

Audit conclusion from audit No. 08/37

Funds spent on counselling service provided by the central public administration bodies

The audit was included in the audit plan of the Supreme Audit Office (hereinafter the “SAO”) for 2008 under number 08/37. The audit was managed by the SAO member Ing. Ludmila Brynychová and the audit conclusion was drawn up by the SAO member Ing. Petr Skála¹.

The aim of the audit was to scrutinise the procedure by central public administration bodies when preparing, commissioning, managing and using the results of counselling services.

The audit was performed between November 2008 and October 2009.

The audited period was from 2005 to 2008; where relevant the preceding period and the period up to the end of the audit were also scrutinised.

The audited entities:

the Ministry of Transport (hereinafter “MoT”)

the Ministry of Finance (hereinafter “MoF”)

the Ministry of Defence (hereinafter “MoD”)

the Ministry of Labour and Social Affairs (hereinafter “MoLSA”)

the Ministry of the Interior (hereinafter “Mol”)

the Ministry of Foreign Affairs (hereinafter “MoFA”)

The objections to the conclusions of the audit protocol lodged by MoF, MoD, MoLSA and Mol were dealt with by the heads of the audit teams by means of decisions on objections. The appeals against the decisions on objections lodged by MoD and Mol were dealt with by a resolution of the Board of the SAO (Kolegium).

At its XVIIIth session held on 9 November 2009 the **Board of the SAO** **approved** by its resolution no. 5/XVIII/2009 the **Audit Conclusion** worded as follows:

I Introduction

1. Focus of the audit

From 2003 to 2007 the government of the Czech Republic repeatedly made efforts to make the work of the central public administration bodies more effective; for that reason the audit focused on counselling services that were aimed at improving these bodies’ performance. These were mainly services that can be described as external independent audits. In the case of selected counselling projects² designed to make the working of state administration more efficient the audit sought to identify whether the counselling projects were warranted and properly run so that their goals were achieved economically and efficiently. 18 consultancy projects, comprising 36 contracts and total expenditure of CZK 94,107,670, were scrutinised (see Table 1).

¹ SAO member Ing. Ludmila Brynychová died during the audit.

² The terms “counselling service” or “counselling project” are used hereinafter in the text. “Counselling project” is a synonym for “counselling service” and is mainly used for larger-scale counselling services whose implementation required a project-style approach (e.g. independent comprehensive audits).

The use of counselling service in the field of the award of public contracts was identified as the second cross-cutting topic. The audit sought to identify whether the use of counselling services in the field of the award of public contracts was effective and economical. 82 counselling contracts, under which a total of CZK 142,926,881 was spent, were scrutinised. MoLSA and MoFA made use of the services of counselling entities to represent them in the exercise of rights and obligations under the act on public contracts. The other audited ministries made use of counselling in the field of the award of public contracts in exceptional cases, mainly in cases of strategic contracts or in cases of the assessment of tender documentation or assessment of the legality of procedure under the act on public contracts. The largest volume of expenditure on counselling services in the field of public contracts was registered by MoD in the case of two strategic public contracts with an estimated volume in the billions of koruna; the total amount spent on these services was approx. CZK 98 million.

For the purposes of this audit SAO defined the term “external counselling service” (“ECS”) as follows: an external counselling service is a contractually procured and paid service intended to help the public administration bodies resolve specific, temporally limited tasks or projects.

2. Steps taken by the Czech government to make public administration more efficient

The audited ministries justified the performance of independent audits using the ECS defined below with reference to the following Czech government resolutions:

- In 2003 Czech government resolution no. 624³ of 23 June 2003 instructed the head of the Office of the Government of the Czech Republic (“the Office”) to coordinate and methodologically organise the performance of personnel audit in the central public administration bodies. According to the rules approved by the government⁴ the public bodies were to conduct personnel and organisational audits (“POA”) using their own resources. The Office presented the Czech government with information about the results of POA in the public bodies at the government’s session on 14 July 2004. At the same session of the government, MoF submitted a material stating *inter alia* that one of the conclusions of the POA it had conducted was to commission an external organisational, functional, procedural and informational audit (“OFPIA” or “comprehensive audit”) from an independent audit institution. It also proposed that this external audit of MoF should be done in the form of a pilot project at the level of a central authority of state administration of the Czech Republic. It was envisaged that the conclusions and measures arising from the proposed pilot project could be used, with certain modifications, for other central authorities if the government so decided after evaluating it. The conclusion to perform a procedural audit after the PAO was also reached by the Office and mentioned in its information on the results of the PAO.
- In 2004 the Czech government issued resolution no. 237⁵ of 17 March 2004 approving the procedure and main focuses of the reform and modernisation of central state administration. One of the gradual steps in this reform was the intention to create an “authorities procedural model” in order in detail to map and describe

