



Czech Republic
Supreme Audit Office



ANNUAL REPORT 2021

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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's statutory 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 matters 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 legislative, executive or judicial powers in the planning, preparation and implementation of audit activities. 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 chapter.

The basis for the SAO's audit work is the SAO's audit plan. After it is approved by the SAO Board, the audit plan is submitted by the SAO President to the Parliament of the Czech Republic and the Government of the Czech Republic for information and published in the SAO Bulletin. Audit results are presented in audit reports, which summarise and assess audit findings. Audit reports are approved by the SAO Board or the appropriate SAO senates.

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 to the extent 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 the accounting in accordance with legal regulations. This type of audit is a tool for verifying the accuracy of information which is presented in the closing accounts of state budget chapters 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 which 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 prepared as at 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 if raised by an audited entity against a member of the SAO.



Members of the SAO perform audits, manage audit activities and prepare audit reports according to the audit plan; they participate in the activities of the SAO senates and the SAO Board. They manage audits from the authorisation to perform the audit to the approval of the audit reports.

Table 1: Overview of audits conducted in 2021

Name of SAO Member	Member since	Number of audits managed up to the end of 2021	Overview of audits managed by the SAO Member in 2021	
			Completed	Not completed
Mr. Adolf Beznoska	14 Mar. 2017	11	20/12 20/13 21/04	21/17 21/20
Mr. Pavel Hrnčič	11 Dec. 2009	29	20/20 21/13	21/33
Mr. Jiří Kalivoda	17 Sept. 1993	74	19/30 20/01	21/08
Mr. Jan Kinšt	25 Jan. 2018	11	20/10 20/18 21/01	21/22 21/30
Mr. Vladimír Koniček	4 Dec. 2018	5	20/02 20/16	21/05 21/12
Mr. Stanislav Koucký	8 Oct. 2020	2	–	21/35 21/38
Mr. Josef Kubiček	10 June 2014	19	20/32	21/07 21/15 21/23 21/34
Mr. Jan Málek	21 June 2016	15	20/11 20/14	21/03 21/36 21/37
Mr. Petr Neuvirt	21 Dec. 2010	39	20/04 20/05 20/06 20/19	21/06 21/14 21/19
Mr. Roman Procházka	25 Jan. 2018	8	20/23	21/10 21/16 21/28
Mr. Daniel Reisiegl	30 Apr. 2010	31	20/21	21/18 21/25
Mr. Roman Sklenák	17 Sept. 2021	0	–	–
Mr. Jan Stárek	4 June 2015	16	20/29	20/24 21/21 21/29
Ms. Jaromíra Steidlová	16 Nov. 2006	34	20/25 20/34	21/24 21/27
Mr. Michal Šmucr	10 June 2020	2	21/02	21/09
Mr. Jan Vedral*	25 Apr. 2001	62	20/07 20/22 20/27 20/33	–

* Mr. Jan Vedral – term of office ended on 20 August 2021.

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 President's Office, the Board secretary, the Director of the Security Department and the Director of the Internal Audit Department.



Ms. Zuzana Čandová



Ms. Jana Ermlová



Ms. Alena Fidlerová



Mr. Radek Haubert



Ms. Zdeňka Horníková



Mr. Miloslav Kala



Ms. Ladislava Slancová



Mr. Pavel Skalník

4. MISSION AND BENEFITS OF THE SAO'S WORK

The SAO's strategic mission is to provide objective information on the state's management of public funds¹. Results in the form of audit reports, opinions on the implementation of the state budget, opinions on the state closing accounts and other outputs of the SAO's work provide important feedback on the legality, economy, efficiency and effectiveness of the use of public funds and state property, and in this way contribute to the promotion of good practice. Independent and objective feedback is essential for the functioning of the Czech state. This information is important for parliament and government, which are the SAO's key partners, as well as for the general public for the proper functioning of public control.

The SAO has a solid footing for its work as a result of its independence from the executive and, above all, because of its long-standing status as a reliable, professional and trustworthy partner and information provider. The SAO's objective, targeted and comprehensible conclusions and recommendations lead to shortcomings being remedied and a positive shift in the management of public funds and property, with the promotion of good practice.



The most important impacts of the SAO's work include positive pressure exerted on the appropriate authorities to eliminate identified shortcomings and implement systemic corrective measures. Audits also have a crucial preventive effect on other entities, encouraging them to avoid management and control errors and strengthen the accountability of 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 this is not the principal goal of audit work, the SAO has an important impact in the form of its fulfilment of its reporting duty in connection with breaches of budgetary discipline and criminal liability.

The key data on the SAO's activities in 2021, which are set out in the following section of this Annual Report, as well as the numerous findings presented in its other sections, are clear and comprehensible evidence of the SAO's results and contribution.

¹ The SAO's mission is part of the *Strategy of the Supreme Audit Office for 2018–2022*.

5. AUDIT PLAN FOR 2021

The SAO audit plan for 2021 was the fundamental document defining the focus and timing of audits last year. When compiling the plan, the SAO, in accordance with its strategy, focused mainly on those areas and issues that are important in terms of the functioning of government policies in various areas of citizens' lives, the effectiveness of state administration, and the CR's competitiveness by international comparison.

The SAO's approach was mainly analytical and risk-based in order to ensure its audit work was effective. The guiding principle was to identify risks in the state's financial management arising from the failure to proceed economically, efficiently and effectively or to comply with the law. The goal is for audit results to help promote good practice in the state's financial management and bring about improvements in areas where the SAO sees shortcomings.

Key areas targeted by the SAO's audit plan included:

- funds earmarked for information support for anti-epidemic measures,
- support for the processing and promotion of agricultural products,
- visitor infrastructure projects related to nature conservation,
- funds earmarked for the implementation of waste management measures,
- state funds from road tax and administration of this tax,
- funds earmarked for reconstruction of off-corridor railway tracks and for D1 motorway modernisation,
- support for family policy, social housing and social enterprises,
- computerization in the Ministry of Justice,
- support for presentation, protection strengthening, and development of cultural heritage,
- promotion of recreational voyages,
- support for the humanisation of psychiatric care,
- funds spent on compensations,
- state funds spent on a soft targets protection system,
- funds spent on the ESF 2014+ Information System and on the Integrated State Treasury Information System,
- acquisition, storage and elimination of ammunition by the Army of the Czech Republic,
- financial management of selected state organizations,
- reliability of financial management data underpinning institutions' accounts concerning the management of state budget funds.

The audits included in the 2021 audit plan were based on suggestions arising from the SAO's own monitoring and analytical activities.

The audit plan for 2021 was adopted by the SAO Board at its session on 19 October 2020. A total of **33** audits were approved. During 2021, four audits were cancelled and five other audits were added (one during 2020, the others in 2021), to a total of **34** audits.

An overview of the audits included in the 2021 audit plan, and their specific focus and timing, are presented in Annex 1 to this Annual Report. In accordance with the time schedule, individual audits were launched gradually during 2021. Depending on the start time and audit duration, the planned completion times, i.e. when audit reports are approved, are in 2021 and 2022.

II. ASSESSMENT OF AUDIT AND ANALYSIS WORK IN 2021

The assessment of the SAO's activities presented in this chapter is based mainly on the results of the audits that were completed in 2021 when the audit report was approved by the SAO Board. Findings from the SAO's opinions on the draft State Closing Account for 2020 and on the report on economic development and the implementation of the state budget of the Czech Republic for the first half of 2021, information from other SAO reports, as well as other findings from the SAO's analysis work were also used.

The assessment is based on the results of a total of **29 audits**², an overview of which is provided in Annex 2 to this Annual Report. These audits, included in the audit plans for 2019-2021, were completed in 2021. The SAO thus fulfilled its mandate in all segments of its competence in accordance with the provisions of Article 3(1) and (3) of the SAO Act. The audits mainly targeted the 2017-2021 period. The sources of information for all infographics in this Annual Report are provided in Annex 5.

1. OPENING SUMMARY

The results of the SAO's audits for 2021 point to long-term and often systemic problems in a number of areas that represent an underused opportunity for the Czech Republic to save public funds.

Savings do not have to mean cuts without compensatory measures. The SAO sees major potential for more economical behaviour of the state in changing or directly eliminating inefficient and often long-established activities and procedures. In its audits last year, for example, the SAO drew attention to uneconomical purchasing, the digitalisation of processes that have not been modernised, ineffective controls carried out by some state institutions, and a haphazard approach to state property that causes the state to lose money unnecessarily.

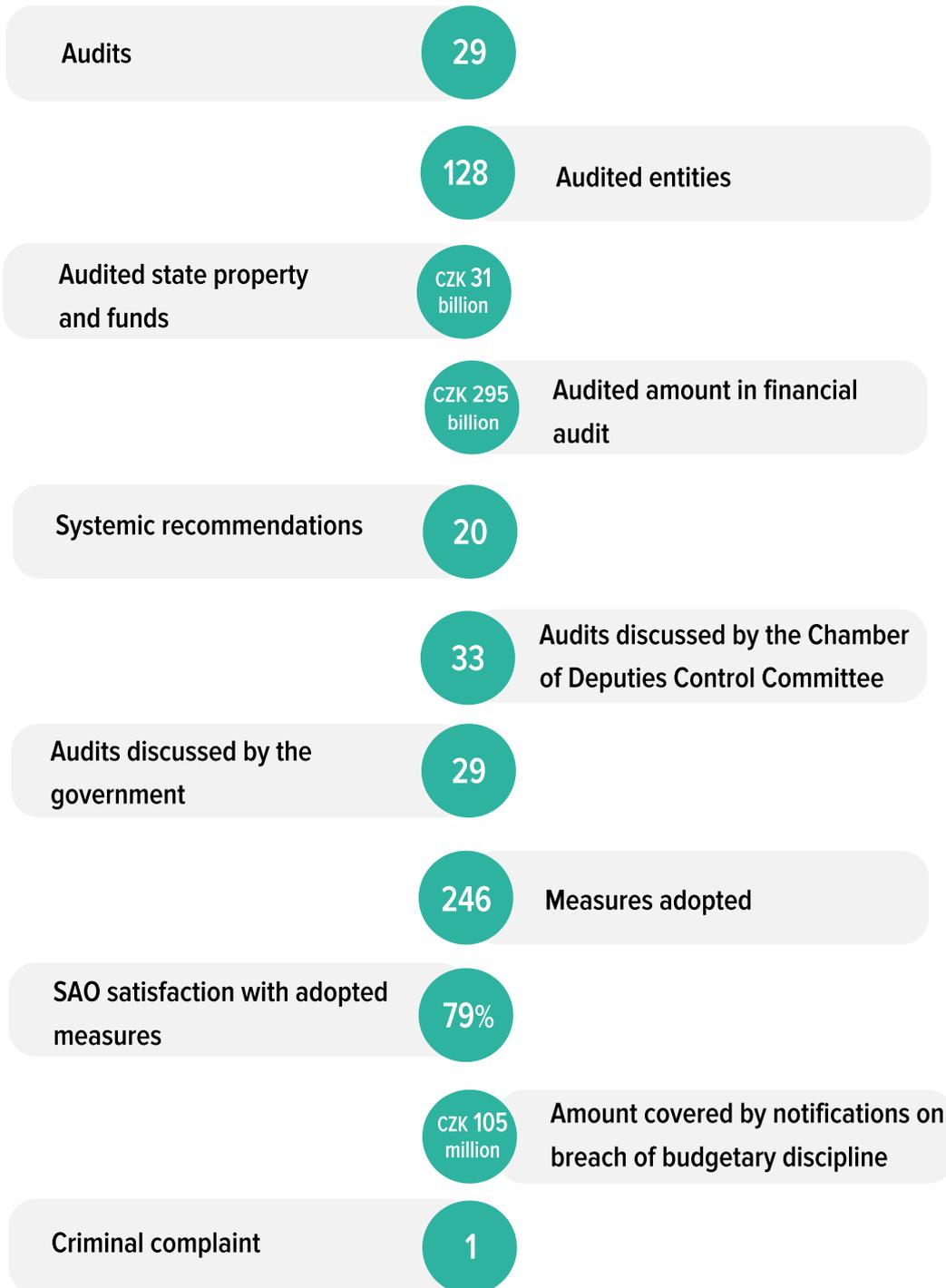
A separate issue is the correct targeting of resources and evaluation of their impact. These are basic principles necessary to ensure that the state does not needlessly spend more money than it actually has to and that it obtains the best value-for-money. One example is enterprise support, where the state has failed to evaluate the benefits accrued from the tens of billions of koruna it has distributed. However, there were also issues that directly affect the lives of citizens, e.g. in social policy, where, despite the money distributed, results have not been forthcoming and, in some cases, the objectives set do not reflect the real needs of citizens. Mention can also be made of environmental policy, where the state is failing to achieve its planned goals and, in some cases, is merely addressing the consequences instead of the causes of the problem.

The problems described above are even more pressing in the light of the growing government debt and current expenditure in recent years. It is this long-term imbalance of the national economy that is a major risk to the sustainability of public finances. The responsible authorities have not done enough to find savings or ways to streamline their activities – this is something that has already posed a significant problem for the state of public finances in the Czech Republic in previous years.

In this Annual Report, the SAO sets out the general themes and specific issues arising from its audit work that present an opportunity for preventing waste of public funds. A proactive approach by the responsible authorities to the identified problems is one of the ways to improve the state's economic position and contribute to the stabilisation of public finances.

² Of these, one audit was commenced in accordance with the audit plan in 2019, 24 in 2020 and four in 2021. The audits were carried out in all segments of the SAO's competence as defined by the Act on the SAO, with the exception of the competence in the area of the Czech National Bank's financial management and the issuance and redemption of state securities, where the SAO carries out audits at longer intervals.

The SAO in 2021



GOVERNMENT DEBT GROWTH IS A SERIOUS RISK TO THE SUSTAINABILITY OF PUBLIC FINANCES

THE HUGE INCREASE IN CURRENT EXPENDITURE CONTINUED IN 2021. ACCORDING TO THE APPROVED BUDGET FOR 2021, THE MANDATORY AND QUASI-MANDATORY PART OF THE BUDGET WAS TO REACH 99% OF THE TOTAL BUDGETED REVENUE. IN CONTRAST, CAPITAL EXPENDITURE INCREASED ONLY SLIGHTLY YEAR-ON-YEAR. THIS HAS LED TO A RECORD DEFICIT IN THE STATE BUDGET, WHICH IS ACCOMPANIED BY AN INCREASE IN GOVERNMENT DEBT. THE HIGH PACE OF BORROWING AND THE FAILURE TO LOOK FOR SAVINGS POSE A SERIOUS THREAT TO THE LONG-TERM STABILITY OF PUBLIC FINANCES.

The year 2021 was again strongly affected by the Covid-19 pandemic. Despite the continuing pandemic, the Czech Republic recorded year-on-year GDP growth of 2.9%, but that was 2.2 percentage points lower than the EU average. In 2021 the Czech Republic continued to have the lowest unemployment rate in the EU: at 2.8%, unemployment in the CR was almost 5 percentage points below the EU average.

The state budget ended 2021 with a deficit of CZK 419.7 billion, which was the worst economic result in the history of the independent Czech Republic. The reported deficit increased by more than CZK 52 billion year-on-year, even though the economic restrictions did not reach the same level as in 2020. The record deficit was mainly due to a significant increase in current expenditure, which rose by CZK 59.5 billion, or 3.6%. In contrast, capital expenditure increased by just CZK 4.5 billion, or 2.6% year-on-year. Capital expenditure also decreased relative to total expenditure and GDP.

From 2017 to 2020, the number of state employees increased by almost 32,000 and the total finances going on salaries and other payments increased by almost CZK 66 billion.

Due to the high state budget deficits, government debt increased significantly in 2020 and 2021. At the end of 2021, it stood at CZK 2,466 billion, a year-on-year increase of CZK 416 billion. Government debt also increased significantly relative to GDP, up 4.8 percentage points year-on-year, resulting in a ratio of almost 41%. Although the Czech Republic is still one of the least indebted countries by European comparison, the government debt growth rate in 2021 was the third highest.

Total state budget revenues amounted to CZK 1,487.2 billion in 2021, a year-on-year increase of CZK 11.8 billion. The year-on-year increase in revenues was mainly due to growth in social security contributions collected, which increased by CZK 55.0 billion year-on-year. In 2021, as in the previous year, total revenues fell short of 2019 pre-crisis levels. State budget expenditure in 2021 amounted to CZK 1,906.9 billion and was CZK 64.0 billion higher year-on-year than in 2020. The approved expenditure budget was exceeded by CZK 21.3 billion.

Almost 90% of the year-on-year increase in total spending was unrelated to Covid-19.

The SAO has repeatedly drawn attention to significant shortcomings in the state's financial management that pose a significant risk to the stability of public finances.

PROGRESSING DIGITALIZATION IS INSUFFICIENTLY REFLECTED IN INCREASING THE EFFECTIVENESS OF PROCESSES AND THE EFFICIENCY OF PUBLIC ADMINISTRATION

THE SAO HAS REPEATEDLY FLAGGED UP INAPPROPRIATELY DEFINED PROCESSES IN THE STATE ADMINISTRATION, WHICH ARE THE MAIN CAUSE OF ITS OVERALL LOW EFFICIENCY. THIS IS ALSO ILLUSTRATED BY THE RESULTS OF INTERNATIONAL COMPARISONS, IN WHICH THE CZECH REPUBLIC'S RANKING HAS FAILED TO IMPROVE SIGNIFICANTLY. IT IS PRECISELY THE REVISION OF PROCESSES AND PROCEDURES IN THE STATE ADMINISTRATION THAT IS THE BASIC PREREQUISITE FOR TRULY BENEFICIAL DIGITALISATION. DIGITALISATION BASED ON OUTDATED PROCEDURES DOES NOT DELIVER REAL CHANGE FOR THE BETTER. ON THE CONTRARY, IN SOME CASES IT IS EVEN MORE TIME-CONSUMING AND BUREAUCRATIC, AS THE RESULTS OF SAO AUDITS SHOW.

Electronisation of public administration in the Czech Republic is disproportionately expensive, progresses very slowly and does not deliver the expected results. In the international DESI comparison³, focused primarily on digitalisation, the CR consistently lags behind the EU average. In 2021 the CR even dropped one place year-on-year to end up 18th out of the 27 EU Member States, mainly due to a below-average result in the indicator rating digital public services.

While there is real evidence of an improvement in the standard of digital services, in some areas, digitalisation is not having the necessary effect. The key requirement is a review and meaningful optimisation of processes in public administration, which should be clearly defined and operate efficiently. The automation of outdated processes without a precisely defined remit leads to ex-post changes in the remit, longer implementation times and the creation of information systems that do not deliver the expected benefits. Isolated digitalised agendas and uncoordinated management are in some cases clearly counterproductive and increase workloads.

*Expenditure on the electronisation of state administration is constantly growing. Since 2017 ministries have spent more than **CZK 70 billion**.*

This is illustrated by the results of an audit targeting the administration of social security contributions, for example. The reason for the higher administrative complexity was the implementation of the self-employed persons agenda in the local computer applications of individual district social security administrations, which have not been centralised since 2015. Additional bureaucracy came from the decision to keep file documentation in paper form, which had to be physically moved from one social insurance institution to another if there was a change in an employer's location. The increased bureaucracy reduced the efficiency of public administration in this area. The SAO's analysis found that the administrative complexity of selected indicators of the entity registration process and the insurance premium setting process increased in some cases in the electronic form compared to the paper form⁴.

In its audits, the SAO has also repeatedly flagged up the problem of dependence on a narrow range of suppliers, what is known as vendor lock-in. This dependence significantly increases costs, makes maintenance of morally and technically obsolete information systems more expensive and causes a decline in IT competences on the part of the state administration. The SAO again pointed out this shortcoming in an audit focused on ICT in the Ministry of Agriculture. The SAO found that the SAIF is heavily dependent on its main supplier in terms of support for the operation and development of its IT system, on which it spent more than **CZK 750 million** annually between 2016-2019. The system was dogged by very high operating costs and high unit prices for external IT specialists and services⁵.

3 The Digital Economy and Society Index 2021/DESI/ composite indicator assesses the following: connectivity, human capital, use of internet services, integration of digital technologies, digital public services; see: <https://ec.europa.eu/digital-single-market/en/desi>.

4 SAO audit No. 20/01 (see chapter II.3. of this Annual Report).

5 SAO audit No. 20/07 (see Chapter II.4.1 of this Annual Report).

THE STATE FAILS TO ACHIEVE THE REQUIRED RESULTS IN THE ENVIRONMENTAL AREA

THE STATE IS FAILING TO MEET ITS GOALS FOR BOTH WATER QUALITY IMPROVEMENT AND ENERGY SAVINGS. FUNDS THAT DO NOT CONTRIBUTE SUFFICIENTLY TO THE DEFINED GOAL CANNOT BE REGARDED AS EFFECTIVELY SPENT. STATE SPENDING ON SELECTED ENVIRONMENTAL ISSUES ADDRESSES EFFECTS INSTEAD OF CAUSES, WHICH SIGNIFICANTLY REDUCES THEIR IMPACT.

The quality of groundwater and surface water is not improving, as confirmed by the regular monitoring done by the Czech Hydrometeorological Institute. The responsible authorities have not adopted fundamental measures that would make a real contribution to improving water quality. As the ministries do not address the causes of water pollution, they have to spend billions of koruna on modernising drinking water treatment technologies. The state is also failing to fulfil the measures and targets for energy savings it set itself in accordance with the requirements of the EU Energy Efficiency Directive. The SAO concluded that targets for reducing the final energy consumption of state-owned buildings and residential buildings were not being achieved. The SAO also pointed out that the *New Green for Savings* programme (NGfS) was allocated half as much money from the proceeds of the auctioning of emission allowances between 2017 and 2019 as it was legally entitled to.

*In surface waters in particular, banned or unused substances are detected at more **than 80% of sites** every year.*

The state spent **CZK 65 million** on the measures of both national action plans in the field of water quality. However, these were generally analytical, methodological and formal tasks that were only a prerequisite for specific measures and activities to improve water quality. The SAO also pointed out that the MoA failed to enforce the application of the principles of integrated plant protection in agricultural management⁶. Uniform rules for targeted monitoring of pesticides in water used as a source of drinking water were not established. The state therefore had to invest billions from EU funds and from the state budget to modernise drinking water treatment plants, as modern treatment technologies are so costly that they are virtually impossible to implement without subsidies. For these reasons, they are not available in places with a small number of customers, where exemptions from the hygiene limit for pesticides in drinking water have consequently increased significantly⁷.

*The deteriorating quality of drinking water sources made it necessary to modernise technologies at the Plzeň and Želivka water treatment plants at a total cost of **CZK 2.6 billion**.*

The state failed to fully utilise funding under OP En and NGfS intended to support energy savings in public buildings, as it used only **CZK 3.5 billion** instead of the allocated **CZK 20 billion**. As a result, the reduction in final energy consumption in these buildings and achievement of the defined targets by 2020 was limited in scope. According to data from May 2021, the target set for the end of 2020 was not achieved (shortfall of **1.6 TJ**)⁸.

*At the end of 2019, **585** buildings owned by the Czech Republic and used by central institutions did not meet the energy performance requirements, i.e. **76%** of the total number of **774 buildings**.*

Similarly, there has not been a significant reduction in final energy consumption in residential buildings, which even fell short of the planned programme commitments of the Czech Republic⁹. The low energy savings were due to both the late start of support provision and the lack of demand among applicants. The SAO assessed that the NGfS programme was more efficient in terms of the use of subsidy funds per unit of energy saved than IROP¹⁰.

*The average subsidy per unit of energy saved was more than double under IROP compared to NGfS: for IROP **CZK 2,681/GJ**; for NGfS **CZK 1,271/GJ**.*

6 Directive 2009/128 / EC of the European Parliament and of the Council of 21 October 2009 establishing a framework for Community action to achieve a sustainable use of pesticides.

7 SAO audit No. 20/04 (see Chapter II.4.8 of this Annual Report).

8 SAO audit No. 20/05 (see Chapter II.4.9 of this Annual Report).

9 The IROP and NGfS programmes are included in the list of "alternative policy measures" of the Czech Republic to meet the energy savings targets on the end-use side according to Article 7 of the EED Directive. The commitments of the individual programmes as contributions to the Czech Republic's target are set out in the National Energy Efficiency Action Plan of the Czech Republic, which was approved by Government Resolution No. 215 of 16 March 2016, updating the National Energy Efficiency Action Plan of the Czech Republic.

10 SAO audit No. 20/19 (see Chapter II.4.9 of this Annual Report).

SUBSIDIES IN THE SOCIAL AREA LACK RESULTS AND IN SOME CASES, IN ADDITION, DO NOT REFLECT THE NEEDS OF CITIZENS

THE STATE HAS LONG FAILED TO ACHIEVE ITS SOCIAL OBJECTIVES. MOREOVER, SOME OF THE TARGETS SET BY MINISTRIES DID NOT RESPOND TO CITIZENS' REAL NEEDS. SIMILARLY, SOME MINISTRIES HAVE SPENT SIGNIFICANT AMOUNTS OF MONEY IN THE SOCIAL SECTOR WITHOUT LOOKING AT THE ACTUAL BENEFITS AND THE CHANGES THEY WILL BRING.

The SAO has repeatedly pointed out that the responsible authorities do not address social issues sufficiently. The SAO found serious shortcomings not only in the prevention of drug addiction and other addictions, but also, for example, in the provision of support for food banks and social services. Another long-standing problem is the deferment of pension reform, which is becoming increasingly urgent as demographic trends worsen. The demographic development is associated with a greater burden on the state budget, as evidenced by the increasing *economic burden index* monitored by the Czech Statistical Office.

*The Czech Statistical Office estimates that in 2060 there will be **81 economically inactive people per 100 economically active people.***

Another aspect that is significantly affected by population ageing was highlighted by an audit focusing on support for the development and renewal of the material and technical assets of social services facilities. In particular, the MoLSA set up programmes for establishing new residential beds in such a way that in some cases the targets set did not correspond to the actual need. At the end of 2016, for example, there were almost **92,000** unfulfilled requests for placement in new beds, but the MoLSA set a target to create **just 605** new beds. Unless the MoLSA takes truly effective steps, the situation of insufficient inpatient facilities will continue to worsen due to the ageing population.¹¹

*Between 2018-2019, the increase in the residential capacity of social services was just **245** new beds.*

Although more than **CZK 849 million** was spent on drugs policy programmes between 2016 and 2019, only **2 of the 16** goals defined in the *National Strategy of Anti-drugs Policy for 2010–2019* were achieved. What is more, the audited ministries did not set measurable objectives and indicators in the drugs policy programmes allowing an assessment of their actual benefit, especially as regards prevention, risk reduction and reducing the availability of drugs for young people¹².

The SAO also drew attention to significant shortcomings in the support spent on reducing food waste and on the distribution of food to people on the edge of material need. In 2016–2019, the Ministry of Agriculture distributed over **CZK 209 million** in such aid. The MoA only kept statistics on the number of projects supported and the amount provided, without monitoring the benefits of the distributed aid. The MoA sourced information on the amount of food distributed from food banks. These sources of information, however, could not tell us whether the money was used in the best possible way, as evidenced by the quantified costs of food aid distribution¹³.

*Food banks' distribution costs per kg of food varied widely in 2019: from approx. **CZK 3** to approx. **CZK 31.***

11 SAO audit No. 20/22 (see Chapter II.4.5 of this Annual Report).

12 SAO audit No. 20/12 (see Chapter II.4.5 of this Annual Report).

13 SAO audit No. 20/23 (see Chapter II.4.5 of this Annual Report).

RESPONSIBLE AUTHORITIES DO NOT EVALUATE THE ACTUAL BENEFITS OF BUSINESS SUPPORT

THE SAO HAS REPEATEDLY POINTED OUT THAT THE RESPONSIBLE AUTHORITIES DO NOT MONITOR AND EVALUATE THE ACTUAL BENEFITS OF DIRECT AND INDIRECT SUPPORT TO ENTERPRISES, WHICH AMOUNTS TO BILLIONS OF KORUNA EVERY YEAR. SHORTCOMINGS IN THE DEFINED RULES AND FAILURE TO RESPECT THE 3E PRINCIPLES ARE IMPORTANT FACTORS FOR IDENTIFYING AREAS WHERE SAVINGS OF PUBLIC FUNDS CAN BE SOUGHT.

The state has long supported a wide range of areas without the responsible authorities evaluating the demonstrable benefits of the money spent. This kind of evaluation is a prerequisite for ensuring that the use of public funds is as well targeted as possible. Expenditure flouting the 3E principles in the provision and use of funds has placed an additional burden on the state budget.

In the years 2000–2019, the MoIT provided more than **CZK 75 billion** for investment incentives that were intended to help reduce unemployment, among other things. In spite of the fall in unemployment, the number of these incentives increased in the audited period. In addition, the MoIT did not possess any information showing how the investment incentives contributed to the Czech Republic's economic development, even though this was supposed to be their primary purpose. The largest volume of incentives (**96%**) went to large Czech manufacturing companies for investments without any obligation to generate higher value added¹⁴.

*According to the MoF's cash-based reporting in 2021, non-investment transfers to business entities increased by **CZK 19 billion** year-on-year to total almost **CZK 126 billion**.*

The same applies to support granted to SMEs for consultancy, marketing and training, for which the MoIT provided more than **CZK 2.3 billion** under OP EIC from 2015 to 2020. The MoIT did not evaluate its actual benefit, i.e. whether it improved the competitiveness of SMEs and facilitated their access to foreign markets. Some of the target indicator values grew even without the support or, conversely, the result indicator kept deteriorating even though the amount paid out exceeded **CZK 701 million**¹⁵, e.g. in the case of the *Marketing* support programme.

In the case of support earmarked for the construction of training centres, the MoIT did not monitor the use of these training centres, which was one of the binding conditions. An obligation for beneficiaries to submit an overview detailing the utilisation of training centres' capacity was not introduced by the MoIT until the SAO audit was in progress.

As part of support for SMEs to increase participation in international trade fairs, by the end of 2019 almost **CZK 65 million** had been spent on internal projects implemented by CzechTrade. This represented **almost half** of the reimbursed expenditure for these projects¹⁷.

¹⁴ SAO audit No. 20/13 (see Chapter II.4.2 of this Annual Report).

¹⁵ SAO audit No. 20/20 (see Chapter II.4.2 of this Annual Report).

THE PERFORMANCE OF THE MAIN ACTIVITIES OF THE ORGANIZATIONS AND THEIR PURPOSES ARE ACCOMPANIED BY DEFICIENCIES ASSOCIATED WITH WRONG MANAGEMENT OF PUBLIC FUNDS.

THE SAO REPEATEDLY DRAWS ATTENTION TO UNECONOMICAL PURCHASING BY SOME STATE INSTITUTIONS AND VIOLATIONS OF THE LEGAL REGULATIONS IN PUBLIC PROCUREMENT. SOME STATE INSTITUTIONS DID NOT RESPECT THE 3E RULES WHEN TAKING CARE OF THE ASSETS ENTRUSTED TO THEM, WHICH LED TO UNNECESSARY EXPENDITURE AND DEGRADATION OF THESE ASSETS.

The SAO shows that there is significant further scope for expenditure savings provided that the 3E principles are respected in purchasing done by state institutions and in caring for entrusted assets. The SAO sees further significant potential for savings in consistent compliance with the conditions of the state's ownership policy via institutions that fulfil their purpose. Inefficient processes and activities in the state administration represent untapped potential for savings.

The SAO drew attention to serious deficiencies in health care purchasing. Health institutions' expenditure on purchasing amounted to more than **CZK 1.3 billion** in the audited period, with **as much as 85%** accounted for purchases done without tender procedures and on the basis of small-scale contracts. The SAO found deficiencies in all stages of purchasing in the audited sample and concluded that more than **CZK 168 million** was wrongfully spent¹⁶.

The way health institutions' internal control systems are set up has not put in place the right conditions for effective, efficient and economical performance of public administration in the field of public purchasing.

Haphazard planning and mistakes in the preparation of investment projects by the Ministry of Foreign Affairs (MoFA) caused the reconstruction of some embassy buildings to be delayed. According to the SAO, one consequence of these shortcomings was that the MoFA spent almost **CZK 22 million** on the preparation of two investment projects ineffectively. Another consequence is that some embassy buildings are in poor or even critical condition. This puts a greater burden on the state budget as the cost of keeping the buildings in working order is driven up¹⁷.

*Duration of preparations for work to tackle the unsatisfactory condition of selected embassies – embassy in Berlin: **21 years**; embassy in Washington: **14 years**; Permanent Mission of the Czech Republic to the United Nations in New York: **7 years**.*

In 2016–2020, the state firm Transgas reported a cumulative loss of almost **CZK 23 million**. It wrongly accounted for a receivable from the so-called Yamburg Agreements in the amount of **CZK 4.6 billion**, which accounted for **91%** of the company's assets and liabilities. However, it is the Ministry of Finance that is competent to manage this receivable, which eliminates the only significant reason for the existence of this state enterprise. Transgas can therefore be described as "redundant" and the SAO therefore recommended that the MoIT weigh up its continued existence and subsequently issue a decision winding it up¹⁸.

The SAO found, among other things, that the CSSA's expenditure on employees carrying out employer inspections was inefficient. The CSSA carried out these checks every year on an across-the-board basis instead of focusing primarily on high-risk employers that were not fulfilling their legal obligations. In the audited period, about **76.5%** of the performed inspections did not detect any shortcomings, while the total expenditure on these inspections amounted to **CZK 1.2 billion**¹⁹.

16 SAO audit No. 19/30 (see Chapter II.4.6 of this Annual Report).

17 SAO audit No. 21/01 (see Chapter II.5.1 of this Annual Report).

18 SAO audit No. 21/13 (see Chapter II.5.1 of this Annual Report).

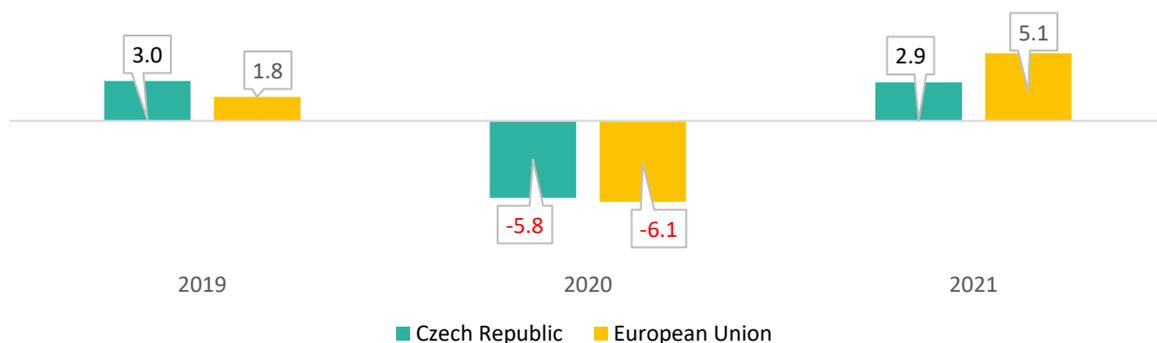
19 SAO audit No. 20/01 (see Chapter II.3 of this Annual Report).

2. PUBLIC FINANCE

Based on its opinions on the draft State Closing Account and the report on the implementation of the state budget, the results of audit and analysis work and the current data for 2021, the SAO expresses its opinion on the development of the economic situation and the results of the management of public funds and the state budget.

The year 2021, like the previous year, was significantly affected by the Covid-19 pandemic. Prior to its outbreak, the Czech Republic maintained higher annual GDP growth than the EU average. In 2020 there was an almost identical decline in GDP, with GDP falling by **5.8%** in the Czech Republic and **6.1%** in the EU. In 2021, GDP was expected to display year-on-year growth due to the more moderate economic restrictions than in 2020. Nevertheless, the Czech Republic registered worse GDP development than the EU average. GDP in the EU grew by **5.1%** year-on-year in 2021, while the CR only achieved **2.9%** year-on-year growth. The reported growth in 2021 in both the CR and the EU was mainly due to the low comparative baseline of 2020, when the economy slowed down significantly due to measures taken to stop the spread of Covid-19.

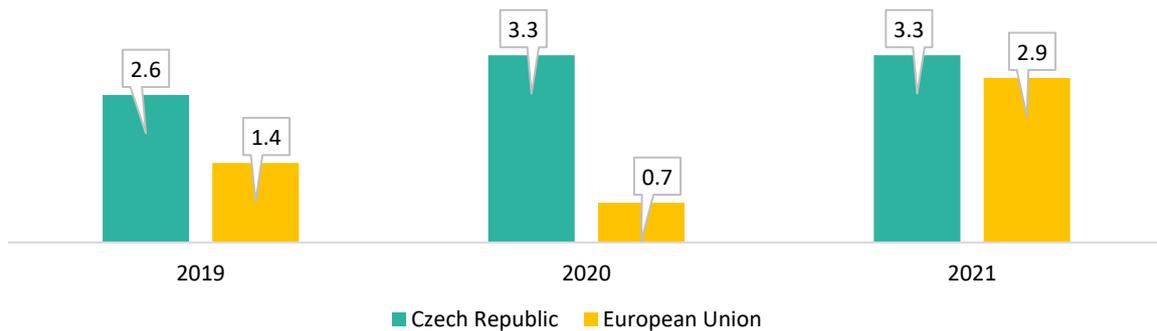
Chart 1: Development of year-on-year change in GDP 2019–2021 (%)



Source: Eurostat database, MF macroeconomic forecast.

The Czech Republic's inflation rate in 2021 was **3.3%**, which was **0.4 percentage points** higher than the EU average. In 2020 and 2021, inflation in the CR was above the tolerance band (3%) set as the inflation target by the Czech National Bank. The main drivers of high inflation were housing, car, alcoholic beverages and tobacco prices.

Chart 2: Development of inflation 2019-2021 (%)



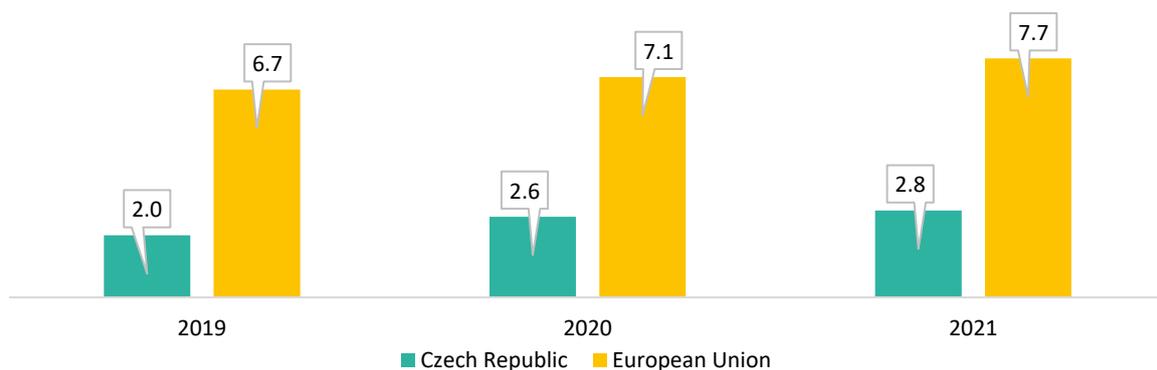
Source: Eurostat database.

DESPITE THE CONTINUING COVID-19 PANDEMIC, THE CZECH REPUBLIC REGISTERED YEAR-ON-YEAR GDP GROWTH, THOUGH THIS WAS SIGNIFICANTLY LOWER THAN THE EU AVERAGE. THE MAIN REASONS FOR THIS INCLUDE THE NEGATIVE BALANCE OF PAYMENTS IN FOREIGN TRADE, WITH EXPORTS LAGGING FAR BEHIND, AND AN INSUFFICIENT SUPPLY OF SOME COMMODITIES, SUCH AS CARS, WHICH SLOWED ECONOMIC GROWTH AND PUSHED UP INFLATION. THE DEVELOPMENT WAS ALSO NEGATIVELY AFFECTED BY SOME MEASURES TO FIGHT THE SPREAD OF COVID-19.

The Covid-19 pandemic and the associated economic slowdown did not have a particularly marked impact on the labour market. The *Antivirus* programme, a recovery in the catering and service sectors and the continued demand for workers in the manufacturing industry have helped support employment. The CR continued to have the lowest unemployment rate in the EU in 2021, standing at **2.8%**, almost **5 pp** below the EU's average unemployment rate. Labour market shortages persist. In some sectors (e.g. construction) this is one of the main barriers to growth.

CZK 25.8 billion was paid out under the *Antivirus* programme in 2021 and **CZK 23.7 billion** in 2020.

Chart 3: Development of unemployment 2019–2021 (%)



Source: Eurostat database, MF macroeconomic forecast.

The Act on the State Budget of the Czech Republic for 2021²⁰ set revenues of **CZK 1,488.3 billion**, expenditures of **CZK 1,808.3 billion** and a deficit of **CZK 320 billion**. As early as in February 2021 this act was amended²¹ in connection with the abolition of super-gross pay and the tightening of measures in the first quarter of 2021, which mainly impacted on the services and retail sector. The amendment reduced budgeted revenues by **CZK 102.7 billion** to **CZK 1,385.6 billion**, increased budgeted expenditure by **CZK 77.3 billion** to **CZK 1,885.6 billion** and increased the deficit by **CZK 180 billion** to **CZK 500 billion**. The state budget ended 2021 with a deficit of **CZK 419.7 billion**.

Table 2: State budget performance

(CZK billion)

Indicator	2017	2018	2019	2020	2021
Revenue	1,273.64	1,403.92	1,523.22	1,475.48	1,487.24
Expenditure	1,279.80	1,400.97	1,551.74	1,842.93	1,906.93
Balance	-6.2	2.9	-28.5	-367.4	-419.69

Source: Integrated Information System of the State Treasury.

THE REPORTED STATE BUDGET DEFICIT OF CZK 419.7 BILLION WAS THE WORST ECONOMIC RESULT IN THE HISTORY OF THE INDEPENDENT CZECH REPUBLIC. ALTHOUGH THE ECONOMIC RESTRICTIONS IN 2021 WERE NOT AS SEVERE AS IN 2020, THE REPORTED STATE BUDGET DEFICIT IN 2021 WAS CZK 52.2 BILLION HIGHER THAN THE 2020 DEFICIT. THE MAIN REASON FOR THIS WAS CONTINUED SIGNIFICANT YEAR-ON-YEAR GROWTH IN CURRENT EXPENDITURE.

