcomings contravening the applicable legislation on public health protection were found.

- On October 3, 2018 the Fire Rescue Corps of the Hradec Králové Region performed an inspection at the SAO regional office in Hradec Králové on *"compliance with the obligations laid down by the fire safety regulations in the scope defined by Sections 4, 5, 6, 15, 16 and 16a of the Act on Fire Safety and obligations stemming from the related regulations"*. It concluded: ***"No shortcomings in terms of fulfilment of the obligations stemming from the Act on Fire Safety were found by the inspection."***
- On November 14 and 15, 2018 the Bulovka Hospital's Centre for Preventive Care performed an inspection of the Supreme Audit Office's head office and its training centre (inspection of workplace equipment – part of workplace medical services). **The inspection revealed that the overall working environment and provision for employees' needs at work are fully satisfactory at the aforementioned workplaces.**
- On November 30, 2018 the Prague-based Regional Hygiene Authority of the Central Bohemian Region performed an inspection of compliance with the requirements of Regulation (EC) No 852/2004 of the EP and of the Council on foodstuffs hygiene and Act no 258/2000 Coll., on the protection of public health and amending certain related acts, as amended, at the Přestavky training centre. **No shortcomings were found by the inspection.**
- From August 27 to October 12, 2018 the National Cyber and Information Security Office performed a penetration test at the Supreme Audit Office. The purpose of the testing was to detect vulnerabilities that could result in the system or web applications being breached and were detectable from outside using resources used by a hacker. **The test detected certain errors in the system and services, but these errors were not serious in nature. The measures adopted to eliminate them will be implemented in the 1st quarter of 2019.**

5.5 Mandatory audit

The annual financial statements of the SAO were audited by an auditor within the meaning of Section 33(3) of Act no 166/1993 Coll., on the Supreme Audit Office, as amended. According to the auditor's statement, *"the financial statements present a true and fair view of the Supreme Audit Office's assets and liabilities as at December 31, 2018 and its expenses and revenues and profit/loss and receipts and payments for the year ending December 31, 2018 in accordance with the Czech accounting regulations"*.

6. Internal audit

The fundamental legal and regulatory norms governing the work of the Internal Audit Department in 2018 were Act no 320/2001 Coll., on financial control in public administration and amending certain acts (Act on Financial Control), Decree no 416/2004 Coll., which implements Act No. 320/2001 Coll., and the *International Professional Practices Framework* of the Institute of Internal Auditors.

The Internal Audit Department is organizationally separate from the management and executive structures, and functionally independent and reporting directly to the SAO President. This department has 4 systemised posts and the converted average annual number of employees who performed internal audit in 2018 was 4.82.

The *Strategy of the Internal Audit Department for the Years 2016–2018* forms the basis of the Internal Audit Department's work in 2018¹⁰⁹, which was approved by the SAO President on January 2, 2018. The main materials underpinning the audit plan were a summary analysis of the SAO's risks, including risks identified by internal audit, and the audit universe¹¹⁰. The annual plan was also based on the medium-term internal audit plan for 2016 to 2018, on the results of audits performed at the SAO by external authorities, the results of previously conducted internal audits, the fulfilment of obligations stemming from the Act on Financial Control and the Act on Cyber Security¹¹¹ and the Internal Audit Department's capacity.

Based on the approved audit plan for 2018, the Internal Audit Department conducted six audits.

Table 8:

Number of approved internal audits in the audit plan for 2018	Number of completed internal audits according to the plan for 2018	Number of completed internal audits that were not part of the plan for 2018
6	6	0

When compiling the programmes of individual audits and selecting a sample of operations for audit, the main targets were:

- the design of management and control mechanisms in the SAO's operations and financial activities;
- assessment of the level of compliance of activities with the legislative and internal regulations;
- state of implementation of measures adopted to remedy shortcomings found by previous internal audits;
- specifying the criteria of economy, efficiency and effectiveness with regard to the implementation of the approved SAO budget;
- possible risks linked to the audited areas and their potential impacts.

The internal audits mainly scrutinised:

- audit work's compliance with international standards¹¹²;
- the actual state of implementation of recommendations and measures designed to remedy shortcomings identified in internal audits performed in the years 2016–2018;
- the functioning and effectiveness of the internal control system;
- drawdown of funds from selected budget items of authorizing officers;

¹⁰⁹ File code 241/18-NKU70/6/18.

¹¹⁰ Audit universe means the list of all possible internal audits that could be performed in the SAO.

¹¹¹ Once a year the Internal Audit Department should scrutinise e.g. the effectiveness of the internal audit system on the basis of Section 30(7) of Act no 320/2001 Coll. and, in accordance with Section 3(1)(f) of Decree no 316/2014 Coll., audit cyber security pursuant to Section 15.

¹¹² *The International Professional Practices Framework*. Published by: The Institute of Internal Auditors.

- activities related to a new SAO's head office building;
- compliance with the relevant provisions of Act no 181/2014 Coll., on cyber security and amending certain acts (Act on Cyber Security).

The results of audits completed in 2018 were discussed with the management of the audited departments and units. Their findings delivered added value in suggestions for amendments to certain internal regulations or methodologies to align them with the legislation, in listing areas of risk, detecting errors or confirming that the selected audited processes are in place and are sufficiently functional.

Shortcomings were identified mainly in the fields of cyber security and personal data protection.

From the perspective of the performed internal audits, there is no indication that the SAO financial statements did not give a true and fair view of the subject of accounting. In 2018 the Internal Audit Department found no shortcomings with a significant risk¹¹³ for the management of public funds.

Relevant and specific measures with time limits for their implementation were adopted for all the shortcomings identified during the internal audit work. The implementation of the adopted measures is regularly monitored and assessed by the Internal Audit Division. The approved measures with a deadline of December 31, 2018 were executed by the responsible employees.

The performed internal audits produced no serious findings within the meaning of Section 22(6) of the Act on Financial Control. No corruption or fraud was detected.

In addition, throughout 2018 the Internal Audit Department:

1. performed consultation work and methodological work, primarily in the following areas:
 - risk management;
 - contractual relations;
 - cyber security;
 - implementation of measures;
 - public procurement;
 - personal data protection;
2. organised:
 - training for internal auditors;
 - the *Corporate Governance* conference held at the SAO on September 20, 2018. The main theme was company management and audit from the perspective of both external and internal audit. This was the fifth year of the meeting of representatives of the main control and audit institutions of the Czech Republic, which the SAO organises with the help of the MoF, the Chamber of Auditors of the Czech Republic, the Czech Institute of Internal Auditors and the Public Audit Oversight Board;
3. cooperated:
 - with the external audit firm AGIS audit, a.s., for the purpose of audit of accounting and financial reports and the annual financial statements of the SAO for 2018 to the extent necessary for verifying the effectiveness of the internal audit system.
 - with the Government representative for information technologies and digitisation and with authorised experts from the Government Council for Information Society to cooperate on the *Digital Czech Republic* programme;
4. analysed the results of external audits at the SAO.

¹¹³ The Internal Audit Department uses a classification of findings dividing them into high, intermediate and low significance. Findings with high significance represent shortcomings that can impact on the SAO's further existence, jeopardise the SAO's financial situation and has a fundamental impact on the functionality of the internal audit environment; they are fundamental systemic shortcomings in a particular area or may involve breaches of the legislation.