³ Resolution of the Government of the Czech Republic No. 624 of 23 June 2003 *on the Budget Outlook for 2003 to 2006: Concept of the Reform of Public Budgets.*

⁴ Resolution of the Government of the Czech Republic No. 1010 of 13 October 2003 *regarding the proposed Rules for the Performance of Personnel and Organisational Audit in Central Administrative Authorities, in the Czech Telecommunication Office and the Council for Radio and Television Broadcasting.*

⁵ Resolution of the Government of the Czech Republic No. 237 of 17 March 2004 *on the Procedure and Main Focuses of the Reform and Modernisation of Central State Administration, resolving questions of responsibility and organisation.*

(analyse) current processes (agendas) within the framework of central state administration. It was envisaged that the procedural audits necessary for this step would probably have to be done with the assistance of ECS. The deadline for performing the audits was set at 31 December 2006.

Further to this resolution, in April 2005 the Office of the Government of the Czech Republic submitted materials entitled *Proposal for Further Procedure in the Reform and Modernisation of Central State Administration in the Years 2005-2010 and Procedure and Rules for Performing Organisational, Functional, Procedural and Informational Audit in the Central Administrative Authorities, the Czech Telecommunication Office and the Council for Radio and Television Broadcasting (Procedural Audits)* – hereinafter referred to as “OFPIA Procedure and Rules”. The discussion and approval of these materials was interrupted. The reworked materials were submitted to the government three more times in 2005, specifically at its sessions of 17 August 2005, 21 September 2005 and lastly on 2 November 2005, when the government demanded their repeated reworking according to the government’s instructions. At its subsequent sessions the government did not deal with either these materials or the performance of tasks related to the reform and modernisation of central state administration based on government resolution no. 237 of 17 March 2004.

- The government took further steps to make state administration more efficient in 2007. In its programme declaration⁶ of January 2007 the government declared it would cut the number of employees in state administration by at least 3% per year up to 2010, working on the basis of staffing levels as of 31 December 2006⁷. It went on to declare that “*the Czech Republic must take a fundamental step towards improving its competitiveness by, among other things, improving the efficiency of state administration*”.

II Facts ascertained during the audit

1. Counselling services designed to make the working of state administration more efficient

1.1 Outputs of ECS and their implementation

The audited ministries adopted two approaches to implementing the Czech government resolution on making the working of state administration more efficient.

MoF, MoFA and MoD performed comprehensive audits of the central authority by means of ECS. The comprehensive audits comprised procedural, organisational functional and informational audits. The suppliers of these audits were chosen by these three ministries in open procedure pursuant to the act on public contracts.

Mol, MoT and MoLSA implemented the government resolutions concerning improving the efficiency of state administration by performing partial audits in the form of public contracts up to CZK 2 million in value without VAT, thus making use of the option of simplified procedure pursuant to the act on public contracts. The audits had differing focuses (procedural organisation audit, economic audit, legal audit, purchasing audit etc.) and covered either part of the organisation or the entire organisation of the ministry in question.



















⁶ Resolution of the Government of the Czech Republic No. 44 of 17 January 2007 *on the Government’s Programme Declaration*.

⁷ Resolution of the Government of the Czech Republic No. 436 of 25 April 2007 *regarding the proposal to reduce the number of functional positions in state administration up to 2010 by at least 3% per year*.





The audited ministries often defined the audits' goals in general terms; no criteria were defined for assessing the achievement of the audits' goals. For that reason SAO assessed the achievement of the audits' goals on the basis of whether the measures and recommendations that were supposed to ensure the achievement of the audits' goals were implemented.

Depending on the nature of the audit, the principal outputs of ECS were supposed to be a proposal for a new organisational structure and specific recommendations and proposals for measures designed to improve the working of the area of activity under scrutiny. The following table gives an overview of ECS and the use of their outputs for achieving the defined goals (implementing the results of the audits).