State budget revenues reached **CZK 1,487.2 billion** in 2021, i.e. **107.3%** of the budget as defined by the Act (the approved revenues budget was **CZK 1,385.6 billion**) and an increase of **CZK 11.8 billion** year-on-year. The year-on-year increase in revenue was mainly driven by increased collections of social security contributions, which grew by **CZK 55 billion** year-on-year. The reported revenues were affected by the spread of Covid-19 in the CR and the related government measures. In this context, implementation of the direct support instrument in the form of compensation bonuses continued²².

A compensation bonus of CZK 19.2 billion was paid in 2021 and CZK 24.4 billion in 2020.

State budget expenditure in 2021 amounted to **CZK 1,906.9 billion**, **CZK 64 billion** higher year-on-year than in 2020. The approved expenditure budget was exceeded by **CZK 21.3 billion**. The year-on-year increase in expenditure was mainly driven by current expenditure, which increased by **CZK 59.5 billion**. In contrast, capital expenditure increased by just **CZK 4.5 billion** year-on-year. The increase in current expenditure was mainly due to the continuing support for enterprise and employment related to the Covid-19 pandemic, an increase in state payments for state insured persons, an increase in transfers to regions and an increase in social benefits.

According to the Ministry of Finance's cash-based reporting, expenditure incurred in connection with the Covid-19 pandemic in 2021 totalled **CZK 153 billion**, an increase of **CZK 6.7 billion** year-on-year. Total state budget expenditure increased by **CZK 64 billion** year-on-year, meaning that the increase in expenditure identified by the Ministry of Finance as related to the Covid-19 pandemic accounted for **just 10.5%** of the year-on-year increase in expenditure.

THE RAPID RATE OF ANNUAL GROWTH IN CURRENT EXPENDITURE IN 2021 IS WORRYING PARTLY BECAUSE 2020 SET A VERY HIGH COMPARATIVE BASE AND THE ECONOMIC RESTRICTIONS IMPOSED TO PREVENT THE SPREAD OF COVID-19 WERE MORE EXTENSIVE IN 2020. ALMOST 90% OF THE YEAR-ON-YEAR INCREASE IN TOTAL EXPENDITURE IN 2021 WAS UNRELATED TO EXPENDITURE INCURRED IN RELATION TO COVID-19.

20 Act No. 600/2020 Coll., on the state budget of the Czech Republic for 2021.

21 Act No. 92/2021 Coll., Amending Act No. 600/2020 Coll., on the state budget of the Czech Republic for 2021.

22 Act No. 461/2020 Coll., on the compensatory bonus in connection with the prohibition or restriction of business activities, Act No. 95/2021 Coll., On the compensatory bonus for 2021.



The record state budget deficit was mainly due to a **high increase in current expenditure**

THE INCREASED PERFORMANCE OF THE ECONOMY DID NOT HAVE A SIGNIFICANT EFFECT ON THE GROWTH OF STATE BUDGET REVENUES AND ADEQUATE AUSTRITY MEASURES WERE NOT TAKEN ON THE EXPENDITURE SIDE

Gross domestic product
2.9%
(2020–2021) ↑

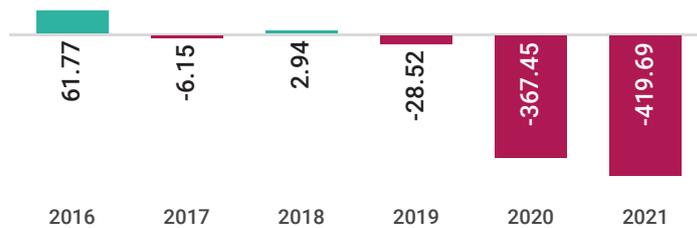
Inflation
3.3%
(2021)

Unemployment
2.8%
(2021)
year-on-year by 0.2 p. b. ↑

Development and year-on-year change in total state budget revenues and expenditure (in billions of CZK)

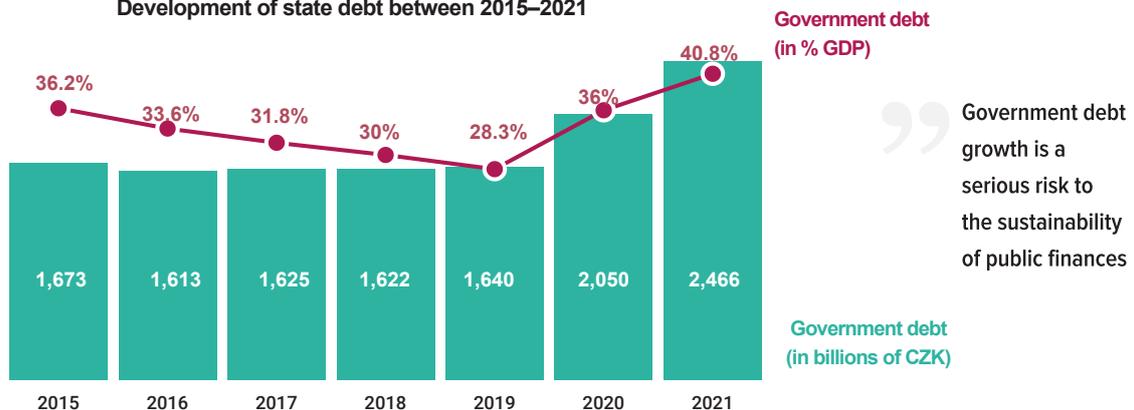
	2020	2021	change	
Revenues	1,475.48	1,487.24	+0.80%	↑
Expenditure	1,842.93	1,906.93	+3.47%	↑

State budget balance in 2016–2021 (in billions of CZK)



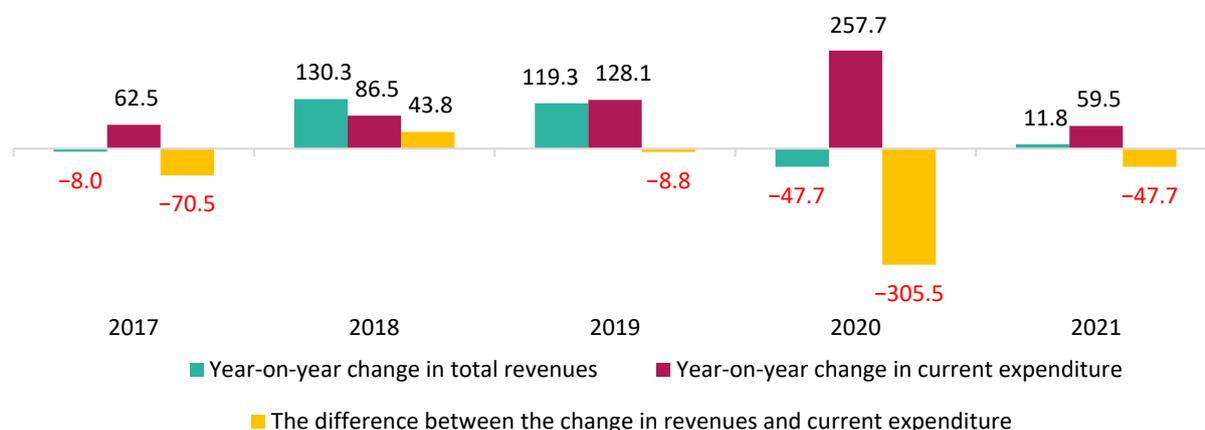
AT THE END OF 2021, GOVERNMENT DEBT AMOUNTED TO ALMOST CZK 2,466 BILLION, AND INCREASED BY CZK 416 BILLION YEAR-ON-YEAR. THE RATION OF GOVERNMENT DEBT TO GDP HAS THUS REACHED A RECORD HIGH OF ALMOST 41%

Development of state debt between 2015–2021



In 2021 the negative trend of previous years continued, with current expenditure growing faster than total state budget revenues. While total revenues increased year-on-year in 2021, this growth fell far short of the year-on-year increase in current expenditure, despite the fact that the previous year, 2020, set a high baseline for current expenditure.

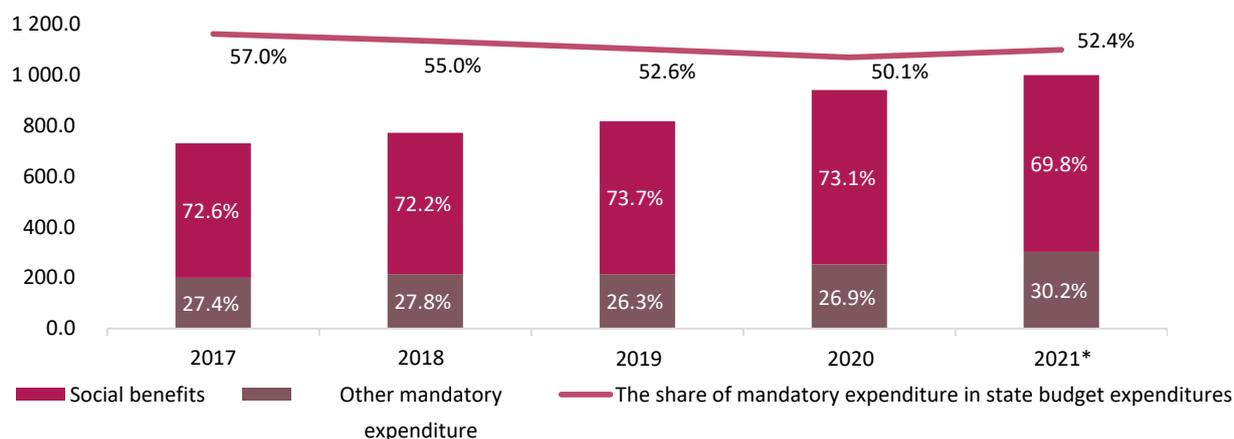
Chart 4: Year-on-year change in total revenues and current expenditures in 2017–2021 (CZK billion)



Source: Integrated Information System of the State Treasury.

Mandatory expenditure, and its most significant component in the form of social benefits, contributed to the long-term growth in total (mainly current) expenditure. The planned share of mandatory expenditure in 2021 was at a similar level to 2019 and increased compared to 2020. The planned share of social benefits was lower in 2021 than in previous years.

Chart 5: Mandatory expenditures and their share in total state budget expenditure, social benefits and their share in mandatory expenditure in 2017–2021 (CZK billion, %)

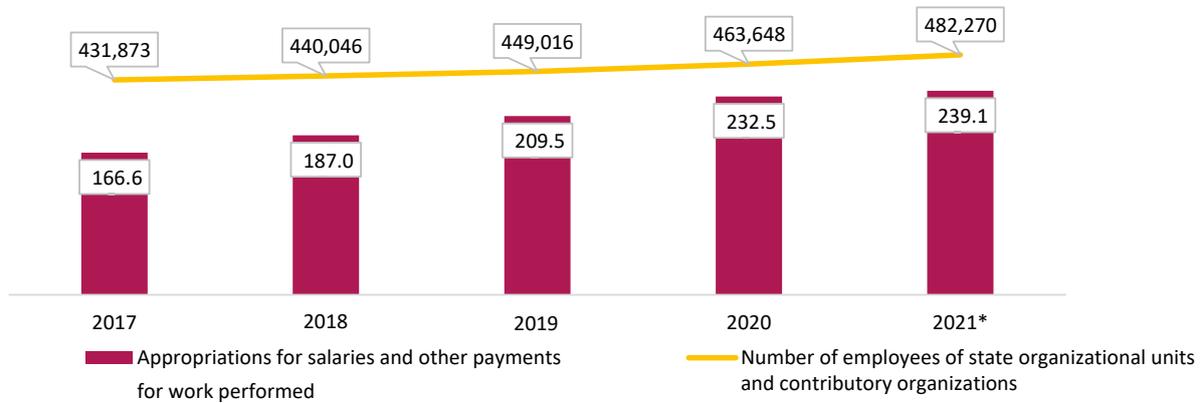


Source: state closing accounts for the years 2017–2020, documentation on the draft act on the state budget for 2021.

* These are budgeted values.

The most significant quasi-mandatory expenditure includes expenditure on salaries for employees of state organisational units and contributory organisations (state employees). Chart 6 shows the trend of annual increases in the number of state employees and the volume of funds for their salaries.

Chart 6: Number of employees of state organizational units and state contributory organizations and funds for their salaries in 2017–2021 (CZK billion)



Source: state closing accounts for the years 2017–2020, documentation on the draft act on the state budget for.

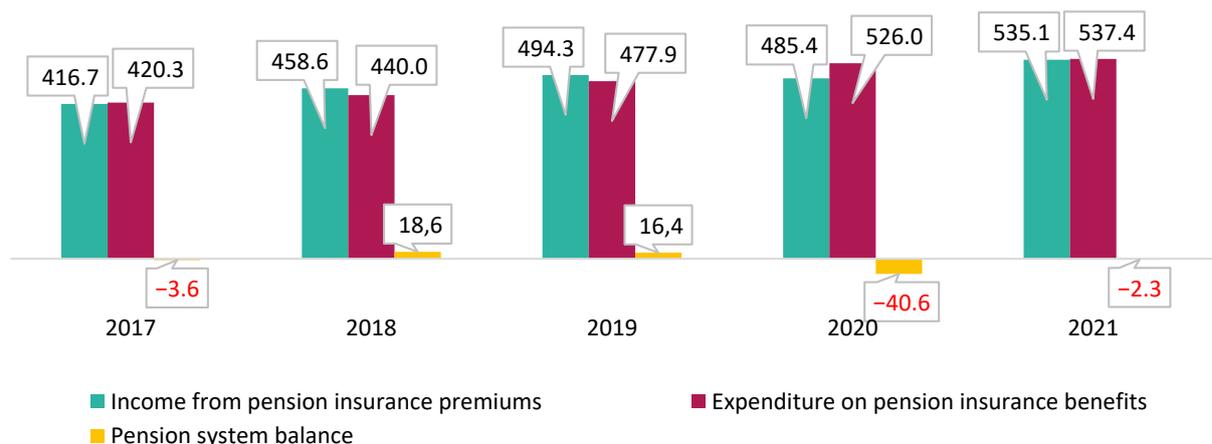
* These are budgeted values.

From 2017 to 2020, the number of state employees rose by almost **32,000** and the total funds for salaries and other payments grew by almost **CZK 66 billion**.

IN 2020, 89.5% OF TOTAL REVENUES WENT TOWARDS COVERING MANDATORY EXPENDITURE (I.E. MANDATORY AND QUASI-MANDATORY EXPENDITURE). CONSEQUENTLY, ONLY 10 PER CENT OF REVENUES COULD BE SPENT ON OTHER EXPENDITURE. ACCORDING TO THE APPROVED BUDGET FOR 2021, THIS SHARE WAS DUE TO RISE TO JUST UNDER 99 PER CENT IN 2021. ONLY 1 PER CENT OF THE COLLECTED REVENUES WOULD THEN BE LEFT TO COVER ALL OTHER EXPENDITURE.

The substantial state budget deficit also affects the stability of the pension system. While the system was in surplus in 2018 and 2019 at a time of high GDP growth, it ended 2020 and 2021 with a deficit, which is part of the overall state budget deficit and further deepens it.

Chart 7: Management of the pension system in 2017–2021 (CZK billion)

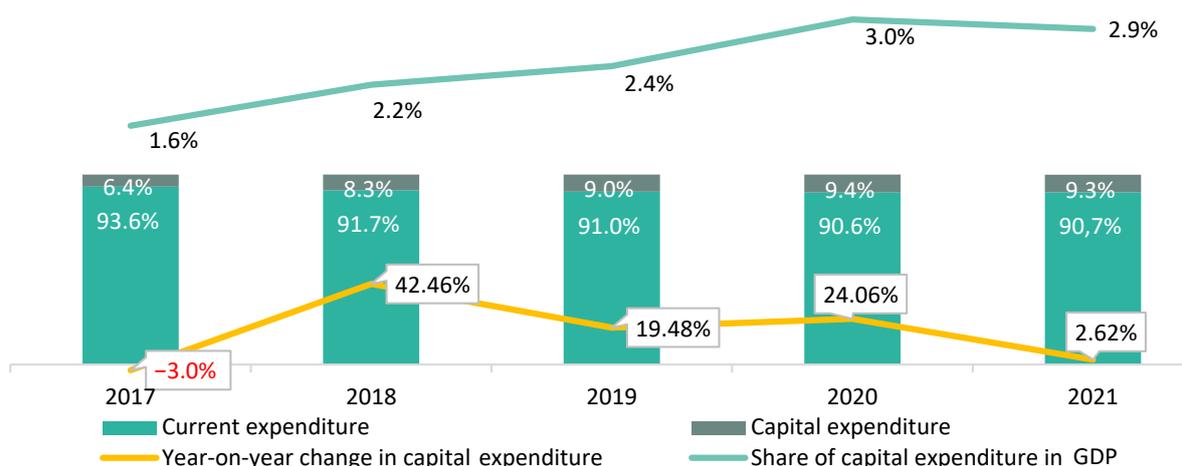


Source: State Closing Accounts for 2017-2020, Ministry of Finance

IN 2020 AND 2021, THE ECONOMIC DOWNTURN PUSHED THE PENSION SYSTEM INTO THE RED. EVEN THE HIGH PREMIUMS REVENUES GENERATED BY LOW UNEMPLOYMENT AND RISING WAGES COULD NOT COVER PENSION EXPENDITURE. A FURTHER INCREASE IN THE DEFICIT OF THE SYSTEM IS EXPECTED IN 2022 AND 2023.

In addition to current expenditure, capital expenditure, which reached **CZK 177.1 billion** and registered year-on-year growth of just **CZK 4.5 billion**, i.e. **2.6%**, contributed to the absolute annual increase of **CZK 64 billion** in state budget expenditure in 2021.

Chart 8: Share of current and capital expenditures in total expenditure and share of capital expenditure in GDP (in %)



Source: Integrated Information System of the State Treasury.

THE LOW YEAR-ON-YEAR GROWTH IN CAPITAL EXPENDITURE HAD A NEGATIVE IMPACT ON THE RATIO BETWEEN CAPITAL EXPENDITURE AND TOTAL EXPENDITURE AND GDP. CAPITAL EXPENDITURE'S SHARE OF TOTAL EXPENDITURE FELL BY 0.1 PERCENTAGE POINT YEAR-ON-YEAR. AS A RESULT OF THE YEAR-ON-YEAR GDP GROWTH, CAPITAL EXPENDITURE ALSO DECREASED RELATIVE TO GDP IN 2021, SPECIFICALLY BY 0.1 PP.

Large state budget deficits were budgeted for 2020 and 2021. The resulting balance, however was tens of billions of koruna lower in both years, which was reflected in an increase in the state of claims on unused expenditure (compared to 2019). After 2021 closed, claims on unused expenditure amounting to **CZK 162.8 billion** were reported as of 1 January 2022, which represented a year-on-year decrease of **CZK 11.9 billion**.

Table 3: Claims from unused expenditure as at 1 January 2017–2022 (CZK billion)

	2017	2018	2019	2020	2021	2022
Claims from unused expenditure	157.7	167.6	131.1	130.1	174.7	162.8

Source: Integrated Information System of the State Treasury.

CLAIMS ON UNUSED EXPENDITURE ARE HIGH IN SPITE OF THE YEAR-ON-YEAR DECREASE. IN THE EVENT OF LARGE-SCALE UTILISATION OF CLAIMS IN THE COMING YEARS, THERE IS A RISK OF FURTHER INCREASES IN STATE BUDGET EXPENDITURE OVER AND ABOVE THE APPROVED BUDGET, WHICH WOULD SIGNIFICANTLY COMPLICATE EFFORTS TO REDUCE THE STATE BUDGET DEFICIT.

The large state budget deficits caused the government debt to grow considerably in 2020 and 2021. Government debt amounted to **CZK 2,466 billion** at the end of 2021 a year-on-year increase of **CZK 416 billion**. This, and the development of GDP, has caused government debt's share of GDP to rise in recent years, increasing by **4.8 pp** year-on-year to **40.8% of GDP**.

Rising government debt has contributed significantly to the increase in the general government debt²³, of which it is the main component. At the end of 2021, the European Commission estimated the Czech Republic's debt-to-GDP ratio for 2021 at **42.4%**, which represents an annual increase of **4.7 pp**. Even so, thanks to the past years and decades, the CR is still one of the least indebted countries in the EU in this respect. The table below shows the ranking of EU countries by debt-to-GDP in 2021. The Czech Republic was the sixth least indebted country in the EU in 2021 relative to GDP, and its debt was **50 pp** lower than the EU average. However, compared to other countries, the Czech Republic's debt-to-GDP ratio is increasing significantly, as shown by the year-on-year change in ranking – a year earlier, in 2020, the Czech Republic was the fourth least indebted country.

Table 4: General Government Debt to GDP in 2018–2023 * in EU countries (in %, pp)

	2018	2019	2020	2021*	2022*	2023*	Difference (2021 – 2020)
Malta	43.6	40.7	53.4	61.4	62.4	63.6	8.0
Latvia	37.1	36.7	43.2	48.2	50.7	49.8	5.0
CR	32.1	30.0	37.7	42.4	44.3	46.3	4.7
Netherlands	52.4	48.5	54.3	57.5	56.8	56.1	3.2
Germany	61.3	58.9	68.7	71.4	69.2	68.1	2.7
Slovakia	49.6	48.1	59.7	61.8	60.0	59.1	2.1
EU	79.3	77.2	90.1	92.1	90.0	89.1	2.0
Bulgaria	22.1	20.0	24.7	26.7	26.7	26.8	2.0
Romania	34.7	35.3	47.4	49.3	51.8	53.2	1.9
Finland	59.8	59.5	69.5	71.2	71.2	71.0	1.7
Luxembourg	20.8	22.3	24.8	25.9	25.6	25.4	1.1
Spain	97.5	95.5	120.0	120.6	118.2	116.9	0.6
Belgium	99.9	97.7	112.8	112.7	113.1	114.6	-0.1
Austria	74.0	70.6	83.2	82.9	79.4	77.6	-0.3
France	97.8	97.5	115.0	114.6	113.7	112.9	-0.4
Estonia	8.2	8.6	19.0	18.4	20.4	21.4	-0.6
Hungary	69.1	65.5	80.1	79.2	77.2	76.4	-0.9
Denmark	34.0	33.6	42.1	41.0	38.8	38.0	-1.1
Italy	134.4	134.3	155.6	154.4	151.4	151.0	-1.2
Lithuania	33.7	35.9	46.6	45.3	44.1	46.0	-1.3
Slovenia	70.3	65.6	79.8	77.7	76.4	76.0	-2.1
Sweden	38.9	34.9	39.7	37.3	34.2	31.2	-2.4
Poland	48.8	45.6	57.4	54.7	51.0	49.5	-2.7
Ireland	63.1	57.2	58.4	55.6	52.3	51.1	-2.8
Greece	186.4	180.7	206.3	202.9	196.9	192.1	-3.4
Croatia	73.3	71.1	87.3	82.3	79.2	77.9	-5.0
Portugal	121.5	116.6	135.2	128.1	123.9	122.7	-7.1
Cyprus	98.4	91.1	115.3	104.1	97.6	93.4	-11.2

Source: Eurostat database, *Statistical Annex – European Economic Forecast – Autumn 2021*

* In the case of 2021, 2022 and 2023, this is the European Commission's estimate of November 2021.

23 General government debt includes government debt, debt of local governments, extra-budgetary funds, public institutions established by the state and local government, public enterprises and health insurance companies.

THE NEGATIVE TREND OF HIGH DEBT LEVELS WAS NOT REVERSED IN 2021, WHEN THE CZECH REPUBLIC RECORDED THE THIRD HIGHEST ANNUAL INCREASE IN GOVERNMENT DEBT OF ALL EU COUNTRIES. IF THE CR DOES NOT TAKE EFFECTIVE MEASURES TO REDUCE THE PACE OF BORROWING, THIS WILL SIGNIFICANTLY EXACERBATE THE RISK TO THE FUTURE STABILITY OF PUBLIC FINANCES.

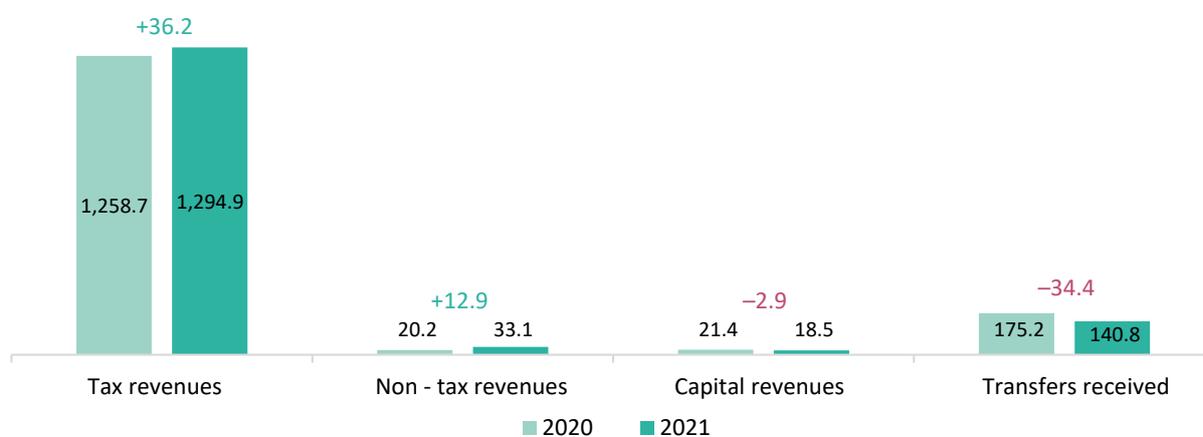
3. GOVERNMENT REVENUES

The generation of sufficient public funds is a necessary condition for fulfilling the expenditure policies and needs of the state. The SAO therefore pays constant attention to the efficiency of the collection and management of government revenues. The Covid-19 pandemic continued to affect tax revenue collection as economic activity and, to some extent, the movement of persons was restricted. Support to employees was provided through the abolition of super-gross pay and an increase in the taxpayer rebate.

Total state budget revenues in 2021 amounted to **CZK 1,487.2 billion, representing an increase by 0.8% year-on-year, or CZK 11.8 billion**. The year-on-year change in individual classes of state budget revenues is shown in Chart 9.

The main factor in this growth was the collection of social security contributions. Tax revenues increased by **CZK 36.2 billion** year-on-year, but these revenues excluding insurance premiums fell by **2.6%**, i.e. by **CZK 18.8 billion**. Tax revenues were mostly affected by legislative changes governing the collection of employee income tax and a new adjustment of the tax budget allocation in favour of municipalities and regions, which reduced state budget takings by **CZK 27.4 billion**. Non-tax revenues, which grew by **CZK 12.9 billion** year-on-year, were boosted in February 2021 by extraordinary proceeds from the auction of frequencies for mobile operators in the amount of **CZK 5.6 billion**. In contrast, the year-on-year decline in transfers received of **CZK 34.4 billion** was mainly due to a **CZK 6.5 billion** lower volume of funds transferred from the privatisation account and a **CZK 10.7 billion** decrease in funds received from the European Union and financial mechanisms.

Chart 9: Fulfilment of state budget revenues by individual classes for the years 2020 and 2021 (CZK billions)



Source: IISST; SAO processing.

A summary of the year-on-year changes in tax revenue is shown in Table 5. The year-on-year increase of **CZK 10.7 billion** in collected VAT was mainly due to the recovery in economic activity, including an increase in household consumption. Other factors affecting tax revenue collection are listed below Table 5.

Table 5: Year-on-year comparison of the collection of state budget tax revenues for the years 2020 and 2021 (CZK billion)

	Value added tax	Excise duties, including energy taxes	Corporate income tax	Personal income tax	Social security contributions and contribution to the state employment policy	Gambling tax	Other taxes and charges
2021	298.5	150.1	129.1	109.1	595.5	6.1	6.5
2020	287.9	154.8	108.4	154.1	540.5	5.1	8.0
Year-on-year change	10.7	-4.6	20.8	-45.0	55.0	1.0	-1.5

Source: Integrated Information System of the State Treasury

Significant facts affecting the collection of tax revenues of the state budget in 2021:

- The abolition of super-gross pay and payment of the compensation bonus resulted in a year-on-year reduction of **CZK 45 billion** in collected personal income tax.
- The adjustment of the budget tax allocation in favour of municipalities and regions negatively affected state budget receipts from personal income tax, corporate income tax and value added tax in the amount of **CZK 27.4 billion**²⁴.
- The abolition of the real estate acquisition tax in 2020 necessitated a refund of this tax already paid by taxpayers and resulted in negative tax collection. This measure's impact on the state budget totalled **CZK 13.9 billion**.
- + Maintaining a low unemployment rate, ending some measures to compensate for the reduction in economic activity among the self-employed and employers at a time when Covid-19 was spreading²⁵ and the payment of bonuses to employees in the healthcare and social services sectors and to members of the security forces and professional soldiers contributed to a **CZK 55 billion** year-on-year increase in the collection of social security contributions and contributions to state employment policy.
- + The different comparative base compared to 2020, when the June advance payment on corporate income tax was waived, was reflected in a **CZK 20.8 billion** year-on-year increase in the amount of this tax collected.

The implementation of government revenues and, in particular, the execution and impacts of tax policy have long been the subject of the SAO's audit and analysis work.

In 2021 the SAO, together with the SAI of the Slovak Republic, carried out coordinated audit No. **20/01** focusing on the administration of social security premiums in the years 2015 to 2018. This audit examined the design of key processes leading to the collection of premiums as the main source of financing of pension and sickness insurance benefits. In the said years, the collected insurance premiums amounted to almost **CZK 1.8 trillion** and represented one third of state budget revenues. According to OECD data, in 2018 the proportion of total taxation accounted for by social security contributions in the Czech Republic was one of the highest in the EU. The CSSA spent **CZK 7.6 billion** on the administration of insurance premiums in the years 2015–2018.

²⁴ The Ministry of Finance's estimate published in the report on the treasury execution of the state budget for the month of December 2021, available at: <https://www.mfcr.cz/cs/aktualne/tiskove-zpravy/2022/pokladni-plneni-sr-44160>.

²⁵ E.g. abolition of minimum advances for self-employed persons for social insurance, waiver of social security contributions and state employment policy paid by the employer (*Antivirus C*).

The audit revealed that neither the MoLSA nor the CSSA monitored or evaluated the effectiveness, efficiency and economy of expenditure related to the administration of insurance premiums, nor did they adjust procedures to make the administration of insurance premiums as efficient as possible. The SAO concluded that the CSSA's expenditure on staff working on two key CSSA processes, the assessment of insurance premiums for self-employed²⁶ workers and employer audits, was inefficient. These checks were carried out annually by the CSSA on an across-the-board basis, rather than focusing on high-risk employers who were not meeting their legal obligations. Inadequacies in the design of the control activities meant that about 76.5% of the controls did not detect any shortcomings in the audited period. Total expenditure²⁷ on these inspections amounted to CZK 1.2 billion.

- The efficiency of the administration of insurance premiums was also reduced by the uneven staff workload, which varied between the different social security administrations. The CSSA did not monitor or address staff workloads. Another problem was the higher administrative complexity of the administration of insurance premiums caused by the fact that the pension insurance agenda for self-employed persons is carried out in local computer applications at district administrations. These are not interconnected, however. By the time the audit was completed, it had not been possible to integrate this part of the agenda into the central system, although the CSSA had already been planning to do so in 2014. The CSSA's guidance even requires district administrations to keep employers' files in paper form. The SAO also drew attention to the fact that the efficiency of expenditure depended on the development of the economy and the related wage growth. In 2016–2018, although the efficiency of expenditure on insurance administration improved, this was only due to the fact that premium revenues grew faster than expenditure on their administration. Premiums increased by 21% per payer between 2015 and 2018.

Between 2015 and 2018, the CSSA obtained on average 52% of the financial volume of claims due for recovery. The amount of recovered claims totalled CZK 38 billion. In contrast to the CSSA's control work targeting employers, the SAO regards its recovery of receivables as efficient.

IN ADDITION TO ADMINISTRATIVE COMPLEXITY, ONE KEY FACTOR LIMITING IMPROVED EFFICIENCY IN SOCIAL SECURITY CONTRIBUTIONS COLLECTION WAS THE UNSUITABLE WAY IN WHICH EMPLOYER INSPECTIONS WERE SCHEDULED.

SAO recommendations:

In order to the collection of insurance premiums more efficient, the SAO recommended that the CSSA mainly target its employer inspection work at employers that are not fulfilling their legal obligations. In connection with making insurance premium administration less bureaucratic, the SAO also recommended that the CSSA enter into an agreement with the FA CR on regular transfers of information on assessment bases for self-employed persons, centralise the pension insurance agendas for self-employed persons, and draw up guidance for district administrations on keeping files on employers in electronic form.

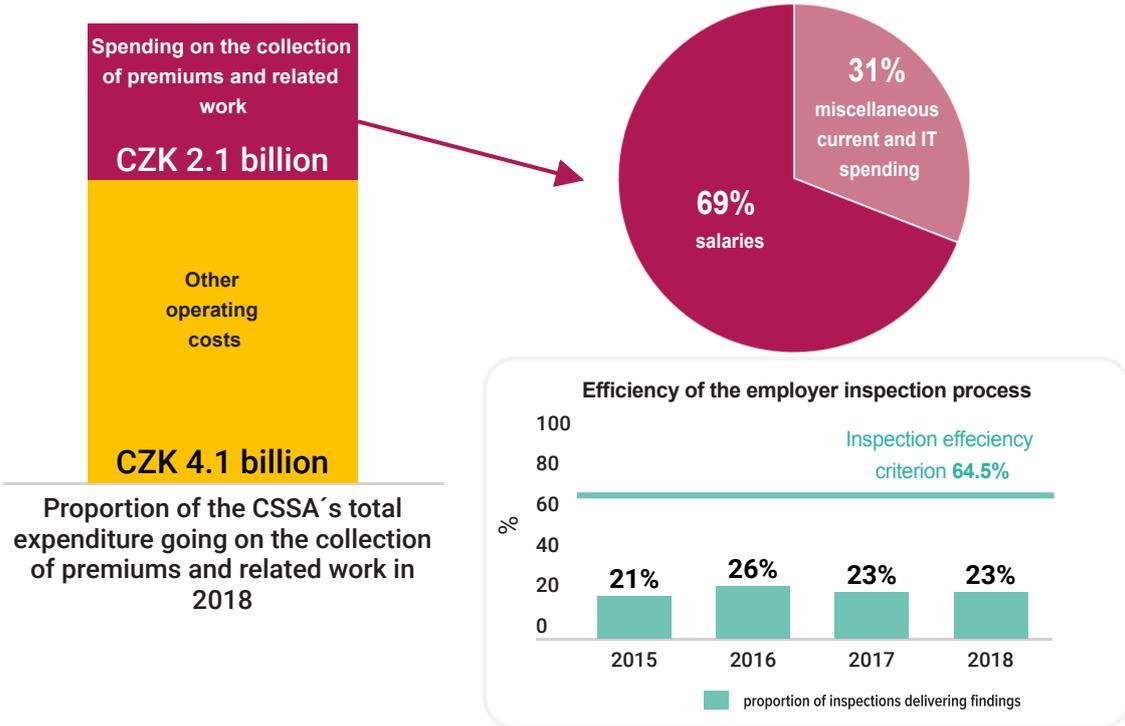
²⁶ Self - employed person.

²⁷ Expenditure means payroll and other current expenses.

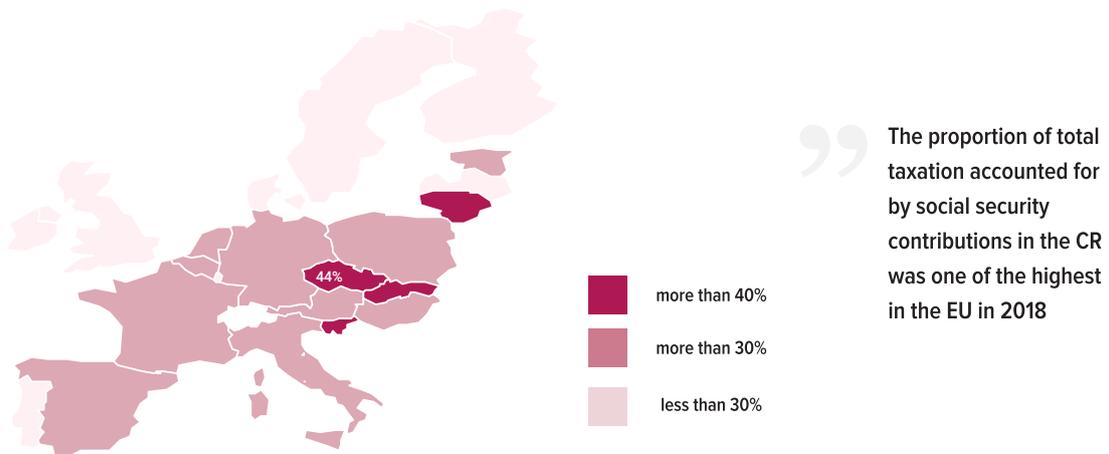


Administration of social security premiums **continues to be bureaucratic**, and expenditure on their collection, including the related work, was not always efficient

THE WAY THE CSSA'S EMPLOYER INSPECTION WORK WAS PLANNED PREVENTED EFFICIENT PERFORMANCE OF THE WORK, BECAUSE THE INSPECTIONS WERE DONE ACROSS-THE-BOARD AND DID NOT TARGET HIGH-RISK ENTITIES



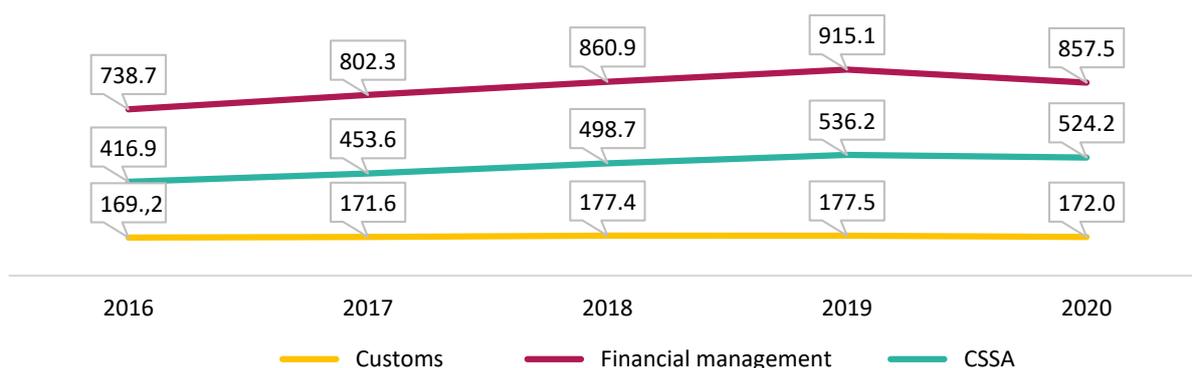
Social security contributions as a proportion of total taxation in the EU in 2018



Development of tax revenues collection and expenditure on tax collection

The SAO also pays systematic attention to developments in tax collection and in expenditure on tax collection. From a long-term perspective, the data on the state budget's tax revenues collection show that, after the previous gradual increase, there was a significant decline in 2020. The decline in these revenues was mainly due to the reduction in taxpayers' economic activity and measures taken to prevent the spread of Covid-19. The negative economic impact was so pronounced that the sharp fall in revenues was not helped by the adoption of a number of measures to support business activities or compensate for them.

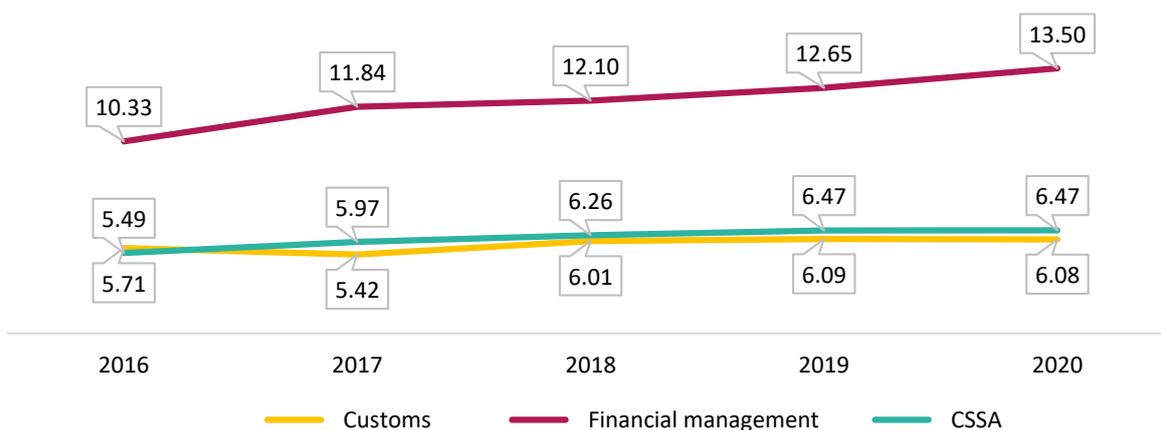
Chart 10: Development of total tax revenue collection in 2016–2020 (in billions of CZK)



Source: reports on the activities of the Financial Administration of the Czech Republic and the Customs Administration of the Czech Republic, reports on the activities of the Czech Social Security Administration; own processing by the SAO

In 2020, expenditure on tax collection by the Financial Administration of the Czech Republic increased by **CZK 0.85 billion**. Expenditure on the administration of taxes under the competence of the Customs Administration of the Czech Republic and expenditure on the administration of social security contributions and state employment policy contributions stagnated.

Chart 11: Development of total expenditure on the collection of tax revenues in 2016-2020 (CZK billion)



Source: closing accounts of state budget chapters 312 and 313; own processing by the SAO.

IN THE 2019–2020 PERIOD, TOTAL TAX AND INSURANCE COLLECTIONS FELL BY MORE THAN CZK 75 BILLION, I.E. BY 5%. CONVERSELY, TOTAL EXPENDITURE ON THEIR COLLECTION INCREASED BY NEARLY CZK 1 BILLION, OR 3%. IN A YEAR COMPLICATED BY THE COVID-19 PANDEMIC, THE OVERALL COST-EFFECTIVENESS OF TAX REVENUE ADMINISTRATION DECLINED.

4. GOVERNMENT EXPENDITURE AREAS

The following sections of the annual report are devoted to the results of the SAO's audit and analysis work in the areas of government expenditure policy that the SAO covered in the past year. These expenditure areas were the focus of more than two-thirds of all audits undertaken in 2021. The audits' main objective was to check whether public funds were spent in accordance with the principles of effectiveness, efficiency and economy. In other words, whether the state was able to deliver the necessary value to citizens in accordance with their legitimate needs and thus fulfilled its indispensable role. The SAO thus provides important feedback to policy makers on good practice and better management of public expenditure. At the same time, this feedback should serve legislators, experts and the general public as objective information on the reality of the state's financial management.