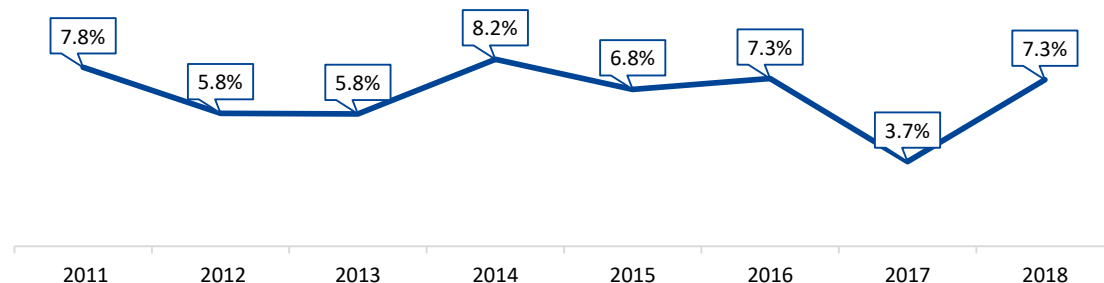
On February 5, 2019 SAO President Miloslav Kala took over and signed the *Annual Report on the Results of Internal Audit for 2018*¹¹⁴. This report contains the following declaration on internal audit: “Based on the results of the audits, we declare that in the selected areas of the internal operational and financial management of the SAO in the audited period the design of management and control mechanisms was proportionate and effective, with the exception of shortcomings of intermediate and low significance. However, these identified shortcomings were not of such a nature as to materially affect the performance of financial management and the functionality of the internal audit system. They shall support improving the quality of the control environment, updating and complying with internal regulations, employee training, and the protection of the SAO’s legitimate rights and interests.”

The Internal Audit Department’s *Quality Assurance and Improvement Programme* encompasses both internal and external audit in line with International Standard for the Professional Practice of Internal Auditing no 1310. An external quality assessment within the meaning of Standard no 1312¹¹⁵ was performed by the SAO at the end of 2014. The Internal Audit Department has planned to perform another external assessment by the end of 2021¹¹⁶.

7. SAO staffing

In 2018, the SAO had 467 employees¹¹⁷, 323 of whom worked in the audit section, i.e. 69.16% of the total registered average number of SAO employees in 2018. 45 new employees were hired in 2018 and 19 others returned to work after parental leave. 48 employees ended their employment. The fluctuation rate in 2018 was 7.26%. Chart 49 shows how the annual employee fluctuation rate evolved in the SAO from 2011 to 2018.

Chart 49: Development of the annual employee fluctuation rate of the SAO, 2011–2018



The converted average number of SAO employees for 2018 was 460; the converted average number of employees in the audit section for 2018 was 317. Chart 50 shows the converted average number of SAO employees and employees of the Prague and territorial departments for the 2008 to 2018 period.

¹¹⁴ File code 152/19-NKU70/34/19.

¹¹⁵ “External assessment must be done at least once every five years by a professionally competent and independent external assessor...”

¹¹⁶ In connection with the staging of the EUROSAI XI Congress in Prague on May 31 – June 4, 2020.

¹¹⁷ Average registered number of employees for 2018.

Chart 50: Development of the converted average number of SAO employees, 2008–2018

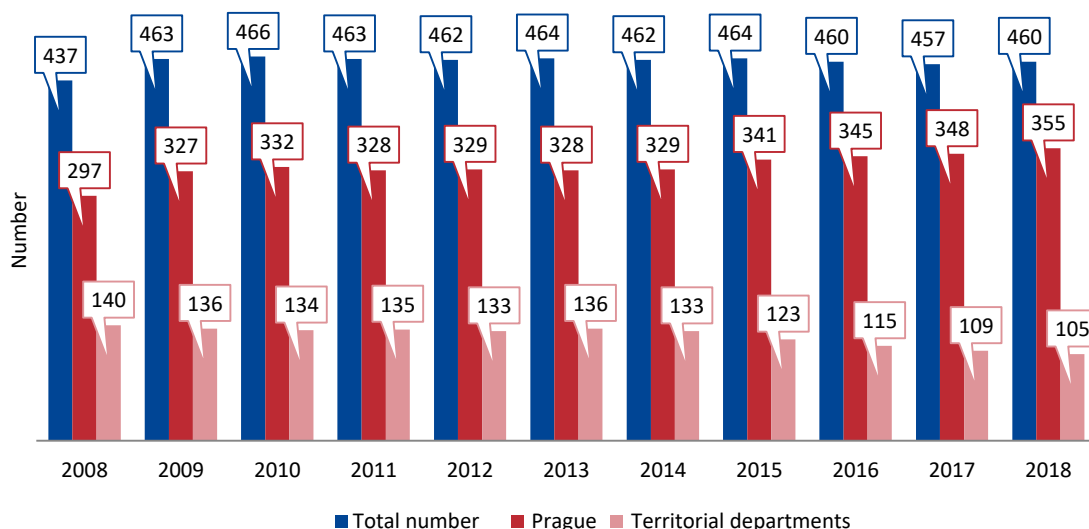
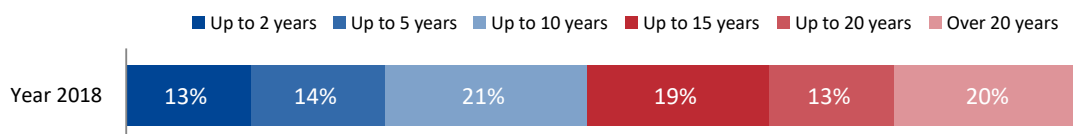


Chart 51 shows the duration of SAO employees' employment as at December 31, 2018. 13.32% of the total number of employees had been employed by the SAO for less than two years as at that date. 20.08% of the total workforce had been employed by the SAO for over 20 years.

Chart 51: Duration of SAO employees' employment as at December 31, 2018 (%)



The SAO offers its employees equal working conditions and opportunities. Chart 52 shows the proportion of men and women employed at the SAO in 2018.

Chart 52: Proportion of men and women employed at the SAO in 2018 (%)

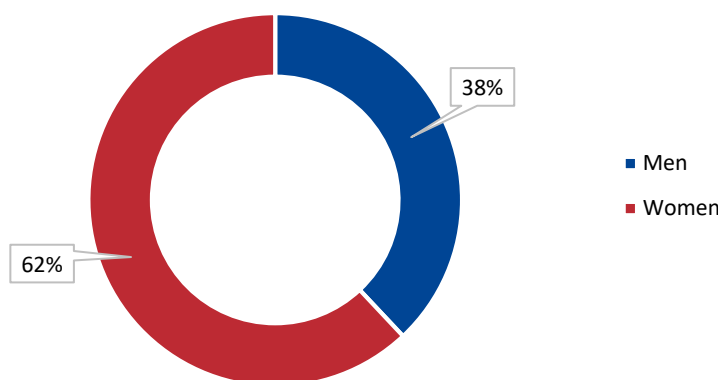
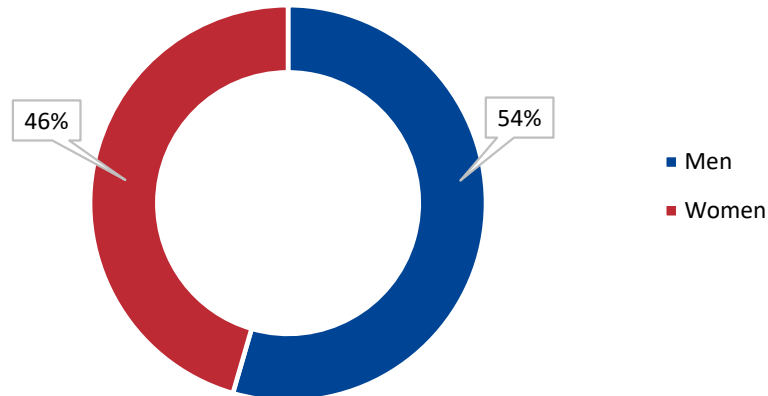