Table No. 1

No.	Auditee	Scope and object of ECS	No. of ECS	Costs for ECS (in CZK thousand)	Year of ECS				Implementation*
					05	06	07	08	
1	MoF	Comprehensive audit	2	19 295,969	x				
2		Partial – administration of foreign debt	4	8 119,739		x			
3	MoFA	Comprehensive audit	4	21 631,523	x	x	x		
4	MoD	Comprehensive audit	2	7 611,240			x	x	
5	MoT	Partial – organisational audit	1	2 249,100	x	x			
6		Partial – organisational audit	2	2 275,280		x	x		
7		Partial – personnel audit	1	226,100			x		
8		Partial – security study	1	2 378,810	x	x			
9		Partial – security policy	1	4 820,690			x	x	
10	Mol	Partial – organisational audit	1	1 892,100		x			
11		Partial – economic audit	1	1 963,500		x			
12		Partial – audit evaluation	1	60,000		x			
13		Partial – COs of the Mol	5	5 766,740		x	x		
14		Partial – central purchasing	6	10 114,405			x	x	
15	MoLSA	Partial – organisational audit	1	1 989,680	x				
16		Partial – organisational audit	1	1 416,100			x		
17		Partial – proposal for organisation rules	1	535,500				x	
18		Partial – economic audit	1	1 761,200			x		
Total			36	94 107,670					

*For detailed information see the following text.

- Legend:
-  ... Implementation of a fundamental part of the audit's outputs
 -  ... Partial implementation of the audit's outputs
 -  ... Implementation of the audit's outputs not begun or not completed
 -  ... Implementation of the audit's outputs not possible to evaluate

The data in the table reveal that at the time of the SAO audit the outputs of ECS had been used to achieve the defined goals in 11 cases out of the 18 audited counselling projects. Of that number, in five cases involving a total spend of approx. CZK 24.2 million (approx. 25.8%

of the audited expenditure) the majority of the proposed measures had been implemented; in another six cases involving a total spend of approx. CZK 23.5 million (approx. 25%) the proposed recommendations were implemented only partially. However, in the case of four counselling projects with a total spend of approx. CZK 33.5 million (approx. 35.6%) the audit outputs were not used at all; and in three cases with a total spend of approx. CZK 12.8 million (approx. 13.6%) it was not possible to assess whether the audit outputs had been used because the submitted documents were insufficient or because implementation was scheduled for after the end of the SAO audit.

1.2 Procedure followed by ministries when preparing, commissioning, managing and using the results of ECS

a) The performance of audits designed to achieve the government's objectives in the field of improving the efficiency of the work of state authorities was begun by MoF, which performed an OFPIA counselling project in 2005. In the information submitted to the government in July 2005 MoF proposed that this audit be done as a pilot project that could serve as a model for the other state authorities after it had been evaluated.

MoF managed the OFPIA project in a way that ensured that the majority of the identified goals were achieved. After this project MoF implemented the proposed organisational structure, cutting 205 functional positions by 1 January 2006 (reduction from 1,473 to 1,268) and also implemented most of the development programmes recommended by the audit.

In October 2005 and in May 2006 MoF evaluated the benefits of this counselling project and submitted the results of this evaluation to the government⁸. The annual saving brought about the reduction in the number of staff at MoF was estimated to be a total of CZK 237 million in the years 2006 to 2008 in relation to average pay. In its evaluation MoF also defined the preconditions for the successful achievement of the audit's goals:

- sufficient support for the project from the ministry's senior officials;
- the audit bodies (steering committee, project team, working teams) were staffed in such a way as to ensure the external auditors received the necessary cooperation. People with key detailed knowledge of the structure of the authority and its parts, of the processes that take place in the authority and of links between its sections should be appointed to these bodies;
- the procedure for adopting the audit's output documents should be set up in a way ensuring that the opinions of deputies, trade union organisations and possibly the directors of the relevant departments can be considered before they are discussed in the project's key body (in MoF this was the steering committee). That makes it possible to ensure new comments or objections are not raised after the document has been accepted;
- communication with employees throughout the project's duration;
- putting in place the best possible conditions for employees whose positions are scrapped in consequence of the audit (besides increased severance pay MoF, in cooperation with an external contractor, prepared an assistance programme to help them find work).