4.1 DIGITALISATION OF PUBLIC ADMINISTRATION

In international comparisons of the level of digitalisation of the economy and society the Czech Republic has long lagged behind other EU countries, despite the fact that the Covid-19 pandemic has injected considerable dynamism into digital transformation. It has brought greater pressure for fast and reliable communication through digital channels. The legal environment in which the digital transformation of the Czech public administration is being implemented changed in 2021. An amendment to the Banking Act came into force, which allowed the introduction of what is known as “banking identity”²⁸ as one of the digital identity options. The systematic digitalisation of agendas under Act No 12/2020 Coll., on the right to digital services, has also begun. Under this legislation, a timetable for the digitalisation of agendas was approved by the government and subsequently updated. The SAO assessed the digitalisation schedule to be very uneven in terms of setting milestones within a given timeframe. Most of the agendas scheduled for digitalisation by individual ministries are concentrated in the last possible year of 2025, when digitalisation must be completed according to this legislation (see visualisation). As a result of this postponement to the latest possible date, there is a real risk that the relevant ministries will not have sufficient human and financial capacity in 2025 to execute the digitalisation of agendas by the given deadlines.

*With the introduction of the banking identity, the range of citizens who can use a verified identity to access digitalised government services has grown considerably. In 2021, a total of over **5.37 million** banking identities were activated at six Czech banks²⁹*

The increased interest in the use of digital technologies has also been reflected in intensive use of data boxes and more frequent sending of guaranteed data messages. March 2021 saw the largest number of data messages sent through data boxes in their existence, more than **12 million**. The number of citizens who have voluntarily set up data boxes has also increased significantly. In 2019 a total of **38,000** data boxes were voluntarily set up, but the figure for the first nine months of 2021 was **110,000**³⁰. Despite these optimistic figures, the number of citizens with a data box that can also be used for electronic identification is still low.

THE INCREASING NUMBER OF CITIZENS’ DIGITAL IDENTITIES AND THE GROWING NUMBER OF DATA MESSAGES NOT ONLY SHOW THE WILLINGNESS OF CITIZENS TO COMMUNICATE WITH THE STATE ADMINISTRATION DIGITALLY, BUT ALSO TESTIFY TO CITIZENS’ HIGH EXPECTATIONS THAT THE STATE ADMINISTRATION CAN NOT ONLY USE INFORMATION TECHNOLOGY EFFECTIVELY, BUT ALSO PROVIDE HIGH-QUALITY DIGITAL SERVICES.

28 The term “banking identity” includes a group of identification services defined by Act No 49/2020 Coll. amending Act No 21/1992 Coll. on Banks.

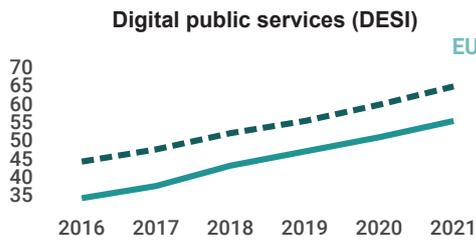
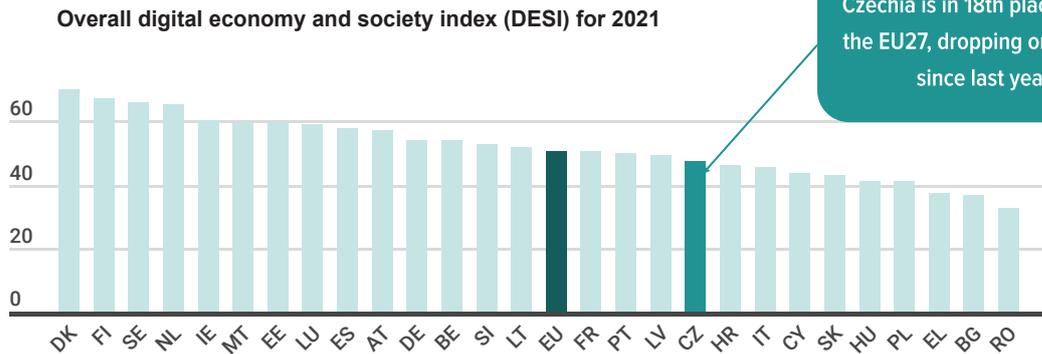
29 It is based on data from the Ministry of the Interior, in more detail [zde](#).

30 See: <https://www.mvcr.cz/clanek/narust-uzivatelu-egovernmentu-lide-se-statem-stale-vice-komunikuji-elektronicky.aspx>.



Developments in eGovernment in the CR failed to make any mark on international benchmarking

THE CZECH REPUBLIC HAS LONG LAGGED BEHIND THE EU AVERAGE IN INTERNATIONAL BENCHMARKING OF DIGITALISATION IN THE ECONOMY AND SOCIETY

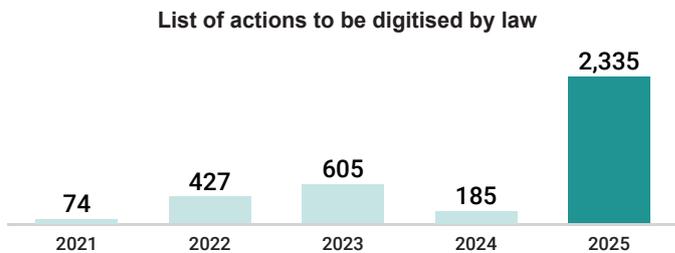


Aspects – 2021

Aspects	EU	CZ
eGovernment users	64%	= 64%
Pre-filled forms (0-100)	63	> 45
Digital public services for citizens (0-100)	75	> 71
Digital public services for businesses (0-100)	84	> 76
Open data	78%	> 72%

” The CR attained the EU average only in the proportion of all Internet users who use eGovernment services. In all other areas the country continues to lag behind, and most in pre-filled forms, where the gap is 18 percentage points.

ACCORDING TO THE GOVERNMENT-APPROVED DIGITALISATION TIMETABLE AS MANY AS 3,623 AGENDAS ARE TO BE DIGITISED IN 2021–2025



” The SAO assessed the agendas digitalisation timetable as very uneven, because more than 64% of the digitalisation is concentrated in the last possible year for completion of the process. This poses a risk of a shortage of human and financial resources for completing digitalisation during 2025

In the second half of 2021, in accordance with the methodology of the Digital Czech Republic programme, which was approved by the Czech government resolution No. 629 of 3 October 2018, the second public administration benchmark³¹ for 2021 was conducted, following up the previously conducted benchmark in 2018. In addition to a slight improvement in the area of digitalisation, the main findings were that there is a marked shortage of ICT experts in the fields of analysis and architecture, ICT costs are not being managed in a standardised manner and sharing of unique knowledge and ideas between ministries is inadequate.

21% of authorities were identified as not having information policy concepts and therefore having no concept to work on. Consequently, they are failing to comply with Decree No. 529/2006 Coll., on long-term management of public administration information systems. This area comes under the authority of the Ministry of the Interior's Department of the Chief Architect of eGovernment (DCA), which, in the framework of compliance with the architectural principles of the national architecture of Czech public administration, provides consultation on authorities' plans and projects submitted to the Czech government. An authority's failure to draw up an information concept is not, however, a reason for the DCA to reject its project. A summary of the projects approved by DCA is given in Table 6 below.

In the course of 2021, the DCA approved **138** ICT projects worth more than **CZK 13.6 billion**, excluding VAT. Most approved projects were from the Ministry of the Interior. However, it can take many years from DCA approval to completion of the project.

Table 6: Projects approved by the DCA in the period 2016-2021

Assessment year	Number of submitted applications	Financial volume of submitted applications (CZK billion)	Affirmative opinion of the DCA	Financial volume of approved application (CZK billion)
2016	119	–	115	19.1
2017	357	24.8	296	22.6
2018	106	14.8	88	10.7
2019	132	30.2	97	28.0
2020	210	18.1	180	15.8
2021	148	14.4	138	13.6

Source: documents of the DCA and Mol; own processing by the SAO.

The most important source of funding for digitalisation in the coming years will be the *National Recovery Plan (NRP)*. This is the government's plan for reforms and investment in the Czech Republic, which will be implemented using funds from the European *Recovery and Resilience Facility*. Of the total amount of **CZK 180 billion**³², **CZK 40 billion**³³ is earmarked to support the digital transformation of the CR. Of that amount, approximately **CZK 22 billion** will be allocated to the digital transformation of public administration³⁴.

31 The benchmark focused on assessing the standard of management of an authority, the authority's ability and readiness to implement change, the way ICT is managed, funding, the state of digitalisation, and the collection of requirements, needs and ideas. 14 ministries and 20 selected central administrative authorities participated. Details: Benchmark 2021 (gov.cz).

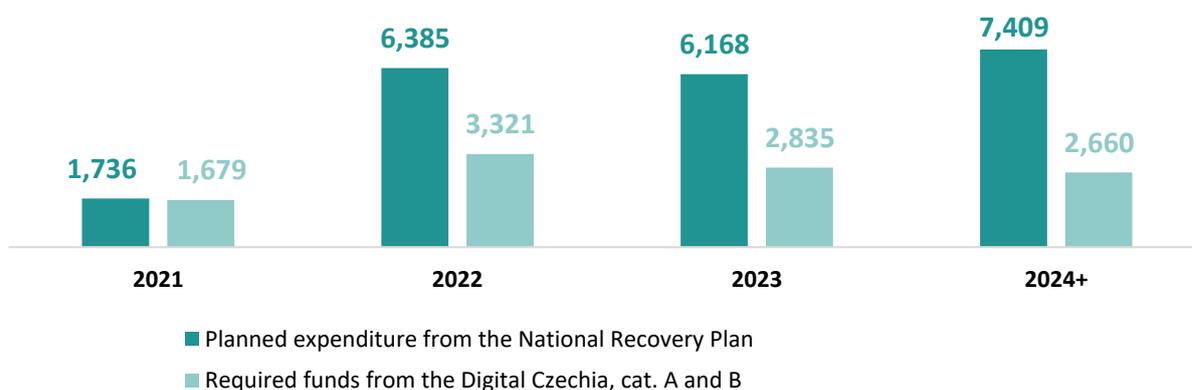
32 The Czech Republic was allocated €7.04 billion. For the purpose of comparison, converted at the uniform rate of 25.65 CZK/€ of the Ministry of Finance (instruction GFD-D-54) for 2021.

33 This amounts to €1.56 billion. For the purpose of comparison, converted at the uniform rate of 25.65 CZK/€ of the Ministry of Finance (GFD Instruction D-54) for 2021.

34 These are pillars 1.1 (digital services for citizens and businesses), 1.2 (digital public administration systems), 1.6 (acceleration and digitalisation of the construction authorisation process) and 3.1 (innovation in education in the context of digitalisation).

The second document describing the long-term plan for the digitalisation of society is the government's *Digital Czechia* programme, which has been running since 2019 and currently contains almost **800** digitalisation projects in various stages of preparation and funding. The required use of funds from the *Digital Czechia* programme for the projects supported by the coordinating authority is compared with the planned use of funds from the NRP in the following chart.

Chart 12: Planned expenditures on digitalization from the *National Recovery Plan* and related financial requirements of the *Digital Czechia* programme (CZK millions)



Source: database of Digital Czechia projects, as at 25 October 2021, and the National Recovery Plan, as at 8 September 2021; own processing by the SAO.

Note: Category A projects are listed in the Digital Czechia programme as prepared projects, approved by the coordinated authority and with secured funding. Category B projects are listed in the Digital Czechia programme as projects with the support of the coordinating authority, but without financial or staffing allocation.

THE DIGITAL TRANSFORMATION OF PUBLIC ADMINISTRATION IN THE CZECH REPUBLIC FACES A MAJOR CHALLENGE TO ENSURE EFFECTIVE, EFFICIENT AND ECONOMICAL USE OF RESOURCES FROM THE NRP IN THE COMING PERIOD. THEREFORE, BASED ON ITS PREVIOUS FINDINGS³⁵, THE SAO DRAWS ATTENTION TO THE RISK THAT LARGE-SCALE ICT PROJECTS WILL NOT BE COMPLETED ON SCHEDULE AND ADDITIONAL CHANGES MAY HAVE TO BE IMPLEMENTED AFTER THEIR LAUNCH.

In 2021, the SAO carried out audit No. **20/07** in the area of ICT, where it examined whether the Ministry of Agriculture and the State Agricultural Intervention Fund (SAIF) spent funds on the acquisition, operation and development of ICT in an efficient and economical manner. The audit focused in particular on the use and functioning of selected information systems. The MoA operates a total of **16 agenda-based information systems** and its average annual expenditure on ICT in 2016–2019 amounted to **CZK 453 million**. The SAIF has **just one agenda information system** and its ICT expenditure in the same period amounted to **CZK 750 million**.

The audit showed that the SAIF is heavily dependent on the main supplier (SAP platform) for support for the operation and development of its agenda information system (SAIF IS). The system is dogged by very high operating costs and high unit prices of external IT specialists. The SAIF spent more than CZK 500 million per annum on support for its operation and development. That is approximately ten times more than the amount spent by the Ministry of Agriculture on its most financially demanding information system. The SAO also found deficiencies in IT at the Ministry of Agriculture.

35 Audit No. 16/02 – Funds earmarked for ICT and crisis management systems of units of the Integrated Emergency System (The audit report was published in volume 1/2017 of the SAO Bulletin); Audit No. 16/26 – Expenditure on the operation and the use of immovable property, including expenditure on the provision of information support related to the management, operation and maintenance of immovable property (The audit report was published in volume 6/2017 of the SAO Bulletin); Audit No. 17/03 – Health information systems within the administration of organisational units of the state in the health department (The audit report was published in volume 1/2018 of the SAO Bulletin); Audit No. 17/22 – Implementation of projects within ICT for the Ministry of Labour and Social Affairs (The audit report was published in volume 1/2019 of the SAO Bulletin); Audit No. 19/14 – Introduction of electronic identification and enabling of electronic access to public administration services (The audit report was published in volume 4/2020 of the SAO Bulletin).

- The SAO found that both the SAIF and the MoA were reducing the number of internal ICT specialists and key positions were filled by external staff, which posed a risk in the area of strategic ICT management. In addition, the SAIF had not developed and published an information policy concept, thus violating the law³⁶.
- The SAO also examined measures taken by the MoA to address the shortcomings identified in previous audits³⁷ and found that the MoA transferred the administration of national agricultural subsidies from the MoA to the SAIF³⁸. In the explanatory memorandum, the rough estimate for the creation of a software tool at the SAIF was **CZK 20 million** and the estimated saving (reduction in the MoA's costs for supporting for national subsidies information system) was **CZK 5 million**. In fact, however, the MoA only **saved a total of around CZK 1.3 million** in 2021. In contrast, the SAIF spent a total of **CZK 28 million** on IS modifications related to the transfer of the national subsidies' agenda in the same period.

Spending on the SAIF IS was four times higher than the average ICT spending of public administration bodies per employee.

In its audits the SAO has repeatedly flagged up the problem of vendor lock-in, i.e. contractual or technical dependence on a very narrow range of suppliers, in some cases even on a single one. The main consequences are:

- **high costs when switching to a new IS and when migrating an existing IS to a new supported platform;**
- **high annual costs of keeping morally and technically obsolete information systems in operation.**

Organisational units of the state are unable to recruit and retain their own IT specialists and do not use the legislative possibilities for their adequate financial evaluation. In the field of ICT this often leads to increased dependence on contractors, who in many cases have much more detailed knowledge of the state organisations' agendas and information systems than the in-house ICT specialists. Another source of dependence on suppliers is the excessive customisation of standard software solutions, which makes it impossible to switch to another supplier and thus makes the operation and further development of the system more expensive.

Impacts of previous SAO audits in the field of digitalisation

In 2021, the SAO monitored the status of its recommendation from audit No. **19/14**³⁹, which was that an analysis should be done of citizens' needs in the area of eGovernment. In the second half of 2021, the MoI carried out an "*Analysis of the state of citizens' knowledge of eGovernment*". This produced a general list of citizens' needs, including their demand for digital services. In the aftermath of the analysis, a key issue is the prioritisation of the digitalisation of agendas and relevant tasks in order to truly reflect citizens' needs, with particular regard to the frequency of physical interaction with the state when dealing with various situations.

This analysis shows, among other things, a significant increase in the use of the *Public Administration Portal* and other eGovernment tools (data boxes, electronic ID card, *Citizens' Portal*) and a substantial increase in citizens' knowledge of eGovernment. Electronic communication with the state is already taken for granted by many people, as is the possibility of making an appointment with the authorities in advance. The need to access information and services at any time and from anywhere is also emphasised.

36 Section 5a(2) to (4) of Act No. 365/2000 Coll., on public administration information systems and amending certain other acts

37 Audit No. 12/04 – Management of property and state funds in the implementation of projects in the field of information and communication technologies at the Ministry of Agriculture (The audit report was published in volume 1/2013 of the SAO Bulletin); Audit No. 18/08 – Funds spent on the support of the animal production sector (The audit report was published in volume 3/2019 of the SAO Bulletin).

38 Pursuant to Act No. 208/2019 Coll., amending Act No. 252/1997 Coll., on Agriculture, as amended, and Act No. 256/2000 Coll., on the State Agricultural Intervention Fund and amending certain other laws (Act on the State Agricultural Intervention Fund), as amended.

39 The audit focused on the implementation of the electronic identification system and the Citizens' Portal. Both of these new eGovernment tools were launched in 2018 and their purpose is to allow citizens easier access to digital services of public administration bodies. As a result of the audit, the SAO recommended a total of 9 measures, one of which was to analyse citizens' eGovernment needs and their demand for digital services. The SAO considers the fulfilment of this measure to be crucial to the further development of eGovernment.

4.2 ENTERPRISE SUPPORT

The enterprise sector is one of the most important drivers of economic growth and growth of the domestic economy. The provision of funding to the enterprise sector in the form of subsidies, repayable financial assistance, loans, investment incentives or other financial instruments thus seeks to contribute to the overall development of the state and to improve competitiveness. In this area, the SAO completed two audits in 2021 focusing on:

- investment incentives designed to support domestic and foreign investors (audit No. **20/13**);
- support to SMEs for consultancy, marketing and training and for measures related to Covid-19 provided from Operational Programme *Enterprise and Innovation for Competitiveness* (OP EIC) for the 2014-2020 programming period (audit No. **20/20**).

Audit No. **20/13**, scrutinised the procedure followed by the MoIT and CzechInvest when providing investment incentives to foreign and domestic entities, the declared benefits of these incentives and the evaluation thereof. Investment incentives have been provided in the Czech Republic since 1998, and since 2000 their provision has been regulated by the Investment Incentives Act⁴⁰. From 2000 to the end of September 2020, the MoIT has pledged **955** investment incentives. From 2000 to the end of 2019, beneficiaries have drawn down more than **CZK 75 billion** in investment incentives. Most of the funds, i.e. over **CZK 64 billion**, were used for investment incentives in the form of income tax rebates (**85%**).

In addition to supporting economic development, the incentives were intended to help reduce unemployment and close the gap between the CR's developed and less developed regions. Although the unemployment rate in the Czech Republic gradually declined between 2015 and 2019, the number of investment incentive pledges did not fall, and even increased right up to 2018. The vast majority of investment incentives (96%) between 2012 and 2020 went into manufacturing, specifically for investments without an obligation to generate higher value added. The condition that the project must deliver higher added value, e.g. employ people with higher skills, conduct research or collaborate with a research institution, was only added to the law in September 2019. Interest in incentives then dropped significantly.

*The reduced interest in incentives is illustrated by the fact that during the first year after the introduction of the obligation to implement higher added value, CzechInvest received **11 applications** for investment incentives. In previous years, it received an average of **75 applications per year**.*

- Since 2014, the MoIT has had its investment incentives provided evaluated by an external company, as requested by the European Commission. The evaluations did not cover the fulfilment of individual sub-objectives, e.g. the actual number of new jobs created or the export potential of the supported companies. On the other hand, the MoIT did not secure complete data from all beneficiaries for the evaluation. The MoIT also failed to monitor or evaluate the impact of the investment incentives on other businesses that did not secure the incentives. Furthermore, the SAO pointed out that the MoIT is not required to monitor the state's additional costs linked to the incentives, nor does it include them in the expenditure on these incentives. These include, for example, the cost of building infrastructure in industrial zones where the supported companies operate, or the cost of reinforcing the police in connection with the employment of foreign nationals in these zones.

DESPITE THE SIGNIFICANT VOLUME OF INVESTMENT INCENTIVES PROVIDED, THE MOIT DOES NOT KNOW HOW THE INCENTIVES HAVE CONTRIBUTED TO ECONOMIC DEVELOPMENT OR TO REDUCING UNEMPLOYMENT IN THE CZECH REPUBLIC.

40

Act No. 72/2000 Coll., on investment incentives and amending certain acts (Investment Incentives Act).

Following the SAO's recommendations, the MoIT has made a commitment to:

- **make use of the possibilities provided for by law and directly demand that beneficiaries provide data on the implementation status of investments;**
- **in the context of on-site audits of investment incentives, to ascertain the actual number of jobs created and the amount of investment, and possibly other economic indicators, in order to assess the investment incentives' impact.**

In audit No. **20/20** the SAO examined whether the provision and use of funds from OP EIC intended for SMEs for consultancy, marketing, training and measures related to Covid-19 was efficient and cost-effective. Between 2015 and 2020, the MoIT supported 1,047 projects with total funding exceeding **CZK 2.3 billion**, of which 107 projects related to the Covid-19 pandemic with funding of **CZK 491 million**.

The provision of support from OP EIC is problematic and it is not demonstrable to what extent it contributes to the fulfilment of its objectives. When measuring the achievement of the support objectives, the MoIT related the monitored indicators to all economically active enterprises, although only 1 per mille of them received support. Consequently, the indicators could not be indicative of the support's benefits. The support's impact on the whole sector will therefore be negligible. Moreover, the MoIT will not be able to assess the benefits of the support provided or the achievement of the set objectives. The SAO found that some values of the target indicators increased even without the support or, on the contrary, their value decreased despite the aid. As part of the audit, the SAO also assessed the risk of uneconomic internal projects provided by CzechTrade.

*In the case of internal projects implemented by CzechTrade, almost **CZK 65 million** was spent on the agency's own expenses, which represented almost **half** of the expenditure on the projects being implemented. As part of these projects, the agency was supposed to ensure SME participation in trade fairs and exhibitions abroad.*

- For the Marketing support programme, the result indicator continued to deteriorate even though the amount paid out exceeded **CZK 701 million**. It is not demonstrable whether and how the support met the stated objective of increasing exports and international expansion of SMEs. On the contrary, the indicator values for the Consultancy support programme grew between 2015 and 2019 without any impact of the support provided. The MoIT took four years to prepare the first call for proposals, so the first projects were not implemented by the beneficiaries until 2019. Only **27 applicants** were interested in the support, and only **CZK 239,000** was paid out for their projects. In the case of the support for the construction of training centres, the MoIT did not monitor whether the centres were sufficiently used for their defined purpose, which was one of the binding conditions. If SMEs did not meet these conditions, however, they were supposed to have returned the subsidy. It was only during the SAO audit that the MoIT introduced an obligation for beneficiaries to submit an overview on the utilisation of the training centre.
- The SAO also audited funds from programmes that focused on the development of innovations, materials and technologies to fight Covid-19, such as the production of protective equipment, the disposal of infectious material and knowledge sharing with the research community. Given the absence of appropriate indicators, the MoIT will not be able to assess whether the support provided has fulfilled its intended purpose and how it has helped in the fight against the pandemic.

THE MOIT WAS NOT ABLE TO ASSESS THE SUPPORT'S IMPACT ON THE ACHIEVEMENT OF THE SET OBJECTIVES OR THE BENEFITS FOR SMES: IN OTHER WORDS, WHETHER IT IMPROVED THE COMPETITIVENESS OF START-UP SMES, FACILITATED ACCESS TO FOREIGN MARKETS AND EXPANDED OPPORTUNITIES FOR EMPLOYEE TRAINING.

SAO audits in previous years⁴¹ targeting support provided out of OP EIC have repeatedly drawn attention to deficiencies in the management and implementation system. The goals of the support were general and difficult to evaluate. The benefits of the support for business were not monitored or were not conclusive. National funding for large investors and industrial zones has created problems for small businesses in terms of losses of employees and sales. At the same time, the related infrastructure, such as services, housing or transport infrastructure, was not addressed. Greenfield zones were promoted, while there was no demand for support for brownfield sites.

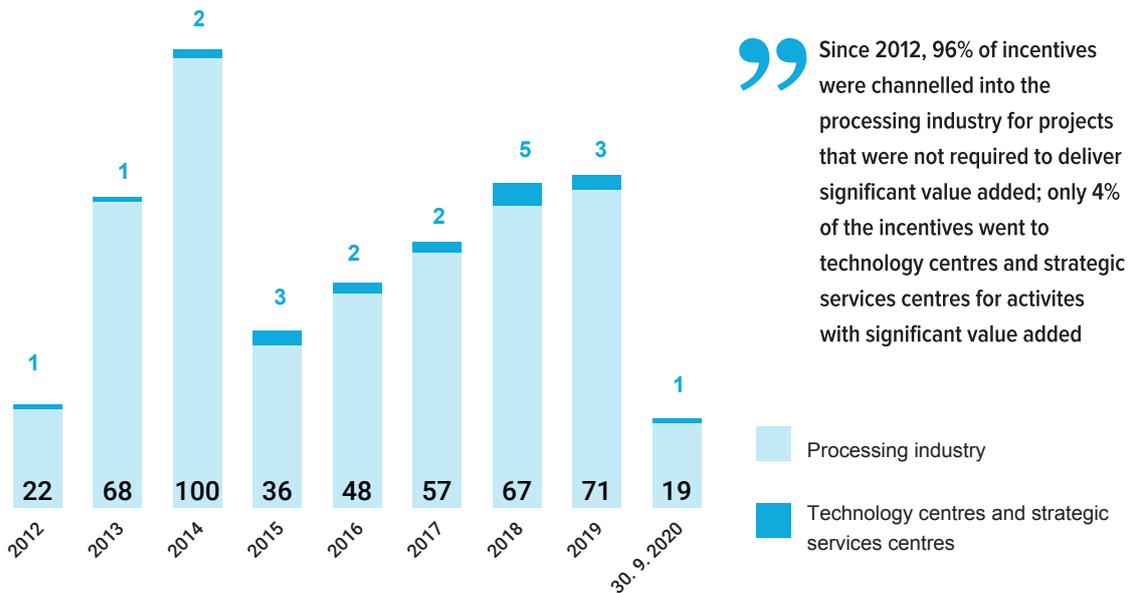
41 Audit No. 18/01 - Support of business real estate and business infrastructure (audit report published in volume 6/2018 of the SAO Bulletin); audit No. 18/06 - Support for the promotion of research and development for innovation provided by the Operational Programme Enterprise and Innovation for Competitiveness (audit report published in volume 1/ 2019 of the SAO Bulletin); audit No. 19/15 - Support for the development of high-speed internet access provided from the Operational Programme Enterprise and Innovation for Competitiveness (audit report published in volume 3/2020 of the SAO Bulletin).



The MoIT has long failed to evaluate demonstrable benefits of provided enterprise support

FROM 2000 TO 2019 THE STATE GRANTED INVESTMENT INCENTIVES WORTH OVER CZK 75 BILLION TO PRIVATE FIRMS WITHOUT ASSESSING THEIR ACTUAL BENEFIT FOR THE CR

Number of valid decisions pledging investment incentives



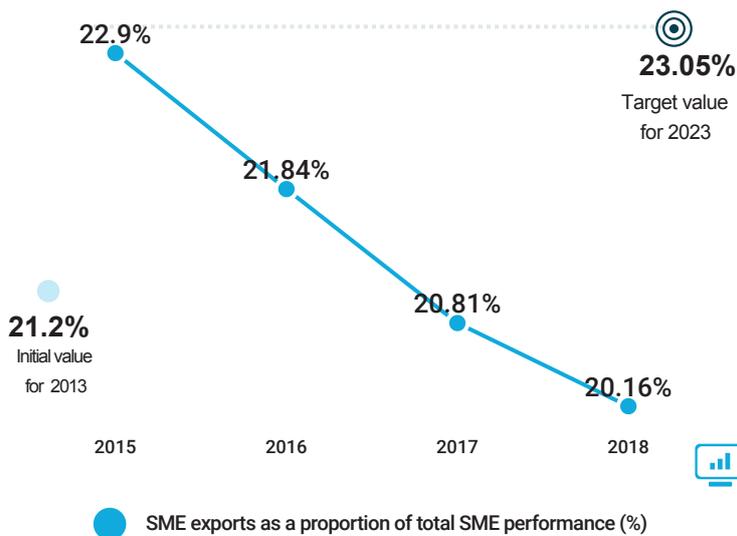
Since 2012, 96% of incentives were channelled into the processing industry for projects that were not required to deliver significant value added; only 4% of the incentives went to technology centres and strategic services centres for activities with significant value added

Processing industry
Technology centres and strategic services centres

SUPPORT FOR SMALL AND MEDIUM-SIZED ENTERPRISES EXCEEDED TWO BILLION KORUNA, BUT EVEN SO CHANGES IN THE RESULTS INDICATORS DID NOT CORRELATE TO



Result indicator for the Marketing support programme



Support provided to SMEs under the Marketing support programme has so far not delivered the expected increase in the result indicator. On the contrary: despite the provided support this indicator has been falling constantly since 2015, ending up below the initial state

4.3 TRANSPORT

The planning, preparation and construction of transport infrastructure is a long-term process and its development largely depends on the economic development and competitiveness of the Czech Republic. Implementing strategic plans in this area is one of the basic tasks of the state. In line with EU policy, the CR is also striving to expand environmentally friendly modes of transport, which undoubtedly include cycling and e-mobility. The SAO has repeatedly focused on this issue with the aim of identifying the causes of problems and thus helping to ensure the effective development and sustainability of transport infrastructure.

In 2021, the SAO completed audits examining:

- construction, maintenance and repair of cycling infrastructure (audit No. **20/11**);
- support for the use of electric public transport (audit No. **20/14**).

Cycling is an underdeveloped form of transport in the CR, even though cycling is one of the most popular recreation and sport activities. The Czech state committed itself to promoting cycling and building cycle paths in the programme document *National Strategy for the Development of Cycling Transport in the Czech Republic for 2013–2020* (Cycling Strategy 2020). In audit No. **20/11**, the SAO scrutinised the fulfilment of the intentions set out in this document, but also the elimination of shortcomings found during the previous audits No. **03/23**⁴² and No. **11/14**⁴³.

The intentions of Cycling Strategy 2020 have not been realised. In the period under scrutiny, i.e. 2013–2020, CZK 3 billion from national and EU funding was used under various programmes to develop cycling infrastructure; CZK 1.8 billion of that amount was EU funding. The SAO audit pointed out that the Ministry of Transport (MoT), Ministry for Regional Development (MoRD) and State Fund for Transport Infrastructure (SFTI), as the support providers, do not have comprehensive information on the construction process and the actual use of cycling infrastructure. Their cooperation with regions and municipalities, which are responsible for cycling infrastructure, was insufficient. In the previous audit No. 11/14 the SAO stated that the priorities, objectives and measures set by the MoT for the development of cycling were too general. The shortcomings identified by the SAO in 2012 were not corrected by the MoT and their causes were not assessed.

- Furthermore, the SAO found that the task imposed on the transport minister in a government resolution⁴⁴, namely to put in place binding price standards, was not fulfilled, as the SFTI has merely non-binding price standards and the MoRD does not even have non-binding standards. The absence of binding standards resulted in significant differences in the unit prices for cycle paths in the projects audited. In addition, costly solutions prevailed, even though even though Cycling Strategy 2020 required that less expensive cycle paths should be preferred. In the case of 94 audited projects out of the 327 projects supported from the SFTI budget, the cost ranged from **CZK 746/m²** to **CZK 12,700/m²**, or from **CZK 1.5 million/km** to **CZK 31 million/km**. The prices of nine footbridges financed out of the SFTI budget ranged from **CZK 22,000/m²** to **CZK 85,000/m²**. In the sample of 67 projects financed from IROP, the average price was about **20% more than** in the sample of cycle paths financed from the SFTI budget.

The MoT paid CZK 2.4 million on implementing Cycling Strategy 2020. The outputs were supposed to be made available on the relevant website⁴⁵. The website was not functional or did not present any implementation outputs. The use of the implementation outputs was not clarified by the MoT.

42 Audit No. 03/23 - Management of state property by the State Fund for Transport Infrastructure (audit report was published in volume 2/2004 of the SAO Bulletin).

43 Audit No. 11/14 - Funds earmarked for the construction and maintenance of cycling infrastructure (audit report was published in volume 1/2012 of the SAO Bulletin).

44 Resolution of the Government of the Czech Republic of 4 July 2012 No. 493, on the Audit Report of the Supreme Audit Office from Audit No. 11/14 - Funds earmarked for the construction and maintenance of cycling infrastructure.

45 See www.cyklostrategie.cz, www.cyklokonference.cz a www.cyklodoprava.cz.

THE MOT, MORD AND SFTI HAVE SPENT CONSIDERABLE AMOUNTS ON BUILDING AND MAINTAINING CYCLING INFRASTRUCTURE WITHOUT SUFFICIENTLY ENSURING ITS EFFECTIVE, EFFICIENT AND ECONOMICAL USE. MOREOVER, THE STATE DOES NOT POSSESS INFORMATION ON THE OVERALL STATE OF CYCLING INFRASTRUCTURE AND ITS ACTUAL USE.

Public transport has a long tradition in the Czech Republic. Due to the deterioration of air quality in cities, which is largely caused by car traffic, the construction and modernisation of urban and suburban systems based on the track-based transport principle is supported. The SAO examined the support for the construction and modernisation of electric-traction public transport, i.e. trams, trolleybuses and underground trains, in the years 2015 to 2020. This was an audit of EU funding provided from Operational Programme *Transport 2014–2020* through Specific Objective 1.4 - *Creating conditions for increasing the use of public transport in cities with electric traction*.

The SAO pointed out that the funds invested contribute only partially to the achievement of the objectives, but their contribution is difficult to assess. The MoT did not define appropriate indicators to allow evaluation of the support, as it used indicators that rate outputs solely in terms of technical parameters⁴⁶. The MoT has not demanded information on the achievement of objectives and expected benefits from the aid beneficiaries, usually public transport firms, and is only now clarifying the evaluation method. Thus, the MoT did not fulfil the obligation to continuously monitor and evaluate the effectiveness and efficiency of the spent funds, i.e. the obligation imposed on budget chapter administrators by the budgetary rules and the Financial Control Act.

- Of the total **CZK 11.7 billion** earmarked for increasing the use of electric-traction public transport, only **CZK 7.8 billion (66%)** was invested. The reason for this was the initial lack of quality projects prepared and the fact that for the first call for projects the MoT reckoned with an allocation of **CZK 5 billion** for the construction of metro line D, where the preparatory work was delayed. The other conurbations in the second call were not able to utilise the available funds. The under-utilisation of the allocation meant there was a risk that the support did not contribute to the maximum extent possible to the fulfilment of the *Europe 2020* strategy objective which Operational Programme *Transport 2014–2020* was based on.

The number of newly registered road vehicles increased by 221,212 last year to a total of 8,558,529. Over the last 10 years, the age of the vehicle stock has increased by more than three years to an overall average of almost 19 years⁴⁷.

THE INDICATORS DEFINED BY THE MOT WILL NOT ENABLE IT TO EVALUATE THE EFFECTIVENESS OF THE FUNDS SPENT: IN OTHER WORDS, WHETHER THE AID HAS INCREASED THE USE OF PUBLIC TRANSPORT TO THE DETRIMENT OF CAR TRANSPORT, WHETHER EMISSIONS OF POLLUTANTS HAVE BEEN REDUCED AND WHETHER THE AID HAS RESULTED IN UPGRADED AND FASTER CONNECTIONS AND WHETHER TRANSPORT NEEDS IN CITIES HAVE BEEN MET.

⁴⁶ Technical parameters included, for example, filling the expected number of new facilities or the length of new lines in kilometres.

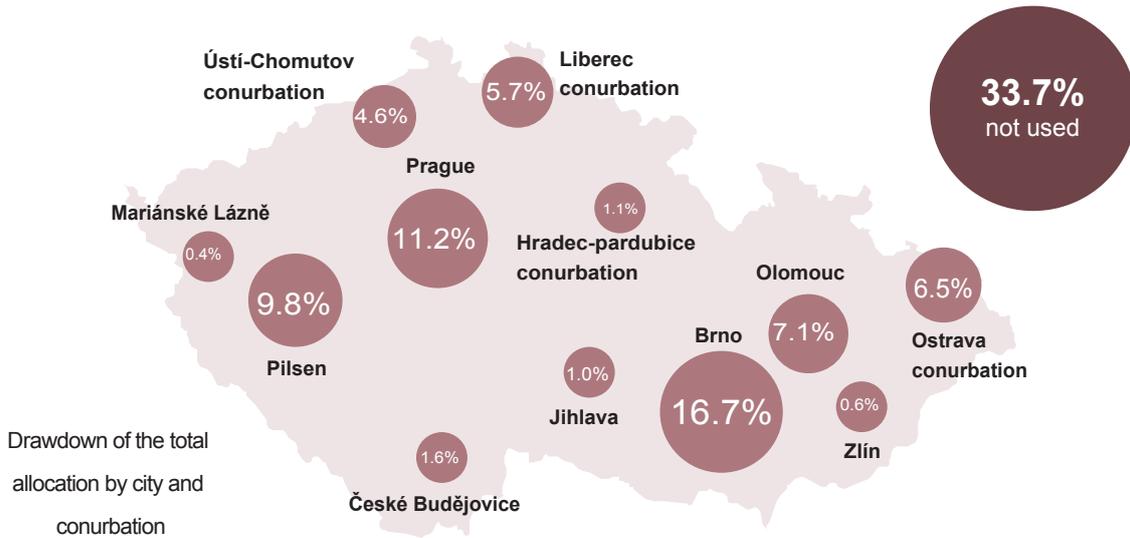
⁴⁷ See: <https://portal.sda-cia.cz/stat.php?v#rok=2021&mesic=12&kat=stav&vyb=&upr=&obd=m&jine=false&lang=CZ&str=vppcia.cz/stat.php?v#rok=2021&mesic=12&kat=stav&vyb=&upr=&obd=m&jine=false&lang=CZ&str=vpp>.



The development of transport infrastructure continued to be held back by **errors in strategic and financial management**, including the failure to monitor the effectiveness of spending

THE RATE OF DRAWDOWN FROM THE EU IN ELECTRIC TRACTION WAS LOW, MAINLY DUE TO A SHORTAGE OF HIGH-QUALITY AND WELL-PREPARED PROJECTS AND DELAYS IN THE PREPARATION OF THE CONSTRUCTION OF METRO LINE D

**Total allocation
CZK 11.7 billion**



THE AUDITED CYCLE PATH PROJECTS WAS DOMINATED BY COSTLY SOLUTIONS AND THE ABSENCE OF BINDING PRICE STANDARDS RESULTING IN CONSIDERABLE DIFFERENCES IN UNTIL COSTS FOR CYCLE PATHS

Dispersion of unit prices per kilometre of cycle paths co-funded out of the SFTI budget (CZK million)



” The average price of cycle paths funded out of IROP was 20% higher than in the case of SFTI funding

Impacts of previous transport inspections

In audit No. **19/10**⁴⁸ the SAO flagged up the absence of a unified system for bridge monitoring containing up-to-date, complete and reliable information on their actual condition and defects. The MoT informed the Government that all the measures have been executed or were being executed, with the exception of the measure aimed at adopting a decree on record-keeping for roads by 1 January 2022. The SAO points out that since 2007 the MoT has failed to fulfil its legal obligation to keep a central register of roads⁴⁹ and has not even issued the relevant implementing regulation yet. There is still no unified system for keeping records of bridges. A follow-up audit will be required to verify the progress and effectiveness of other measures aimed at eliminating the identified shortcomings.

48 Audit No. 19/10 - Repair and maintenance of road bridges (the audit report was published in volume 4/2020 of the SAO Bulletin).
49 Section 29a of Act No. 13/1997 Coll., on Roads.

4.4 INTERNAL SECURITY AND DEFENCE

Strengthening defence and internal security is a key priority for any government. Consequently, for example, one of the commitments in the government's June 2018 Programme Statement was to increase the defence budget with the aim of reaching a **1.4%** share of GDP by 2021, while emphasising the need to link state funding to well-prepared and rational acquisition projects. Transparent tender procedures were supposed to lead to the modernisation of the air and ground forces, including artillery. This task was not fully executed, however, as some key investment projects necessary to strengthen defence capabilities and meet NATO commitments (e.g. new tracked infantry fighting vehicles) were not implemented. The priority of internal security is mainly to ensure public order in the Czech Republic, e.g. by striving to significantly reduce all forms of illegal migration and related illegal activities, increasing the professionalism and improving the work of the Czech security forces and increasing preparedness for crisis situations.

In 2021 the SAO completed four audits in the area of internal security and defence, which targeted:

- state funds spent on the fulfilment of selected objectives of the Czech Republic's migration policy in audit No. **20/10**;
- state property and funds under the management of the State Material Reserves Administration in audit No. **21/04**;
- state property and funds earmarked for the activities of the General Inspection of Security Forces in audit No. **20/27**;
- state property and funds earmarked for the activities of the Military Intelligence of the Czech Republic in audit No. **20/29**.

One internal security threat is the negative aspects of international migration. It is therefore the state's duty to take effective measures to support controlled legal migration, minimise illegal migration and ensure effective protection of national borders within the Schengen area. In audit No. **20/10** the SAO examined whether the Ministry of the Interior (Mol), the Mol Refugee Facilities Administration (RFA) and selected beneficiaries spent national and EU funds on achieving selected Czech migration policy objectives in an effective, efficient and economical manner. The Mol spent almost **CZK 6 billion** on migration policy from 2017 to 2019. The audit examined projects on which **CZK 556.6 million** was spent and which focused, for example, on activities to protect the EU's borders, support the asylum system, integrate foreigners into society and assist countries experiencing strong migration pressure.

The SAO's audit found that although national funds channelled into migration policy programmes contributed to the achievement of the set objectives in this area, their contribution was difficult to assess. That was because the Mol defined the objectives in conceptual and programme documents only in general terms, without measurable indicators to evaluate the benefits of the support provided. In the projects audited, the Mol did not even require the beneficiaries to evaluate their results and benefits. In many cases, the monitoring indicators set for the projects were indicative only of the projects' outputs, not their results. In the course of the audit of selected projects, the SAO also found shortcomings that reduce the effectiveness, efficiency and economy of state funding, most of which should have been identified by the Mol at the stage of assessing proposals and selecting projects for support.