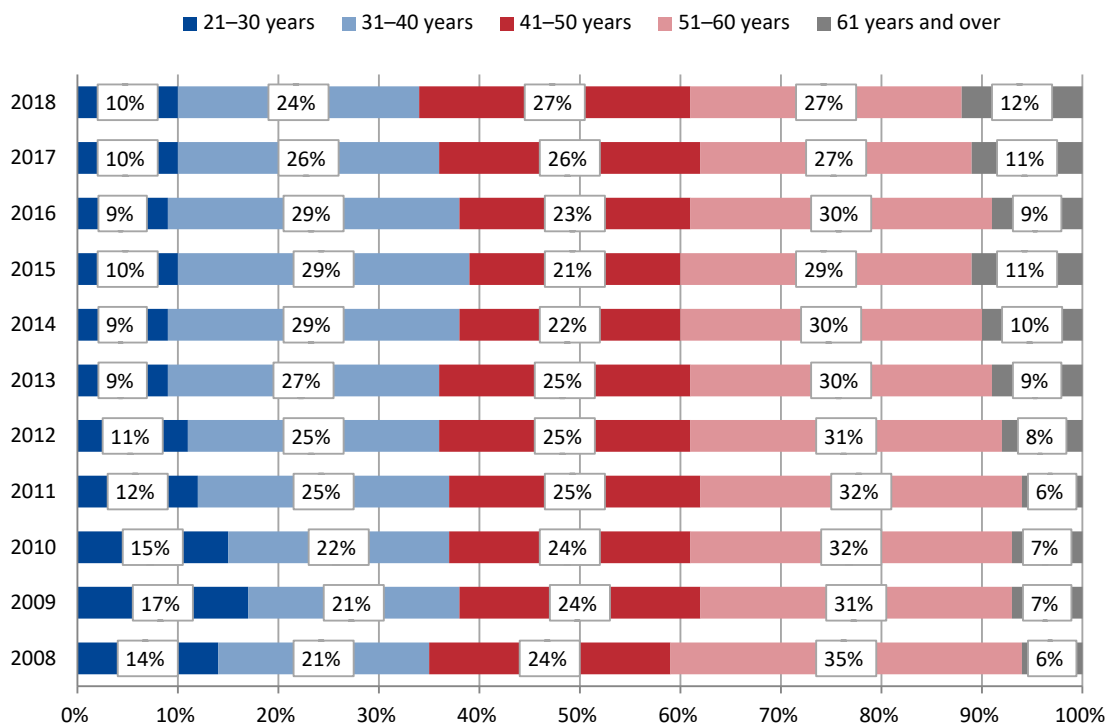
Chart 53 shows the proportion of men and women in management positions in the SAO as at 31 December 2018.

Chart 53: Proportion of men and women in managerial positions at the SAO, state as at December 31, 2018 (%)



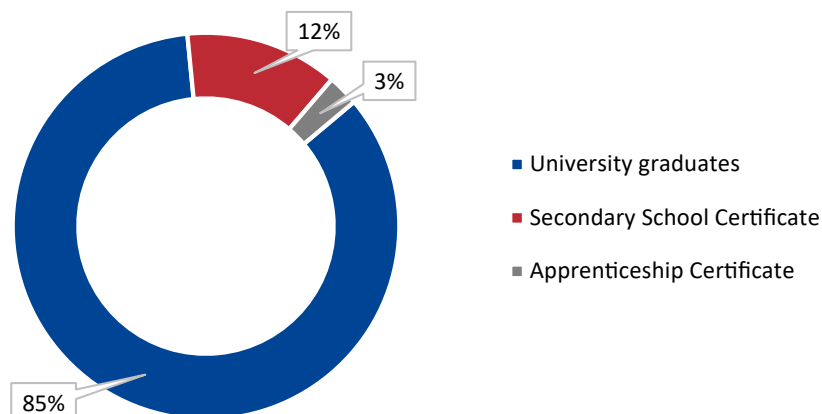
The average age of SAO employees in 2018 was 47. The age structure of the SAO workforce as at 31 December 2018, including a comparison with the years 2008–2017, is shown in Chart 54.

Chart 54: Age structure of SAO employees for the 2008–2018 period (comparison of the states at year-end)



84.57% of the SAO’s workforce were university-educated as at December 31, 2018. Chart 55 breaks down the educational structure of SAO employees as at December 31, 2018.

Chart 55: Qualification structure of the SAO workforce by educational attainment as at December 31, 2018



Labour-law, wage and other demands of SAO employees were satisfied in accordance with the valid collective agreement.

Training and development

Training is an important tool for developing human capital at the SAO. Based on the identified development needs of the SAO’s specialised departments and units, diverse training activities are provided in order to improve employees’ professional knowledge and skills as part of the SAO’s systematic training system.

Creating a comprehensive system of professional training makes it possible to place exact demands on the knowledge, skills and experience of employees, both in the audit section and elsewhere at the SAO. Specialised programmes offering a wide range of training options for acquiring necessary knowledge and skills in addition to employee’s qualifications are part of the professional training system.

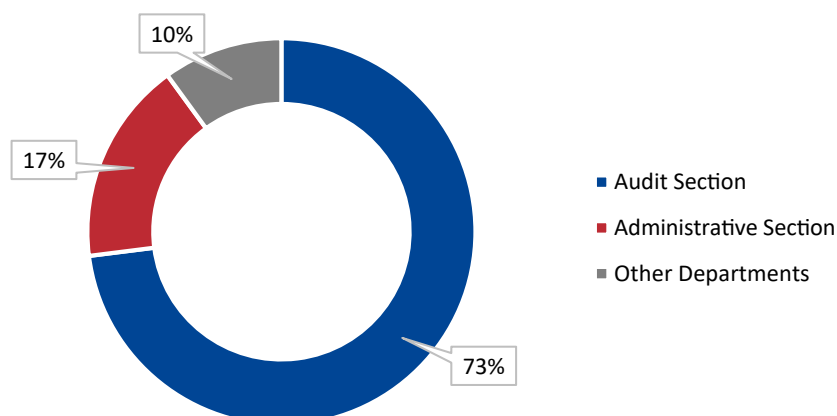
Training programmes are mainly handled by internal instructors, who share their professional knowledge and skills and, above all, experience. This makes the instructor skills course even more important.

Initial training for new employees takes the form of seminars and lectures combined with use of new technologies.