⁸ A report entitled *Course and Results of the Organisational, Functional, Procedural and Informational Audit of the Ministry of Finance* – ref. no. 1589/05, in respect of which the Czech government adopted resolution no. 1348 of 19 October 2005; and a material entitled *Information on the Results of the Performed Organisational, Functional, Procedural and Informational Audit of the Ministry of Finance (for the information of members of government)* – ref. no. 806/06, which was submitted to a session of the Czech government on 31 May 2006.

MoF also shared its experience with the audit at bilateral meetings with MoFA, MoT and MoD.

b) Besides OFPIA, MoF implemented four ECS in 2006 in the field of the management of foreign debts with a view to enabling the transparent and effective management of these debts. The outputs of three ECS were used to achieve the defined goals; a detailed description of every foreign debt was obtained, including a proposed solution, and a procedure for handling the management and unblocking of foreign debts was defined. The ECS outputs that proposed a procedure for managing problematic debts were only partially used, however.

MoF did not perform the public contracting procedure to select a counselling entity to scrutinise the portfolio of foreign debts and propose a new system for managing these debts in a transparent and non-discriminatory way: it expediently divided the contract into two smaller contracts. MoF awarded all the small-scale contracts for ECS in the field of the management of foreign debts to one contractor, which itself set the price of the services in its specifications proposal, and MoF accepted this price.

c) The comprehensive audits undertaken by MoD and MoFA under government resolution no. 237 of 17 March 2004 were not successful, even though the ministries consulted with MoF on the performance of OFPIA before commissioning these audits. MoD did not complete the comprehensive audit. Although MoFA completed this audit and began to implement some of the measures proposed by the audit, it did not manage to complete the process as a whole successfully.

The main reason for failing to achieve these goals in the case of these comprehensive audits was that some of the recommendations and experience MoF presented in the materials submitted at the government session and in bilateral discussions were not respected.

- **MoD**
 - failed to ensure sufficient support for the audit among senior officials; stopped the audit prematurely without giving a clear reason for doing so. The completed part of the audit was insufficient for ensuring the defined goals were achieved.
- **MoFA**
 - failed to ensure sufficient cooperation was provided to the counselling entity by competent employees during the audit;
 - in the phase of implementing the comprehensive audit's results it failed to generate sufficient support for the project to ensure the successful completion of at least the first wave of implementation.

d) The partial audits carried out by MoT, MoI and MoLSA in the field of improving the efficiency of state administration were successful only in certain cases or only partially. Only MoT performed a partial audit in connection with government resolution no. 237 of 17 March 2004. MoLSA and MoI justified the need to perform partial audits on the basis of the government's programme declaration approved on 17 January 2007 or the follow-up government resolution no. 436 of 25 April 2007, or possibly other reasons:

- as part of the reform of central state administration⁴ **MoT** performed a partial organisational audit with the help of ECS in 2004, but this audit could not achieve the defined goal, i.e. creating a procedural model for the ministry, as it was applied to just part of the ministry. Before the results of this audit were implemented, in 2006, again with the help of ECS, a further organisational audit was conducted – the stated justification was the need for the ministry's new management to map the standard of management and optimise the organisational structure. The changes to the organisational structure only partially respected the results of this audit. MoT subsequently made frequent changes to the organisational structure, mainly in

connection with the staffing of senior management positions; in this way MoT failed to respect the recommendations stemming from the organisational audit, specifically the need to stabilise its organisational structure. In 2007 MoT performed a personnel audit in connection with the task of cutting the number of positions by 3% per year⁶; this was only partially successful. Based on the audit's output, unproductive positions were abolished. However, the number of positions was not reduced by 3% per year. Quite the opposite, with the creation of new agendas the number of systematised positions was increased.

- From 2006 to 2008 **Mol** used ECS to perform audits with a view to making its work more efficient and also to improve the efficiency of the contributory organisations (“COs”) it had established. It claimed the audits were necessary to follow up the government's programme declaration of January 2007⁹.
 - In 2006 Mol performed two audits designed to improve its efficiency: a procedural organisation audit and an economic audit. Mol managed the economic audit project in a way ensuring the majority of the defined goals were achieved. However, its management of the procedural organisation audit was such that some of the measures proposed by the audit and the external consultant's subsequent recommendations were not implemented.
 - Based on one of the economic audit recommendations, in 2007 and 2008 Mol performed a counselling project to introduce central purchasing for selected commodities in the Mol's department. Mol managed this project in a way ensuring that one of the two principal objectives – i.e. savings – was achieved by introducing central purchasing of selected commodities in 2008. By the end of the SAO audit Mol had not begun to implement measures relating to the staffing of central purchasing, i.e. reducing the number of employees.