The Mol did not monitor the average cost per client for projects aimed at financing foreigner integration support centres, nor did it compare these values between beneficiaries. These costs ranged from CZK 2,600 to CZK 6,700 in the case of Czech language lessons, for example.

- The SAO assessed **9 out of 27** audited projects as having limited effectiveness or efficiency. For example, the purchase of two special cars equipped with thermal imaging technology worth **CZK 15 million** for international airport security was not necessary for the CR, as five older vehicles were only being put to minimal use at the time. The Police of the Czech Republic used them on average only twice a month. The SAO therefore concluded that project's effectiveness and efficiency was limited. The SAO also pointed out that a project for the reconstruction of a building in Havířov used to accommodate applicants for international protection was poorly prepared. In this case, the RFA, as the beneficiary, paid insufficient attention to the preparation of the project and underestimated the costs. By the time of the audit, the cost of the work had reached **CZK 57 million**, which was more than double the original budget. For this project, the RFA moreover failed to justify its necessity and provided no evidence of any need to increase the existing capacity. At the time when the support application was filed the capacity was at most **68%** utilised, but the MoI approved the project even so. In the following years capacity utilisation at the facility was usually around **50%**. The SAO therefore assessed the project as having limited effectiveness and limited efficiency.

THE MOI FAILED TO IDENTIFY INEFFECTIVE, INEFFICIENT AND UNECONOMICAL USE OF STATE FUNDS BY BENEFICIARIES. OF THE TOTAL OF CZK 852 MILLION SPENT ON MIGRATION PROJECTS, THE SAO RATED SPENDING CZK 348 MILLION AS HAVING LIMITED EFFECTIVENESS OR LIMITED EFFICIENCY.

Based on the shortcomings identified, the MoI undertook to adopt a number of measures:

- **To create of a system for evaluating the efficiency of state expenditure in the area of migration policy: e.g. the MoI will develop a set of evaluation tools that will enable continuous monitoring and evaluation of progress, efficiency and feedback in the *State Integration Programme*.**
- **Migration projects co-financed by the EU should now include a set of indicators, including separate indicators for outputs and results. This should improve feedback from project participants and facilitate assessment of the achievement of project objectives.**
- **The MoI also approved a number of changes to the documents of the *On-Site Assistance programme*, which should eliminate the shortcomings identified by the SAO, especially in the inconsistency of the defined project conditions.**

In addition to auditing the activities of the interior and defence ministries, the SAO also audited financially smaller chapters of the state budget in 2021, namely the State Material Reserves Administration (SMRA) and the General Inspection of Security Forces (GISF).

In audit No. 21/04, the SAO examined whether the SMRA managed state property and funds economically, in accordance with legal regulations and with regard to the proper preparation of measures for crisis situations and the securing of the state's material reserves. The SAO found deficiencies in the preparation of emergency measures and the securing of state material reserves. From April 2017 to June 2021, the SMRA had emergency stocks of crude oil and petroleum products below the EU requirement. The Czech Republic faces sanctions from the EU for not meeting the established limit of crude oil and petroleum products stocks, the amount of which is directly proportional to the state of the economy. Moreover, in the audited period 2016-2021 the state material reserves did not contain stocks of low-sulphur crude oil, which is processed by one of the two refineries in the CR.⁵⁰

- Until 2017, the SMRA stored part of its emergency stocks of petroleum products in Germany with a private legal entity, whose insolvency resulted in a challenge to the CR's ownership rights. Although the SMRA eventually managed to transfer the diesel stocks back to the CR, court cases were ongoing at the time of the SAO audit. In relation to the insufficient emergency stocks of crude oil and petroleum products, the SAO furthermore pointed out that, despite the SMRA's proposal (at a time of low prices for these commodities in 2020), the Czech government did not make a strategic decision to identify a specific product for purchase in relation to the CR's strategic priorities

Expenditure on securing the return of petroleum products stocks from Germany to the CR and on the related court cases has now exceeded CZK 124 million, and this sum is not final. In addition, part of the stocks in Germany was lost.

⁵⁰ According to the SAO, the absence of low-sulphur crude oil in the emergency stocks poses a risk that the Kralupy nad Vltavou refinery would not be able to use the emergency crude oil stocks without a major technological adjustment, which is time-consuming and entails significant financial costs. According to the SAO, by supplementing the emergency stocks with low-sulphur crude oil on the basis of a strategic decision of the Czech government to acquire this commodity the SMRA would eliminate this risk and at the same time improve its preparedness to deal with emergency situations.

in the area of energy security, and the purchase was therefore not affected. The SMRA also did not meet the minimum thresholds defined by the MoA for five of the nine staple foods. This was partly due to market's lack of interest and partly due to the limitations resulting from the current legislation⁵¹, which does not allow any form of acquisition of stocks other than the state purchasing them as state property. The SMRA therefore drew up an amendment to the law, which puts in place the right conditions for a new way of acquiring state material reserves by reserving them with the owner (the government has not yet discussed the amendment, however).

THE STATE DID NOT MEET THE REQUIRED LIMIT FOR EMERGENCY STOCKS OF CRUDE OIL AND PETROLEUM PRODUCTS AND SOME BASIC FOODSTUFFS, WHICH MAY JEOPARDISE THE CZECH REPUBLIC'S PREPAREDNESS FOR CRISIS SITUATIONS IN FUTURE YEARS.

The aim of the audit No. **20/27** was to verify whether the expenditure by the GISF was executed in accordance with the legal regulations and to verify whether it has put in place a system for economical and efficient management of the State's property and funds.

The GISF was uneconomical and inefficient in its management of state funds, especially in the area of personnel. In evaluating the condition of official cars, budgeting and the use of real estate, the GISF did not proceed in accordance with legal regulations. The GISF also failed to take effective measures to remedy the shortcomings of the previous MoF audit. Based on the findings, the SAO concluded that the effectiveness of the GISF's internal control system in place during the audited period was limited.

- GISF expenditure in 2020 amounted to **CZK 448 million**, which is **60%** more than the amount reckoned with when it was founded⁵². In 2017, the GISF asked the government to increase state funding for new systematised positions and to increase the existing salary funds. This was justified, among other things, by the potential increase in its activities. However, the statistics submitted to the SAO did not show the occupancy of new systematised positions or any increase in activities. In addition, it used part of the allocated state funding for remuneration of existing officers and staff, which the SAO found to be an uneconomical and inefficient expenditure. Although the GISF paid some of the highest average salaries in the public sector in the audited period (the average monthly pay of GISF officers in 2020 was **CZK 71,556**), there was a high turnover of its staff, especially officers. One consequence was a dramatic increase in the retirement allowance paid from **CZK 13.5 million** in 2017 to **CZK 42 million** in 2020.
- The GISF did not utilise state funds earmarked for investment in areas such as technology, new vehicles, or property renovation in line with its needs. That was despite the fact that it had asked the government to increase the money for investments due to insufficient technical equipment hampering the performance of tasks. The SAO found that, by the time the audit was completed, the first investment programme had drawn **54%** of the allocated state funds and only **18%** of the approved amount for the follow-up programme had been utilised. With this programme due to finish by the end of 2022, it is likely that the GISF will again be unable to meet its defined asset replacement targets.

*The GISF did not use part of the additional state funding to increase the number of new systematised positions, but to increase the remuneration of existing officers and employees. Their remuneration increased by **102%** when comparing 2017 and 2016.*

THE GISF DID NOT USE PART OF THE STATE FUNDS EARMARKED FOR THE SYSTEMATISATION OF NEW POSITIONS EFFICIENTLY AND ECONOMICALLY.

Further to the discussion of audit No. **20/27** by the parliamentary Permanent Commission for the Control of the General Inspection of Security Forces, the GISF made the following commitments:

- **To draw up a document defining the economic, investment and personnel needs of the GISF, which, according to the SAO, could lead to more efficient use of the state funds provided for its activities.**

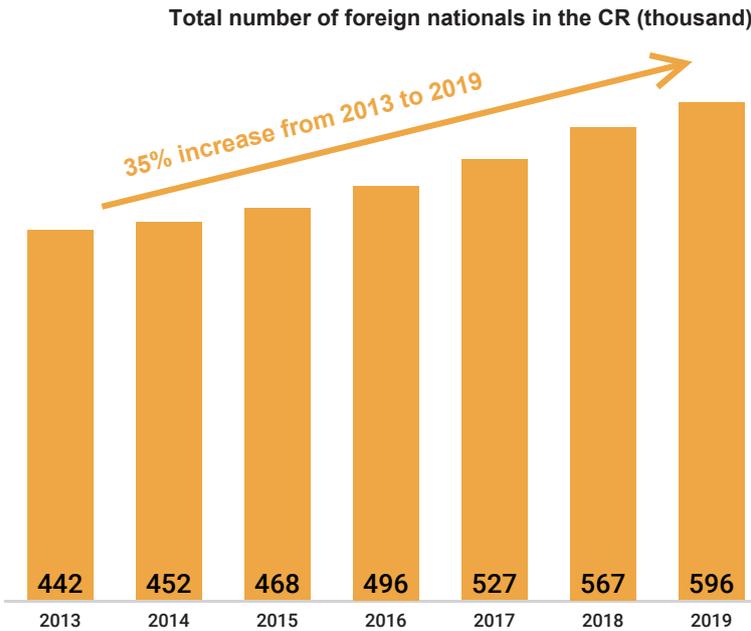
51 Act No. 97/1993 Coll., on the competence of the State Material Reserves Administration.

52 See: <https://www.psp.cz/sqw/text/tiskt.sqw?O=6&CT=410&CT1=0>.



Spending on security must be **economical and efficient and must deliver demonstrable benefits**

GENERALLY DEFINED AIMS WITHOUT MEASURABLE INDICATORS HAMPERED EVALUATION OF THE BENEFITS ACHIEVED BY THE SUPPORT PROVIDED TO MIGRATION POLICY

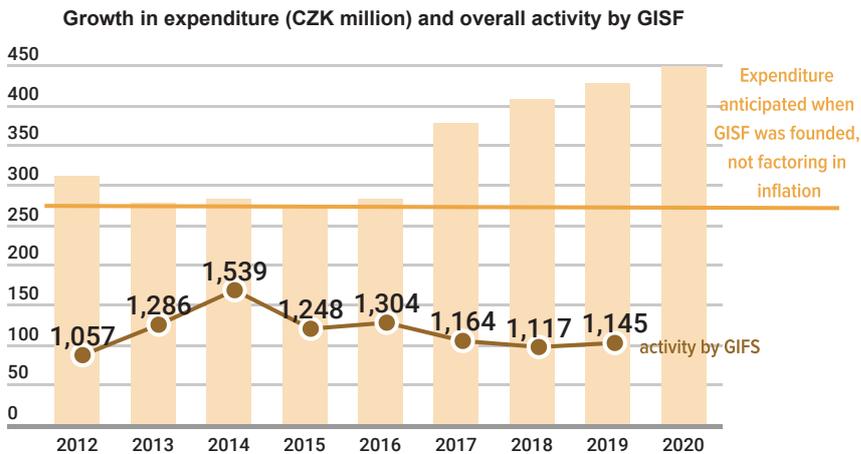


CZK 6 billion

State funds spent from the MoI budget chapter on migration policy from 2017 to 2019

” In 2020 the number of foreign nationals living in the Czech Republic under temporary or permanent residence **increased to 635,000**

GISF EXPENDITURE IN 2020 WAS 60% HIGHER THAN HAD BEEN RECKONED WITH WHEN IT WAS FOUNDED, BUT THERE WAS NO INCREASE IN WORK DONE BY THE GISF



” The increase in spending was mainly driven by an increase in average pay for GISF officers and employees

Impact of previous SAO audits in relation to internal security

- In audit No. **19/11**⁵³ the SAO drew attention to the absence of monitoring and evaluation of the impact of support for security research. Further to measures taken by the MoI, a new evaluation of the programme has been launched in the follow-up *Security Research Programme 2022–2027*, which will cover functionality, effectiveness, relevance and, above all, an assessment of impacts. The transparency of project evaluation will be boosted by a new information system for tender management and subsequent project administration. Another measure concerns reducing the likelihood of projects receiving duplicate funding.
- In audit No. **19/20**⁵⁴ the SAO drew attention to deficiencies in the field of university education for members of the security forces. On the basis of the audit findings, the MoI has taken several measures to make the education system for the Police of the Czech Republic more efficient. For example, the *Strategy for Human Resources Management of the Police of the Czech Republic* will be updated; a list of schools and study programmes in selected areas of education necessary for the performance of the service of a member of the Police of the Czech Republic has been drawn up; and the conditions for granting service leave while studying at university have been redefined so that this leave is granted only for study at the Police Academy of the Czech Republic or at an accredited university for designated study programmes (security and law).

In the area of defence, in 2021 the SAO completed audit No. **20/29** on the financial management of Military Intelligence of the Czech Republic, which is part of the Ministry of Defence (MoD). The results of the audit are classified with the “Confidential” rating, so details of the findings are not provided here⁵⁵.

Impact of previous SAO audits in the field of defence

- In audit No. **20/03**⁵⁶, the SAO assessed that the system of acquiring weapons of the Czech Army was inefficient. In response, the MoD undertook, among other things, to execute unfinished investment projects, to perform the acquisition of spare parts for armaments within the framework of public procurement, or accepted the SAO’s recommendations regarding the use of framework contracts (e.g. in the acquisition of machine guns). Now, tests of samples of armaments are to be carried out in appropriate cases no later than during the procurement procedure, which will contribute to early detection of possible non-conformity to the needs of the Army of the CR. The MoD has also put in place new rules covering intellectual property rights, including conditions for requiring the transfer of these rights to the acquired assets. Last but not least, the MoD has taken measures at the systemic level to optimise the preparation and implementation of acquisitions, consisting both in ensuring adequate and actual state funds for investment projects no later than at the project initiation stage and in specifying the parameters of armaments for the acquisition process.
- In audit no. **19/13**⁵⁷ the SAO concluded that the MoD’s spending on the acquisition, repair and maintenance of armoured equipment for the Czech army was inefficient and ineffective. In response to the audit findings, the MoD focused its measures primarily on the areas of acquisition process planning, securing and monitoring the life-cycle costs of armoured equipment, and increasing the capacity and capabilities of army repair facilities. The MoD has now introduced an assessment of whether providing advance payments to suppliers is economically advantageous. The results of the audit have led to a significant improvement in the operational status of armoured equipment⁵⁸ and in the supply of spare parts.

53 Audit No. 19/11 – Support for security research provided from the budget chapter of the Ministry of the Interior (audit report was published in volume 1/2020 of the SAO Bulletin).

54 Audit No. 19/20 University education of members of the security forces and soldiers of the armed forces (Audit report was published in volume 6/2020 of the SAO Bulletin).

55 This audit contains classified information pursuant to Act No. 412/2005 Coll., on the protection of classified information and on security clearance, and the audit report from this audit was therefore not published in accordance with Section 30 (3) of Act No. 166/1993 Coll., on Supreme Audit Office.

56 Audit No. 20/03 – Acquisition of military equipment of the Armed Forces of the Czech Republic (audit report was published in volume 6/2020 of the SAO Bulletin).

57 Audit No. 19/13 – Armoured vehicles of the Army of the Czech Republic (audit report was published in volume 3/2020 of the SAO Bulletin).

58 The operability rate has increased from 27% to 86% for tanks, 67% to 84% for KBVP PANDUR II 8x8 and 70% to 88% for KOT PANDUR II 8x8 as of 1 June 2021 compared to 2016.

4.5 SOCIAL POLICY

The aim of state support in the field of social services is to aid and support people in unfavourable social situations, e.g. due to age, poor health or a social crisis. The establishment of a long-term sustainable system of accessible social services and support for informal care for people in unfavourable social situations is the global objective of the *National Strategy for the Development of Social Services for 2016–2025*, which also underpins support for the development and renewal of the social services' material and technical assets. Also linked to social issues is the state's support in the field of drug policy, where the key document is the *National Strategy for the Prevention and Reduction of Harm Associated with Addictive Behaviour 2019–2027*. Its objectives are primarily to prevent and reduce primarily the health, social, economic and intangible harms resulting from substance abuse, gambling and other addictive behaviour.

In 2021, the SAO completed three audits in the area of social policy, which focused on:

- drug policy programmes (audit No. [20/12](#));
- investments in social services (audit No. [20/22](#));
- food aid to the poorest and reducing food waste (audit No. [20/23](#)).

In audit No. [20/12](#) the SAO examined whether funds from the state budget chapters of the Office of the Government of the CR, Ministry of Health (MoH), Ministry of Justice (MoJ) and Ministry of Education, Youth and Sports (MoEYS) earmarked for anti-drug policy programmes were provided and used effectively. The total amount of subsidies under drug policy programmes in 2016–2019 amounted to **CZK 849 million**.

Despite this substantial amount of money spent, the objectives of the *National Drug Policy Strategy for 2010–2018* have not been achieved. The MoJ, MoEYS and MoH did not set measurable targets and indicators in their drug policy programmes to allow the support's real impact to be assessed. All the audited ministries and the Office of the Government in some cases violated the legal regulations and their own rules for providing subsidies, and their control systems failed. Moreover, in some cases the allocation of subsidies was entirely non-transparent. The SAO also concluded that drug policy programme funds were not always spent effectively.

- The Office of the Government of the CR, which bears the overall responsibility for this area, has itself assessed that the objectives of the *National Drug Policy Strategy for 2010–2018* were not achieved and that progress towards the action plans' various objectives has been insufficient. The overall assessment of objectives showed that only **two** objectives out of **16** were achieved in the various areas. The remaining goals were achieved either partially or not at all, and in one case this was not possible to verify. The MoEYS and MoH supported projects that did not meet all the legal requirements. The MoEYS also provided subsidies totalling **CZK 657,000** to a natural person who was directly involved in the subsidy's administration and assessment process. The audit also found that in one case, instead of sending a request for reimbursement of a proportionate part of the subsidy, the MoH suggested to the beneficiary to adjust and distort the reported project costs and to submit an adjusted claim statement. The audit revealed partial deficiencies in the case of several beneficiaries. These included, for example, exceeding the defined limits for salaries, errors in budgeting or payment of ineligible costs. On the basis of these findings, the SAO declared a breach of budgetary discipline in the amount of **CZK 257,000**.

*At the end of 2019 the Office of the Government of the CR provided **CZK 11 million** in top-up financing for projects, even though the beneficiaries' projects had just 8 days left to run. These funds paid at the very end of the year could have no significant impact on the projects' results.*

THE SAO POINTS OUT THAT WITHOUT APPROPRIATE CHANGES TO THE DESIGN OF INTERNAL CONTROL SYSTEMS TO DETECT SHORTCOMINGS IN THE PROVISION AND ADMINISTRATION OF SUBSIDIES INTENDED FOR DRUG POLICY, THE RESPONSIBLE AUTHORITIES WILL NOT BE ABLE TO PREVENT INAPPROPRIATE USE OF FUNDS IN THE FUTURE.

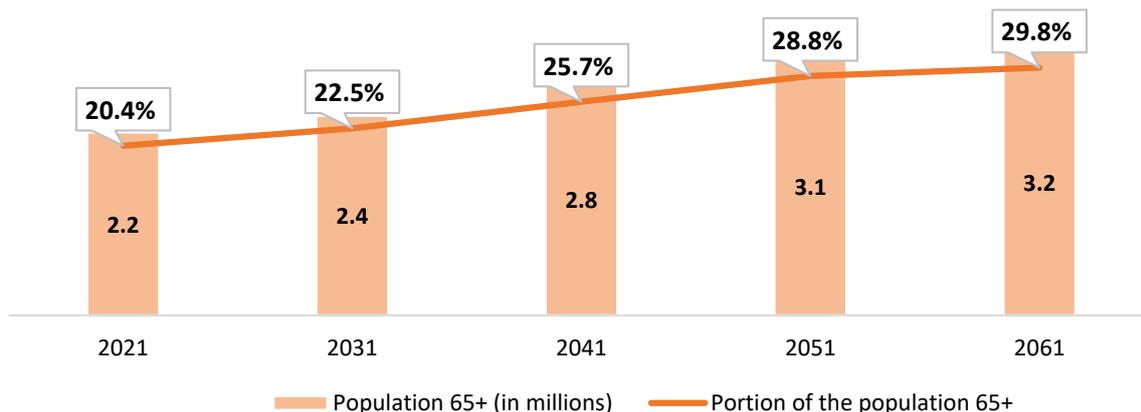
Based on the findings of the SAO, follow-up measures were taken:

- The Office of the Government of the Czech Republic declared that it would put in place unambiguous conditions for effective spending, intensification of control activities and improving the effectiveness of the administration of subsidies.
- The Ministry of Health and the Ministry of Education, Youth and Sports also undertook to review the entire aid provision system and to perform more frequent checks on subsidies. The two ministries also excluded natural persons from the set of potential subsidy beneficiaries and undertook to rule out any conflict of interest.

The most significant aspect of the demographic development of the Czech Republic in the coming decades will be the growing portion of the population over 65 years of age. This group represents a significant set of social services clients, so an increase in demand for social services can be expected. Partly for this reason, the SAO turned its attention to this area in 2021.⁵⁹

*According to the Czech Statistical Office's "old age index", in 2063 there will be **277 seniors** for every **100 children** (the ratio today is 113 per 100)⁵⁹.*

Chart 13: Prediction of the development of the number and share of the population of the Czech Republic aged 65+



Source: CSO – Population projection of the Czech Republic – 2018–2100, Table 4 Medium variant: Age indicators (as at 1 January) population movement, assumptions; own processing by the SAO.

In audit No. **20/22** the SAO audited the provision and use of state funds spent by the Ministry of Labour and Social Affairs (MoLSA) on supporting the development and renewal of the material and technical assets of social services facilities. The programmes' total allocation⁶⁰ amounted to **CZK 5.9 billion**. **CZK 1.1 billion** was drawn from the state budget between 2017 and 2019.

⁵⁹ See: <https://www.czso.cz/csu/czso/ea002b5947>.

⁶⁰ Programme 113 310 - Development and renewal of the material and technical base of social services; programme 013 310 - Development and renewal of the material and technical base of social services.

The SAO found shortcomings in both audited programmes intended to increase the capacity of residential social services facilities, improve the quality of these services etc. The MoLSA extended their implementation until the end of 2022, but in the case of one of the programmes⁶¹ it did not adjust the final values of the objectives and indicators or the deadline for their achievement. The MoLSA has set up this programme in such a way that in some cases the set targets do not correspond to the actual demand or the requirements of social service providers. For two of the six objectives, the MoLSA will not be able to assess the effectiveness of the funding as it has not defined any impact indicators. The SAO also found shortcomings in some selected beneficiaries, namely in the area of compliance with conditions and in public procurement.

- For two other objectives, the MoLSA set the indicators' target values too low. One of these targets was to build **605** new beds to enlarge the total capacity, which stood at 72,110 beds in 2016. This corresponds to an enlargement of just **1%**. At the end of 2016 there were almost **92,000** unsatisfied requests for placement in new beds. The MoLSA therefore defined an output indicator value or target that did not correspond to the actual demand for the creation of new beds, the expected demographic development or the requirements of social service providers. The total allocation from the programme for the creation of new residential facilities was **CZK 825 million**.
- The SAO also drew attention to shortcomings in the assessment of projects for support. Uniform and verifiable rules were not put in place for the discussion of applications by the subsidy committee. The SAO also drew attention to the fact that the MoLSA paid the maximum amount of subsidies to the beneficiaries in two of the 12 projects audited at a time when their supported projects had not yet been completed, so the actual amount of total expenditure was not known. For one of the projects, this meant in practice that the MoLSA paid the beneficiary a subsidy of approximately **CZK 1.5 million** more than it was entitled to according to the managing document.

*In the Czech Republic, the population aged 65 and over grew by **10.3%** between 2015 and 2019. However, the capacity of selected residential social services increased by just **6.4%** over the same period. In addition, the number of unsatisfied requests for residential social services increased by **5.5%** in the same period.*

THE SAO WARNS THAT UNLESS EFFECTIVE MEASURES ARE TAKEN POPULATION AGEING WILL FURTHER EXACERBATE THE SHORTAGE OF BEDS. ANY SUPPORT FOR A SIGNIFICANT INCREASE IN THE NUMBER OF BEDS IN SOCIAL SERVICES WILL ENTAIL HIGH FINANCIAL DEMANDS ON PUBLIC BUDGETS.

SAO recommendation:

To improve transparency and ensure equal treatment of all applications for subsidies, the MoLSA should set unambiguous, measurable and assessable criteria for the submission of investment projects and their discussion in the subsidy committee.

61

Programme 013 310 - Development and renewal of the material and technical base of social services.



Failure to achieve goals in the social area substantially reduces the support's benefit for citizens

THE OFFICE OF THE GOVERNMENT ITSELF CONCLUDED THAT ANTI-DRUG POLICY GOALS WERE NOT BEING ACHIEVED

Assessment of the achievement of National Strategy of Anti-drugs Policy 2010–2018

key:

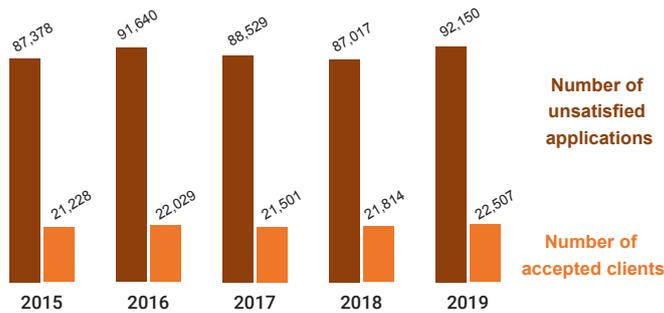
- ✓ Achieved
- ⦿ Partially achieved
- ✗ Not achieved
- ⊕ Unverifiable

- Illegal drugs
- Alcohol
- Tobacco control
- Gambling

	Goal I. Primary prevention Reduce experimental and occasional use among young people	Goal II. Treatment and social inclusion Reduce problematic and intensive use	Goal III. Reducing risks Reduce potential risks linked to use for individuals and society	Goal IV. Reducing availability and risk level Reduce availability for young people and strengthen legal regulation
Illegal drugs	✓	✗	⦿	✗
Alcohol	⦿	⦿	⦿	✗
Tobacco control	⦿	⦿	⦿	✗
Gambling	⦿	⦿	⊕	✓

THE MOLSA DID NOT PUT IN PLACE A SUPPORT SYSTEM MEETING THE NEED FOR NEW RESIDENTIAL SOCIAL SERVICES BEDS

Numbers of residential services applications received and not satisfied



Year-on-year increase in the residential social services capacity



” The MoLSA set a programme goal of creating only an additional 1% of residential beds. The set goal does not correspond to the actual demand and does not reflect the CR’s demographic development

In audit No. **20/23**, which focused on food and material aid to the poorest persons and the reduction of food waste, the SAO examined how the Ministry of Agriculture (MoA), within the framework of a national subsidy programme⁶², provided funding of **CZK 209 million** between 2016 and 2019 to reduce food waste and support the distribution of food to people on the brink of material need. At the MoLSA the SAO scrutinised the provision of funds from European subsidies⁶³, totalling **CZK 390 million** for the years 2014 to 2020, for food and material aid provided to people at risk of poverty.

The SAO's audit showed that the MoLSA and other entities did not perform consistent evaluation of the effectiveness and efficiency of the support provided under Operational Programme Food and Material Aid (OP FMA). The system for monitoring and evaluating the distributed subsidies was designed by the MoLSA in a way that does not enable a realistic assessment of their benefits. The MoLSA failed to check whether the food and material aid reached the persons in need, as the selection of persons, including the amount of aid donated, is carried out by MoLSA partner organisations. The management and control system set up by the MoH for the provision of funds from the national subsidy programme 18 had a number of fundamental defects that undermine the effectiveness, efficiency and economy of the use of public funds. Some subsidy beneficiaries did not act in accordance with the set rules, effectively or economically when using the allocated funds. In the case of six out of ten beneficiaries, the SAO found evidence of breaches of budgetary discipline in a total amount exceeding CZK 2.3 million.

- In the principles defined for national subsidy programme 18, the MoA did not allow for the purchase of warehousing space, but even so it accepted and reimbursed beneficiaries for purchases of real estate. The most financially significant item in terms of violation of the economy principle was the purchase of a building where the subsidy beneficiary even purchased storage space at a price approximately **CZK 1,3 million** higher than the price stipulated by an expert assessment. Furthermore, the SAO identified a risk in the reimbursed of costs for which it was not possible to verify the extent to which they were related to the defined purpose of the subsidy, i.e. the collection, storage and distribution of food. These included salary costs, where the MoA did not require beneficiaries to submit employment contracts or job descriptions, and costs for renovation and building work, where beneficiaries were not required to submit project documentation, a bill of quantities or an inventory of work done. The MoA did not define the conditions governing exceptional subsidies for top-up financing for food bank operation in a way ensuring that the funds were used in line with the defined conditions or effectively, efficiently and economically. The SAO concluded that some food banks violated these principles when they purchased, for example, an iPhone 8 for **CZK 18,000** as part of top-up financing for their operation, above-standard office chairs for approx. **CZK 16,000** or warehouse technology in the form of computers, printers, external drives, etc. for a total of almost **CZK 80,000**. An on-site inspection revealed that the equipment in question was not even present on the premises. In the individual years the MoA reimbursed more than **CZK 101 million** to the audited beneficiaries. Of that amount, the SAO identified **CZK 11.3 million** as ineligible costs and **CZK 32.2 million** as representing a risk (i.e. potentially wasteful and ineffective).

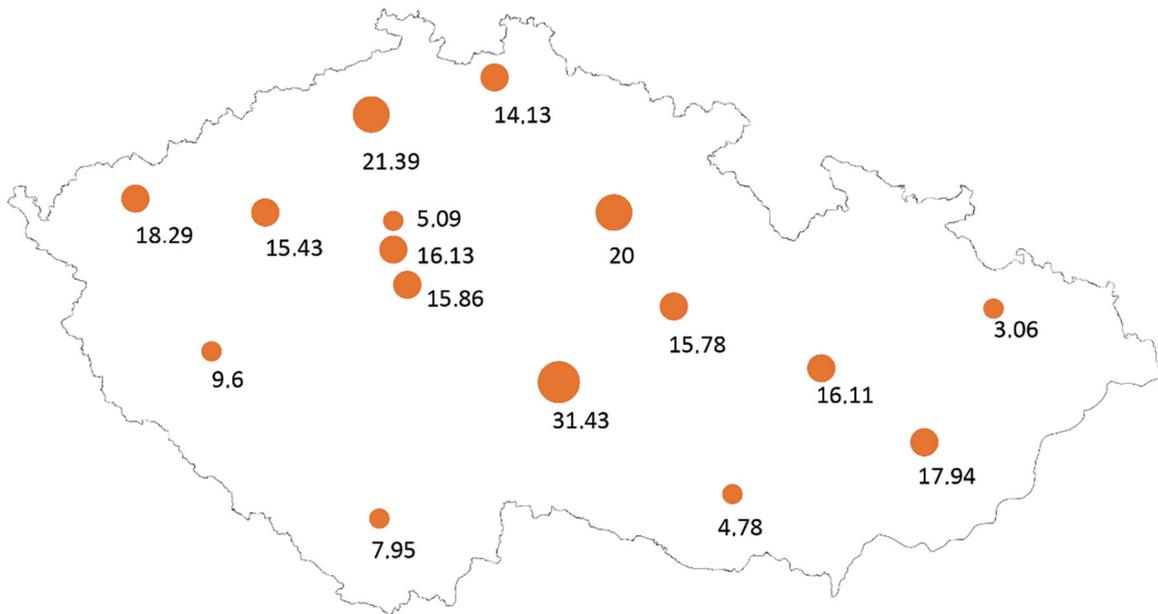
The administration of these national subsidies is now under the responsibility of the SAIF. Some of the shortcomings described above have been addressed in the 2022 subsidy provision rules. However, there is still no clear and measurable objective of the subsidy programme and problems remain in the evaluation of the support's benefits.

62 National Subsidy Programme 18 - Support for the activities of food banks and other entities with a humanitarian focus / National Subsidy Programme 18 /.

63 Operational Program for Food and Material Aid 2014–2020 / OP FMA /.

The largest volume of food passes through the warehouses of food banks, which distribute the food to non-profit organisations, which in turn distribute the food to people in need. There are marked differences between food banks in the cost of collecting and distributing one kilogram of food. In 2019 the distribution costs per kilogram of food aid ranged from approx. **CZK 3** to approx. **CZK 31**. Yet neither the size of the area where the food bank operates nor the quantity of food distributed had an impact on the cost.

Picture 1: Distribution costs of food banks per 1 kg of food in 2019 (in CZK)



Source: Prepared by the SAO on the basis of data from the Czech Federation of Food Banks.

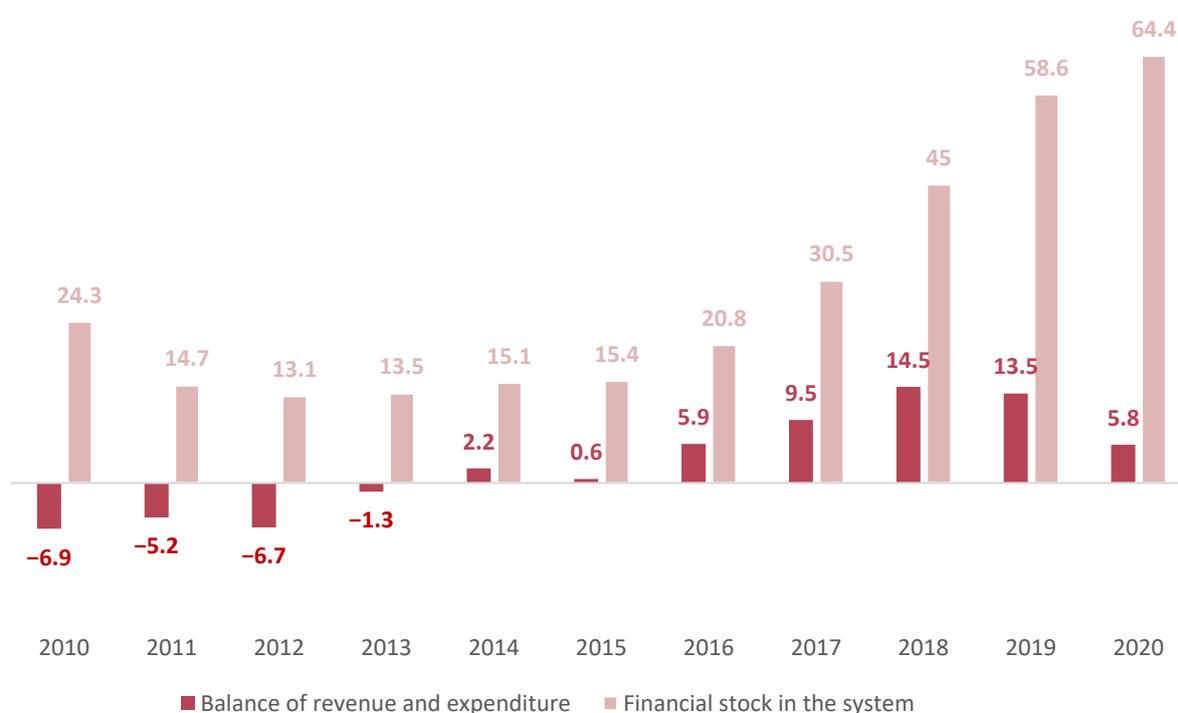
THE MOH HAS NOT SET SMART TARGETS OR INDICATORS FOR THE NATIONAL SUBSIDY PROGRAMME FOR FOOD AND MATERIAL AID. IT WAS THEREFORE UNABLE TO ASSESS THE ACTUAL BENEFITS, INCLUDING WHETHER THE FUNDS WERE PUT TO THE BEST POSSIBLE USE.

4.6 HEALTHCARE

The future development of healthcare in the Czech Republic in the next decade is determined by the *Strategic Framework for the Development of Healthcare in the Czech Republic up to 2030*, which is a conceptual document impacting on multiple government departments. Healthcare in the Czech Republic is mainly financed through public health insurance, which is paid for through the budgets of health insurance companies. This system was **CZK 5.8 billion** in the black in 2020. At the same time, the health insurance companies' current account balances increased to **CZK 64.4 billion**, which is more than **18%** of the system's total expenditure. The level of these reserves remained almost unchanged from the previous year.

There were more than 10 million insured persons spread between 7 health insurance companies in the CR in 2020. The public health insurance system's average total income per insured person in 2020 amounted to CZK 33,923.

Chart 14: Development of indicators of the public health insurance system in 2010–2020 (CZK billion)



Source: Institute of Health Information and Statistics of the Czech Republic; healthcare yearbooks 2004–2018; healthcare statistics of the Czech Republic; summary assessments of the development of the public health insurance system 2007–2018; Resolution of the Government of the Czech Republic No. 892 of 7 September 2020, evaluating the development of the public health insurance system in 2019, based on data from the draft annual reports and financial statements of health insurance companies for 2019; Resolution of the Government of the Czech Republic No. 845 of 27 September 2021, evaluating the development of the public health insurance system in 2019, based on data from the draft annual reports and financial statements of health insurance companies for 2020.

The reason for the SAO's long-standing and systematic focus on the healthcare sector is the significant amounts of money spent and the frequent findings of non-transparent purchasing without tenders. After systematically examining the management of state hospitals and other state-owned healthcare facilities, in 2021 the SAO focused on:

- management of public health institutes established by the Ministry of Health (audit No. **19/30**);
- funds spent in connection with the epidemiological situation in the CR (audit No. **20/32**).

In audit No. **19/30**, which focused on the management of two public health institutes⁶⁴ ("institutes") in the years 2017 to 2019, the SAO examined whether the institutes respected the principles of economy, efficiency and effectiveness in the area of public purchasing. The SAO also looked at how the MoH fulfilled its duties as their founder.

One grave shortcoming identified by the SAO was the finding that the MoH fulfilled its duties as the founder of the two institutes inadequately. The MoH did not put in place the right conditions to eliminate the risk of financial losses at the institutions. In the audited period the institutes made a loss partly because of an increase in pay tariffs or healthcare services payment system for laboratory tests and diagnostics. The MoH's control of the institutes' spending was also insufficient. The institutes did not have a reliable internal control system that might prevent significant shortcomings in their financial management. In the audited sample of purchases, the SAO found deficiencies in virtually all stages of purchasing. The total expenditure on these purchases amounted to more than CZK 1.3 billion.

- Between 2017 and 2019 the institutes made a loss, mainly in consequence of rising staff costs caused by annual increases in pay tariffs. These increases, however, were not reflected by the MoH in the amount of the contribution to their operations. Another factor in the worsening financial position was public health institutes' different position in the provision of services in a standard competitive environment and services covered by public health insurance. The payment system in the area of laboratory testing and diagnostics does not calculate payments per procedure but per unique insured person⁶⁵. This system is demonstrably economically disadvantageous for public health institutes and creates the risk of growing financial losses. Despite that, the MoH has not proposed any changes to the payment system that would eliminate or at least reduce these annual differences in payments.

Due to the economically unfavourable payment system, the institutes' annual revenues of fell by a total of CZK 123 million between 2016 and 2018.

- The institutes' total expenditure on purchasing in the audited period reached more than **CZK 1.3 billion**, **85%** of which was for purchasing done without tender procedure on the basis of small-scale contracts. Having audited public purchasing amounting to **CZK 239 million**, the SAO found that more than **CZK 168 million** had been wrongfully spent as a result of the institutes' failure to proceed according to the Public Procurement Act or the budget rules. For example, one of the institutes regularly procured supplies of the same type with a total value of over **CZK 122 million** through purchase orders without holding a tender. Further, in the case of purchases exceeding **CZK 31 million** executed as small-scale public contracts the institutes did not proceed transparently or discriminated against other suppliers.

THE MOH'S APPROACH TO THE PUBLIC HEALTH INSTITUTES' MANAGEMENT WAS INADEQUATE AND WAS ONE OF THE REASONS WHY THE INSTITUTES MADE A LOSS. THE INSTITUTES' INTERNAL CONTROL SYSTEMS DID NOT PUT IN PLACE THE RIGHT CONDITIONS FOR EFFECTIVE, EFFICIENT AND ECONOMICAL PUBLIC ADMINISTRATION IN THE FIELD OF PUBLIC PURCHASING.

⁶⁴ Institute of Public Health based in Ostrava and Institute of Public Health based in Ústí nad Labem.

⁶⁵ If an insured was treated more than once, he is counted among the number of unique insured persons only once and the insurance company (put simply) only covers one treatment.

In response to the deficiencies detected and evaluated in audit No. **19/30** and the resulting recommendations of the SAO, the responsible authorities declared a number of measures:

- **The Ministry of Health as the founder of public health institutes:**
 - will draw up a concept of public health institutes and enshrine their future role in a draft amendment of Act No. 258/2000 Coll., on the protection of public health;
 - will ensure that the payments system takes into account public health institutes' specific position in the market of laboratory service providers and will not discriminate against other providers;
 - is preparing, in connection with the institutes' loss-making financial management, a solution consisting primarily in unified management, seeking economies of scale and streamlining the functioning of public health institutes, including reducing operating expenses;
 - will ensure cooperation between the institutes' purchasing departments and directly managed hospitals, which will include experience sharing for the performance of joint purchasing of goods and services between the individual organisations under the responsibility of the MoH.
- **In the field of public procurement public health institutes:**
 - issued a new directive on the procedure for awarding public contracts according to Act No. 134/2016 Coll. and procedures for awarding small-scale public contracts; the SAO's comments were incorporated into the directive;
 - moved to amend and supplement directives regulating the internal control system so that they adequately define practical rules for demonstrating compliance with the conditions necessary for the economic, efficient and effective performance of public administration. A system for proving compliance with the said principles has been introduced for purchasing.

In audit No. **20/32** the SAO scrutinised the state's response to the outbreak of the Covid-19 pandemic. Specifically, the audit focused on purchasing of personal protective equipment (PPE) and medical devices (MDs). From 1 January to 31 August 2020, the Ministry of Health and the Ministry of the Interior spent **CZK 8.5 billion** on PPE and MDs, including transport and related services.

The audit found that the state was not prepared for crises of this nature or for the challenges in managing them. For a long time, the MoH has neglected to prepare the Czech health system for epidemics related to the emergence of new infectious diseases. It has not updated the *Pandemic Plan of the Czech Republic* once since 2012. The MoH's and the Mol's departmental pandemic plans did not cover purchasing of medical supplies needed to cope with a pandemic. The stock of emergency PPE and MDs in the SMRA's warehouses remained unchanged and very low from 2011 until the start of the pandemic. University hospitals also had negligible stocks of respirators, sufficient for just 20% of their specialist staff for a period of hours. The MoH reacted late to the shortage of protective equipment that had already become evident in February 2020 and did not start purchasing at a time when they were still available on the market.