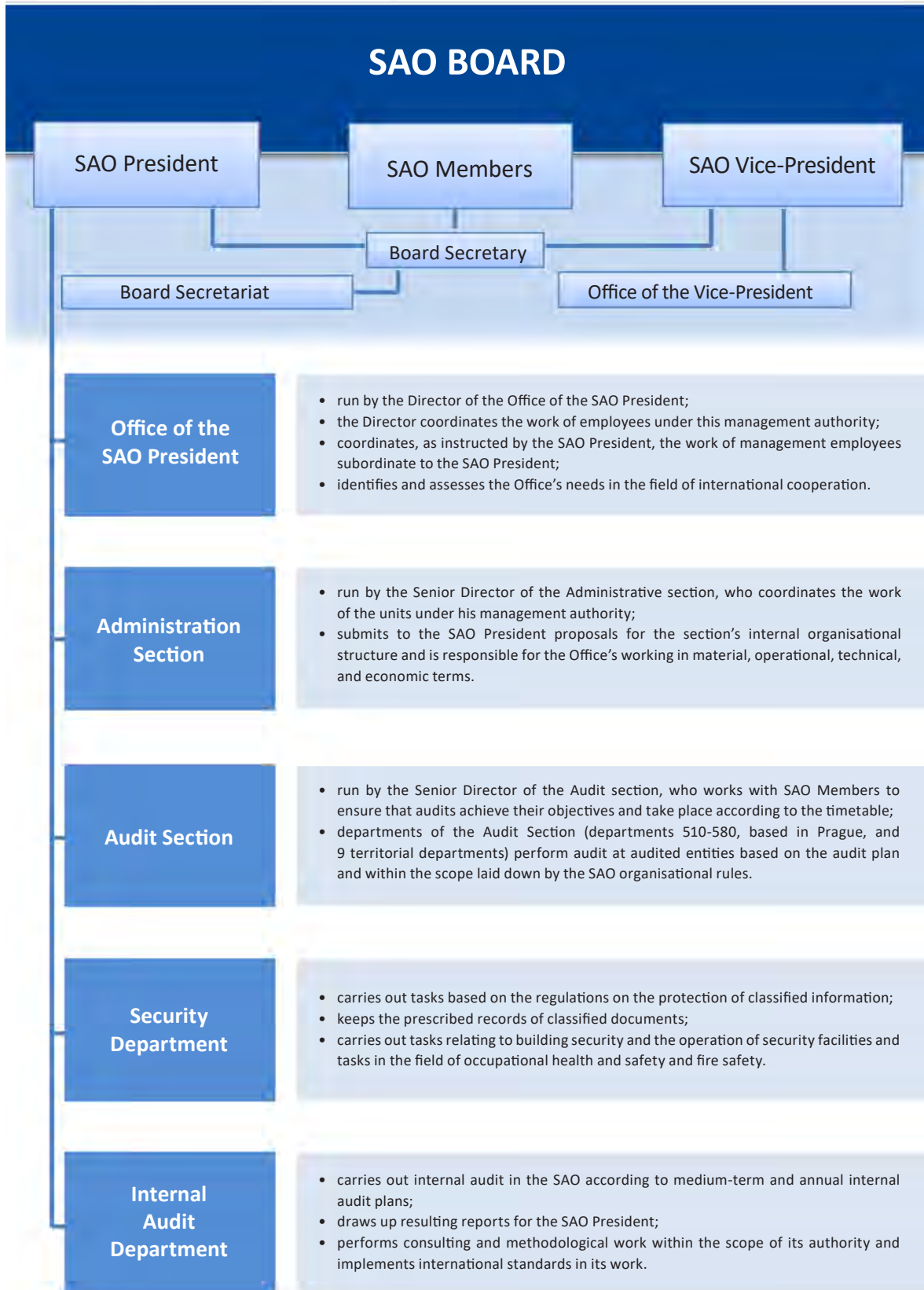
As the SAO’s international position is strengthening, regular language tuition focusing on professional terminology has become an integral part of training.

The structure of SAO employee training by sections in 2018 is shown in Chart 56.

Chart 56: SAO employee participation in training activities in 2018



8. Organisational structure of the SAO





Annex 1 to the SAO Annual report for 2018

Audits included in the Audit Plan for 2018							
Audit no	Subject of audit	Start of audit (month/year)	Audit report for approval (month/year)	Chapter administrator	Audit Report elaborated by	Audit Report approved by	
18/01	Support of business real estate and business infrastructure	01/2018	09/2018	MoIT	Mr Hrnčíř	SAO Board	
18/02	State property and funds related to this property earmarked for tasks of the Armed Forces of the Czech Republic	01/2018	10/2018	MoD	Mr Hrnčíř	SAO Board	
18/03	Funds provided to non-state non-profit organisations	01/2018	02/2019	OoG, MoRD, MoI, MoA, MoE	Mr Vedral	SAO Board	
18/04	Funds earmarked for the support of the air quality improvement	02/2018	11/2018	MoE	Mr Neuvirt	SAO Board	
18/05	Accounting of the Ministry of Finance for 2017	03/2018	01/2019	MoF	Mr Reisiegel	SAO Board	
18/06	Support for the promotion of research and development for innovation provided by the OP Enterprise and Innovations for Competitiveness	04/2018	12/2018	MoIT	Ms Hykšová	SAO Board	
18/07	Information support for the tax management agenda	03/2018	01/2019	MoF	Mr Reisiegel	SAO Board	
18/08	Funds spent on the support of the animal production sector	03/2018	03/2019	MoA	Mr Kubiček	SAO Board	
18/09	Funds earmarked for the social services support	03/2018	01/2019	MoLSA	Mr Vedral	SAO Board	
18/10	State property under the management of the Vojenské lesy a statky ČR, state enterprise	04/2018	11/2018	MoD	Mr Beznoska	SAO Board	
18/11	State funds earmarked for the development and renewal of the material-technical base of the regional healthcare system	04/2018	01/2019	MoH	Mr Stárek	SAO Board	
18/12	State property and funds under the management of selected public archives of the Ministry of the Interior	04/2018	11/2018	MoI	Mr Kubiček	SAO Board	

Audits included in the Audit Plan for 2018							
Audit no	Subject of audit	Start of audit (month/year)	Audit report for approval (month/year)	Chapter administrator	Audit Report elaborated by	Audit Report approved by	
18/13	Closing account of the state budget chapter „Ministry of Health“ for the year 2017, the financial statements of the Ministry of Health for 2017 and data submitted by the Ministry of Health for the assessment of state budget fulfilment for the year 2017	05/2018	01/2019	MoH	Ms Steidlová	SAO Board	
18/14	Funds collected in accordance with the law in favour of the Military Health Insurance Company of the Czech Republic	06/2018	04/2019	–	Mr Stárek	SAO Board	
18/15	Closing account of the state budget chapter „Ministry of the Interior“ for the year 2017, the financial statements of the Ministry of the Interior for 2017 and data submitted by the Ministry of the Interior for the assessment of state budget fulfilment for the year 2017	This audit was excluded from the Audit Plan					
18/16	Development of waterways and support of inland waterway transport	07/2018	04/2019	MoT	Mr Málek	SAO Board	
18/17	State property and funds spent on the acquisition and distribution of the equipment for officers of the Army of the Czech Republic	08/2018	05/2019	MoD	Mr Neuvirt	SAO Board	
18/18	Support for the development of digitalisation of education in the Czech Republic	08/2018	05/2019	MoEYS	Mr Beznoska	SAO Board	
18/19	Funds spent on the cultural activities from the budget chapter of the Ministry of Culture	08/2018	05/2019	MoC	Mr Kalivoda	SAO Board	
18/20	State funds earmarked for the crime prevention	09/2018	04/2019	MoD, Mol, MoJ	Mr Stárek	SAO Board	
18/21	Construction and modernisation of A-class roads	09/2018	06/2019	MoT	Mr Málek	SAO Board	
18/22	Support of environmental policies focused on public budget revenues	10/2018	08/2019	MoT, MoF, MoE, ERO	Mr Kalivoda	SAO Board	