A personnel audit was also conducted in the context of the central purchasing consultancy project. It was found that Mol did not provide sufficient cooperation to the consultant during the personnel audit; it did not supply the necessary information in time; and it paid for incomplete outputs from this audit. It subsequently entered into a new contract for completion of the personnel audit at a total price of CZK 595,000. The SAO audit judged this action by the Mol as a breach of good budget practice.
 - In 2006 and 2007 Mol used external counselling services to perform comprehensive audits of its COs: Ministry of the Interior Services, Mol Housing Administration, Mol Spa Treatment Institutions, and Mol Printing. Mol failed to present sufficient evidence that it had implemented the measures recommended by the audit for its COs.
- In the period under scrutiny **MoLSA** used ECS to perform the following audits concerning improving its efficiency:
 - In 2005 MoLSA performed an audit of the European Social Fund (“ESF”) Aid Management Department. It claimed this was necessary to ensure a sufficient rate of effective drawing of funds allocated to ESF-financed programmes. During the audit MoLSA failed to provide the contractor with sufficient cooperation and the audit was therefore not completed in time. MoLSA implemented only some of the measures recommended by the audit which concerned the set-up of the new organisational structure of the ESF Aid Management Department, and only did so in April 2007, more than a year and a half after completion of the audit. At that time the assignment of the procedural organisation audit was already being prepared by MoLSA – that audit also concerned the ESF Aid Management Department.
 - In 2007 MoLSA performed two separate partial audits: a procedural organisation audit and an economic audit. It justified them with reference to the government's programme declaration of January 2007. MoLSA implemented the recommendations from the procedural organisation audit partially, performing organisational changes to

⁹ Mol justified the need for the audits performed in 2006 with reference to the government declaration **that was still being prepared.**

the MoLSA structure during 2008. Scrutiny of the implementation of the economic audit's outputs concerned two recommendations: MoLSA adopted measures in line with these recommendations.

2. Use of counselling services in the field of public contracts

SAO did not find fundamental shortcomings in its audit of money spent on external counselling services in the field of public contracts. Only in one case it was found that MoD expediently divided a contract into two smaller contracts. This concerned a contract for a legal expertise on lawful ways to transfer the state's ownership to another entity.

III Assessment

The audit focused mainly on the use of external counselling services designed to improve the performance of the central public administration bodies. The government repeatedly imposed tasks in this area on the central public administration bodies and certain other bodies in the years 2003 to 2007. The government did not lay down any rules for the use of external counselling services for fulfilling these tasks.

The audited ministries used the outputs of the external counselling services to achieve the defined goals in 11 cases out of 18; in six cases the outputs were used only partially. The volume of money spent on these 11 counselling services represented approximately 51% of the total volume of money scrutinised in this area, i.e. approx. CZK 94 million. As a result, a state of affairs that would guarantee objective outputs and preconditions for improving the efficiency of central state administration was not attained by the completion of the audit.

The reason for this is partly systemic shortcomings in the management of the process of improving the efficiency of state administration and partly insufficient activity by the audited ministries:

- a) The process as a whole was not centrally managed and there were no government-approved procedures or rules binding the ministries in question and the responsible managers of other central public administration bodies to a uniform procedure when carrying out the process of making state administration more efficient.
- b) When using external counselling services the audited ministries:
 - did not make use of the experience gained from the comprehensive audit already performed at MoF, whose results were to a large extent used to achieve the defined goals;
 - did not give precedence to comprehensive audits over partial audits; yet in terms of time and substance comprehensive audits enable more effective achievement of the required goals;
 - did not define the goals of audits in a way enabling an evaluation of the degree to which they were achieved.

SAO recommends introducing binding rules governing the procedures for using external counselling services, especially for services intended to make state administration more efficient. These rules should respect modern process management methods (e.g. using SMART¹⁰ principles and the principles of good practice), thus enabling the outputs of external counselling services to be put to greater use.

¹⁰The goal must be **s**pecific (concrete, clearly defined), **m**asurable (enabling assessment of the goal's achievement), **a**ceptable (must match the addressee's requirements), **r**ealistic (in view of finite resources) and **t**ime-related (so that it is clear when achievement of the goal can be expected). Source: *Procesní řízení ve veřejné správě* (Monika Glosserová and team).