- The actual purchasing of protective equipment was chaotic not only because of time pressure, but also because there were separate purchasing teams at the health and interior ministries that did not cooperate. This weakened the state's position in price negotiations and resulted in less transparent purchasing. The upshot of all this was contractual terms that were disadvantageous for the state, significant differences in prices of comparable PPE, shortcomings in their quality and problems with transport from abroad. From January to August 2020, the MoH and Mol paid 148 suppliers a total of **CZK 7.5 billion** for PPE and MDs⁶⁶. Just 14 of these suppliers received three quarters of that amount.

The unit price of FFP3 respirators ranged from CZK 60 to CZK 424. The unit prices of FFP2 respirators even repeatedly exceeded the unit prices of purchased FFP3 respirators.

⁶⁶ The SAO drew up a dataset containing data from more than a thousand invoices, six hundred purchase orders and fourteen hundred delivery notes. It can be accessed at <https://www.nku.cz/scripts/detail.php?id=11675>.

- The SAO pointed out that the significant differences in unit prices of comparable goods were not restricted to purchases in the first days of the emergency, when there was a huge shortage of personal protective equipment, including medical supplies, but continued afterwards. The MoI and MoH spent almost CZK 1 billion on air and rail transport of PPE and MDs from the PRC and related services. The SAO found deficiencies in the contractual arrangements for payment for shipping to the Czech Republic for non-state entities. This involved cost of CZK 81 million where, the SAO warned, there is a risk they won't be reimbursed because the payment terms were not contractually defined in advance. The SAO also pointed out that the ministries had scaled down the respirator quality testing process so substantially that it did not provide a guarantee of the quality of the goods. The SAO reviewed quality testing records for orders of more than 28 million respirators, more than 13 million of which did not meet the required quality or met it only after retesting additional samples. Almost 7 million respirators were distributed without passing the tests.

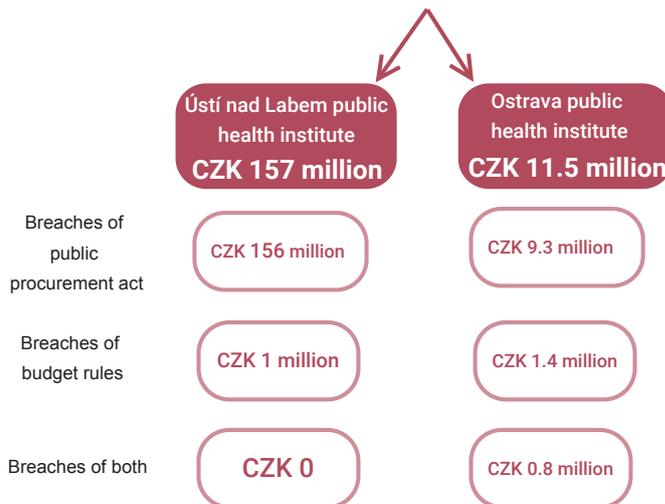
THE STATE HAS LONG NEGLECTED ITS PREPARATION FOR PANDEMICS OF HIGHLY CONTAGIOUS INFECTIOUS DISEASES. THE ORGANISATION OF PPE AND MD PURCHASING WAS CHAOTIC WITH A NUMBER OF SHORTCOMINGS THAT WEAKENED THE STATE'S CHANCE OF NEGOTIATING BETTER PRICES FOR PPE AND MDS AND COMPROMISED



Purchasing in healthcare displayed **serious shortcomings**

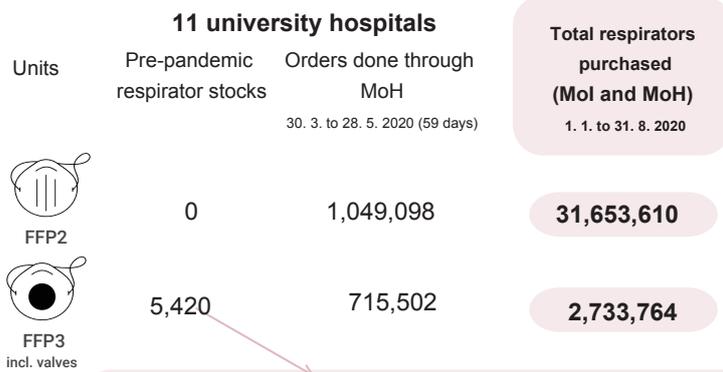
PUBLIC HEALTH INSTITUTES DID NOT HAVE A RELIABLE CONTROL SYSTEM THAT MIGHT PREVENT SERIOUS DEFICIENCIES AND WOULD PUT IN PLACE THE RIGHT CONDITIONS FOR ECONOMICAL AND EFFICIENT PUBLIC PURCHASING

Over CZK 168.5 million wrongfully spent



” In response to the SAO’s audit, both institutes issued or amended directives on public procurement and internal control and committed to perform more frequent internal audit, which will also involve scrutiny of the implementation of measures to redress identified shortcomings

THE ORGANISATION OF PRE PURCHASING WAS CHAOTIC AND HAD SEVERAL DEFICIENCIES THAT WEAKENED THE STATE’S CHANCE OF NEGOTIATING BETTER PRICES AND COMPROMISED THE TRANSPARENCY OF THE ENTIRE PURCHASING PROCESS



” The state was not prepared for the pandemic, as the MoH had for long badly neglected the issue of preparing the CR’s health system for highly contagious disease epidemics. It had not updated the *Pandemic Plan of the CR* since 2011

The stock of FFP3 respirators in university hospitals before the Covid-19 pandemic were enough for just 20% of specialist staff for mere hours. The hospitals were unprepared to protect medical personnel in the emergency brought about by the epidemic.

4.7 EDUCATION

Support for education is one of the key areas of government policies aimed at promoting social and economic development and increasing the competitiveness of the Czech Republic. For this reason, the development of education is one of the SAO's constant audit priorities. Universities are the highest level of the education system. In order to remain the top-level centres of education, independent discovery and creative activity, it is important to improve the quality of all their activities. In the case of public universities, an appropriate state funding system is one of the prerequisites for improving their quality. The quality of the higher education system needs to be assessed from many perspectives, which makes it a good idea to follow international rankings of higher education systems.

In audit No. **20/06**, the SAO examined whether the method for financing public universities put in place by the Ministry of Education, Youth and Sports motivates universities to improve the quality of their activities and whether it meets the social needs defined by the state. The audit was carried out at the MoEYS and six selected public universities for the period 2017 to 2019; the audited volume of expenditure was **CZK 124 billion**.

The SAO found that the state's social needs as defined by the MoEYS were not being effectively met, and nor were suitable measures being taken to ensure the effective use of state funds. The existing funding method did not sufficiently motivate public universities to improve the quality of their activities in the long term, either in education or in research, development and innovation. Although there is a shortage of money in higher education, according to MoEYS's analysis, the funds for the MoEYS investment programme⁶⁷ remained under-utilised despite repeated extensions of the programme, and the public universities' fund balances increased every year. Another problem was the reduced ability of Czech universities to secure funding for research and development in international grant competitions and in cooperation with the private sector. The Czech Republic's position in international rankings of higher education systems worsened during the period under review.

- The MoEYS's analysis of public universities' financial management revealed, that regardless of the proclaimed lack of funds, the public universities did not make use of the full amount of available finances each year and transferred them to their own funds. Between 2014 and 2019, the balances of these funds increased by **45%**. In 2019, the funds' balance totalled **CZK 19 billion**. This is approximately **42%** of the amount of money paid by the MoEYS to public universities in the same year. At the same time, public universities failed to utilise the finances in the MoEYS investment programme, as a result of unclearly defined parameters and lack of preparedness of actions. Public universities used just **41%** of the originally allocated **CZK 13.9 billion** within the defined period; only after an extension did they manage to utilise at least **CZK 11.6 billion**. The findings of a previous audit no. 16/31⁶⁸ had already led the SAO to flag up the risk that the programme would have to be extended.
- Public universities have not been successful in obtaining EU research grants, nor have they been able to establish significant cooperation with the private sector. Based on the indicators set by the MoEYS, the quality and relevance of research at public universities also deteriorated, as the established funding system emphasised quantity rather than quality. Although the proportion of people with a university degree in the CR has been growing, graduates of master's degree courses outnumber graduates of bachelor's degree programmes threefold. In EU countries the ratio of master's and bachelor's graduates is balanced. The CR also has few vocationally oriented bachelor's degree courses where more emphasis is placed on practice. There is also a rising number of graduates in jobs where that level of educational attainment is not needed.

*The CR's average spending on tertiary education was about **\$11,000 (USD)** per student in 2017, which is almost one third less than the EU and OECD average.*

*The share of vocationally oriented bachelor's degree programmes in the CR was just **10.3%** in 2018, which is almost **four times lower** than the EU average, according to Eurostat data.*

67 Programme 133 210 – Development and renewal of the material and technical base of public universities.

68 Audit No. 16/31 – Development and renewal of material and technical basis of state universities (audit report was published in volume 4/2017 of the SAO Bulletin).

THE MOEYS HAS NOT TAKEN APPROPRIATE MEASURES TO ENSURE EFFECTIVE USE OF STATE FUNDS FOR FINANCING PUBLIC UNIVERSITIES, AND IS THUS FAILING TO ACHIEVE THE LONG-TERM GOAL OF IMPROVING THE QUALITY OF THE HIGHER EDUCATION SYSTEM AND THE ACTIVITIES OF UNIVERSITIES.

On the basis of the identified shortcomings, the MoEYS committed to taking the following measures:

- **to increase the use of qualitative parameters in the financing of public universities and increase the motivation for greater cooperation with the private sector in public university financing;**
- **to disseminate information on international research competitions, evaluate universities' participation and adopt tools to encourage greater involvement, while carrying out a new evaluation of public universities' research activities;**
- **to perform regular monitoring of the standing of the Czech higher education system and individual public universities in international rankings and subsequently adopt strategic measures to eliminate weaknesses;**
- **to ensure that public universities will perform annual assessments of the implementation of their institutional strategic plans, placing greater emphasis on long-term planning.**

Impacts of previous audits in the field of education

The SAO's audit reports have long drawn attention to recurring shortcomings in the provision of education subsidies from the MoEYS budget chapter. In audit No. **19/19**⁶⁹, for example, which focused on support for inclusive education, the SAO pointed out MoEYS shortcomings in its management and control activities in the provision of subsidies. In response to the audit results:

- The MoEYS agreed that support for inclusive schooling needs to be made more effective, especially for socially disadvantaged pupils. The adopted measures should be executed both as part of efforts to achieve the objectives of *the Strategy of the Education Policy of the Czech Republic 2030+* and in the implementation of the upcoming *Operational Programme Jan Amos Komenský* in the 2021–2027 programming period.
- The MoEYS also committed to ensuring sustainable funding for support teaching positions such as school psychologists and school special educators. A model is supposed to be developed to define parameters for the workload and activities of support teaching positions in the school's system, which will take into account the entitlement of all schools to systemic funding for these positions, first from EU sources and from 2025 onwards under national funding.

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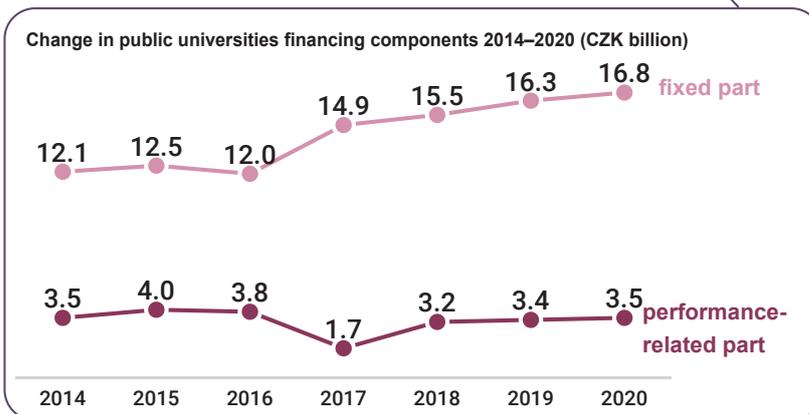
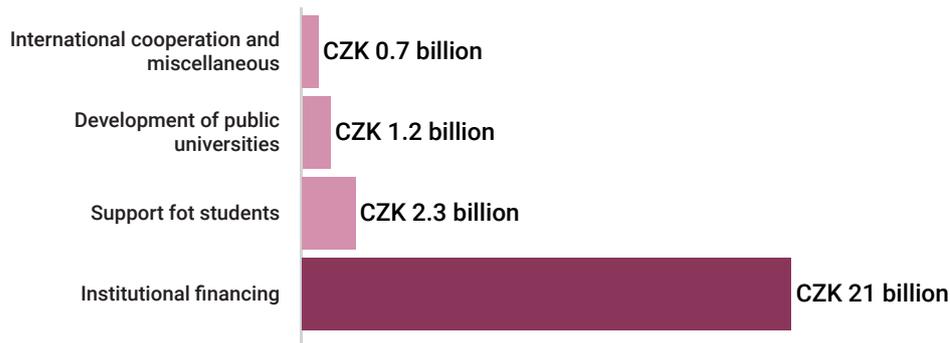
Audit No. 19/19 – Funds from the EU and state budget allotted for common education of pupils (audit report was published in volume 4/2020 of the SAO Bulletin.



The funding method **did not motivate public universities to improve the quality of their activities**, which had a negative impact on their international rankings

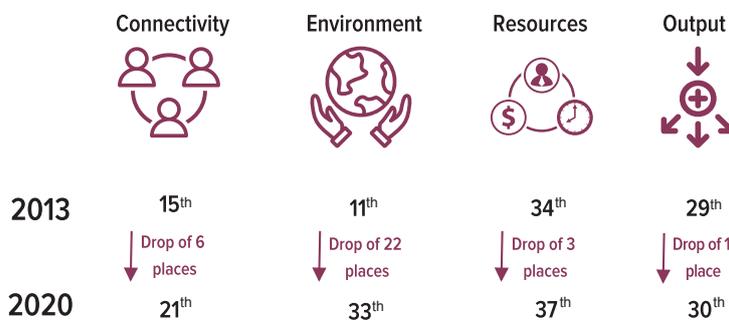
OVER CZK 45 BILLION OF THE MoEYS BUDGET CHAPTER WAS EARMARKED FOR PUBLIC UNIVERSITIES IN 2019, BUT MOST OF THAT MONEY WAS NOT USED AND INSTEAD INFLATED THE BALANCES OF THEIR FUNDS, WHICH INCREASED BY 45% FROM 2014 TO 2019

Utilisation of non-investment funds by budget segment in 2020



” The fixed part of funding, which is not motivational, gradually increased, while the performance-based motivational part decreased or stagnated

The CR's standing in 2013 and 2020 by *Universitas 21* area



” The CR's standing in all the areas of the Universitas 21 ranking. Overall, it dropped to 29th place out of 50 countries

4.8 ENVIRONMENT

Safe drinking water is a strategic resource and the state is obliged to create a legal and institutional framework for its protection and for supplying the population. Both groundwater and surface water are used to obtain drinking water, but they have long been affected by anthropogenic pollution. Agriculture, and in particular crop production, is a significant source of pesticide and nitrogen pollution⁷⁰.

In audit No. **20/04** the SAO examined whether funding earmarked for ensuring sustainable water quality and eliminating pollution caused by anthropogenic activities were used efficiently and effectively in the years 2013–2020. The audit entities were the Ministry of Health, Ministry of Agriculture, Ministry of the Environment (MoE) and the Czech Hydrometeorological Institute (CHMI). The total audited amount was more than **CZK 2.7 billion**. Its effectiveness was assessed in relation to the fulfilment of the objectives set out in the National Action Plans (NAPs)⁷¹; its efficiency in relation to the implemented measures of these NAPs and their contribution to reducing groundwater and surface water pollution.

The SAO found that the measures set out in two successive NAPs were not effective. This was mainly a case of analytical, methodological and formal tasks that were only a preliminary step rather than measures leading to the reduction of pesticides in water. In the absence of actual measures to reduce pollution, the state has to invest billions from EU funds and the state budget in modernising drinking water treatment plants. There has been no improvement in the quality of groundwater and surface water, as confirmed by the regular monitoring done by the Czech Hydrometeorological Institute. The Ministry of Agriculture has failed to push through the application of integrated plant protection (IPP) principles in agricultural management and does not have accurate and up-to-date information on the actual consumption of fertilisers and pesticides; but without this information it is difficult to devise effective measures to ensure sustainable water quality.

- Farming is a significant polluter of groundwater and surface water, from both pesticides and nitrogenous substances (fertilisers). At the same time, agriculture receives substantial subsidies from the state budget and EU funds in order to change current practices.⁷² Between 2013 and 2019, more than **CZK 30 billion** was disbursed every year to agricultural entities, with the subsidies made conditional on rigorous compliance with good agricultural and environmental standards with an impact on the water environment. However, the subsidies system does not sufficiently motivate farmers to reduce pesticide use. The MoA has also failed to monitor compliance with the IPP principles sufficiently, as **only 0.28%** of the total number of farmers were inspected each year. The MoA and MoE spent **CZK 65 million** over seven years to implement the two related NAPs. The national water quality improvement goals were merely formal and vague, however, i.e. lacking a target value, so these measures did not contribute to improvements in water quality. The water monitoring carried out by the CHMI showed that water quality did not improve between 2013 and 2019: on the contrary, in some places it got worse. The CHMI's expenditure on groundwater quality monitoring for the 2013–2019 period amounted to **CZK 113 million**.
- Reduced quality of drinking water in case of non-compliance with the sanitary limits for pesticides affected 220,000 people supplied from 105 mains in 2019. At the same time, there is a risk in the affordability of costly measures, especially for water treatment plants that supply drinking water to small areas with up to 5,000 inhabitants. In 2019, water mains supplying small areas accounted for almost **92%** of the granted water hygiene limit exemptions.

The deterioration in the quality of drinking water sources has led to the need to modernise the Plzeň and Želivka water treatment plants at a total cost of CZK 2.6 billion.

In surface waters in particular, banned or unused substances are detected at more than 80% of sites every year.

70 Pesticide substances include pesticides (active substances) and their metabolites. Nitrogenous substances include ammonium ions/ammoniacal nitrogen, nitrites and nitrates.

71 The National Action Plan to Reduce Pesticide Use in the Czech Republic for the period 2013-2017 and the National Action Plan for the Safe Use of Pesticides in the Czech Republic for 2018-2022.

72 Accelerate the transition from conventional to organic farming, strengthen efforts to reduce the most dangerous pesticides and promote their sustainable use, the introduction of integrated pest management practices and the application of integrated pest management.

OVER A SEVEN-YEAR PERIOD, THE RESPONSIBLE MINISTRIES (MOH, MOA AND MOE) DID NOT TAKE EFFECTIVE MEASURES TO IMPROVE THE QUALITY OF SURFACE AND GROUNDWATER. DUE TO THE INCREASING NUMBER OF EXEMPTIONS FROM THE HYGIENE LIMITS FOR PESTICIDES IN DRINKING WATER, IT HAS BEEN NECESSARY TO UPGRADE WATER TREATMENT TECHNOLOGIES AT A COST OF BILLIONS OF KORUNA.

Impacts of previous audits in the field of the environment

The SAO has been paying attention to the issue of water for a long time. In audit No. **18/27**⁷³, for example, it found that there was no legislation covering mitigation of the negative impacts of drought and water scarcity. It drew attention to the absence of an “anti-erosion decree”, which is supposed lay down rules for farming on land vulnerable to erosion. The results of this audit brought about a shift in the way this issue is being addressed. In June 2021, Decree No. 240/2021 Coll., on the protection of agricultural land against erosion, was approved; it took effect on 1 July 2021. This decree is a long-debated compromise between environmentalists, farmers, academics and other experts. It took many years to prepare and approve, with one serious cause of this being dysfunctional and ineffective cooperation and disputes between the ministries of the Ministry of Agriculture and the Ministry of the Environment. Whether and how this legislation will actually make cooperation between stakeholders more effective in implementing measures to mitigate the effects of drought and water scarcity will be scrutinised in further SAO audits.

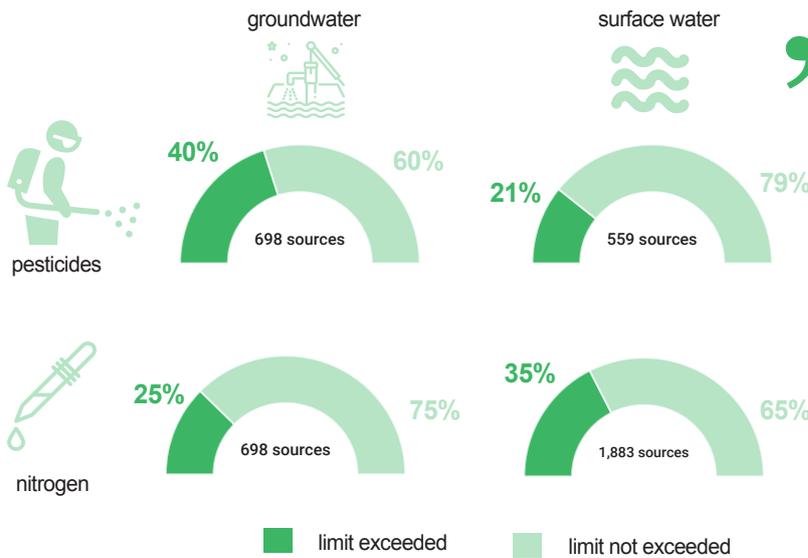
73 Audit No. 18/27 – Measures implemented in agriculture and the environment to mitigate the effects of drought and water scarcity (audit report was published in volume 4/2020 of the SAO Bulletin).



The responsible authorities **did not take fundamental measures to improve drinking water quality**

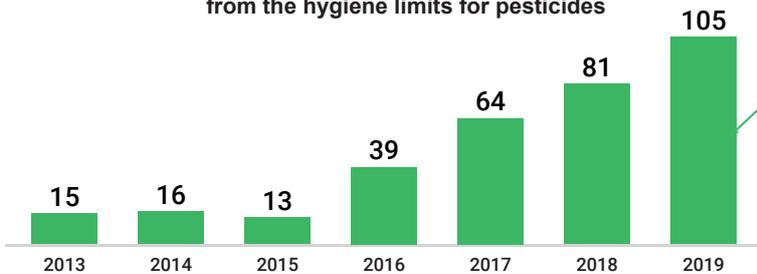
THE RESPONSIBLE MINISTRIES DO NOT ADDRESS THE CAUSES OF WATER POLLUTION, SO INSTEAD THEY HAVE TO SPEND BILLIONS OF KORUNA ON MODERNISING DRINKING WATER TREATMENT TECHNOLOGIES

2019 monitoring result



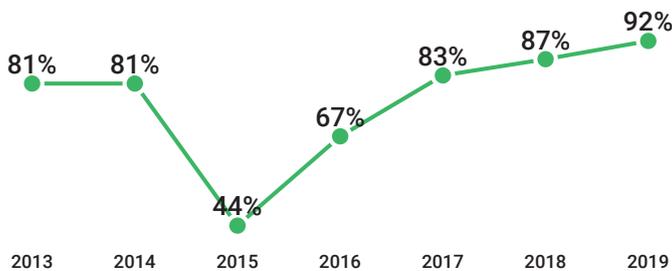
” According to the Report on the Quality of Drinking Water in the CR, in 2020 approx. 39% of the population were supplied with drinking water originating from groundwater, approx. 39% from surface water, and approx. 22% from mixed sources

Number of areas granted exemptions from the hygiene limits for pesticides



! In 2019 as many as 220,000 people were affected by reduced drinking water quality related to the pesticide hygiene limits being exceeded

Areas with up to 5,000 inhabitants as a proportion of total areas



” The SAO draws attention to the risk of measures being so expensive they will be unaffordable, especially in the case of water treatment plants serving small areas with up to 5,000 inhabitants. In 2019, water mains supplying small areas accounted for almost 92% of the hygiene limit exemptions granted

4.9 ENERGY EFFICIENCY

Improving energy efficiency is coordinated at EU level and is one of the EU's main strategic objectives. In the past period, objectives in this area have been defined mainly by the *Europe 2020* strategy. In the Czech Republic, the *National Energy Efficiency Action Plan* is being implemented. The action plan sets out the main objective of this policy, namely to achieve a reduction in final energy consumption in the CR. Measures aimed at improving the energy efficiency of buildings are also intended to contribute to reducing final energy consumption.

Promoting energy saving in buildings is one of the objectives of the Strategic Framework *Czech Republic 2030*⁷⁴, which translates the Sustainable Development Goals (SDGs) adopted by the UN in 2015 into the Czech environment. The SAO has been systematically focusing on the state's progress towards the energy saving targets for a long time. In the past, for example, it examined the implementation of energy savings in the industrial sector.⁷⁵

In 2021 two audits were completed in this area, focusing on:

- support for energy savings in public buildings (audit No. **20/05**),
- measures to reduce the energy consumption of residential buildings supported by the *Integrated Regional Operational Programme* and the *New Green for Savings Programme* (audit No. **20/19**).

In audit No. **20/05**, the SAO examined how the funds earmarked to support energy savings in public buildings were spent between 2017 and 2019 and whether they contributed to meeting the objectives set by EU and national regulations. The audit was carried out at the MoF, MoIT, MoE and State Environmental Fund (SEF) and 15 specific projects were scrutinised.

The audit revealed that the funds spent from Operational Programme Environment 2014–2020 (OP En) and the New Green for Savings programme contributed to reduced final energy consumption in public buildings⁷⁶ only to a small extent. The reported reduction in final energy consumption represented only about one fifth of the planned savings under the OP En. CZK 20 billion was available for both programmes, but only a total of CZK 3.5 billion had been drawn down by mid-2020. Moreover, project administration often missed the defined deadline.

The length of the project approval process often went beyond the set time limit, with only about 60% of projects meeting the 7-month deadline.

74 Resolution of the Government of the Czech Republic No. 669 of 17 October 2018, on the Implementation Plan of the Strategic Framework Czech Republic 2030.

75 Audit no. 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 (published in volume 4/2018 of the SAO Bulletin).

76 Eligible applicants are organisational units of the state, contributory organisations, self-governing territorial units and their subordinate organisations, public research institutions, universities, schools and educational establishments, educational legal entities, non-state non-profit organisations (public benefit societies, foundations, endowment funds, institutes, associations), etc.

- The EU has set energy efficiency targets for 2020⁷⁷, and the Czech Republic has a **target of energy savings of 98.7 TJ/year** for buildings owned by the CR and used by central institutions⁷⁸. By the end of 2019, this commitment was **71%** achieved (70.1 TJ/year). According to data from May 2021, the target had not been met by the end of 2020 (**1.6 TJ shortfall**). However, the EED⁷⁹ allows excess savings in any of the three previous or subsequent years to be counted, so the energy efficiency commitment can be expected to be met retrospectively.
- The SAO drew attention to the failure to comply with the legal requirement to use funds from auctioning of emission allowances in the field of energy efficiency. The CR's revenues from auctioning emission allowances are the only source of the NGfS national programme. In the audited years, auctions generated a total of **CZK 36 billion**; according to the law, **CZK 14.6 billion** should have gone to the NGfS programme for energy savings, but the programme budget was only **CZK 7.4 billion**. By mid-2020, **CZK 5.3 billion** had been disbursed, only **CZK 0.5 billion** of which went to energy savings in public buildings.

THE FUNDS FROM OPEN AND NGfS WERE NOT SUFFICIENTLY UTILISED TO REDUCE THE FINAL ENERGY CONSUMPTION OF PUBLIC BUILDINGS.

The housing sector also contributes significantly to total energy consumption, with the age of the housing stock playing a particularly important role. Supporting the renovation of buildings should help to reduce their energy consumption. The SAO scrutinised the effectiveness and efficiency of funding provided to projects that were supposed to contribute to reductions in final energy consumption in the household sector through the energy savings generated. The audited volume of funds at the system level amounted to **CZK 6.5 billion** from the *Integrated Regional Operational Programme* (IROP) and **CZK 3.2 billion** from NGfS.

The audit showed that only about one third of the allocations for the respective calls under the IROP and NGfS programmes were used. Furthermore, both programmes showed low values of energy savings in residential buildings and did not reach the planned programme commitments of the Czech Republic⁸⁰. This was caused both by the late start of support provision and the lack of interest among applicants due to the low level of subsidy support set for the first call of the NGfS programme. Obtaining subsidy support and satisfying all the conditions was more difficult for IROP than for NGfS, as the IROP conditions governing the award of subsidies were stricter than for the NGfS programme. In addition, IROP suffered from lengthy and demanding project administration, with the approval process lasting on average 104 days.

In the case of IROP, the planned savings were supposed to be 3.1 PJ, but in reality, they only reached 1.3 PJ, i.e. 41%. The savings achieved by the NGfS programme were even smaller, just 13.5%. Of the planned 2.8 PJ, only 0.4 PJ were actually saved.

⁷⁷ Article 5 of Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency.

⁷⁸ 42 institutions fall under Article 5 of the EED, with 37 central institutions fulfilling both conditions of the EED (or possibly an exemption is applied according to Article 5(2) of Directive 2012/27/EU); 4 institutions have no buildings (the Office of the President of the Republic, Academy of Sciences of the Czech Republic, Grant Agency of the Czech Republic, Ministry of the Interior); Security Information Service buildings were exempted due to their nature at the organisation's request.

⁷⁹ Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC (hereinafter also "Directive 2012/27/EU" or "EED").

⁸⁰ The IROP and NGfS programmes are included in the list of so-called alternative policy measures of the Czech Republic to meet energy savings targets on the end-use side according to Article 7 of the EED Directive. The commitments of the individual programmes as contributions to the Czech Republic's target are listed in the National Energy Efficiency Action Plan No. V, which was approved by Government Resolution No. 215 of 16 March 2016 on the update of the National Energy Efficiency Action Plan of the Czech Republic.

- The SAO also concluded that the Ministry of Regional Development did not ensure that the rules for the use of IROP support were comprehensible; furthermore, by changing the control rules it created a risk of unequal treatment of beneficiaries. The MoRD did not select projects for support according to their efficiency, i.e. according to the reported ratio between expected energy savings and costs. This shortcoming was also highlighted by the European Court of Auditors in its 2019 audit.⁸¹ In the case of the NGfS programme, the MoE did not set rules governing beneficiaries' selection of suppliers – it merely obliged them to comply with the Public Procurement Act. The administration of projects for the MoE was carried out by the SEF, but neither of them checked the beneficiaries' procedure, and the MoE did not check whether the SEF followed the rules of the NGfS programme in its administration. The average amount of the actual specific subsidy for projects reimbursed from IROP was **twice as high** as for projects reimbursed from NGfS. In terms of subsidy funds used per unit of energy saved (1 gigajoule), the NGfS programme was more efficient than the IROP.

THE SAO STATED THAT THE FAILURE TO ACHIEVE THE PREDICTED SAVINGS IN THE IROP AND NGfS PROGRAMMES MEANT THAT THIS SUPPORT, WITH A TOTAL AMOUNT OF ALMOST CZK 4 BILLION, COULD NOT BE REGARDED AS HAVING BEEN SPENT ENTIRELY EFFECTIVELY.

SAO recommendation:

In audit No. 20/19, the SAO recommended that the MoRD and the MoE assess the feasibility of the energy savings objectives via which IROP and NGfS are supposed to contribute to the CR's national target according to the EED.

The SAO's systematic audit work has revealed that the state is failing to fulfil the energy savings measures and targets it has set itself in accordance with the EED requirements and the *Europe 2020* strategy. These measures concern energy savings in households, services, transport and, above all, industry. The SAO regards this situation as problematic, not least because these targets are part of a raft of measures designed to help limit the impact of climate change across the EU.

THE SAO RECOMMENDS THAT IN FUTURE THE RESPONSIBLE AUTHORITIES SHOULD ASSESS HOW REALISTICALLY THE CR CAN BE EXPECTED TO ACHIEVE THE ENERGY SAVINGS TARGETS SET FOR PROGRAMMES THAT ARE SUPPOSED TO HELP MEET THE CR'S NATIONAL TARGETS. THIS IS ALSO IMPORTANT FOR THE FUTURE, AS ENERGY EFFICIENCY IS ONE OF THE OBJECTIVES OF THE *STRATEGIC FRAMEWORK CZECH REPUBLIC 2030*⁸² AND ENERGY SAVINGS WILL CONTINUE TO BE ONE OF THE COUNTRY'S PRIORITIES.

⁸¹ In Special Report 11/2020: Energy efficiency in buildings: greater focus on cost-effectiveness still needed, published on 28 April 2020.

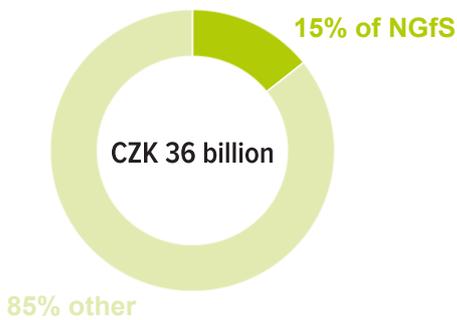
⁸² Resolution of the Government of the Czech Republic No. 669 of 17 October 2018, on the Implementation Plan of the Strategic Framework Czech Republic 2030.



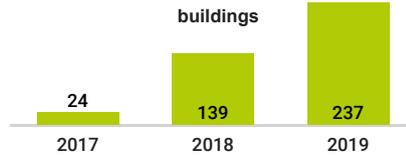
The state is **failing to achieve the defined goals** in energy savings

MONEY SPENT FROM OPERATIONAL PROGRAMME ENVIRONMENT AND THE NEW GREEN FOR SAVINGS PROGRAMME ON REDUCING FINAL ENERGY CONSUMPTION IN PUBLIC

Proceeds from emissions allowance auctions and share of NGfS

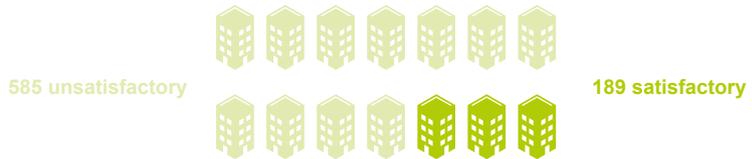


Just 1.1% of the money collected from emissions allowances went on energy savings in public buildings



Funds spent on energy savings in public buildings from NGfS (CZK million)

” According to an MoIT estimate, just 24% of public buildings met the energy consumption requirements



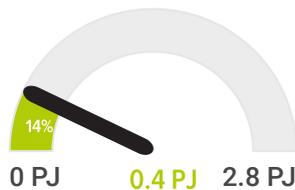
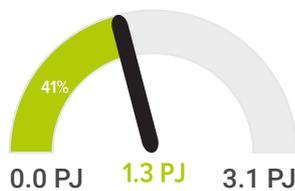
ENERGY SAVINGS IN RESIDENTIAL BUILDINGS ARE LOW; JUST A THIRD OF THE ALLOCATED FUNDING WAS USED

Total spent on energy savings in residential buildings 2014–2020

IROP
CZK 3.4 billion
just 32% of the total allocation used

NGfS
CZK 0.5 billion
just 33% of the total allocation used

Progress towards the CR's annual savings targets per *Europe 2020*



” One reason why the failure to meet residential buildings energy consumption targets is that these are part of a raft of measures intended to limit the impacts of climate change across the EU

4.10 CULTURE

One integral aspect of culture in the Czech Republic is the country's cultural heritage, which has an unquestionable historical, educational, social, representative and economic significance. The state plays a fundamental role in this area, whether by putting in place the right conditions for the preservation of cultural heritage in the hands of the state or by supporting the salvage, restoration and preservation of cultural heritage owned by municipalities, regions or private individuals.

In 2021 the SAO completed two audits, focusing on:

- financial management of the National Heritage Institute (audit No. **20/16**);
- financial management of the MoD in the context of fulfilment of the tasks of the Military History Institute Prague (audit No. **21/02**).

In audit No. **20/16**, the SAO examined whether the National Heritage Institute managed state property and funds efficiently, economically and in accordance with the law in the years 2017–2019. The total value of the audited property and funds was **CZK 655 million**.

The NHI did not have a complete overview of the assets of cultural and historical significance under its management. Museum-type collections were managed in an unsystematic and inconsistent manner; the NHI did not keep thorough records of its furniture collections; it did not know the total number of archaeological finds in its care; and it did not have a complete overview of historic library collections. The NHI was uneconomical in its purchasing of legal services, unjustifiably reduced the revenues gained from state property and in some cases did not comply with the Public Procurement Act. In addition, it did not follow the procedures of its internal control system and its accounting was not accurate, complete and reliable.

There has been legislation for specific cultural objects since 1990⁸³. The NHI therefore only follows its internal regulations, which are not based in law.

- The NHI did not rigorously keep records of changes in the location of objects from its furniture collections, which increased the risk of their loss or damage. The SAO audit found that more than **6% (141 out of 2,229)** of the items checked were not located in the place indicated in the record-keeping software. NHI assets with a replacement cost of **CZK 93.4 million** were not entered in the accounting records until a year later. Another object with a replacement cost of almost **CZK 3 million** was only entered in the accounting records a full **12 years** later. Consequently, the NHI's financial statements for 2017 to 2019 were incorrect. The NHI also knowingly reduced the revenue obtainable from state property by allowing free access to the property under its management in unjustified cases. It also allowed free use of a cultural monument that was used without a loan agreement. In another case, the NHI reported a sum of **CZK 1.3 million** for pay expenses linked to the guarding of a building that was not under its management.

THE SAO DREW ATTENTION TO THE ABSENCE OF LEGISLATION RELATING TO THE REGISTRATION, INVENTORISATION, CARE AND MANAGEMENT OF FURNITURE COLLECTIONS, HISTORIC LIBRARY COLLECTIONS (STATELY HOME LIBRARIES) AND ARCHAEOLOGICAL FINDS. DUE TO THEIR SCOPE AND SPECIFIC NATURE, IT IS NOT POSSIBLE TO PROCEED ACCORDING TO OTHER LEGISLATION CURRENTLY IN FORCE.

In audit No. **21/02** the SAO turned its attention on the Ministry of Defence and whether it manages state property and funds within the framework of the tasks of the Military Historical Institute Prague (MHIP) effectively, efficiently and economically and in accordance with law. The audit covered the period from 2016 to 2020 and the total audited volume of state funds was **CZK 745 million**.

83 These include furniture collections, archaeological finds and historic library collections.

The SAO's audit showed that in the context of the tasks of the MHIP the MoD managed state property and funds in most cases without major deficiencies, except for shortcomings in the planning and preparation of major construction investment projects. Here, the MoD did not put in place the right conditions for economical and efficient use of the state budget funds, which was reflected, for example, in the original price of the reconstruction of the Army Museum in Žižkov being increased. The SAO also identified shortcomings in the preparation of MoD planning documents for key tasks of the MHIP. The plans were frequently changed; in some cases, appropriate criteria for evaluating the set objectives were not set or the MoD carried out the evaluation only formally and, in some cases, factually incorrectly. All of this resulted in the MHIP's failure to achieve its defined goals.

- The SAO found shortcomings in the preparation of two major construction investment projects (reconstruction of the Army Museum in Žižkov and construction of multifunctional halls at the Military Technical Museum in Lešany). According to the contracts from 2018, rebuilding work at the Army Museum was supposed to cost almost **CZK 598 million**, excluding VAT, but the project involved a lot of additional work, whose cost by the time the audit had reached **CZK 158.7 million**, excluding VAT, i.e. a price increase of **21%**. Some of this extra work was due to objective and unforeseeable reasons that could not have been anticipated at the time of project preparation, but additional work costing almost **CZK 23 million**, excluding VAT, was the upshot of errors in the project documentation that the MoD could have avoided by defining the types of work required in a sufficiently precise manner. For the preparation of the Military Technical Museum, the MoD had a study at its disposal which estimated the cost at **CZK 280 million**, excluding VAT, but when registering the investment project, the MoD set the cost at just **CZK 163 million**, excluding VAT. The project was terminated in 2020 due to lack of funds and subsequently included in the plan with financing only from 2022.

DUE TO POOR PLANNING, THE MOD WAS UNABLE TO ACHIEVE THE STATED OBJECTIVES FOR THE MHIP, AND IN PARTICULAR THE TIMELY COMPLETION OF MAJOR CONSTRUCTION INVESTMENT PROJECTS. THE MOD'S SHORTCOMINGS IN THE AREA OF EXPENDITURE PLANNING AND CONSTRUCTION INVESTMENT PROJECT PREPARATION POSE A RISK OF UNECONOMICAL AND INEFFICIENT USE OF STATE BUDGET FUNDS IN THE FUTURE.

Impacts of previous SAO audits in the field of culture

In the area of cultural heritage, the SAO recently carried out audit No. **19/09**⁸⁴, which detected a number of shortcomings relating to the protection of museum collections owned by the state, most notably the fact that the state did not possess a complete overview of the collections, as not all the collections had been entered in the central register. As a result of the SAO audit, the Ministry of Culture undertook, inter alia, to hold negotiations with regional authorities and to propose new legislation to force collection owners and custodians to register their collections in the central collection register and to comply with the statutory conditions governing the protection of these collections. The new legislation⁸⁵ is intended to ensure improved protection of collections against possible loss or destruction. Furthermore, the MoC has undertaken to modify the electronic system for registering collections to streamline administrative work and at the same time improve the overview of collections and individual collection items. The impact of the above measures will be to improve the protection of museum collections and to make collections data in the central register more up-to-date and reliable.

84 Audit No. 19/09 – Protection of museum collections owned by the Czech Republic (audit report was published in volume 3/2020 of the SAO Bulletin).
85 See: Preparation of a new monument law on the MoC website



The field of cultural heritage was dogged by **uneconomical spending**

IN THE IDENTIFIED CASES THE NHI DID NOT CARRY OUT THE DUTIES LAID DOWN BY LAW AND DID NOT ALWAYS PROCEED EFFECTIVELY AND ECONOMICALLY

Did not have a full overview of assets of cultural and historic importance in its care

Did not follow the defined internal control system procedures

Did not comply with the Accounting Act. The value of assets not included in its accounts was **CZK 96 million**

National Heritage Institute



Did not proceed economically when purchasing legal services

Reduced the revenue obtainable from assets without good reason by allowing free access to buildings in its care

Discarded assets in a manner contrary to the law

Spent money on a building that wasn't in its care

Did not proceed in accordance with the Public Procurement Act

WHEN PREPARING MAJOR INVESTMENT PROJECTS, THE MoD DID NOT PUT IN PLACE THE RIGHT CONDITIONS FOR ECONOMICAL AND EFFECTIVE USE OF STATE BUDGET FUNDS

Reconstruction of the Army Museum Žižkov



5. INSTITUTIONAL MANAGEMENT

The SAO's audit and analysis work does not neglect the area of institutional management, which comprises a wide range of activities related to institutions' management, governance and control. The management of state property and state funds spent by state institutions to cover their operations and the performance of their tasks is an important focus of the SAO's audit work in this area. Another very important area the SAO focuses its audit work on every year is the management of funds provided to the Czech Republic from foreign sources, primarily the EU budget.