Audits included in the Audit Plan for 2018									
Audit no	Subject of audit	Start of audit (month/year)	Audit report for approval (month/year)	Chapter administrator	Audit Report elaborated by	Audit Report approved by			
18/23	Funds and state property under the management of national parks' administrations	10/2018	08/2019	MoE	Mr Neuvirt	SAO Board			
18/24	Support for public urban and regional transport financed under the Integrated Regional Operational Programme	11/2018	08/2019	MoRD	Mr Málek	SAO Board			
18/25	Financial statements of the Municipal Court in Prague for 2017	10/2018	06/2019	MoJ	Mr Steidlová	SAO Board			
18/26	Closing account of the state budget chapter „Ministry of Labour and Social Affairs“ for the year 2018, their financial statements and data for 2018 submitted for the assessment of fulfilment of the state budget 2018	11/2018	07/2019	MoLSA	Mr Vedral	SAO Board			
18/27	Measures implemented in agriculture and the environment to mitigate the effects of drought and water scarcity	11/2018	09/2019	MoA, MoE	Mr Hrnčíř	SAO Board			
18/28	Funds earmarked for the implementation of the measures of the 2014-2020 operational programme Employment to increase employment and adaptability of the workforce	11/2018	07/2019	MoLSA	Mr Beznoska	SAO Board			
18/29	Promoting competitiveness through ICT-supported projects funded under the Operational Programmes Enterprise and Innovation and Enterprise and Innovation for Competitiveness	11/2018	08/2019	MoIT	Mr Kubiček	SAO Board			
18/30	Funds and state property under the management of several police academies of the Ministry of Interior	11/2018	06/2019	MoI	Mr Stárek	SAO Board			
18/31	Funds earmarked to maintain and develop the capabilities of the Air Force of the Czech Army, including the Supersonic Air Force	11/2018	08/2019	MoD	Mr Reisiegel	SAO Board			
18/32	State budget revenues collected in the field of labour taxation	11/2018	09/2019	MoF, MoLSA, GTM	Mr Kubiček	SAO Board			

Audits included in the Audit Plan for 2018						
Audit no	Subject of audit	Start of audit (month/year)	Audit report for approval (month/year)	Chapter administrator	Audit Report elaborated by	Audit Report approved by
18/33	Subsidy from the operational programme „Prague – Growth Pole of the Czech Republic“ provided for promoting social inclusion and combating poverty	04/2018	01/2019	MoRD	Mr Kinšt	SAO Board
18/34	Deployment of Intelligent Transport Systems in the road infrastructure of the Czech Republic	05/2018	03/2019	MoT	Mr Kinšt	SAO Board
18/35	State property and funds allotted to the Czech Mining Office	10/2018	06/2019	CMO	Ms Hykšová	SAO Board
18/36	State property and funds allotted to state-funded organisations (the National Library of the Czech Republic and the Moravian Library in Brno)	10/2018	07/2019	MoC	Mr Procházka	SAO Board



Annex 2 to the SAO Annual report for 2018

Overview of audits with approved Audit Reports during 2018							
Audit no	Subject of audit	Chapter administrator	Audit Report elaborated by the SAO Member	Audit Report approved by	Date of approval	Issued in SAO Bulletin no	
17/02	Support of social housing as a part of the social inclusion policy	MoLSA, The Office of the Government of the CR	Ms Hykšová	SAO Board	Feb 19, 2018	3/2018	
17/09	Construction-like activity carried out with a view to modernising and developing the road network in selected regions which was co-funded from EU funds and national resources	MoT, MoRD	Mr Málek	SAO Board	Feb 19, 2018	3/2018	
17/12	Value added tax administration	MoF	Mr Kalivoda	SAO Board	July 30, 2018	4/2018	
17/13	Management of state property and funds allotted to the National Institute of Public Health, an organisation co-funded from the state budget	MoH	Ms Pýchová	SAO Board	Jan 22, 2018	1/2018	
17/14	Management of state property and funds allotted to the National Institute of Mental Health, an organisation co-funded from the state budget	MoH	Mr Vedral	SAO Board	Jan 22, 2018	3/2018	
17/15	State funds earmarked for research, development, and innovation	The Office of the Government, MoEYS, MoA, AoS ČR, MoIT	Mr Neuvirt	SAO Board	July 16, 2018	4/2018	
17/16	Programme for care of the national cultural treasures	MoC	Ms Pýchová	SAO Board	Jan 22, 2018	1/2018	
17/17	State funds provided for support of youth and children activities	MoEYS	Mr Beznoska	SAO Board	Jan 22, 2018	1/2018	

Overview of audits with approved Audit Reports during 2018							
Audit no	Subject of audit	Chapter administrator	Audit Report elaborated by the SAO Member	Audit Report approved by	Date of approval	Issued in SAO Bulletin no	
17/18	Closing account of the state budget chapter Ministry of the Environment for the year 2016, the financial statements and data for 2016 submitted for the assessment of fulfilment of the state budget 2016	MoE	Ms Steidlová	SAO Board	Mar 5, 2018	3/2018	
17/19	Funds spent by selected hospitals on settlement of operating costs	MoH, MoD	Mr Stárek	SAO Board	July 30, 2018	4/2018	
17/20	State property and funds allotted to the Fund of Further Education, an organisation co-funded from the state budget	MoLSA	Ms Pýchová	SAO Board	May 21, 2018	3/2018	
17/21	Administration of legal persons' income tax	MoF	Mr Kubiček	SAO Board	Dec 10, 2018	1/2019	
17/22	Implementation of projects within ICT for the Ministry of Labour and Social Affairs	MoLSA	Mr Vedral	SAO Board	June 25, 2018	1/2019	
17/23	Measures to increase energy efficiency carried out within the priority axis 3 of the operational programme Enterprise and Innovation for Competitiveness 2014-2020	MoIT	Mr Neuvirt	SAO Board	June 25, 2018	4/2018	
17/24	Public procurement within state administration and the use of centralised contracting	MoF, MoRD, MoI	Mr Reisiegel	SAO Board	July 30, 2018	4/2018	
17/25	Funds provided to the Czech Republic from the European Economic Area and Norway Grants	MoF, MoJ, MoEYS	Ms Hykšová	SAO Board	May 21, 2018	3/2018	
17/26	Funds earmarked for the measures of cooperation within the Rural Development Programme Czech Republic 2014-2020	MoA	Mr Hrnčíř	SAO Board	May 21, 2018	3/2018	
17/27	State property and funds provided for the Czech Post, state enterprise	MoI	Mr Kalivoda	SAO Board	July 30, 2018	4/2018	



Overview of audits with approved Audit Reports during 2018							
Audit no	Subject of audit	Chapter administrator	Audit Report elaborated by the SAO Member	Audit Report approved by	Date of approval	Issued in SAO Bulletin no	
17/29	State property and funds allotted to the operation of the Security Information Service	BIS	Mr Stárek	SAO Senate	July 12, 2018	Audit protocol not published with reference to the SAO Act	
17/30	Closing account of the state budget chapter Ministry of Defence for the year 2017, the financial statements and data for 2017 submitted for the assessment of fulfilment of the state budget 2017	MoD	Mr Vedral	SAO Board	June 25, 2018	3/2018	
17/31	Closing account of the state budget chapter Ministry of Agriculture for the year 2017, the financial statements and data for 2017 submitted for the assessment of fulfilment of the state budget 2017	MoA	Ms Steidlová	SAO Board	July 30, 2018	4/2018	
17/32	Management of state property and funds allotted to the Ministry of Transport and its selected organisational units of the state	MoT	Mr Adámek	SAO Board	July 16, 2018	4/2018	
17/33	Assurance of security for railroad operations and passengers	MoT	Mr Adámek	SAO Board	Aug 27, 2018	6/2018	
17/34	State guarantees and their implementation from the state budget	MoF	Mr Reisiegel	SAO Board	Sept 17, 2018	6/2018	
17/35	Acquisition and restoration of rail track vehicles	MoT	Mr Málek	SAO Board	Aug 27, 2018	6/2018	
17/36	Accounting reform in the public funds sector	MoF, ČSÚ	Mr Málek	SAO Board	Sept 17, 2018	6/2018	
18/01	Support of business real estate and business infrastructure	MoIT	Mr Hrnčíř	SAO Board	Sept 17, 2018	6/2018	



Overview of audits with approved Audit Reports during 2018						
Audit no	Subject of audit	Chapter administrator	Audit Report elaborated by the SAO Member	Audit Report approved by	Date of approval	Issued in SAO Bulletin no
18/02	State property and funds related to this property earmarked for tasks of the Armed Forces of the Czech Republic	MoD	Mr Hrnčič	SAO Board	Nov 26, 2018	6/2018
18/04	Funds earmarked for the support of the air quality improvement	MoE	Mr Neuvirt	SAO Board	Dec 10, 2018	1/2019
18/10	State property under the management of the Vojenské lesy a statky ČR, state enterprise	MoD	Mr Beznoska	SAO Board	Dec. 10, 2018	1/2019
18/12	State property and funds under the management of selected public archives of the Ministry of the Interior	Mol	Mr Kubiček	SAO Board	Dec 10, 2018	1/2019



Annex 3 to the SAO annual report for 2018

Overview of audits whose approved audit reports were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2018							
Committee resolution	Date discussed	Session no	Audit report	Government material	Government resolution	Summary of Committee resolution	
64	Nov 08, 2018	12	17/05	213/18	200/18	<p>The Committee I. notes:</p> <ul style="list-style-type: none"> a) audit report 17/05, b) the MoT's opinion on audit report 17/05 as contained in Section IV of Government material no 213/18, c) Government resolution no 200/18; <p>II. asks the transport minister to submit to the Committee by Dec 31, 2019 a report on the implementation of and the effectiveness of measures proposed to speed up the transport infrastructure construction projects preparatory phase.</p>	
63	Nov 08, 2018	12	16/06	403/17	465/17	<p>The Committee notes:</p> <ul style="list-style-type: none"> a) audit report 16/06; b) MoT opinion on audit report 16/06 as contained in Section IV of Government material no 403/17; c) Government Resolution no 465/17; d) information from the MoT, RMD and STIF on the implementation of measures adopted to eliminate the shortcomings referred to in audit report 16/06, as imposed by point II of Government Resolution no 465/17. 	



Overview of audits whose approved audit reports were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2018							
Committee resolution	Date discussed	Session no	Audit report	Government material	Government resolution	Summary of Committee resolution	
61	Nov 08, 2018	12	15/22	868/16	982/16	<p>The Committee I. notes:</p> <p>a) audit report 15/22;</p> <p>b) MoT opinion on audit report 15/22 as contained in Section IV of Government material no 868/16;</p> <p>c) Government Resolution no 982/16;</p> <p>d) information from the MoT on the implementation of measures adopted to eliminate the shortcomings referred to in audit report 15/22, as imposed by point II of Government resolution no 982/16;</p> <p>II. requests the transport minister to submit to the Committee:</p> <p>a) by June 30, 2019 information on the state of use, or possibly the state of preparation, of a methodology for determining reported losses, including the reporting of assumed and actual costs and revenues for individual lines;</p> <p>b) by September 30, 2019 information on progress in preparing to open the public services market in supra-regional rail transport.</p>	
54	Oct 11, 2018	11	15/30	1393/16	1081/16	<p>The Committee I. notes:</p> <p>a) audit report 15/30;</p> <p>b) MoI opinion on audit report 15/30 as contained in Section III of Government material no 1393/16;</p> <p>c) Government Resolution no 1081/16;</p> <p>II. requests the managing director of the MoI Services Facility to submit to the Committee by Jan 31, 2019 information on the capacity of use of recreational facilities of the MoI Services Facility from 2016 to 2018.</p>	
48	Sept 06, 2018	10	14/35	1129/16	986/16	<p>The Committee notes:</p> <p>a) audit report 14/35;</p> <p>b) MoI opinion on audit report 14/35 as contained in Section IV of Government material no 1129/16;</p> <p>c) Government Resolution no 986/16.</p>	



Overview of audits whose approved audit reports were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2018						
Committee resolution	Date discussed	Session no	Audit report	Government material	Government resolution	Summary of Committee resolution
45	June 21, 2018	9	15/36	1681/16	231/17	<p>The Committee notes:</p> <p>a) audit report 15/36;</p> <p>b) MoI opinion on audit report 15/36 as contained in Section IV of Government material no 1681/16;</p> <p>c) CSO's opinion on audit report 15/36 as contained in Section IV of Government material no 1681/16;</p> <p>d) MoF's opinion on audit report 15/36 as contained in Section IV of Government material no 1681/16;</p> <p>e) Government Resolution no 231/17.</p>
41	June 20, 2018	9	16/11	416/17	466/17	<p>The Committee I. notes:</p> <p>a) audit report 16/11;</p> <p>b) MoLSA's and Labour Office's opinion on audit report 16/11 as contained in Section IV of Government material no 416/17;</p> <p>c) Government Resolution no 466/17;</p> <p>II. requests the Labour and Social Affairs Minister to submit to the Committee by June 30, 2018 conceptual materials concerning the employment of persons with a disability, setting measurable targets, and a report on the public audits to date of the Labour Office of the Czech Republic by the MoLSA, focusing on the provision of contributions towards the creation of protected jobs or a contribution towards partial payment of the operating costs of protected jobs.</p>
40	June 20, 2018	9	16/24	935/17	779/17	<p>The Committee notes:</p> <p>a) audit report 16/24;</p> <p>b) NSA's opinion on audit report 16/24 as contained in Section IV of Government material no 935/17;</p> <p>c) Government Resolution no 779/17.</p>
39	June 20, 2018	9	15/40	1445/16	1085/16	<p>The Committee notes:</p> <p>a) audit report 15/40;</p> <p>b) MoC's opinion on audit report 15/40 as contained in Section IV of Government material no 1445/16;</p> <p>c) Government Resolution no 1085/16.</p>