5.1 INSTITUTIONS' FINANCIAL MANAGEMENT

One of the areas on which the SAO has long focused its audit work is audited entities' management of state property and funds. The SAO tries to draw state institutions' attention to those areas of their management where it sees significant scope for expenditure savings. In 2021, a total of ten audits were completed in this area, focusing on:

- the management of selected organisational units of the state and contributory organisations (in audit No. **19/30**, the Health Institute in Ostrava and the Health Institute in Ústí nad Labem; in audit No. **20/02** the Office for Government Representation in Property Affairs; in audit No. **20/16** the National Heritage Institute; in audit No. **20/21** at the General Financial Directorate; in audit No. **20/27** the General Inspection of Security Forces; in audit No. **20/29** Military Intelligence; in audit No. **21/01** the Ministry of Foreign Affairs in the area of selected property; in audit No. **21/02** at the Military History Institute, an organisational unit of the MoD; and in audit No. **21/04** the State Material Reserves Administration;
- management of the state enterprise CPP Transgas (Audit No. **21/13**).

The results of most of the audits, which dealt with the fulfilment of the institutions' tasks within the framework of government policies, have already been described in detail in the previous chapters of this annual report. The results of audit No. **20/29** are classified as "CONFIDENTIAL" so details of the findings cannot be provided⁸⁶.

The SAO has long sought to improve state institutions' financial management through its audit work. It evaluates expenditure related to their operations and asset management primarily in terms of effectiveness, efficiency and economy. In 2021 the SAO flagged up serious shortcomings in the behaviour of state institutions, which did not respect these rules in their custodianship of the property entrusted to them, leading to unnecessary expenditure burdening the state budget and to a deterioration in the condition of the managed property. The SAO also drew attention to a case where efforts to optimise costs did not have the desired effect and did not result in the expected savings of funds. The SAO sees significant additional scope for state expenditure savings in consistent compliance with the conditions of the state's ownership policy through institutions that fulfil their duties.

In audit No. **21/01** the SAO audited the MoFA's financial management in the years 2016 to 2020, focusing in particular on the construction and reconstruction of embassies abroad and the acquisition of official vehicles. The SAO audited a sample of eight construction projects worth **CZK 225 million** and four projects for the purchase of **344** vehicles for a total amount of almost **CZK 300 million**. The aim was to assess whether these funds were spent effectively, efficiently and economically and in accordance with the law.

⁸⁶ This audit contains classified information pursuant to Act No. 412/2005 Coll., on the Protection of Classified Information and Security Clearance, and its audit report has therefore not been published pursuant to Section 30(3) of Act No. 166/1993 Coll., on the Supreme Audit Office.

The MoFA carried out investment projects according to its own internal procedures, but the procedures governing the selection of projects for execution, for example, did not comply with the budget rules⁸⁷ and the rules on documentation for asset reproduction programmes⁸⁸. At the same time, this led to the MoFA spending almost CZK 22 million ineffectively when preparing the two investment projects. This was mainly due to numerous changes in the way the unsatisfactory condition of the real estate was dealt with and changes in the MoFA's priorities. By the time the SAO audit was completed, the MoFA had not resolved, for example, the unsatisfactory condition of embassy buildings in Berlin, the embassy in Washington or the Permanent Mission to the United Nations in New York. As a result, the MoFA long failed to fulfil the objective of the asset replacement programme, which led to the programme being gradually extended by 15 years.

- The SAO found, for example, that due to the unsatisfactory technical condition of the embassy building in Washington the MoFA had decided to build a new building as long ago as in 2007. This project was included in the updated asset replacement programme documentation in 2011, with the same reason given. However, the intention to build was cancelled in 2014 due to a change in the leadership of the ministry. Since 2020 it has planned to rebuild the existing building at a cost of **CZK 281 million**, even though the material it submitted to the government in 2011 stated that, compared to renovating of the existing building, constructing a new building was a significantly more efficient use of state funds, as even an investment of hundreds of millions of koruna in comprehensive rebuilding work could not eliminate all the existing technical and security deficiencies. Among other things, mandatory annual inspections at the embassy in Washington repeatedly revealed that the sanitary facilities and the heating, waste and water systems were in a critical state of disrepair. In addition, the walls are mouldy, the aluminium windows cannot be secured against opening and the building's frame displays moisture damage.
- The audit also revealed serious deficiencies in the purchase of official vehicles. The MoFA violated the principle of equal treatment and non-discrimination by specifying a particular make and type of vehicle in the tender documentation, without providing any relevant justification for this requirement. In this way, the MoFA purchased six vehicles for a total of **CZK 5.2 million**, thus violating budgetary discipline, in the SAO's opinion. The MoFA had set a distance threshold of at least 15,000 km per year determining the efficient use of official vehicles. The vehicles used at the headquarters in the audited period did not even travel half that distance. The SAO therefore assessed that the MoFA did not use its official vehicles efficiently during this period.

*Amount of time it takes to prepare solutions to the unsatisfactory condition of selected embassies: embassy in Berlin **21 years**; embassy in Washington **14 years**; Permanent Mission of the Czech Republic to the United Nations in New York **7 years**.*

THE SAO POINTED OUT SIGNIFICANT SHORTCOMINGS REDUCING THE EFFECTIVENESS AND EFFICIENCY OF STATE FUNDS SPENT IN THE MINISTRY OF FOREIGN AFFAIRS DEPARTMENT, WHICH RESULTED IN SOME EMBASSY BUILDINGS, WHICH ARE SUPPOSED TO OUTWARDLY REPRESENT THE COUNTRY, BEING IN A LONG-TERM STATE OF CRITICAL DISREPAIR.

In audit No. **20/21** the SAO audited the General Financial Directorate's (GFD) financial management in the years 2018 to 2020, focusing on the management of temporarily surplus assets, expenditure in connection with the use of buildings and the transition of the financial authorities' local offices to an optimised management scheme.

The GFD failed to ensure economical management of temporarily surplus assets when it incorrectly set rent, as it used as a comparison premises that differed significantly in terms of area, location and use. Furthermore, it acquired vehicles without verifying the real need for them. The audit also showed that changes to the modus operandi of the selected territorial units did not deliver the expected savings in the operation of the buildings during the first year when the optimised scheme was in effect.

87 Act No. 218/2000 Coll., on budgetary rules and amending certain related acts (Budgetary Rules).

88 Programme 106V01 - Development and renewal of the material and technical base of the Ministry of Foreign Affairs - since 2007; and programme 006V01 - Development and renewal of the material and technical base of the Ministry of Foreign Affairs - since 2019.

- The GFD is obliged to let surplus property at a rent at least equal to that which is customary in the given place and time. In **20 of the 22** cases audited, however, the GFD followed the wrong procedure: when setting the rent, it did not take into account the size of the premises, their location and manner of use, even though these are among the key factors affecting rent. The GFD therefore did not determine the customary price by comparing a property with similar or identical property.
- On the basis of its own analysis from 2015, the GFD decided that a smaller number of local offices was sufficient for effective functioning and proposed to abolish some of them, specifically **23** of its **103** subordinate local offices. The finance minister subsequently decided not to abolish these offices. The GFD therefore proposed a solution in the form of an optimised “2+2” scheme⁸⁹, whereby the work of the 23 local offices is done by at least two staff on two working days. In 2019, the GFD changed the operational scheme for a further 33 selected territorial offices with the aim of saving **CZK 14.2 million** in the first year in building operation expenses. However, only **CZK 6.8 million** was saved, i.e. less than half.

In 91% of the contracts audited, the GFD did not set the rent in line with the customary price at the time and place, which lessened the letting revenue obtained without good reason.

THE OPTIMISATION OF THE GFD'S LOCAL OFFICES FELL SHORT OF THE PLANNED SAVINGS BY AS MUCH AS 52%. WHEN LETTING SURPLUS ASSETS, MOST OF THE AUDITED LEASE CONTRACTS WERE UNFAVOURABLE FOR THE GFD.

SAO Recommendation:

Considering all relevant factors, especially the increase in the number of electronic submissions, the SAO recommended that the GFD reassess the situation and consider optimising the number of local offices of the financial authorities, which would lead to more economical expenditure of state budget finances.

In audit No. **21/13** the SAO scrutinised whether the state enterprise ČPP Transgas (Transgas) managed state property and funds economically, efficiently and in accordance with the law in the period 2017 to 2021 and whether it took effective steps to settle up and make use of the assets remaining after privatisation. The audit also examined whether the MoIT exercised its role as the founding organisation in accordance with the law.⁹⁰ The value of the state funds and property audited was **CZK 4.6 billion**.

The SAO audit detected that Transgas had wrongly accounted for a receivable of CZK 4.6 billion from the “Yamburg Agreements”⁹¹; that receivable represented 91% of the company’s assets and liabilities. However, the Ministry of Finance⁹² is competent to manage this receivable, thus removing the only significant reason for the state enterprise’s existence. Transgas made a loss and, as it was mainly engaged in real estate activities, it had no real significance for the state and can therefore be described as a redundant state enterprise.

Transgas made a total loss of CZK 22.8 million from 2016 to 2020.

89 The optimised “2+2” scheme means that two staff members are present at the local office on two working days per week.

90 Act No. 77/1997 Coll., on state enterprises, and the State Ownership Policy Strategy.

91 The essence of the so-called Jamburg Agreements is the Agreement between the Government of the Czechoslovak Socialist Republic and the Government of the USSR on cooperation in the development of the Jamburg gas field of 16 December 1985.

92 Pursuant to Section 4 of Act No. 2/1969 Coll., on the establishment of ministries and other central bodies of the state administration of the Czech Republic, and in accordance with Act No. 219/2000 Coll., on the property of the Czech Republic and its representation in legal relations.

- In the audited period, Transgas focused almost exclusively on the management, letting, sale and, in one case, construction of real estate and the performance of minor tasks assigned to it by the MoIT. It did not, however, carry out any activities that would meet the definition of important strategic, economic, social or security interests of the state⁹³. Partly with regard to the improperly accounted-for receivable in the state enterprise's accounts, it can be described as redundant according to *The Strategy of the State Ownership Policy*.
- Despite making a loss, in addition to rising wages it provided its eight employees with high annual benefits, which amounted to **CZK 70,500** per employee in 2020. One of the reasons for the loss was the fact that the company is based in rented premises, as it paid a total of **CZK 5.9 million** on rent, including parking spaces, in the period under scrutiny.

THE INCORRECT ACCOUNTING FOR THE RECEIVABLE FROM THE “YAMBURG AGREEMENTS”, THE LOSS-MAKING NATURE OF THE BUSINESS AND THE FACT THAT TRANSGAS DOES NOT TAKE CARE OF ANY SIGNIFICANT INTEREST OF THE STATE MEANS THAT THE REASONS FOR CLASSIFYING THIS STATE ENTERPRISE AS “NECESSARY” HAVE CEASED TO EXIST.

SAO recommendation:

The SAO recommended that, in the light of the above findings, the MoIT assess whether the prerequisites for the operation of the state enterprise defined by Act No. 77/1997 Coll. are still in place and subsequently decide to dissolve it.

5.2 MANAGEMENT OF FUNDS PROVIDED TO THE CR FROM ABROAD

During 2021, the SAO completed a total of **nine** audit operations focusing on expenditure covered from both national and foreign funds. These audits mostly concerned money provided for co-financing of joint programmes and projects with the EU. The audits focused on the following areas:

- support for measures to achieve energy savings in public buildings financed by the OP En (audit No. **20/05**), to reduce the energy consumption of residential buildings through investment subsidies from the IROP and the NGfS programme (audit No. **20/19**) and to ensure sustainable water quality (audit No. **20/04**);
- putting in place the right conditions for increasing use of urban electric-traction public transport with financing for the construction of tram lines from the OPT (audit No. **20/14**) and for the construction, maintenance and repair of cycling infrastructure supported by the IROP (audit No. **20/11**);
- support for SMEs in the areas of consultancy, marketing, training and measures in relation to Covid-19, financed by OP EIC (audit No. **20/20**);
- achievement of selected migration policy goals of the Czech Republic supported by the *Internal Security Fund* and the *Asylum, Migration and Integration Fund* (audit No. **20/10**);
- food and material aid for the poorest and measures to reduce food waste financed by the *Operational Programme for Food and Material Aid* (audit No. **20/23**);
- the system for monitoring the achievement of goals and assessing the contribution of the European Structural and Investment Funds to *Europe 2020* strategy objectives (audit no. **20/18**).

Assessments of the findings of these audits, with the exception of audit No. **20/18** which is commented on separately, are presented in the previous sections of this Annual Report.

⁹³ According to Section 2(1) of Act No. 77/1997 Coll., on state enterprises.

The SAO audits drew attention to a number of errors on the part of the relevant managing authorities. A number of ubiquitous systemic and procedural deficiencies can be characterised in relation to the use of EU funds. Ranked in order of significance and frequency of occurrence, the deficiencies fall into the following categories:

- **The objectives of certain strategic documents transposed into the programme level were not sufficiently specific and measurable, including the definition of indicators to evaluate the effectiveness of the support provided; this made it impossible to monitor and evaluate measurable benefits delivered by individual projects.**

This was evident, for example, in the case of the construction of new tram lines, for which the MoD set only indicators assessing outputs in terms of technical parameters. These indicators did not enable it to assess whether the aid had increased the use of public transport at the expense of car transport, whether pollutant emissions had been reduced, and whether the quality and speed of connections had been improved to meet urban transport needs (audit No. [20/14](#)). Similarly, in the area of cycling infrastructure construction, the support providers only monitor the purpose of the use of funds: they do not monitor the results achieved and the benefits delivered by the supported projects (audit No. [20/11](#)).

- **The funds earmarked for the programmes were not used up due to insufficient absorption capacity.**

More than **CZK 20 billion** is available to public institutions for investment projects aimed at energy savings in public buildings under OP En and NGfS. By mid-2020, only **CZK 3.5 billion, i.e. 17.5%**, had been spent on these projects (audit No. [20/05](#)).

Similarly, only a part of the funds allocated for support to reduce the energy performance of residential buildings, i.e. **32%** from IROP and **33%** from NGfS, was used (audit No. [20/19](#)).

- **Project administration suffered from shortcomings and deadlines for approving aid applications were significantly exceeded.**

The duration of the approval process for applications for OP En support to reduce final energy consumption in public buildings, set at a maximum of **seven months**, was overrun in **40%** of applications. For projects financed from NGfS NFA, the application administration deadline was exceeded in all cases (audit No. [20/05](#)).

In the case of a number of projects to reduce the energy consumption of residential buildings financed by IROP, the administration process was found to be disproportionately long and demanding. The average administration time for applications was **104** working days. The longest application administration took **748** working days. The conditions for obtaining a subsidy from the IROP were stricter than for the NGfS programme (audit No. [20/19](#)).

- **Assessments done during project selection were not based on the principles of effectiveness, efficiency and economy.**

Of the selected projects implementing the state migration policy with a total funding amount of **CZK 852 million**, the SAO rated projects with a total amount of **CZK 348 million** as being of limited effectiveness or limited efficiency. Most of them should have been identified by the MoI at the stage of project assessment and selection. The MoI did not require feedback on the service provided to be monitored, so it was not possible to assess the projects' concrete benefits for clients (audit No. [20/10](#)).

Table 7: Typical shortcomings' presence in the listed audits actions

	Audit no. 20/04	Audit no. 20/05	Audit no. 20/10	Audit no. 20/11	Audit no. 20/14	Audit no. 20/19	Audit no. 20/20	Audit no. 20/23
Shortcomings in the definition of programme objectives, monitoring indicators and evaluation of benefits	●		●	●	●		●	●
Shortcomings in project selection in terms of respect for 3E			●	●	●	●		
Under-utilisation of allocations, low absorption capacity		●			●	●		
Deficiencies in administration, overrunning of deadlines		●	●	●	●	●	●	

Source: SAO.

In audit No. **20/18** the SAO examined whether finances the European Structural and Investment Funds (ESI) earmarked for evaluation of the fulfilment of the *Europe 2020* strategy objectives were provided and used efficiently and whether the work done by the Office of the Government of the CR and the Ministry for Regional Development Finance in preparing documents on the fulfilment of the national strategic objectives was effective. The system for evaluating the benefits of ESI funding influences the use of money from these funds and provides feedback for the setting of new objectives for the following period. Almost **CZK 624 billion** was allocated to the CR from the ESI Funds in the 2014–2020 programming period, **of which CZK 386 billion (i.e. 61.8%)** was paid to beneficiaries as of 31 December 2020.

The audit revealed that the Czech authorities hardly evaluated the impact of the ESI funding provided to the Czech Republic for implementation of the strategy. Proper evaluation was performed in just 9% of cases. The methodological procedures designed by the Ministry of Regional Development for evaluating ESI funding's contribution were not binding on the Office of the Government of the CR as the strategy's overall coordinator; and the Office did not apply them voluntarily and did not secure the necessary analytical information. In addition, the Office did not have a legal mandate to effectively coordinate economic policies in order to prevent non-fulfilment of national objectives. In some cases, moreover, the national targets were set too low.

- The essence of the strategy was to promote smart economic growth, considering both sustainability and social inclusion. The CR exceeded the target **by more than 20% for four of the 13 objectives** of the strategy and **five objectives were achieved** as early as in 2014. This is indicative of low target setting rather than success in achieving them. In contrast, **three targets** were not met. Specifically, these were the **10%** share of renewables in transport was not reached (the CR only managed **7.8%**); the target level of **1% of GDP** for public spending on science, research and innovation (**0.79%** of GDP); and the **5.5%** target for the number of “early leavers” in education (the Czech figure was **7.6%**).
- The Office of the Government of the CR received funds from Operational Programme *Technical Assistance 2014-2020* (OP TA) to evaluate how ESI funding had contributed to the *Europe 2020* strategy using econometric models⁹⁴, but these did not provide any evaluation of the ESI funding's contribution to the strategy. The SAO assessed the Office's breach of its obligation to fulfil the purpose of the support provided as a fact indicating a breach of budgetary discipline in the amount of **CZK 1.3 million**. The SAO also criticised the MoRD for ignoring the failure to fulfil the project's purpose, which is a significant shortcoming in the performance of its function as the OP TA support provider.

THE SAO RATED THE WORK OF THE OFFICE OF THE GOVERNMENT OF THE CZECH REPUBLIC AND THE MINISTRY OF REGIONAL DEVELOPMENT IN PROVIDING INFORMATION ON ESI FUNDING'S CONTRIBUTION TO THE *EUROPE 2020 STRATEGY* AS INEFFECTIVE.

SAO recommendation:

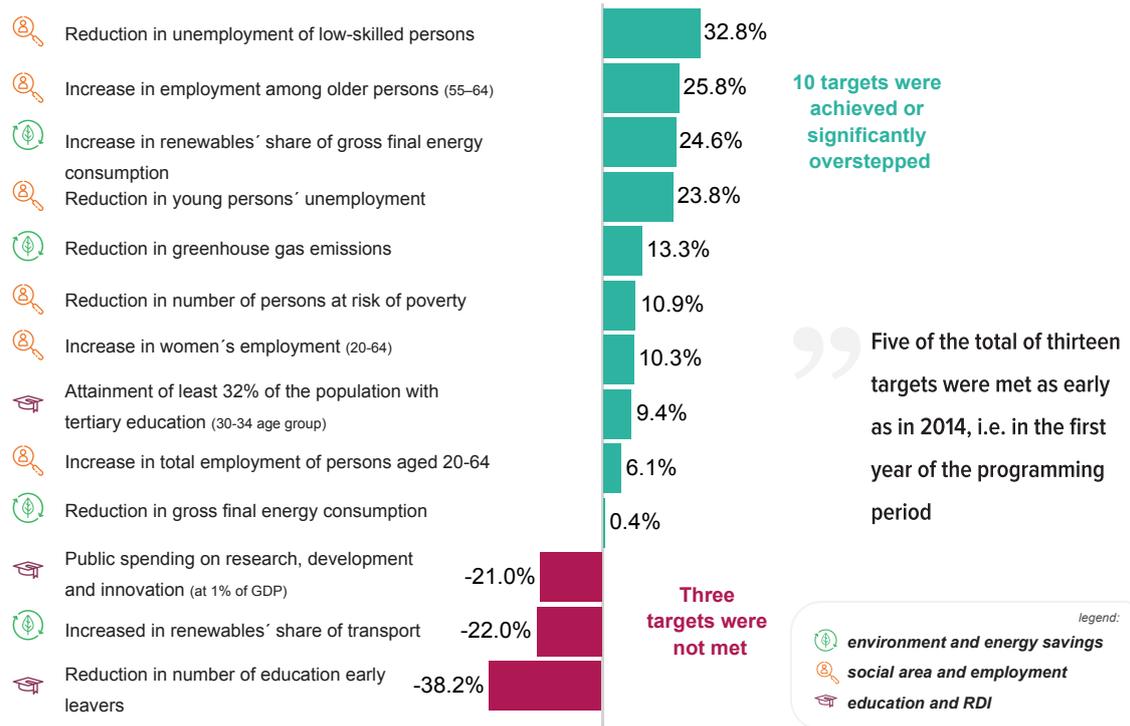
The SAO recommends that an analysis prepared by an external expert on possible ways to evaluate the ESI funding's contribution to the fulfilment of the strategic objectives and submitted to the SAO should be put to use. Examples of good evaluation (good practice) can also be found abroad. In Italy, for example, a simple comparison of the amounts invested, broken down by source, and correlating these sources to the achieved objectives was used.



The CR's insufficiently evaluated the ESI funds' contribution to the implementation of Europe 2020

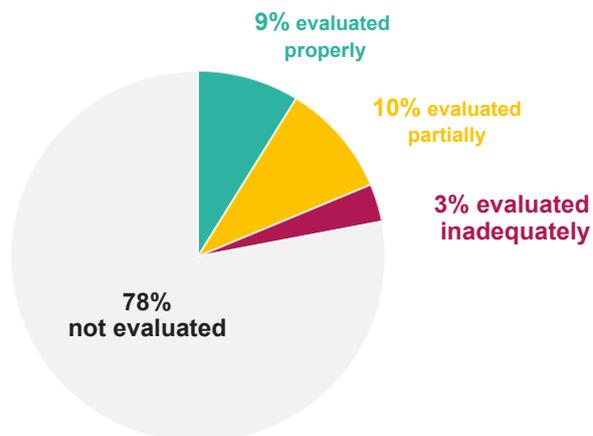
THE EARLY ACHIEVEMENT OF CERTAIN GOALS AND SIGNIFICANT OVERSTEPPING OF SOME TARGET VALUES INDICATE THAT THE EUROPE 2020 NATIONAL TARGETS WERE UNAMBITIOUS

Rate of achievement or non-achievement of Europe 2020 national targets (% deviation from target)



EVALUATION OF ESI FUNDS' CONTRIBUTION TO ACHIEVEMENT OF THE EUROPE 2020 GOALS WAS HAPHAZARD – THE OFFICE OF THE GOVERNMENT PERFORMED A PROPER EVALUATION IN JUST 9% OF CASE

Performance of evaluation of ESI funds' contribution to the achievement of national targets in the 2014–2020 programming period

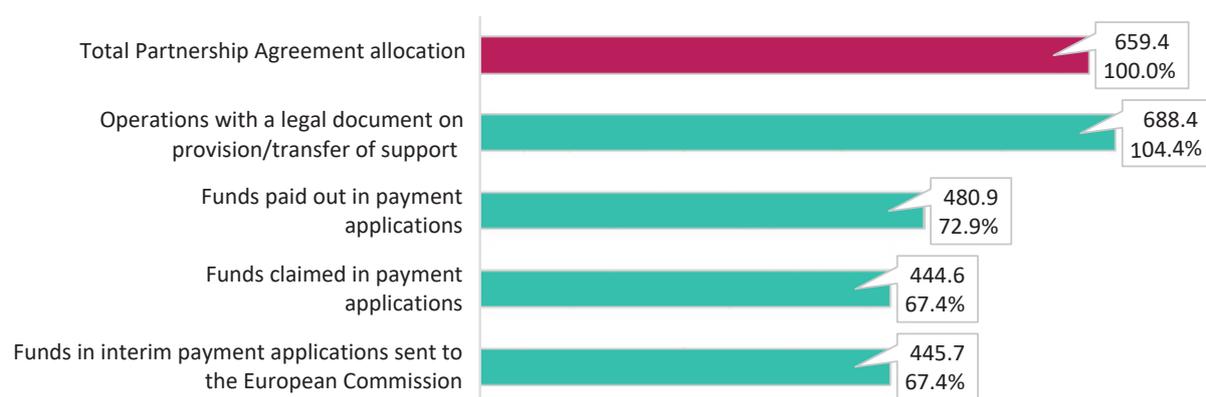


Trend in the absorption of ESI funds allocated according to the *Partnership Agreement*

IN 2021, THE CZECH REPUBLIC'S POSITIVE TREND OF INCREASED ABSORPTION OF THE SI FUNDS ALLOCATION CONTINUED. THIS TREND WAS EVIDENT IN BASICALLY ALL PROGRAMMES CO-FINANCED FROM THE EU BUDGET.

The state of absorption can be seen in Chart 15. Relative to the total allocation, the volume of funds in legal documents providing support amounted to **104.4%**; **72.9%** of the funding had been paid out; and interim payment requests sent to the European Commission reached **67.4%**. Compared to the end of 2020, these figures represent an increase of more than 10 percentage points on average.

Chart 15: Drawdown of ESI funds in CZK billion relative to the total allocation as of 31 December 2021

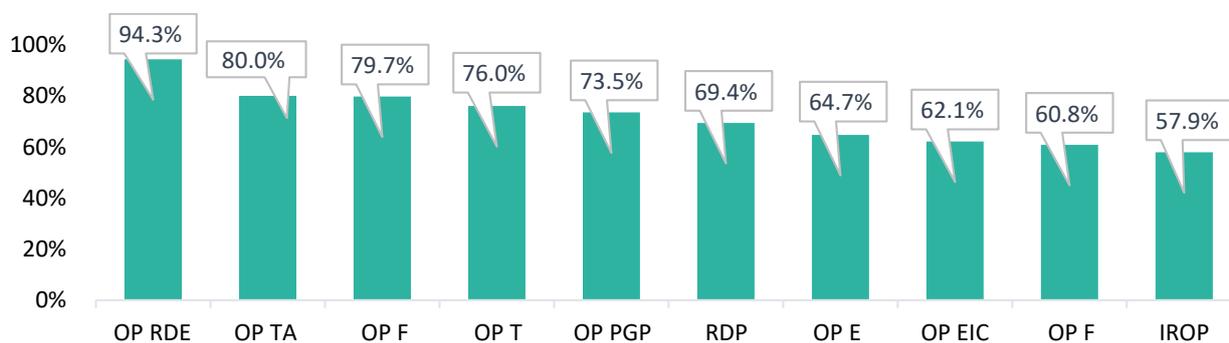


Source: Monthly information on the implementation of the ESI funds in the Czech Republic in the 2014–2020 programming period, December 2021, data generated as of 6 January 2022, issued by MoRD-NCP under identification number 2021_12.

NB: The total Partnership Agreement allocation has been increased in response to the Covid-19 pandemic and in accordance with the REACT-EU Regulation to €834.8 million. A further increase in the allocation was made for the RDP, where an additional amount of €575.7 million was allocated for 2021 and 2022.

According to the MoRD-NCP's monthly information for December 2021, the substantial increase in the ratio between funds paid out in payment applications (including old commitments) and the total allocation was driven by *OP Research, Development and Education* (OP RDE) with **94.3%**, followed by *OP Technical Assistance* with **80%**. In third place was *OP Employment* (OP Em) with **79.7%**. In contrast, the lowest share of funds disbursed was achieved by *IROP* with **57.9%**, which replaced *OP Fisheries* (OPF) in last place with **60.8%**, as shown in Chart 16 below.

Chart 16: Funds in reimbursed payment claims relative to total allocation for individual operational programmes of the Czech Republic as of 31 December 2021 (%)



Source: Monthly information on the implementation of the ESI funds in the Czech Republic in the 2014–2020 programming period, December 2021, data generated on 6 January 2022, issued by MoRD-NCP under identification number 2021_12.

AS IN PREVIOUS YEARS, THERE WERE TWO OPERATIONAL PROGRAMMES THAT SHOWED A LOW INTERIM RATE OF ABSORPTION OF FUNDS IN 2021: OP EIC AND IROP. THESE ARE TWO OF THE MOST FINANCIALLY SIGNIFICANT PROGRAMMES IN TERMS OF ALLOCATED FUNDS, HOWEVER. IN THE CASE OF IROP THE ALLOCATION IS CZK 144.7 BILLION AND IN THE CASE OF OP EIC CZK 99.9 BILLION.

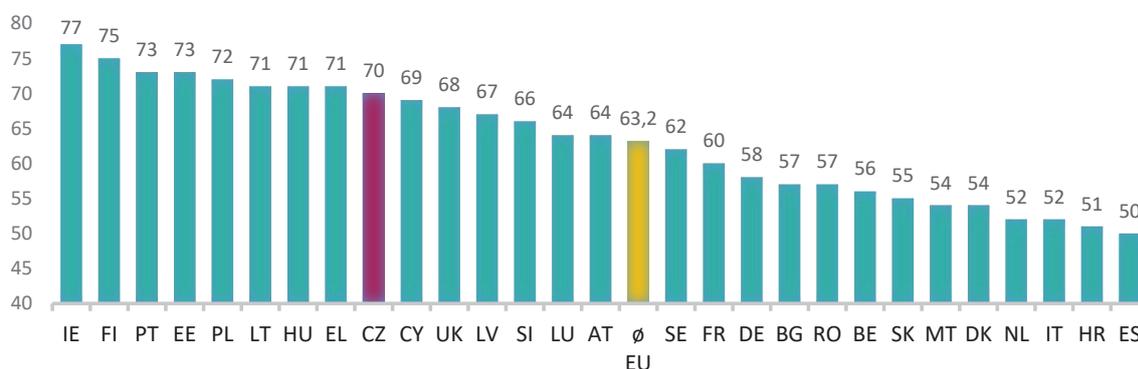
In 2021, all OPs had fulfilled the n+3 rule⁹⁵, i.e. the exhaustion of the allocation limit set for 2018 by the end of 2021, by the end of the 3rd quarter. These data come from the quarterly report on the implementation of ESI funds published by the NCP on 12 November 2021⁹⁶.

The intensification in the drawdown of ESI funds over the last two years has also been reflected in the Czech Republic's move up the ranking of the allocation absorption success rate by EU Member States, where the Czech Republic climbed **9th place**. This continues a trend already evident last year, when the Czech Republic ranked **17th**, but was only **2.5 percentage points** away from the average.

⁹⁵ Under this rule, the allocation for year n must be fully utilised by the end of year n+3. If this condition is not met, there is a risk of losing the unspent funds, known as automatic decommitment by the European Commission.

⁹⁶ Quarterly report on the implementation of the ESI funds in the Czech Republic in the programming period 2014–2020, Q3 2021, data generated on 8 October 2021, issued by MoRD-NCP under the identification number 2021_3Q.

Chart 17: Absorption of total ESI funds allocation for the 2014-2020 programming period to the end of 2021 by EU Member State (%)



Source: <https://cohesiondata.ec.europa.eu/overview>, data downloaded on 19 January 2022.

Note: The quantified absorbed proportion of each Member State's allocation of ESI funds also includes initial pre-financing and annual pre-financing.

Status at the start of the 2021–2027 programming period

The start of drawdown of EU support allocated to the Czech Republic within the programming period 2021–2027⁹⁷, which formally opened on 1 January 2021, has been significantly delayed because the European Commission (the Commission) adopted the legislative package for cohesion policy only with effect from 1 July 2021. Czech government approved this document on 27 September 2021 and in mid-December it was submitted to the Commission for formal negotiation and approval. The first programmes, namely *Jan Amos Komenský*, *Technical Assistance* and *Technologies and Applications for Competitiveness*, were subsequently submitted to the Commission at the end of December 2021. These were followed by the *Employment+* and *Transport* programmes in early January 2022. The remaining programmes would be submitted for approval by the end of January 2022, with the approval process due to be completed in April this year. The first calls will be announced subsequently and the largest part is planned for the second half of 2022.

ONE NEGATIVE OUTCOME OF THE DELAY IN THE ABSORPTION OF EU SUPPORT ALLOCATED FOR THE 2021–2027 PROGRAMMING PERIOD WILL BE THE SNOWBALLING OF AVAILABLE RESOURCES IN THE FOLLOWING YEARS. THE SNOWBALLING MAY PUT INCREASED PRESSURE ON SUPPLIER CAPACITIES AND THE MARKET FOR CONSTRUCTION MATERIALS AND TECHNOLOGIES, WHICH MAY ADVERSELY AFFECT PRICE LEVELS FOR WORKS AND DELIVERIES AND THE FINAL INVESTMENT DEADLINES. ANOTHER NEGATIVE CONSEQUENCE MAY BE THAT THE DESIRE TO UTILISE THE FUNDING AS MUCH AS POSSIBLE RESULTS IN LESS ECONOMICAL AND LESS EFFICIENT PROJECTS BEING SUPPORTED. THESE RISKS WILL BE ACCENTUATED BY THE POSSIBILITY OF DRAWING DOWN ADDITIONAL SUPPORT FROM THE EU OR OTHER SOURCES, NAMELY THE NATIONAL RECOVERY PLAN (*RECOVERY AND RESILIENCE FACILITY*)⁹⁸, COMMUNITY PROGRAMMES⁹⁹, INVESTEU¹⁰⁰ AND THE MODERNISATION FUND¹⁰¹.

⁹⁷ According to the Partnership Agreement for the 2021–2027 Programming Period of December 2021 (intended for formal submission to the Commission), the allocation for the planned Cohesion Policy programmes in the Czech Republic totals €26,710.4 million. Of that amount, the EU contribution is €21,054.1 million. On top of this there is the allocation for OP Fisheries, totalling €42.9 million, €30 million of which comes from the EU budget.

⁹⁸ Under the Recovery and Resilience Facility to address the economic and social impact of the coronavirus pandemic, which is intended mainly for digital transformation and green transition, the CR will receive a total of €7,036 million in the form of grants in the 2021–2026 period. This could convert to CZK 180 billion and, at the current rate of use of loans, as much as CZK 191 billion.

⁹⁹ Under what are known as Community programmes (CEF, TEN-T, Horizon, Erasmus, LIFE, Digital Europe, etc.), Czech entities can receive up to €2,000 million in competition for European added value in the years 2021–2027.

¹⁰⁰ Under InvestEU, which is designed to boost economic recovery by mobilising investment over the next seven years, the CR could receive up to €80 million, mainly in support for small and medium-sized enterprises.

¹⁰¹ The Green Deal Modernisation Fund draws its resources mainly from the monetisation of 2% of the total number of emission allowances in the EU ETS for the 2021–2030 period. A minimum of CZK 150 billion may be available to the CR, the beneficiary being the State Environmental Fund. The funds will be earmarked for investments in a low-carbon economy based on renewables and sustainable technologies.

6. ACCURACY AND RELIABILITY OF THE FINANCIAL INFORMATION PUBLISHED BY THE STATE ON THE RESULTS OF ITS FINANCIAL MANAGEMENT

6.1 OPINION ON THE DRAFT STATE CLOSING ACCOUNT

In its *Opinion on the Draft State Closing Account of the Czech Republic for 2020*, the SAO in 2021 expressed its opinion on the correctness of the reported data¹⁰², i.e. on the completeness and correctness of the reporting of state budget revenues and expenditures presented in the draft state closing account.

The principal tool used by the SAO to verify these data is financial audit.

Another method used was comparison of the state closing account data¹⁰² in books G and H with the data in the relevant budget and accounting information systems, as well as checks of the internal consistency of these books and the data in evaluation reports. For books G and H, this method was used to verify the scope of data presented in the following tables.

Table 8: Overview of the number of verified figures contained in the text section of book H for each budget chapter for 2020

Absolute				Relative			
Total number of figures	Number of discrepancies detected	Number of verified and approved figures	Number of unverified figures	Verified figures relative to the total	of which: discrepancies relative to the total	of which: verified and approved relative to the total	Unverified figures relative to the total
2,852	27	2,612	213	92.5 %	0.9 %	91.6 %	7.5 %

Source: Draft State Closing Account of the Czech Republic – book H, CSOIS

The analytical verification of book H did not detect a significant proportion of discrepancies (0.9%).

Table 9: Overview of the number of verified budget management figures contained in the tables section of book G for 2020

Absolute				Relative			
Total number of figures	Number of discrepancies detected	Number of verified and approved figures	Number of unverified figures	Verified figures relative to the total	of which: discrepancies relative to the total	of which: verified and approved relative to the total	Unverified figures relative to the total
8,592	42	8,181	369	95.7%	0.5%	95.2%	4.3%

Source: Draft State Closing Account of the Czech Republic – book H, CSOIS

The analytical verification of book G did not detect a significant proportion of discrepancies (0.5%).

¹⁰² These are data from the draft SCA for 2020 contained in book G – Tables Section of the Draft State Closing account of the CR and book H - Results of Chapters' Budget Management.

THE SAO EXPRESSED THE OPINION THAT THE FIGURES¹⁰² CONTAINED IN THE 2020 DRAFT STATE CLOSING ACCOUNT CAN BE CONSIDERED CORRECT¹⁰³. AT THE SAME TIME, HOWEVER, THE SAO HAS LONG POINTED OUT THAT THE CLOSING ACCOUNTS MAKE ONLY MINIMAL USE OF ACCRUAL-BASED DATA FROM THE FINANCIAL STATEMENTS. GIVEN THAT ACCRUAL-BASED DATA PROVIDES VERY MEANINGFUL INFORMATION ON THE PERFORMANCE OF STATE BUDGET CHAPTERS, THE SAO CONSIDERS IT APPROPRIATE FOR THE RELEVANT LEGISLATION TO PLACE GREATER EMPHASIS ON THE USE OF SUCH DATA IN CLOSING ACCOUNTS.

6.2 AUDIT OF PUBLISHED FINANCIAL INFORMATION BY CERTAIN SELECTED ADMINISTRATORS OF STATE BUDGET CHAPTERS

The purpose of regularly scrutinising the state’s financial reporting is to obtain and present information about its reliability and meaningfulness, which makes it possible to increase users’ confidence in the information and also helps ensure this information is accurate. Accounting units use the financial information to account for their finances, and the data are supposed to be used for monitoring and managing public finances, inter alia. 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 2020, the SAO completed the following three financial audits, as part of which it issued an opinion on the financial reporting:

- Audit No. **20/25** - Closing account of the state budget chapter “Ministry of Justice” for 2020, financial statements of the Ministry of Justice for 2020 and data submitted by the Ministry of Justice for evaluation of implementation of the state budget for 2020 (Audit No. 20/25 – MoJ);
- Audit No. **20/33** - Closing account of the state budget chapter “Grant Agency of the Czech Republic” for 2020, financial statements of the Grant Agency of the Czech Republic for 2020 and data submitted by the Grant Agency of the Czech Republic for 2020 (Audit No. 20/33 – GACR);
- Audit No. **20/34** - Closing account of the state budget chapter “Ministry of Industry and Trade” for 2020, financial statements of the Ministry of Industry and Trade for 2020 and data submitted by the Ministry of Industry and Trade for evaluation of the implementation of the state budget for 2020 (Audit No. 20/34 – MoIT).

In all cases, these were interim audits, which partly covers the ongoing accounting period and the audited entity has the opportunity to make corrections.

¹⁰³ For more on the opinion on the accuracy of the data, see: SAO Opinion on the Draft State Closing Account of the Czech Republic for 2020 SAO (nku.cz).

Table 10: Results of FA-type audits in relation to the reported financial information of the State (CZK million)

			Results of financial audit in relation to the financial statements					Results of financial audit in relation to financial reporting				Results of financial audit in relation to closing account
Audit number	Audited entity	Type of financial audit	Audited volume ¹⁰⁴	Materiality ¹⁰⁵	Corrections to the audited	Quantified inaccuracies	Reliability of financial statements	Audited volume ¹⁰⁶	Materiality ¹⁰⁵	Quantified inaccuracies	Reliability of financial reporting	Reliability of closing account data
20/25	MoJ	Interim	6,433.9	23.0	50.9 ¹⁰⁷	112.5 ¹⁰⁸	FSs are not reliable in BS, P/L, Notes, Equity Changes and Cashflow	1,513.1	25.0	0.2	No unreliable data was found with respect to the total reported data	Non-material inaccuracies relative to total reported data
20/33	GACR	Interim	13,227.4	90.0	5,907.8 ¹⁰⁹	113.8 ¹¹⁰	FSs are not reliable in BS, P/L	4,492.3	90.0	0.6	No unreliable data was found with respect to the total reported data	Non-material inaccuracies relative to total reported data
20/34	MolT	Interim	184,520.8	1,122	46,970.3 ¹¹¹	14.8	FSs are reliable	85,212.1	1,200.0	1,151.2 ¹¹²	No unreliable data was found with respect to the total reported data	Non-material inaccuracies relative to total reported data
Total			204,182.1		52,929.0	241.1		91,217.5		1,152.0		

Source: audit findings from individual audits.

104 Audited volume of financial statements = net assets + liabilities + expenses + revenues + off-balance sheet.

105 Materiality represents, in the case of FS and FR, the value of the inaccuracies beyond which a reasonably knowledgeable user could already be influenced.

106 Audited volume of FR = revenue + expenditure.

107 Most significant corrections: discarding of a contractual contingent liability that no longer existed (CZK 38 million).

108 Most significant error: costs from software licences purchasing charged to the wrong period (CZK 106.6 million).

109 Most significant corrections: missing contingent liabilities from newly concluded contracts for projects starting in 2020 (CZK 4,853.4 million).

110 Most significant error: failure to report provided transfer advances for science and research subsidies and related misreporting of science and research transfer costs (CZK 108.9 million).

111 Most significant corrections: failure to account for a transfer of approved profit carried forward for the previous year (CZK 32,983.5 million); estimate of the cost of subsidies charged to the wrong account (CZK 6,750 million).

112 Most significant error: misclassification of expenditure according to the sectoral breakdown of the budgetary composition.