Overview of audits whose approved audit reports were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2018						
Committee resolution	Date discussed	Session no	Audit report	Government material	Government resolution	Summary of Committee resolution
32	May 10, 2018	8	17/08	188/18	203/18	<p>The Committee I. notes:</p> <p>a) audit report 17/08;</p> <p>b) MoRD's opinion on audit report 17/08 as contained in Section IV of Government material no 188/18;</p> <p>c) Government Resolution no 203/18;</p> <p>II. requests the Regional Development Minister to submit to the Committee by Dec 31, 2018 an assessment of the adopted remedial measures;</p> <p>III. submits to the SAO a suggestion pursuant to Section 17(3) of Act No. 166/1993 Coll., on the Supreme Audit Office, for an audit of the closing account of the MoRD state budget chapter for 2018.</p>
31	May 10, 2018	8	15/29	1121/16	983/16	<p>The Committee I. notes:</p> <p>a) audit report 15/29;</p> <p>b) MoT's opinion on audit report 15/29 as contained in Section IV of Government material no 1121/16;</p> <p>c) Government Resolution no 983/16;</p> <p>II. requests the Transport Minister to submit to the Committee by July 31, 2018 the extent of measures and the current financial cost of these measures to stabilise and subsequently monitor subsidence areas on the route of the D8 motorway.</p>
27	Mar 29, 2018	7	15/35	1349/16	1083/16	<p>The Committee notes:</p> <p>a) audit report 15/35;</p> <p>b) MoEY's opinion on audit report 15/35 as contained in Section III of Government material no 1349/16;</p> <p>c) Government Resolution no 1083/16.</p>
26	Mar 29, 2018	7	15/14	735/16	773/16	<p>The Committee notes:</p> <p>a) audit report 15/14;</p> <p>b) the MoT's opinion on audit report 15/14 as contained in Section IV of Government material no 735/16;</p> <p>c) Government Resolution no 773/16.</p>



Overview of audits whose approved audit reports were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2018						
Committee resolution	Date discussed	Session no	Audit report	Government material	Government resolution	Summary of Committee resolution
24	Mar 15, 2018	6	16/08	267/17 991/17	237/17	<p>The Committee I. notes:</p> <p>a) audit report 16/08;</p> <p>b) MoJ's opinion on audit report 16/08 as contained in Section IV of Government material no 267/17;</p> <p>c) Government resolution no 237/17;</p> <p>d) the MoJ's information about the implementation of measures to eliminate the shortcomings referred to in audit report no 16/08, as contained in Section II of Government material no 991/17;</p> <p>II. requests the finance minister to submit to the Committee by 15. 4. 2018 information as to how the MoF conducts and organises financial audit at central state authorities, for the reason of the recurring errors in ministries' book-keeping;</p>
23	Mar 15, 2018	6	16/07	195/17	462/17	<p>The Committee notes:</p> <p>a) audit report no 16/07;</p> <p>b) the MoIT's and the MoF's opinion on audit report no 16/07 as contained in Section III of Government material no 195/17;</p> <p>c) Government resolution no 462/17.</p>
20	Feb 15, 2018	5	16/09	545/17 1348/17	781/17	<p>The Committee I. notes:</p> <p>a) audit report 16/09;</p> <p>b) opinion of the MoF, MoRD, MoH and MoA on audit report 16/09 as contained in Section III of Government material no 545/17;</p> <p>c) Government Resolution no 781/17;</p> <p>d) MoF's information about the implementation of measures to eliminate the shortcomings referred to in audit report 16/09, as contained in Section II of Government material no 1348/17;</p> <p>II. requests the Prime Minister to submit to the Committee by March 12, 2018 information as to how the implementation of the Government Resolution is being scrutinised;</p> <p>III. requests the Finance Minister to ensure that the documentation concerning the state budget include the state of claims from unused expenditure as at Aug 1 of the calendar year.</p>

Overview of audits whose approved audit reports were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament in 2018							
Committee resolution	Date discussed	Session no	Audit report	Government material	Government resolution	Summary of Committee resolution	
19	Feb 15, 2018	5	16/04	201/17 111/18	236/17	<p>The Committee notes:</p> <p>a) audit report 16/04;</p> <p>b) MoH's opinion on audit report 16/04 as contained in Section III of Government material no 201/17;</p> <p>c) Government Resolution no 236/17;</p> <p>d) MoH's information about the implementation of measures to eliminate the shortcomings referred to in audit report 16/04, as contained in Section II of Government material no 111/18;</p>	
18	Feb 15, 2018	5	16/08	267/17 991/17	–	The Committee adjourns the discussion.	



Annex 4 to the SAO annual report for 2018

Overview of audits whose approved audit reports were discussed by the Czech Government in 2018					
Government resolution no	Date discussed	Ref. no of Government material	Audit no	Measures imposed by the Government	
722	Nov 07, 2018	915/18	17/15	The Government instructs the Trade and Industry Minister, the Education, Youth and Sports Minister, the Agriculture Minister and the head of the Office of the Government to implement the measures contained in the opinion presented in Section III of material no 915/18.	
721	Nov 07, 2018	749/18	17/23	The Government instructs the Trade and Industry Minister to regularly assess the programme <i>Energy Savings – Part A (subsidies) and Part B (loans) –</i> and to take the measures necessary to increase enterprises' absorption capacity and speed up drawdown.	
720	Nov 07, 2018	724/18	17/30	The Government instructs the Defence Minister to implement and assess the measures in the opinion presented in Section IV of material no 724/18 and to inform the Government of the result by 28 February 2019.	
719	Nov 07, 2018	646/18	17/14	The Government instructs the Health Minister to execute the measures contained in the opinion presented in Section III of material no 646/18.	
718	Nov 07, 2018	779/18	17/20	The Government instructs the Labour and Social Affairs Minister to implement the measures contained in the opinion presented in Section IV of material 779/18.	
717	Nov 07, 2018	814/18	17/31	The Government instructs the Agriculture Minister to implement by the set deadlines the measures contained in the opinion presented in Section IV of material 814/18.	
716	Nov 07, 2018	716/18	17/26	The Government instructs the Agriculture Minister to implement the measures contained in the opinion presented in Section III of material 716/18 by 31 December 2020.	
715	Nov 07, 2018	766/18	17/32	no instructions	
714	Nov 07, 2018	611/18	17/09	no instructions	
–	Nov 07, 2018	764/18	17/02	Adjourned	

Overview of audits whose approved audit reports were discussed by the Czech Government in 2018					
Government resolution no	Date discussed	Ref. no of Government material	Audit no	Measures imposed by the Government	
390	June 19, 2018	347/18	17/17	The Government instructs the Education, Youth and Sports Minister: 1. to implement the measures contained in the opinion presented in Section III of material no 347/18; 2. to inform the Government on progress in the implementation of these measures by 31 December 2019.	
389	June 19, 2018	333/18	17/16	The Government instructs the Culture Minister to ensure that the measures contained in the opinions presented in Section IV of material no 333/18 are implemented.	
388	June 19, 2018	278/18	16/25	The Government instructs the Trade and Industry Minister: 1. to implement the measures contained in the opinion presented in Section IV of material no 278/18; 2. to inform the Government on progress in the implementation of these measures by 30 June 2018.	
387	June 19, 2018	268/18	17/13	The Government instructs the Health Minister to ensure implementation of the measures contained in the opinion presented in Section IV of material no 268/18.	
386	June 19, 2018	242/18	17/06	The Government instructs the Agriculture Minister and SAIF director to execute the measures contained in the opinion presented in Section III of material no 242/18 and to inform the Government of progress by 30 June 2019.	
385	June 19, 2018	229/18	17/07	The Government instructs the Interior Minister to implement the measures contained in the opinion on presented in Section IV of material 229/18 by 30 November 2018.	
384	June 19, 2018	359/18	17/04	The Government instructs the Finance Minister and 1 st Deputy Prime Minister and Minister of the Environment to execute the measures contained in the opinion presented in Section III of material no 359/18 and to inform the Government about their implementation by 1 March 2019.	
383	June 19, 2018	408/18	17/18	The Government instructs the 1 st Deputy Prime Minister and Minister of the Environment to execute the measures contained in the opinion presented in Section III of material no 408/18.	