Regular financial audit is a major contribution to the **reliability of financial reporting**

ACCOUNTING ERRORS TOTALLING ALMOST CZK 53 BILLION WERE CORRECTED DURING THE AUDITS

Financial statements (FS)

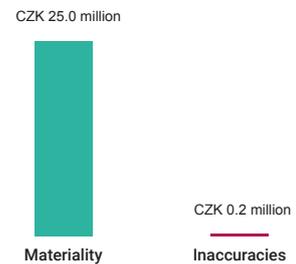
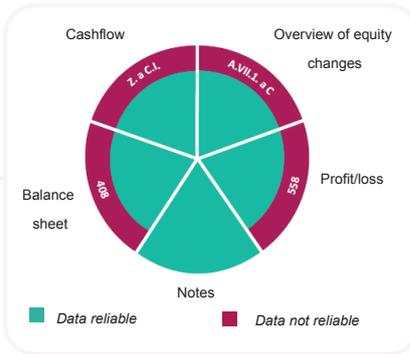
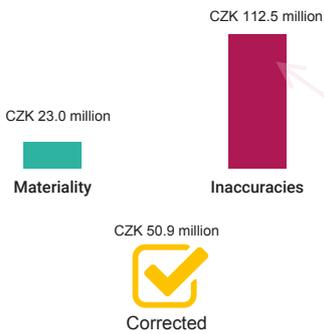
Financial reporting (FR)

Ministry of Justice

Audit no. 20/25

Reliability of FS as at 31. 12. 2020

Reliability of FR as at 31. 12. 2020

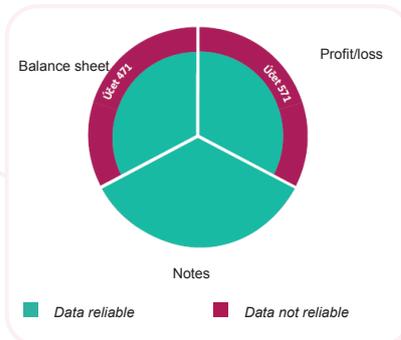
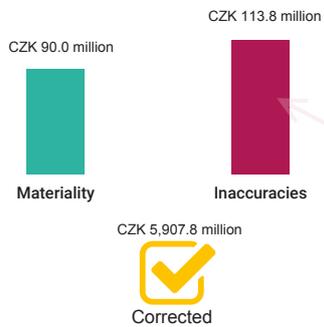


Grant Agency of the Czech Republic

Audit no. 20/33

Reliability of FS as at 31. 12. 2020

Reliability of FR as at 31. 12. 2020

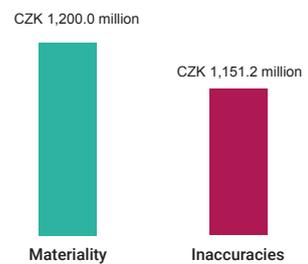
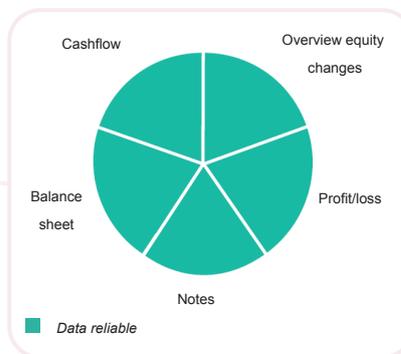
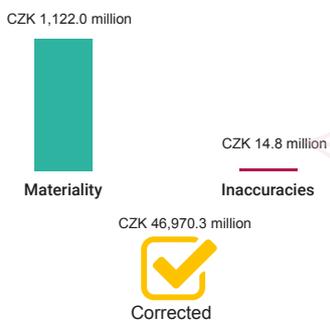


Ministry of Industry and Trade

Audit no. 20/34

Reliability of FS as at 31. 12. 2020

Reliability of FR as at 31. 12. 2020



Results of controls in relation to the financial statements

The SAO examined whether the audited entities kept their accounts in such a way that the financial statements prepared on the basis of the records presented a true and fair view of the subject of the accounting. In one case (audit No. **20/34**) the SAO rated the accounts as reliable; in two cases (audit No. **20/25** and audit No. **20/33**) the SAO rates some parts of the accounts as unreliable.

THE RESULTS OF THE FINANCIAL AUDITS SHOWED THAT INTERIM AUDITS, WHERE THE AUDITED ENTITIES HAVE THE OPPORTUNITY TO CORRECT DEFICIENCIES IDENTIFIED DURING THE AUDITS, CONTRIBUTE SIGNIFICANTLY TO THE RELIABILITY OF THE REPORTED DATA. ON THE BASIS OF THE INTERIM AUDITS CARRIED OUT IN 2020, ACCOUNTING ERRORS AMOUNTING TO ALMOST CZK 53 BILLION WERE CORRECTED (SEE TABLE 10 FOR DETAILS).

Audit results with regard to financial statements

In its financial audits, the SAO also checks the data for assessing the implementation of the state budget and the financial statements those data underpin.

No material inaccuracies were detected in the audited financial statements.

Audit results with regard to closing accounts of state budget chapters

The accompanying reports of the audited closing accounts were found to contain isolated deficiencies concerning the omission of certain information required by law. Inaccuracies were found in numerical datasets and in the annexed tables containing the financial statements which, even in aggregate, would not have had a significant impact on the accounts' reliability.

Measures to correct identified shortcomings

Another component of financial audits is the systematic verification of the implementation of corrective measures from previous audits.

Table 11: Overview of the implementation of corrective measures from previous audits

Audit No.	Audited entity	Previous audit No.	Number of corrective measures adopted	Number of measures implemented completely and correctly	Number of measures implemented partially	Number of measures not implemented	Number of measures no longer relevant (e.g. due to legislative changes)
20/25	Ministry of Justice	16/08	20	16	x	x	4
20/34	Ministry of Industry and Trade	16/25	12	10	2	x	x

Source: Audit Reports.

The above overview shows that in the majority of cases the audited entities responded to the imposed measures.

Audit results in the field of reporting relative to internal control systems

Financial audit includes an examination of internal control systems. It checks whether the internal control system is set up in compliance with the relevant legislation¹¹³ and tests selected controls in the accounting systems. Some weaknesses and risks were identified in financial audit work, in particular in the areas of financial control, reliability of reported information and the management of state property (audit No. 20/34¹¹⁴).

6.3 PROMOTING GOOD ACCOUNTING AND AUDIT PRACTICE

THE MAIN PURPOSE OF FINANCIAL AUDIT IS TO CONTRIBUTE TO IMPROVING THE RELIABILITY OF FINANCIAL INFORMATION CONTAINED IN CLOSING ACCOUNTS, FINANCIAL STATEMENTS AND FINANCIAL REPORTING FOR THEIR USERS.

The following have made a significant contribution to this objective:

- **interim audits, during which the** audited entities could correct the deficiencies identified (see above under **Audit results in relation to the financial statements**);
- **repeated financial audits**, where the audited entity's response to identified deficiencies in the form of corrective actions was monitored (see above under **Measures to correct identified deficiencies**);
- **discussion of financial audit results** by the government and the Control Committee of the Chamber of Deputies of the Parliament of the Czech Republic; audit reports are also available to both the professional and general public.

THE SAO IS BY ITS VERY NATURE NOT ONLY AN AUDIT INSTITUTION, BUT ALSO AN EXPERT INSTITUTION.

The SAO has long devoted attention to international standardisation for accounting and the possible use of internationally recognised good public sector reporting practices in the Czech Republic. Through its audit and analysis work, the SAO helps to 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.

In doing so, it contributes to the spread of good accounting and auditing practice and strives to ensure that usable and reliable data are provided for accounting and decision-making purposes.

THE SAO PROMOTES THE USE OF ACCRUAL-BASED ACCOUNTING INFORMATION, AND THUS IMPROVED ACCOUNTING.

At present, the analyses and descriptions in the closing accounts focus on the evolution of revenue and expenditure, with a few exceptions. In the course of its audits of closing accounts, the SAO has repeatedly declared that it would be beneficial to make greater use of accrual-based data and suggested that the closing accounts should also include a comparison of some accrual-based and cash-based information and comments on the differences between budgetary and financial accounting, e.g. a comparison of changes to receivables and payables with changes to budgetary revenue and expenditure.

¹¹³ These are in particular the provisions of Section 3 of Act No. 320/2001 Coll., on financial control in public administration and on amendments to certain acts (Act on financial control).

¹¹⁴ The financial operations of the MIT were approved from the position of the chief accountant by employees of another public administration body, not by the MIT's own employees, in violation of Act No 320/2001 Coll. Furthermore, cases were found of MIT financial operations which were approved from the position of the chief accountant by an MIT employee who was not authorised to do so.

As part of the promotion of good practice, the SAO also provides examples of such comparisons in its audit reports (e.g. audit No. 20/25 and audit No. 20/34).

INTEGRATED STATE TREASURY INFORMATION SYSTEM - NO IMPACT ON BETTER ACCOUNTING THROUGH CLOSING ACCOUNTS

Following up audit No. 20/34, the SAO draws attention to the fact that the State Treasury as a system, and its implementation through the *State Treasury Integrated Information System* has no basis in law, merely in government resolutions, which are not legal regulations. The legal regulations contain no definition of the concept of the State Treasury as a whole, do not lay down rules for the functioning of the system as a whole, do not define the relationships and links between its individual parts (the modules operated), and do not define their mandatory outputs. Consequently, there are no specific obligations laid down in this area as to how and for what purpose accounting information is used, e.g. for rendering accounts on financial management via the closing accounts of state budget chapters.

The SAO recommended that selected accounting data should be automatically generated from the Central System of State Accounting Information for the purpose of drawing up the closing accounts of state budget chapters and that the budget chapter administrators should be obliged to comment on them in the closing accounts.

THE SAO DRAWS ATTENTION TO METHODOLOGICAL PROBLEMS IN ACCOUNTING AND REPORTING.

As part of its audit work, the SAO monitors the application of binding legal regulations in relation to reporting and draws attention to inconsistencies in the legal regulations in the area of accounting, shortcomings in terms of loopholes or interpretative ambiguities, and the related methodological and application problems.

The SAO presents the identified methodological problems in its audit reports and then communicates them to the expert public.

The SAO regards the following as significant current problems:

Problem area	Description of the methodological problem	SAO opinion
Determining materiality for accounting and reporting	<p>Some selected accounting units take the approach of not accounting for and reporting some cases with reference to their perceived immateriality, or set the materiality for accounting for individual cases so high that only a small proportion of cases are consequently reported.</p> <p>These included:</p> <ul style="list-style-type: none"> • failing to account for advances on transfers – subsidies (see e.g. audit No. 20/34); • not accounting for contingent liabilities (see, e.g. audit No. 19/21). <p>According to the SAO, however, the obligation to account for these cases cannot be negated or circumvented in this way by adjusting materiality in an internal regulation.</p> <p>In these cases, the SAO applied the principle of “de minimis”¹¹⁵ (audit No. 19/21), i.e. it did not deal with the cases in isolation, but with regard to the resulting reporting of material information in the financial statements.</p>	The SAO supports the application of a de minimis approach to materiality as correct and in line with the recommendations of good accounting practice.
Financial instruments co-funded by the EU budget	<p>Financial instruments represent a form of funding provision, mainly from the EU budget, whereby support is provided to beneficiaries in a REPAYABLE FORM (e.g. loans, guarantees, capital investments), as opposed to subsidies (transfers) provided in NON-REPAYABLE FORM.</p> <p>It is reasonable to expect the proportion of financial instruments to increase to the detriment of subsidies.</p> <p>These are accounting cases on the borderline between transfers, receivables and financial assets for which no separate account or item is defined in the selected entities’ financial statements. Nor is there a Czech accounting standard that would specifically regulate accounting procedures for financial instruments.</p> <p>In the SAO’s opinion, the reporting of these financial instruments is possible through account 069 - Other long-term financial assets, on the assumption that the appropriate commentary is provided in the financial statements. The accounting methodology for the Ministry of Industry and Trade, including accounting entries and procedures for 2020, was drawn up by the Ministry of Finance. In an audit, the SAO examined all the reasons for this method of reporting financial instruments and published its procedure in the audit report (audit No. 20/34).</p> <p>In general, however, other approaches to reporting cannot be ruled out in such cases, as it will always depend on the specific circumstances.</p>	The SAO assists the comparability of financial statement information by describing certain significant and particularly challenging types of accounting cases and the methods of recording them in its reports.

Source: audit findings from individual audits.

THE SAO MONITORS THE FINANCIAL STATEMENTS APPROVAL PROCESS.

As part of financial audit work done at organisational units of the state and focusing on the period from 2018 to 2020, the SAO found that, in carrying out their duties under Decree No. 220/2013 Coll., on the requirements for the approval of the financial statements of certain selected accounting units, the approving bodies also approved financial statements which, according to the SAO’s findings, could not be considered reliable in some parts.

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An example of this concept is explained in detail in a study by the Public Sector Committee of the International Federation of Accountants (IFAC); available from <https://www.ifac.org/system/files/publications/files/study-14-transition-to-th.pdf>, p. 92.

Table 12: Endorsement of financial statements (FSs) in 2018–2020

Audit No.	Auditee	Audited period	Type of FA	SAO opinion on FSs	The financial statements are approved by the audited entity's approval body
20/34	MoIT	2020	Interim	FSs are reliable	Approved, 30 June 2021
20/33	GACR	2020	Interim	FSs are not reliable in BS and P/L.	Approved, 24 June 2021
20/25	MoJ	2020	Interim	FSs are not reliable in BS, P/L, SOCE and CF.	Approved, 27 May 2021
19/31	MoEYS	2019	Interim	FSs are reliable.	Approved, 11 May 2020
19/29	CSSA	2019	Interim	FSs are reliable.	Approved 16 June 2020
19/21	MoRD	2018	Ex post	FSs are not reliable in BS, P/L, Notes and SOCE.	Approved, 24 June 2019
19/08	MoT	2018	Ex post	FSs are not reliable in BS, P/L and Notes.	Approved, 20 June 2019
19/03	MoC	2018	Ex post	FSs are not reliable in Notes.	Approved, 27 Feb. 2019

Source: audit reports from individual audits, State Treasury Monitor.

By design, the approval of the financial statements is a control element, but with a lower level of assurance on the reliability of the financial statements than in the case of financial audit.

In the SAO's opinion, the validation processes implemented according to Decree No. 220/2013 Coll. do not ensure that the financial statements are of the required quality according to the accounting regulations, i.e. that they present reliable data for accounting and decision-making. Interim financial audit helps to eliminate this discrepancy.

THE SAO COOPERATES WITH PROFESSIONAL INSTITUTIONS IN THE FIELD OF STATE REPORTING.

During 2021, the SAO continued its cooperation with professional institutions. This involved various forms of cooperation with the following institutions:

- a workshop with representatives of **the Ministry of Finance**, held in August 2021, covering ways to resolve ambiguities related to the reporting of the state's ownership interests in commercial companies and flagged up by the SAO in audit No. 17/36;
- cooperation with **the University of Economics** on matters relating to the use of accrual-based accounting information by the state;
- an annual meeting with representatives of **the Czech Statistical Office**, held in November 2021, on selected issues related to the reliability of accounting and budgetary reporting and national accounts.

The SAO's cooperation with professional institutions contributes to the promotion of internationally recognised good practice in public sector reporting in the Czech Republic.

THE SAO'S OPINIONS CONTRIBUTE TO MODIFICATIONS OF THE LEGAL REGULATIONS CONCERNING THE STATE'S ACCOUNTING AND REPORTING.

In some cases, the findings of the SAO's financial audit work has led to changes in accounting and reporting legislation.

Most often, these changes consist in clarifying certain provisions or reducing excessive bureaucracy. Examples include the following amendments to decrees approved in 2021:

- **amendment to Decree No. 410/2009 Coll.**, implementing certain provisions of Act No. 563/1991 Coll., on accounting, as amended, for certain selected accounting units, which, with effect from 1 January 2021, **makes the content of certain cash flow statement items more precise** (response to audit No. **18/05**);
- **amendment to Decree No. 383/2009 Coll.**, on accounting records in technical form of selected accounting units and their transfer to the central accounting information system of the state and on requirements for technical and mixed forms of accounting records (technical accounting records decree), which, with effect from 1 January 2022, **abolishes certain parts and types of changes in the “auxiliary analytical overview” and unifies the reporting of transfers co-financed from the EU budget** (response to audit No. **17/36**).

THE SAO PARTICIPATES IN INTERNATIONAL COOPERATION IN FINANCIAL AUDITING AND REPORTING.

The SAO is regularly involved in financial audits of international organisations¹¹⁶. In 2021, the SAO was represented in the audit board of the international organisation European Defence Agency and in the audit board of the international organisation Eurocontrol.

The SAO also translates the *International Public Sector Accounting Standards* (IPSAS) manual from English into Czech and publishes the text of the IPSAS manual on the SAO website with the consent of the International Federation of Accountants.

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This work is carried out in accordance with Section 16 of Act No. 166/1993 Coll., on the Supreme Audit Office.

III. FINANCIAL EVALUATION OF THE AUDIT WORK

1. OVERALL FINANCIAL EVALUATION OF AUDITS

The overall financial value of audit activity is monitored annually in terms of the total volume of funds, assets and liabilities audited. This indicator informs about the total audited volume of state budget revenue and expenditure, state assets and liabilities, funds provided to the Czech Republic from abroad and other finances (e.g. from state funds). This indicator is influenced by the number of audit operations, their objectives and subjects of focus and the length of the audited period.

The total value of funds and assets audited is **CZK 30.7 billion**. This volume is based on audits whose audit reports was approved in 2021. The amount does not include data from audits aimed at auditing the closing accounts of state budget chapters and data on finances assessed only at system level (e.g. in audits of strategic and conceptual materials and in audits of programme funds as part of the scrutiny of their administrators' work or intermediate bodies' work). In financial audit, the audited entities' figures reported in their accounts¹⁰⁴ and financial statements¹⁰⁶ were examined, to a total value of **CZK 295 billion**. The value of finances assessed at system level in audits completed last year was **CZK 2,598 billion**.

2. DISCHARGE OF THE NOTIFICATION DUTY PURSUANT TO ACT NO. 280/2009 COLL., THE TAX CODE

Based on its findings, the SAO passes on to the appropriate tax administrators deficiencies identified and specified in audit protocols and related to the audited entities' tax obligations. Specific audit findings can be used by the appropriate tax administrators to initiate proceedings that may result in a decision imposing a penalty for a breach of budgetary discipline.

Under the notification duty in 2021, a total of **24** notifications were sent to the relevant tax administrations from **14** audits linked to tax administration. The total amount of funds quantified in these notifications was over **CZK 94 million**. The notifications mainly concerned breaches of obligations detected in subsidy beneficiaries (16) and breaches of obligations by state organisational units and state contributory organisations (8).

IV. ASSESSMENT OF OTHER ACTIVITIES

1. COOPERATION WITH THE CRIMINAL JUSTICE AUTHORITIES IN 2021

In 2021, the SAO filed one notification of circumstances indicating the commission of a criminal offence under Section 8(1) of the Code of Criminal Procedure and on the basis of the findings of one audit. This notification concerned a suspected criminal offence of breach of trust.

The criminal justice authorities requested the SAO's assistance in a total of 15 cases in 2021. On the basis of these requests, the SAO provided audit materials from six audits.

2. OPINIONS ON DRAFT LEGISLATION IN 2021

In inter-ministerial consultation according to the *Government Legislative Rules*, the SAO gave its opinion on draft legal regulations related to its competence or concerning it as an organisational unit of the state. In 2021, the SAO received for assessment a total of **104** legislative proposals and non-legislative materials. The SAO issued specific comments on **33** drafts, mainly based on findings from its audit work.

Among other things, the SAO gave its opinion on draft amendments of acts aimed at reforming the basic pension insurance, which were submitted by the Ministry of Labour and Social Affairs, and on the draft implementing decrees for the budget rules submitted by the Ministry of Finance, which responded to the entry into force of parts of the amendment to the budget rules done by Act No.484/2020 Coll., amending Act No 218/2000 Coll., on budgetary rules and amending certain related acts (budgetary rules), as amended, and other related acts.

Regarding draft legislation the SAO commented on previously, the legislative process was completed in June 2021 for the act amending Act No. 248/2000 Coll., on support for regional development, as amended, and other related acts (Act No. 251/2021 Coll.). On the basis of the adopted act, the regional councils of cohesion regions were abolished as of 31 December 2021, with their legal successor being the Czech Republic – Ministry for Regional Development.

The government draft act amending Act No. 166/1993 Coll., on the Supreme Audit Office, as amended, and other related laws, extending the SAO's competence to include audit of the management of public funds and funds provided from public budgets, as well as audit of the management of the property of self-governing territorial units and the property of legal entities in which the state or a territorial self-government unit holds a majority share of registered capital or in relation to which they are in the position of a controlling person (parliamentary print 360), was approved by the Chamber of Deputies of the Parliament of the Czech Republic in the third reading on 7 March 2011. The Senate rejected the bill at its session on 18 August 2021. A related draft amendment to the Constitution of the Czech Republic (Chamber of Deputies print 229), approved by the Chamber of Deputies in its third reading on 12 February 2020, was also rejected by the Senate at its session on 26 October 2021. The drafts rejected by the Senate were discussed by the Chamber of Deputies by the end of its electoral term. The SAO's remit was thus not extended during the eighth term of the Chamber of Deputies.

3. INTERNATIONAL COOPERATION

One international cooperation milestone in 2021 was the Czech Republic's assumption of the presidency of the European Organisation of Supreme Audit Institutions (EUROSAI) in April, taking over from the Court of Accounts of Turkey. The President of the SAO was handed the EUROSAI presidency crystal, the symbol of the presidency, from the Turkish ambassador Mr. Egemen Bağış at the SAO headquarters on 7 April 2021.



The three-year leadership of EUROSAI was then officially opened with the XI EUROSAI Congress virtually in Prague on 14-15 April 2021, which was for the first time in its history transmitted virtually.

Other important areas of international cooperation between SAIs in 2021 were audits focusing mainly on governmental measures against the coronavirus pandemic, SAIs' adaptation to work in pandemic conditions, innovation in audit work, digitalisation of public administration, cybersecurity, climate change and the UN Sustainable Development Goals (SDGs).

The activities of the INTOSAI, EUROSAI, ECA working groups and sessions of the Contact Committee meetings were in most cases conducted online or in a hybrid form. The continuing pandemic has given rise to new topics, multilateral working groups and specialist audit virtual platforms. Last but not least, it has increased the importance of international training, which raises the level of expertise in audit work.

International activities of the SAO in the Czech Republic and abroad.

In 2021, SAO representatives attended a total of 132 international meetings and events (55 more than in the previous year), 123 of which were held online, three in a hybrid format, and six face-to-face. The pandemic has thus significantly increased cooperation between audit authorities. International activities also included ECA audit missions and the SAO’s involvement in the activities of the European Defence Agency (EDA) and the European Aviation Safety Agency (EUROCONTROL).

Chart 18: Participation of SAO representatives in international events in the Czech Republic and abroad International visits to the Czech Republic and meetings organised by the SAO

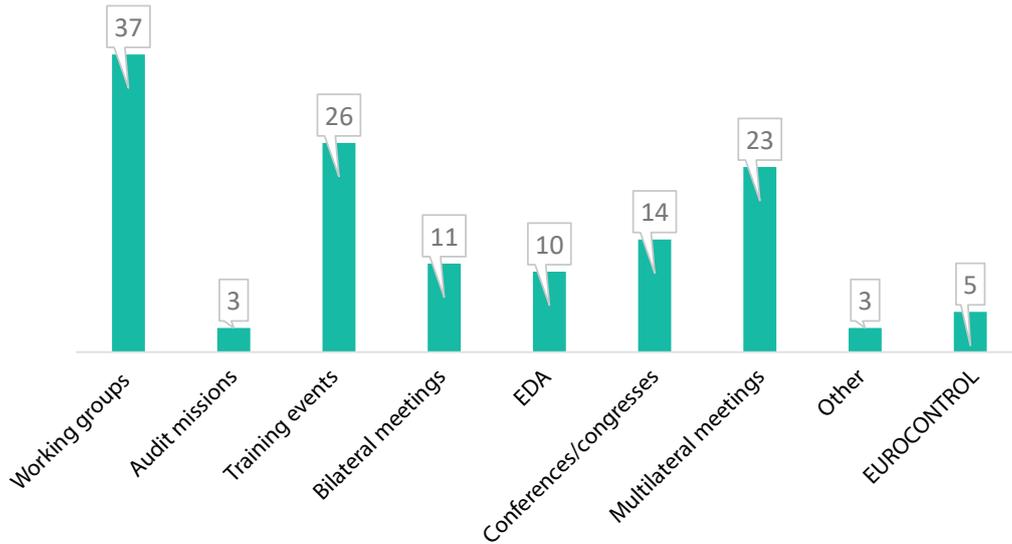
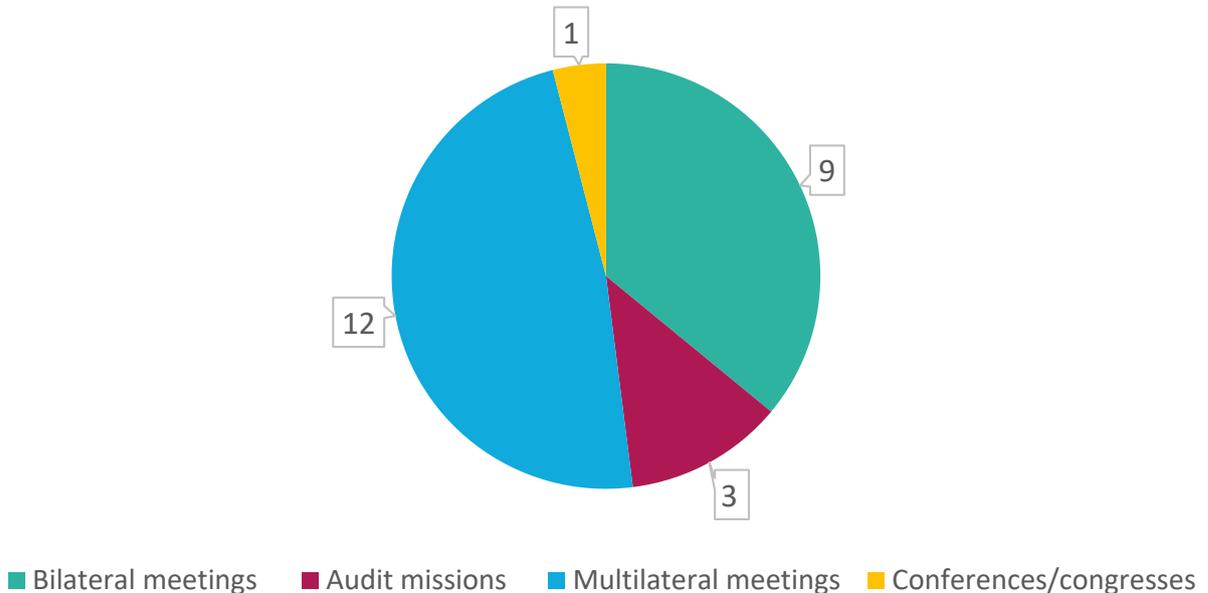


Chart 19: International visits to the Czech Republic and meetings organised by the SAO



In the first part of 2021, most of the international meetings organised by the SAO were devoted to preparations for the congress and two meetings of the EUROSAI Governing Board. The Congress opened with the 53rd Governing Board meeting, where the representatives of the member audit institutions mainly addressed pandemic measures, the agenda and voting during the Congress. Membership of the Governing Board expired for the audit authorities of Finland, Moldova and the Netherlands. The eleventh EUROSAI Congress marked the official start of the SAO's three-year presidency of the organisation. The online congress was chaired by SAO President Miloslav Kala. During the plenary session proper, a number of key topics were discussed, in particular the EUROSAI Strategic Plan 2017–2023 and the budget for 2022–2024, and the EUROSAI Statutes were updated, etc. Important votes also awaited the participants at the congress. The SAI of Israel was elected to succeed the CR at the helm of EUROSAI from 2024 to 2027. Two new members were elected to the Governing Board: the SAI of Lithuania and the SAI of the United Kingdom. The SAIs of Croatia and Bulgaria were re-elected for a four-year term as EUROSAI auditors. In keeping with tradition, the Congress ended with another meeting of the new Governing Board, where the President of the SAO set out the objectives of the Czech presidency. In addition to running EUROSAI, the SAI will focus on openness, minimising bureaucracy and mutual respect for differences. SAO auditors will continue to be actively involved in EUROSAI working group projects.



In the context of bilateral meetings of top-level officials, the SAO president held talks with the president of the Court of Accounts of Turkey, Seyit Ahmet Bař, and with the president of the Court of Auditors of Spain and Secretary General of EUROSAl, María José de la Fuente y de la Calle, in June 2021. The two videoconferences were mainly about audits focused on Covid-19, the programme of the EUROSAl presidency, the 55th Governing Board meeting in autumn in London and the issue of audit authorities' independence.

On 1 July 2021, the President of the SAO met with his Slovak counterpart, Karolo Mitrík, President of the SAl of the Slovak Republic, in Brno for a working meeting on experiences with the organisation of the first EUROSAl online congress, the strategy of the SAO presidency and the challenges awaiting audit institutions in the coming year.

On 2 September 2021, a delegation from the SAl of Poland headed by President Marian Banaś visited the SAO. The Polish SAl is a member of the EUROSAl Governing Board together with the SAO and is also a vice-president of EUROSAl. The meeting focused on the independence of audit institutions and the agenda of the September meeting of the informal V4 group hosted by the SAl in Poland.



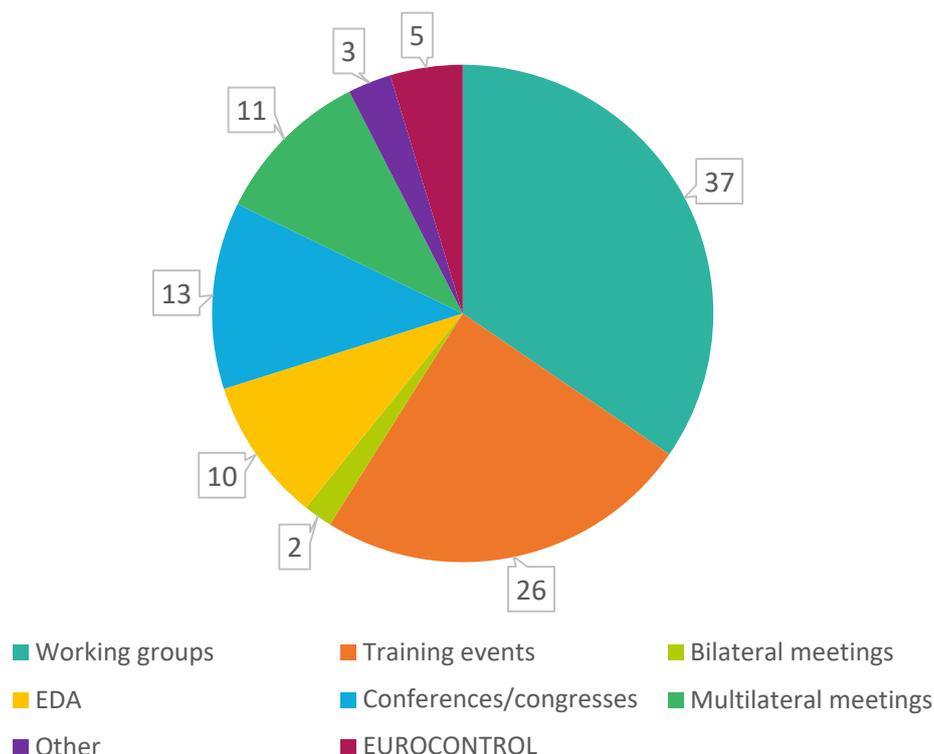
The next visit took place immediately afterwards on 9-11 September 2021, when the SAO was honoured with a visit by the Auditor General of Lithuania, Mindaugas Macijauskas. The SAI of Lithuania is also a member of the EUROSAI Governing Board. In addition to presenting the results of the SAO's work, the meeting mainly focused on deeper cooperation within EUROSAI. Representatives of the SAI of Lithuania informed their Czech counterparts about the methods and forms of work during the pandemic and their experience with the use of social networks.



On 14 and 15 October 2021 there was a hybrid meeting in Prague of the EUROSAl Governing Board at technical level. A total of 28 participants (17 on-site and 11 online) from 13 audit institutions discussed the progress made by project groups, the preparation of the new EUROSAl Strategic Plan 2024–2030 and the new design of the EUROSAl website.



Chart 20: Foreign trips and participation of SAO employees and representatives in international events and meetings



Involvement of the SAO in international working groups

The largest share of the SAO's international activities, i.e. 35%, consisted in SAO representatives' and auditors' involvement in working groups. During 2021, the SAO actively continued with its existing participation or joined new international working groups and projects, most notably under the auspices of EUROSAL, the ECA, the Contact Committee and INTOSAL.

The SAO is a member of several EUROSAL working groups. There are annual meetings of the task forces for the two EUROSAL Strategic Goals: Strategic Goal 1 on professional cooperation and Strategic Goal 2 on institutional capacity development. The purpose of the meetings is to share information about the implementation of the EUROSAL strategic plan, ongoing projects and the work of individual project groups. The role of the SAO as the EUROSAL president is mainly to coordinate all activities and oversee the official procedural rules.

The EUROSAL Working Group on Information Technology (WGIT) led by the Estonian SAI met three times online and once in hybrid form in Tallinn in 2021. The WGIT brings together 41 members and aims to support European SAIs in IT audit as well as in the use of IT in their daily work by sharing best practices and through joint activities.

In March, members of the EUROSAT Task Force on Audit and Ethics, chaired by the Portuguese Court of Auditors, met for the last time. The working group helped to raise awareness of ethical issues in public institutions in terms of methodology, criteria, tools and good practice. As of the XI EUROSAT Congress this working group was discontinued and a new Network for Ethics was established, led by the SAI of Croatia.

The Court of Auditors of Spain, which chairs the new project group on the modernisation of the EUROSAT website, organised two working meetings to open a discussion with the group members on the new website's content and visual design.

Two meetings of the EUROSAT Working Group on Environmental Auditing (WGEA), led by the SAI of Poland, were held, the first in April, the second in October. The 43 WGEA members share a commitment to leverage the power of public sector audits to leave a positive legacy for future generations by improving the management of natural resources.

The EUROSAT Project Group on Auditing the Response to the Covid-19 Pandemic, led by the UK's National Audit Office, held two discussion meetings. The project group's role is to coordinate and exchange information on audits of funds spent on the response to the Covid-19 pandemic.

In November, under the leadership of the SAI of Ukraine, representatives from 16 audit offices gathered for a meeting of the EUROSAT Working Group on Audit of Funds Allocated to Disasters and Catastrophes. The SAO attended the meeting for the first time as a full member of this working group.

SAO representatives are actively involved in several working groups led and managed by the ECA. The informal working group of performance audit experts in the transport sector, bringing together 12 audit institutions, has met four times. The members of the group inform each other about upcoming audits and transport-related publications.

Members of the network of INTOSAI Standards Liaison Officers (ISLO), managed by the ECA, met four times to discuss the INTOSAI Framework of Professional Pronouncements (IFPP), for example, and the International Standards of Supreme Audit Institutions (ISSAIs).

The ECA's Technology and Innovation Network for Audit (TiNA) brings together auditors, data scientists, data visualisation professionals and IT experts from the SAIs of the EU Member States. On 25 June 2021, SAO auditors took part in a roundtable on the use of open data in audit activities.

At the instigation of the ECA and the audit authorities of Belgium and Germany, in November 2021 the Contact Committee initiated the formation of a working group on NextGenerationEU (NGEU) and the Recovery and Resilience Facility. Representatives from the 15 audit institutions have already discussed the NGEU three times.

Several working group meetings were also held under the auspices of INTOSAI. The INTOSAI Working Group on Environmental Auditing (INTOSAI WGEA), whose secretariat is based in Helsinki, held two formal meetings of its members and two webinars. The INTOSAI WGEA events focused on renewable energy and climate change.

The SAI of India, which leads the INTOSAI Working Group on Information Technology Audit (INTOSAI WGITA), organised two webinars on the topic of IT systems and processes auditing.

The INTOSAI Working Group on Sustainable Development Goals and Key Sustainable Development Indicators (INTOSAI WG SDG KSDI), which consists of 27 permanent members and is run by the SAI of Russia, met in March to promote the role of audit institutions as independent external oversight contributing to follow-up scrutiny and review of the SDGs.

In July, the INTOSAI Working Group on Evaluation of Public Policies and Programmes discussed case studies and programmes focusing on Covid-19.

Bilateral and multilateral meetings and conferences with the participation of SAO representatives

At the bilateral level, SAO auditors have traditionally been in close contact with their Slovak counterparts. In April, representatives of the two institutions met by videoconference to work together on the final report of the coordinated audit of the social security administration.

The Comptroller and Auditor General of the UK's National Audit Office, Gareth Davies, invited the President of the SAO to an online dialogue in June. They discussed the EUROSAl project group for audit of the response to the Covid-19 pandemic, the programme of the Czech presidency of EUROSAl and the 55th Governing Board meeting in London in November.

The only multilateral face-to-face meeting in 2021 was the September meeting of the highest representatives of the V4 audit institutions in Goławica, Poland. The institution presidents mainly shared information about government steps in health services provision in the V4 countries during the pandemic. This meeting was also symbolic, as 2021 marked 30 years since the first international meeting in the V4 format.



In June and December, the SAI of the USA organised two discussion groups for auditors on the impact of the Covid-19 pandemic.

On 10 November 2021, during an online meeting of the Contact Committee, the President of the SAO informed his counterparts from EU audit institutions about the results of audit no. 20/32 – Funds spent in connection with the epidemiological situation in the Czech Republic. The meeting focused on the audit institutions' work during the pandemic and ECA member Ivana Maletić gave a presentation of the challenges related to the audits of NextGenerationEU (NGEU) and national recovery plans.

On 16 November 2021, the 55th meeting of the EUROSAI Governing Board was held in hybrid form at the UK SAI in London. The Governing Board members discussed the implementation of the EUROSAI Strategic Plan 2017–2023, the activities of the various EUROSAI working groups and the organisation’s financial affairs.



SAO auditors also regularly share their professional experiences with their foreign colleagues at online conferences. The principal topics in 2021 were topics such as life during the pandemic, strategic planning, European funds, audit quality etc. EUROSAI members were also represented at the UN Climate Change Conference in Glasgow in November.

Participation in international educational activities

There has also been a significant increase in foreign courses and training. SAO staff and representatives participated in 26 e-seminars/webinars (13 more than in the previous year) on topics such as cyber security, non-financial reporting, waste management control, financial management and audits of the Structural Funds and Cohesion Fund, corruption in public procurement etc. Organisations providing this training included the Association of Chartered Certified Accountants (ACCA), the Ljubljana Centre of Excellence in Finance (CEF SEE), the European Institute of Public Administration (EIPA), the European Confederation of Institutes of Internal Audit (ECIIA) and INTOSAI University.

In 2021, the SAO together with the EUROSAI Secretariat issued a special publication on the occasion of the 30th anniversary of EUROSAI called *The Story of EUROSAI*, which maps the past 30 years of the organisation of European audit institutions.



4. THE SAO'S WORK IN RESPECT OF THE PUBLIC

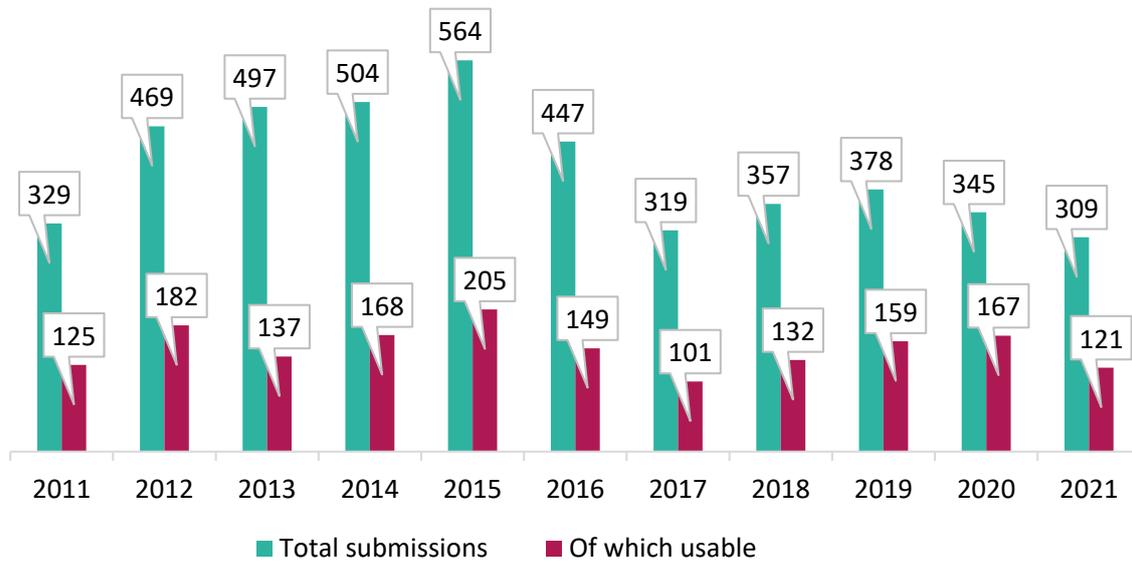
4.1 PROVISION OF INFORMATION PURSUANT TO ACT NO. 106/1999 COLL., ON FREE ACCESS TO INFORMATION

In 2021, the SAO received fifteen written requests for information pursuant to Act No. 106/1999 Coll., on free access to information, as amended (the Information Act). In response to ten requests, the SAO provided the requested information in full, e.g. information on the SAO's competence and organisational structure, results of audit work, contracts awarded and foreign trips. The SAO shelved one request pursuant to Section 14(5)(c) of the Information Act because the information requested did not relate to the SAO's remit. One request was for a large volume of information on various areas of the SAO's activities and for many documents in paper form. The SAO assembled the requested information and notified the applicant of the fee for the exceptionally extensive retrieval of the information and for making copies of the requested documents. Non-payment of the fee within the statutory deadline resulted in the SAO shelving the request in accordance with Section 17(5) of the Information Act. The SAO issued three decisions rejecting requests and one decision rejecting part of a request. One appeal was lodged against the SAO's decisions. No complaints were lodged against the handling of requests pursuant to Section 16a of the Information Act. All requests for information were dealt with within the legal deadlines.