Overview of audits whose approved audit reports were discussed by the Czech Government in 2018

Government resolution no	Date discussed	Ref. no of Government material	Audit no	Measures imposed by the Government
382	June 19, 2018	272/18	16/29	The Government instructs the Labour and Social Affairs Minister to implement the measures contained in the opinion presented in Section IV of material 272/18.
381	June 19, 2018	260/18	16/32	The Government instructs the Labour and Social Affairs Minister to implement the measures contained in the opinion presented in Section III of material 260/18.
380	June 19, 2018	438/18	17/11	no instructions
204	Mar 27, 2018	54/18	16/31	The Government instructs the Education, Youth and Sports Minister to implement the measures contained in the opinion presented in Section III of material 54/18.
203	Mar 27, 2018	188/18	17/08	The Government instructs the Minister for Regional Development to implement measures in line with the opinion presented in Section IV of material no 188/18.
202	Mar 27, 2018	214/18	17/03	The Government instructs the Health Minister to ensure implementation of the measures contained in the opinion presented in Section III of material no 214/18 and to inform the Government about their implementation by 31 January 2019.
201	Mar 27, 2018	170/18	16/28	The Government instructs the Health Minister to ensure implementation of the measures contained in the opinion presented in Section IV of material no 170/18.
200	Mar 27, 2018	213/18	17/05	no instructions
199	Mar 27, 2018	171/18	17/10	no instructions
198	Mar 27, 2018	83/18	16/30	The Government instructs the Finance Minister to submit to the Government by 31 December 2019 a draft amendment of Act no 218/2000 Coll., on the budgetary rules and amending certain related acts, amending Section 33 so that it is categorically defined that summary state treasury accounts may be in foreign currencies (i.e. in currencies other than the Czech koruna and the single European currency) but do not have to be.



Overview of audits whose approved audit reports were discussed by the Czech Government in 2018						
Government resolution no	Date discussed	Ref. no of Government material	Audit no	Measures imposed by the Government		
197	Mar 27, 2018	82/18	16/21	The Government instructs the Finance Minister to execute the measures contained in the opinion presented in Section III of material no 82/18 and to inform the Government about their implementation by 31 December 2019.		
196	Mar 27, 2018	74/18	17/01	The Government instructs the Culture Minister to ensure that the measures contained in the opinion presented in Section IV of material no 74/18 are implemented and to inform the Government about their implementation by 31 December 2018.		
195	Mar 27, 2018	85/18	16/27	<p>The Government instructs:</p> <ol style="list-style-type: none"> 1. The President of the SONS to execute the hitherto unexecuted measures presented in the opinion contained in Annex 1, Section IV of material no 85/18; 2. The President of the Office of Industrial Property to execute the hitherto unexecuted measures presented in Annex 3, Section IV of material no 85/18. 		
-	Mar 21, 2018	74/18	17/01	Withdrawn from the agenda.		
-	Mar 21, 2018	54/18	16/31	Withdrawn from the agenda.		
-	Mar 21, 2018	85/18	16/27	Withdrawn from the agenda.		
-	Mar 21, 2018	188/18	17/08	Withdrawn from the agenda.		
-	Mar 21, 2018	170/18	16/28	Withdrawn from the agenda.		
-	Mar 21, 2018	171/18	17/10	Withdrawn from the agenda.		
-	Mar 21, 2018	83/18	16/30	Withdrawn from the agenda.		
-	Mar 21, 2018	82/18	16/21	Withdrawn from the agenda.		



List of abbreviations

ACT-J	Anti-infective for systemic use
ASCO	Army Service Contributory Organisation
BIEP	Benchmarking Information Exchange Project Customs Administration of the Czech Republic
BUH	Brno University Hospital
CMH	Central Military Hospital
Concept 2020	Concept of Support for Young People 2014–2020
CR	Czech Republic
DESI	Digital Economy and Society Index
EEA	European Economic Area
ECA	European Court of Auditors
EIA	Environmental Impact Assessment
EIS	European Innovation Scoreboard
EP	European Parliament
ESA	European Space Agency
EU	European Union
EU28	28 European Union Member States
EU/FM	EU funds and financial mechanisms of the European Economic Area
EUROSAI	European Organisation of Supreme Audit Institutions
FEF	Further Education Fund
GDP	gross domestic product
GFD	General Financial Directorate
GJ	gigajoule
ICT	information and communication technologies
INTOSAI	International Organisation of Supreme Audit Institutions
IS	information system
KGOE	kilogram of oil equivalent
MoRD	Ministry for Regional Development
MFE	Military Forests and Estates
MoA	Ministry of Agriculture
MoC	Ministry of Culture
MoD	Ministry of Defence
MoE	Ministry of the Environment
MoEYS	Ministry of Education, Youth and Sports
MoF	Ministry of Finance
MoFA	Ministry of Foreign Affairs
MoH	Ministry of Health
MoI	Ministry of the Interior
MoIT	Ministry of Industry and Trade
MoJ	Ministry of Justice
MoLSA	Ministry of Labour and Social Affairs

MoT	Ministry of Transport
MUH	Motol University Hospital
NIMH	National Institute for Mental Health
NPWP	negotiated procedure without publication
OP	operational programme
OP EIC	Operational Programme Enterprise and Innovation for Competitiveness
OP Emp	Operational Programme Employment
OP Env	Operational Programme Environment
OP F	Operational Programme Fisheries
OP PGP	Operational Programme Prague – Growth Pole
OP T	Operational Programme Transport
OP TA	Operational Programme Technical Assistance
PC Bulletin	Public Contracts Bulletin
PC IS	public contracts information system
PJ	petajoule
PM	particulate matter
PMF	performance measurement framework
PwC	PricewaterhouseCoopers
R&D	research and development
RDI	research, development and innovation
RDP	Rural Development Programme
RMD	Roads and Motorways Directorate
RTA	Rail Track Administration
SAI	supreme audit institution
SAIF	State Agricultural Intervention Fund
SAO	Supreme Audit Office of the Czech Republic
SEF	State Environmental Fund
SHDF	State Housing Development Fund
SG1	EUROSAI strategic goal 1 for 2017–2023
STIF	State Transport Infrastructure Fund
STIIS	State Treasury Integrated Information System
UN	United Nations
VAT	value added tax
WD	Waterways Directorate
WGEA	INTOSAI working group on environmental audit
WGFACML	INTOSAI working group on the fight against corruption and money laundering



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