4.2 CITIZENS' SUBMISSIONS

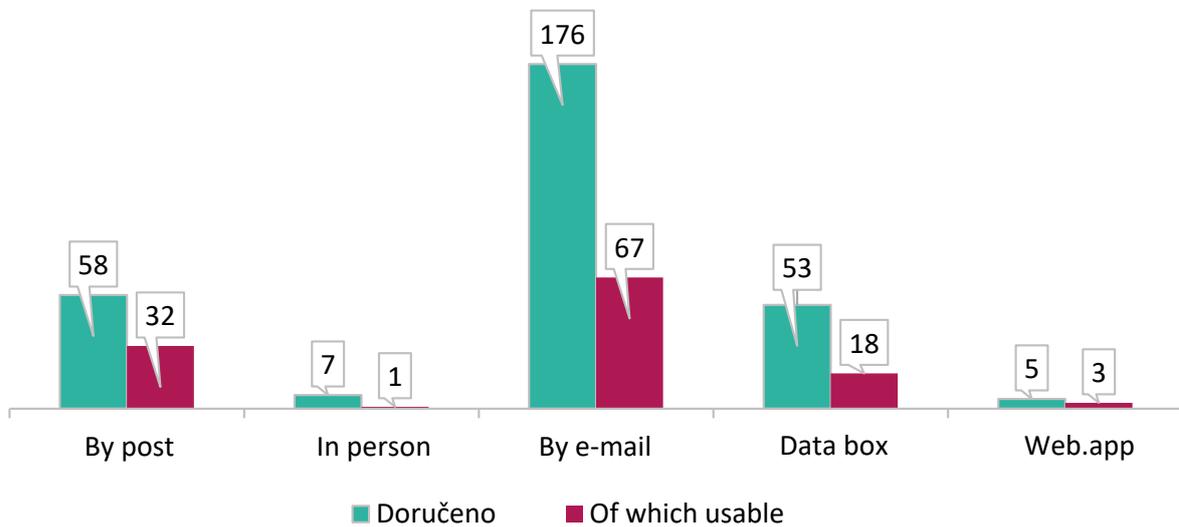
In 2021, the SAO's communications division registered a total of 309 written submissions (complaints, requests, enquiries, etc.) from citizens and legal entities. The content of all submissions is judged with regard to the SAO's powers and in terms of the potential use of the information in audit work. Submissions relating to the areas covered by the SAO's competency are used as a supplementary information source in the context of the related planned audits when preparing ideas for audits in the following period. In 2021 the SAO received 121 external submissions that could be acted on, i.e. 39% of the total number of submissions received. In its audit work, the SAO used the findings of submissions focusing mainly on the management of state property and state budget funds and on the use of special-purpose subsidies provided from national sources and European funds to various beneficiaries; these matters were covered by 99 submissions, i.e. 82% of the actionable external suggestions.

Chart 21: An overview of the total number of submissions and their usability for the SAO's audit activities for the years 2011 to 2021.



The predominant form of communication between citizens and the SAO in 2021 was again electronic, i.e. via e-mail, data box and the Write to Us application on the SAO website, with 76% of the submissions received electronically.

Chart 22: An overview of the number of submissions in 2021 according to the method of delivery and their usability.



5. MANAGEMENT OF FINANCES ALLOCATED TO THE SAO BUDGET CHAPTER IN 2021

5.1 IMPLEMENTATION OF MANDATORY INDICATORS OF THE SAO BUDGET CHAPTER

The approved budget of chapter 381 – *Supreme Audit Office* for 2021 was established by Act No. 600/2020 Coll., on the state budget of the Czech Republic for 2021.

An overview of the implementation of the defined mandatory indicators in 2021 is given in the following table:

Table 13: Overview of the implementation of defined mandatory indicators in 2021 (CZK thousand)

	Approved budget	Budget after changes (BC)	Final budget (R3)	Actual	Implementation (BC) in %	Implementation (RB) in %
Summary indicators						
Total revenues	626	626		532.34	85.10	-
Total expenditure	853,604	853,604	1,173,281	935,360.58	109.58	79.72
Specific indicators – revenues						
Total non-tax revenues, capital revenues and received transfers	626	626		532,34	85,10	-
in which:						
- total revenues from the EU budget excluding the CAP			-			-
- total miscellaneous non-tax revenues, capital revenue and received transfers	626	626		532,34	85,10	-
Specific indicators – expenditure						
Expenditure on performance of the SAO's duties	853,604	853,604	1,173,281	935,360.58	109.58	79.72
Cross-cutting indicators						
Staff pay and other payments for work done	357,064	357,064	349,392	347,688,19	97.37	99.51
Obligatory insurance premiums paid by the employer	120,688	120,688	118,095	117,228.88	97.13	99.27
Transfer to the social and cultural needs fund	6,552	6,552	6,398	6,392.62	97.57	99.91
Salaries to employees only	327,596	327,596	319,924	319,746.89	97.60	99.94
Pay to employees in civil service positions pursuant to the Civil Service Act					-	-
Total expenditure funded in full or in part from the EU budget bar the CAP;	-	-	-	-	-	-
in which:						
- from the state budget	-	-	-	-	-	-
- EU budget share	-	-	-	-	-	-
Total expenditure registered in EDS/SMVS programme financing information	198,334	198,334	521,230	354,917.14	178.95	68.09

Revenues

Approved budgeted revenues in the SAO chapter were **CZK 625,520** and actual revenues were CZK 532,340, i.e. 85.10% of the budgeted figure. The budgeted figure was not achieved mainly due to lower revenues from the sale of goods and services in connection with the restrictions on operations and closure of the Přestavky training centre due to the adopted Covid-19 measures.

Expenditure

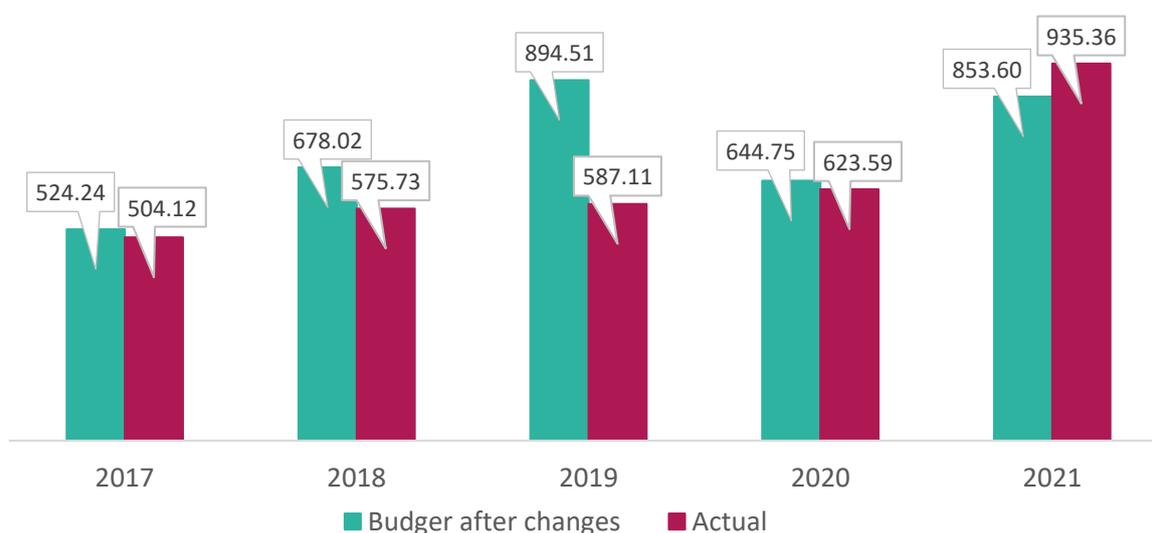
The approved budgeted expenditure of **CZK 853,603,710** was modified, with savings of CZK 330,096,100 from previous periods carried forward and tied funds totalling CZK 10,418,470 included. The final budgeted expenditure was CZK 1,173,281,340 and CZK 935,360,580 were spent, i.e. 109.58 % of the approved budget and 79.72 % of the final budget.

The biggest expenditure item (CZK 464,917,070, i.e. 49.7%) is pay and other payments for work performed (including expenditure on salaries of SAO officials) and related expenditure, i.e. statutory insurance premiums.

All mandatory indicators of the SAO budget chapter were fulfilled in 2021, except for revenues.

An overview of expenditure in chapter 381 – *Supreme Audit Office* from 2017 to 2021 is presented in the following Chart. From 2017 to 2021, the budget after changes increased by CZK 329,365,240. The main drivers of the increase in the budget are funds of CZK 180,484,000 for building a head office and CZK 52,212,000 for the fitting out the head office, plus funds for salaries, including mandatory contributions, which have grown by CZK 91,111,600 since 2017.

Chart 23: Overview of expenditures of chapter 381 - Supreme Audit Office according to the budget after changes and implementation of the budget for the years 2017 to 2021.



5.2 CLAIMS FROM UNUSED EXPENDITURE

Claims from unused expenditure stood at CZK 439,610,730 as at 31 December 2021. In 2021, expenditure amounting to CZK 330,096,100 was factored into the budget. Claims from unused expenditure thus amounted to CZK 769,706,830 as at 1 January 2021.

5.3 EXPENDITURE ON ASSET REPLACEMENT PROGRAMME FINANCING

The approved budget for expenditure on asset replacement programme financing was CZK 198,334,000. Claims from unused expenditure amounting to CZK 322,896,490 were subsequently factored into budget. The final budget thus amounted to CZK 521,230,490. CZK 354,917,140 of the budget was utilised, i.e. 178.95 % of the approved budget (and the budget after changes) and 68.09 % of the final budget.

Since 2020, the programme 18101 – *Development and Renewal of the Material and Technical Resources of the SAO from 2011* has been used solely for the construction and fitting out of a head office. The approved budget was CZK 180,484,000. After claims from unused profiling expenditure totalling CZK 316,976,490 were factored in, the final budget reached CZK 497,460,490. CZK 342,284,770 of that was utilised. Capital finances were the programme's sole source.

Programme 08101 - *Development and Renewal of the Material and Technical Resources of the SAO from 2020* covers the years 2020–2022. The state budget's contribution to financing the programme is set at a maximum of CZK 69,050,000. For 2021, a budget of CZK 17,850,000 was approved. The programme's aim is to put in place the right material and technical conditions for the performance of audit work and employees on the nationwide scale. The total amount spent on the programme in 2021 was CZK 12,632,370.

5.4 INFORMATION ON EXTERNAL AUDITS IN THE SAO

The following audits were carried out by external bodies at the Supreme Audit Office in 2021:

- On 12 May 2021, the Customs Office for the Central Bohemian Region CZ610000 carried out an on-the-spot inspection pursuant to Sections 80 to 84 of Act No. 280/2009 Coll., the Tax Code, focusing on checking compliance with the conditions of the permit for the purchase of liquefied petroleum gases, inspecting liquefied petroleum gas storage tanks and the way they are secured and used, and other matters specified in the permit.

The result of the inspection showed that no deficiencies were found.

- On 29 June 0221, DW Hygiena s.r.o., represented by MVDr. Dana Walterová, with registered office at Vrázova 352, 664 61 Rajhrad, carried out a random inspection of the operation and functionality of HACCP¹¹⁷, **i.e. the risk analysis system and determination of critical control points** in the production, processing and distribution of food at the training centre of the Supreme Audit Office.

The final assessment concluded that HACCP is functional and that control and critical point records are properly kept.

- On 16 September 2021, the Regional Hygiene Centre of the Central Bohemia Region, based in Prague, carried out an inspection of compliance with the law, in particular Regulation (EC) No. 853/2004 of the European Parliament and of the Council on food hygiene and Act No.258/2000 Coll., on the protection of public health and amending certain related acts, as amended, at the training centre of the Supreme Audit Office.

The audit found no shortcomings.

5.5 MANDATORY AUDIT

The annual accounts 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. The independent audit report is presented in Annex 6. According to the auditor's statement, *"In our opinion, the financial statements present a true and fair view of the Supreme Audit Office's assets and liabilities as at 31 December 2021 and its expenses and revenues and profit/loss for the year ended 31 December 2021 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 2021 were Act No.320/2001 Coll., on financial control in public administration and amending certain acts (Financial Control Act), as amended, Decree No. 416/2004 Coll., which implements Act No. 320/2001 Coll., on financial control in public administration and amending certain acts (Financial Control Act), as amended by Act No. 309/2002 Coll., Act No. 320/2002 Coll., Act No. 123/2003 Coll., as amended, and the *International Professional Practices Framework* of the Institute of Internal Auditors.

The Strategy of the Supreme Audit Office for 2018–2022 and the *Strategy of the Internal Audit Department for 2019–2021* formed the basis for the Internal Audit department's work plan for 2021, which was approved by the President of the Supreme Audit Office on 15 January 2021. The main materials underpinning this plan were a summary analysis of the Supreme Audit Office's risks, including risks identified by internal audit, and the audit universe¹¹⁸. The annual plan was also based on the medium-term internal audit plan for 2019 to 2021, the results of audits done at the SAO by external bodies, the results of previously conducted internal audits, the fulfilment of obligations stemming from the Financial Control Act and the Cyber Security Act, requirements of senior SAO staff and the internal audit department's capacity.

Based on the approved annual plan for 2021, the internal audit department carried out a total of four audits and two consultations.

Table 14: Number of jobs done in line with the internal audit plan for 2021

Number of completed internal audits included in the annual plan	Number of completed consultations included in the annual plan	Number of completed internal audits and consultations not included in the annual plan
4	2	0

Source: own reports on internal audit findings and records of consultations.

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

- the impact on the functioning of the SAO and the performance of its tasks;
- the design of management and control mechanisms in the SAO's operations and financial activities;
- assessment of activities' standard of compliance with the legislation and internal regulations;
- the state of implementation of measures adopted in response to shortcomings identified in previous internal audits, consultations and external audits done at the SAO;
- compliance with the effectiveness, efficiency and economy criteria defined by the SAO in the area of programme financing;

and possible risks linked to the audited areas and their potential impacts.

The results of the audits and consultations completed in 2021 were discussed with senior staff of the audited sections. Their findings delivered value added in suggestions for draft modifications to certain internal regulations or methodologies in the interest of bringing them into line with the generally binding legislation, in listing areas of risk, detecting errors or confirming that selected audited processes are properly designed and sufficiently functional.

¹¹⁸ The audit universe is the list of all possible internal audits that could be carried out by the SAO.

The conducted internal audits and consultations give no indication that the SAO's financial statements do not present a true and fair view of the subject of the accounts. In 2021, the internal audit department found no shortcomings with a significant risk 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 and consultations in 2021. The audited entities are obliged to inform the SAO president of the state of implementation of measures. The internal audit department regularly assesses the implementation of the adopted measures and monitors them until they are fully implemented. The approved measures with a deadline of 31 December 2021 were executed by the responsible employees and produced appropriate results.

The internal audits did not produce any serious findings within the meaning of Section 22(5) of the Financial Control Act. No risk of corruption or fraud was detected or reported that might indicate impropriety or abuse of office in decision-making and management processes or failings by individual SAO employees. At the same time, no breach of the SAO Code of Ethics was reported or detected.

On 9 February 2022, President of the Supreme Audit Office Ing. Miloslav Kala received and signed the *Annual Report on the Results of Internal Audit for 2021*. This report contains the following statement on internal control: *“Based on the results of the audits, we declare that in the selected areas of the internal operation 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 or low significance. These identified shortcomings, however, were not of such a nature as to materially affect the protection of public finances, the performance of financial management and the functionality of the internal audit system. They are, however, an aid to improving the quality of the control environment, updating and complying with internal regulations, employee training, and the protection of the SAO's rights and legitimate interests.”*

External assessment of the quality of internal audit activity¹¹⁹ was carried out by an external independent assessor in its entirety. The next external assessment is due to take place in the coming period.

119 As defined in International Standard 1312.

7. SECURITY DEPARTMENT

The security department is responsible for duties imposed on the SAO by the legislation on the protection of classified information. The department also takes care of buildings security, occupational health and safety and internal protection of SAO data and information. The security department is also responsible for tasks related to the preparation of national defence and tasks related to civil protection and crisis management. There was an increase in the security department's workload in connection with responding to the emergency caused by the Covid-19 pandemic.

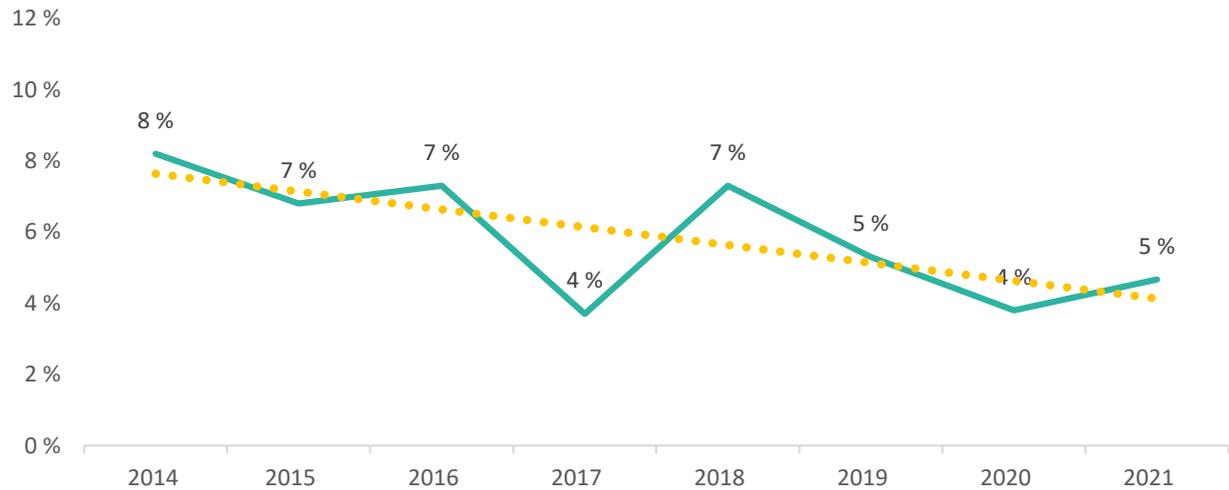
Furthermore, the security department has actively participated and is participating in the construction of the new SAO head office, mainly by collecting documents and checking the security features of individual parts of the building, and coordinates the response to the requirements of the Police of the Czech Republic, the National Security Agency, National Cyber and Information Security Agency and National Agency for Communication and Information Technologies in the construction of the new SAO head office.

As regards protection of classified information, in 2021 the SAO received classified documents with various classification levels, both in the context of the CR and NATO documents. Throughout the course of last year there was one audit involving the handling of classified information (audit No. 20/29). All employees assigned to audits involving the handling of classified information hold a valid notification or certificate and instruction under the terms of Act No. 412/2005 Coll., on the protection of classified information and security clearance, as amended.

8. SAO STAFFING

In 2021, the SAO had 471 employees¹²⁰, 312 of whom worked in the audit section, i.e. 66.24% of the total registered average number of SAO employees in 2021. During 2021, 21 new employees were hired and 10 others returned to work after parental leave. 32 employees ended their employment. The fluctuation rate in 2021 was 4.67%. Chart 24 shows how the annual fluctuation evolved in the SAO from 2014 to 2021.

Chart 24: Annual turnover rate of SAO staff for the period 2014-2021



The converted average number of SAO employees in 2021 was 459; the converted average number of employees in the audit section was 307. Chart 25 shows the converted average number of SAO employees and employees of the Prague and territorial division from 2011 to 2021.

¹²⁰ Average number of employees on the register in 2021.

Chart 25: Development of the average recalculated number of SAO employees for the period 2011–2021

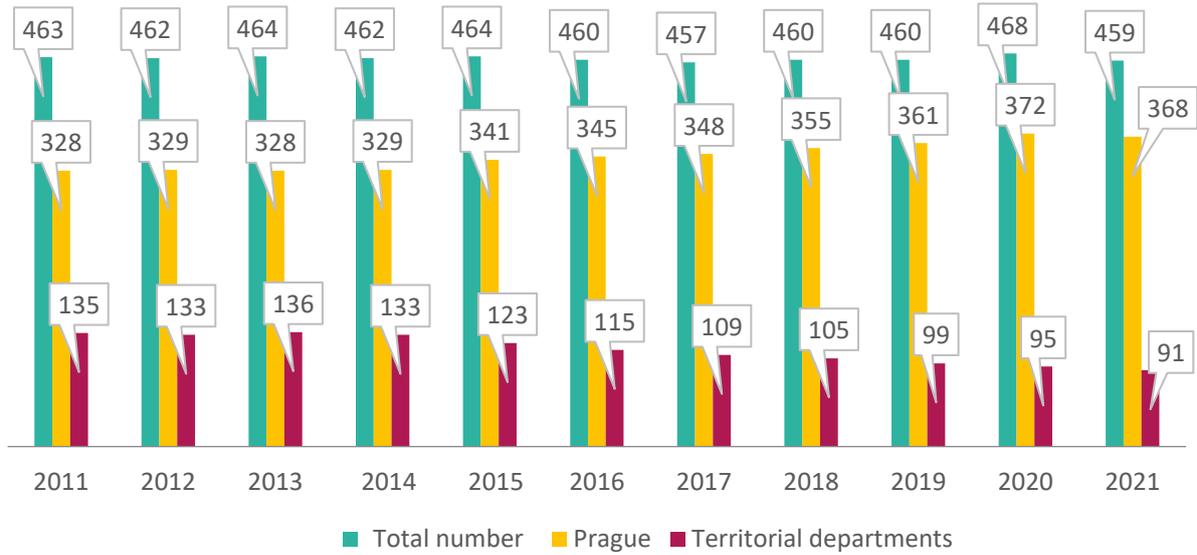
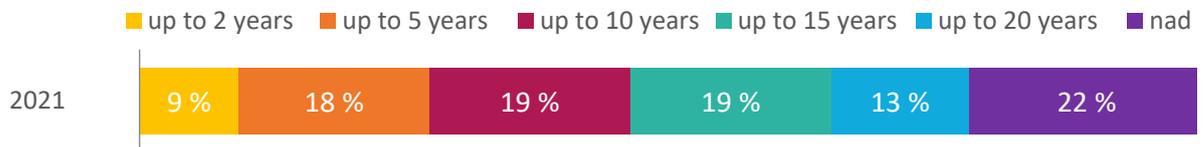


Chart 26 shows the duration of the SAO employees' employment as at 31 December 2021. 9.29% of the total number of employees had been employed by the SAO for less than two years as at that date. 22.53 % of the total workforce had been employed by the SAO for more than 20 years.

Chart 26: Overview of the duration of SAO employees' employment as at 31 December 2021 (%)



The SAO offers its employees equal working conditions and opportunities. Chart 27 shows the proportion of men and women employed at the SAO in 2021.

Chart 27: Proportional representation of men and women employed by the SAO in 2021 (%)

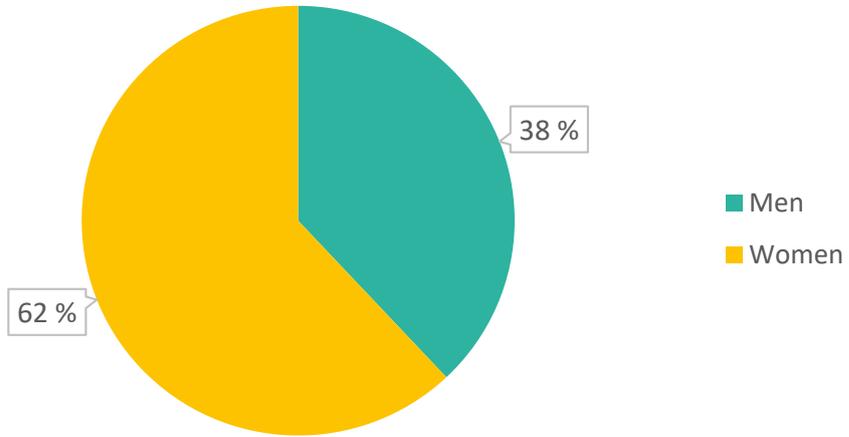
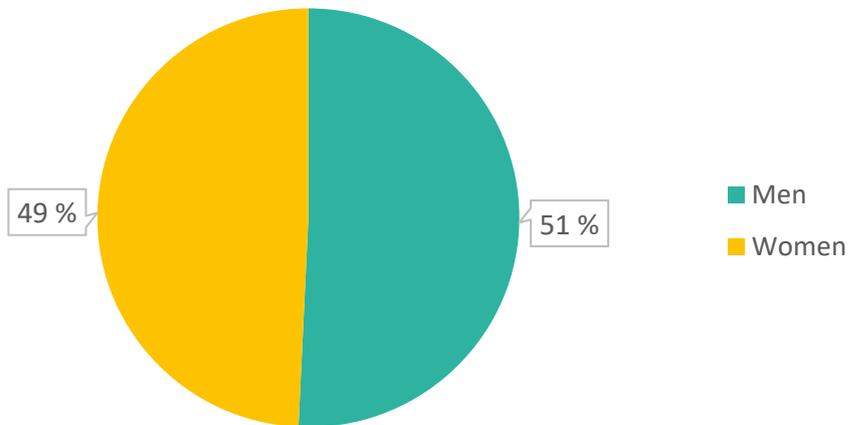


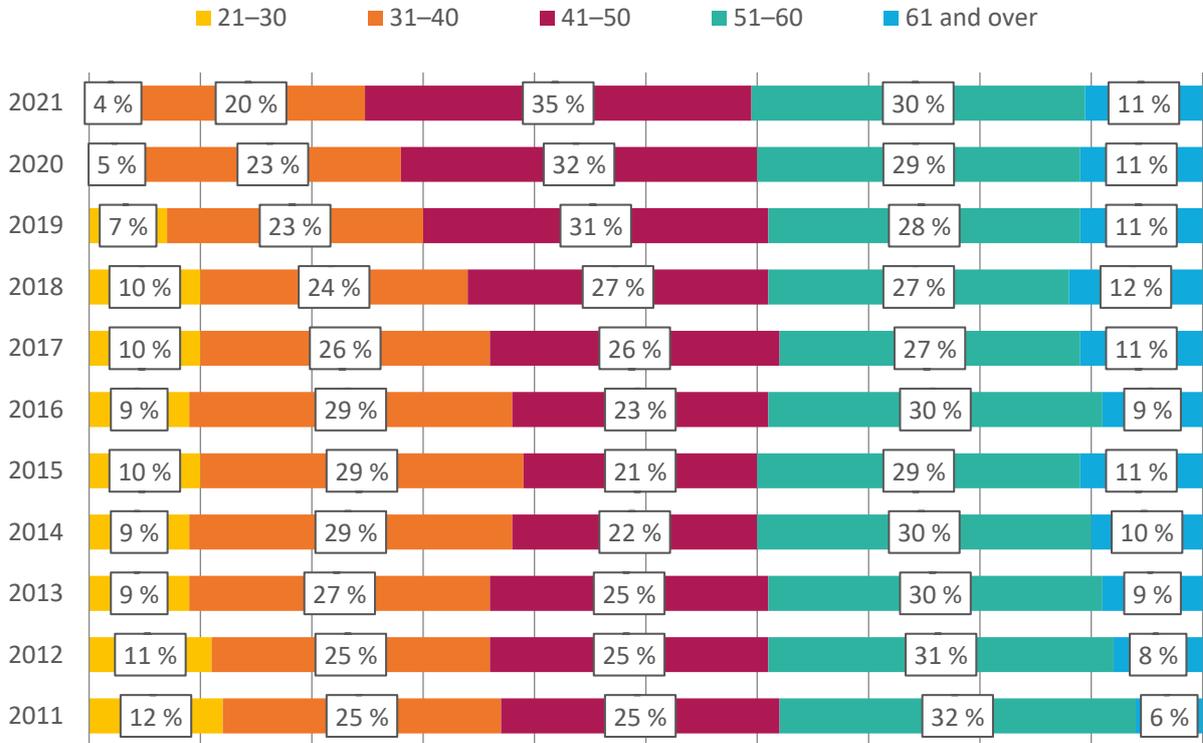
Chart 28 shows the relative representation of men and women in senior SAO positions as at 31 December 2021.

Chart 28: Representation of men and women in senior SAO positions as at 31 December 2021 (in%).



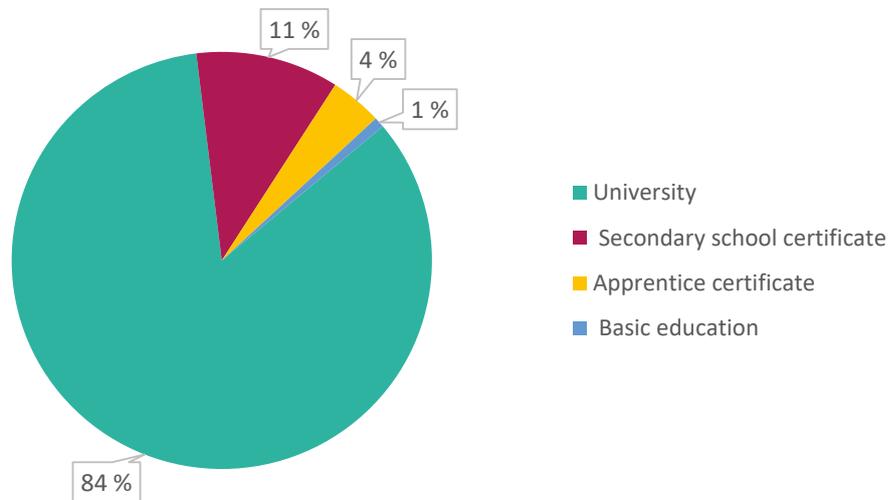
The average age of SAO employees in 2021 was 48. The age structure of the SAO workforce as at 31 December 2021 is given in Chart 29, along with a comparison with the years 2011 to 2021.

Chart 29: Overview of the age structure of SAO employees for the period 2011–2021 (comparison as at 31 December of the given period)



As at 31 December 2021, 82.59% of university-educated employees worked at the SAO. An overview of the educational structure of SAO employees as at 31 December 2021 is shown in Chart 30.

Chart 30: Qualification structure of SAO employees by education as at 31 December 2021

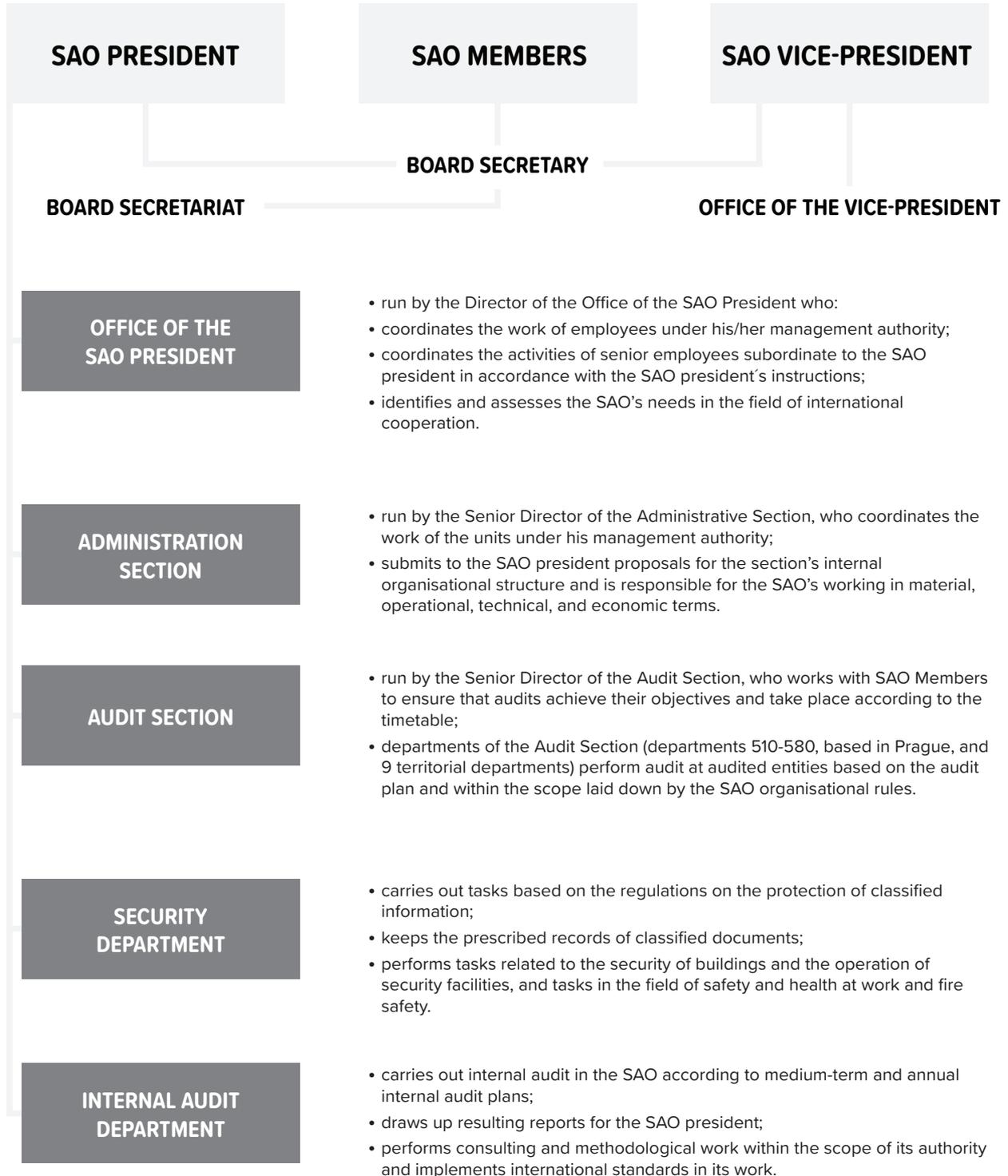


Labour, wage and other claims of SAO employees were satisfied in accordance with the applicable collective agreement.

Staff training and professional development

The year 2021 was characterised by a significant shift of training activities into the online environment. The main reason for this was the ongoing pandemic emergency measures, which made it necessary to find the optimal way to ensure uninterrupted and effective staff training.

9. ORGANISATIONAL CHART OF THE SAO



Annex 1: Audits included in the Audit Plan for 2021

Audit number	Subject of audit	Start of audit (month/year)	Submission of the audit report for approval (month/year)	Chapter administrator	The audit report is drawn up by SAO member	Audit report approved by
21/01	Selected state property and funds under the management of the Ministry of Foreign Affairs	1/2021	10/2021	MoFA	Mr. Kinšt	SAO Board
21/02	State property and funds under the management of the Ministry of Defence to fulfil tasks of the Military History Institute Prague	1/2021	10/2021	MoD	Mr. Šmucr	SAO Board
21/03	State and EU funds earmarked for the promotion of recreational voyages	2/2021	11/2021	MoT	Mr. Málek	SAO Board
21/04	State property and funds under the management of the Administration of State Material Reserves	2/2021	10/2021	SMRA	Mr. Beznoska	SAO Board
21/05	State funds spent on the Integrated State Treasury Information System	2/2021	1/2022	MoF	Mr. Koniček	SAO Board
21/06	State and EU funds earmarked for the implementation of waste management measures	3/2021	2/2022	MoE	Mr. Neuvirt	SAO Board
21/07	State property and funds allotted to selected organisations of the Ministry of Regional Development	5/2021	5/2022	MoRD	Mr. Kubiček	SAO Board
21/08	Funds spent in support of social housing from the Integrated Regional Operational Programme	4/2021	1/2022	MoRD	Mr. Kalívoda	SAO Board
21/09	Funds spent on visitor infrastructure projects related to nature conservation	4/2021	3/2022	MoE	Mr. Šmucr	SAO Board
21/10	State property and funds managed by selected contributory organisations of the Ministry of Culture	4/2021	4/2022	MoC	Mr. Procházka	SAO Board
21/11	State funds earmarked for the preparation, construction and operation of the D4 motorway in the form of a public-private partnership (PPP)	The auditing operation has been removed from the audit plan				
21/12	State property and funds under the management of the Ministry of Finance	4/2021	2/2022	MoF	Mr. Koniček	SAO Board
21/13	State property and funds under the management of the CPP Transgas	4/2021	12/2021	MolT	Mr. Hrnčíř	SAO Board

Audit number	Subject of audit	Start of audit (month/year)	Submission of the audit report for approval (month/year)	Chapter administrator	The audit report is drawn up by SAO member	Audit report approved by
21/14	Funds of the Integrated Regional Operational Programme intended to support presentation, protection strengthening, and development of cultural heritage	5/2021	2/2022	MoRD	Mr. Neuvirt	SAO Board
21/15	State and EU funds spent on the promotion of agricultural products and foodstuffs	5/2021	4/2022	MoA	Mr. Kubiček	SAO Board
21/16	State funds spent on special-purpose support of research and development in the chapter of the Ministry of Culture	5/2021	2/2022	MoC	Mr. Procházka	SAO Board
21/17	State budget and EU funds earmarked for the humanisation of psychiatric care	5/2021	5/2022	MoRD, MoH	Mr. Beznoska	SAO Board
21/18	Closing account of state budget chapter „Ministry of Foreign Affairs“ for the year 2020, the Ministry of Foreign Affairs' accounts for 2020, and data submitted by the Ministry of Foreign Affairs for the evaluation of the implementation of the state budget for 2020	5/2021	3/2022	MoFA	Mr. Reisiegel	SAO Board
21/19	State funds spent by the Ministry of Defence for the acquisition, storage and elimination of ammunition	5/2021	3/2022	MoD	Mr. Neuvirt	SAO Board
21/20	State and EU funds spent on the ESF 2014+ information system	6/2021	4/2022	MoLSA	Mr. Beznoska	SAO Board
21/21	State funds spent on a soft targets protection system	8/2021	4/2022	MoC, MoI, MoH	Mr. Stárek	SAO Board
21/22	State budget and EU funds granted in support of social enterprises	8/2021	5/2022	MoRD, MoLSA	Mr. Kinšt	SAO Board
21/23	Management of assets secured, pledged, seized, forfeited, and sold in criminal and tax proceedings	8/2021	6/2022	MoF, MoI	Mr. Kubiček	SAO Board
21/24	Closing account of the state budget chapter „Ministry of Health“ for the year 2021, the financial statements of the Ministry of Health for 2021 and data submitted by the Ministry of Health for the evaluation of state budget fulfilment for the year 2021	8/2021	7/2022	MoH	Ms. Steidlová	SAO Board
21/25	Financial statements of the Czech Development Agency for 2020 and data submitted by the Czech Development Agency for the evaluation of the implementation of the state budget for 2020	8/2021	5/2022	MoFA	Mr. Reisiegel	SAO Board

Audit number	Subject of audit	Start of audit (month/year)	Submission of the audit report for approval (month/year)	Chapter administrator	The audit report is drawn up by SAO member	Audit report approved by
21/26	State property and funds under the management of the State Printing Works of Securities	The audit has been removed from the audit plan.				
21/27	Closing account of state budget chapter „Ministry of the Interior“ for 2021, accounting of the Ministry of the Interior for 2021, and data submitted by the Ministry of the Interior for evaluation of state budget implementation for the year 2021	9/2021	7/2022	MoI	Ms. Steidlová	SAO Board
21/28	Computerization in the Ministry of Justice	10/2021	9/2022	MoJ	Mr. Procházka	SAO Board
21/29	State budget and EU funds earmarked for family policy support	11/2021	8/2022	MoLSA	Mr. Stárek	SAO Board
21/30	State budget funds earmarked for special-purpose support for industrial research, development and innovation under national programmes under the responsibility of the Ministry of Industry and Trade	11/2021	7/2022	MoIT	Mr. Kinšt	SAO Board
21/31	State budget and EU funds spent on the project Methodological optimization and streamlining of the system of hospital care reimbursement in the Czech Republic	The audit has been removed from the audit plan.				
21/32	State budget revenues in connection with the introduction of the VAT control statement and of the registration of sales	The audit has been removed from the audit plan.				
21/33	State and EU funds spent in the Ministry of Agriculture to support the processing of agricultural products	11/2021	9/2022	MoH	Mr. Hrnčíř	SAO Board
21/34	State funds from road tax and administration of this tax	1/2021	1/2022	MoT, MoF	Mr. Kubíček	SAO Board
21/35	Funds earmarked for information support for anti-epidemic measures	4/2021	1/2022	MoH, MoI	Mr. Koucký	SAO Board
21/36	State and EU funds earmarked for the reconstruction of selected off-corridor railway lines	4/2021	1/2022	MoT	Mr. Málek	SAO Board
21/37	State and EU funds earmarked for D1 motorway modernisation	11/2021	8/2022	MoT	Mr. Málek	SAO Board
21/38	State funds spent on compensations	11/2021	7/2022	MoJ	Mr. Koucký	SAO Board

Annex 2: Overview of audits with an approved audit report in 2021

Audit number	Subject of audit	Chapter administrator	The audit report was drawn up by SAO member	Audit report approved	Date of approval of the audit report	Publication in the SAO Bulletin number/year
19/30	State property and funds under the management of institutes of public health, whose founder is the Ministry of Health	MoH	Mr. Kalivoda	SAO Board	22 Mar.2021	3/2021
20/01	Administration of social security premiums and of payments regarding to the state employment policy	MoLSA	Mr. Kalivoda	SAO Board	31 May 2021	4/2021
20/02	State property and funds under the management of the Office for Government Representation in Property Affairs	MoF	Mr. Koníček	SAO Board	22 Feb.2021	1/2021
20/04	Interventions to ensure sustainable water quality	MoH, MoA, MoE	Mr. Neuvirt	SAO Board	28 June 2021	4/2021
20/05	Support for energy savings in public buildings	MoF, MoIT, MoE	Mr. Neuvirt	SAO Board	22 Feb.2021	3/2021
20/06	State funds earmarked for public universities	MoEYS	Mr. Neuvirt	SAO Board	22 Mar.2021	3/2021
20/07	Funds spent on ICT of the Ministry of Agriculture	MoA	Mr. Vedral	SAO Board	15 Mar.2021	3/2021
20/10	State funds spent on implementation of selected goals of the migration policy of the Czech Republic	Mol	Mr. Kinšt	SAO Board	19 Apr.2021	3/2021
20/11	Construction, maintenance and repair of cycling infrastructure	MoT, MoRD	Mr. Málek	SAO Board	22 Mar.2021	3/2021
20/12	State funds earmarked for anti-drug programmes	MoJ, MoEYS, MoH, OoG	Mr. Beznoska	SAO Board	19 Apr.2021	3/2021
20/13	Investment incentives	MoIT	Mr. Beznoska	SAO Board	22 Feb.2021	3/2021
20/14	Public transport using electric power supported from the Transport 2014-2020 Operational Programme	MoT	Mr. Málek	SAO Board	10 May 2021	4/2021

Audit number	Subject of audit	Chapter administrator	The audit report was drawn up by SAO member	Audit report approved	Date of approval of the audit report	Publication in the SAO Bulletin number/year
20/16	State property and funds allotted to the National Heritage Institute, the state-funded organisation	MoC	Mr. Konicek	SAO Board	31 May 2021	4/2021
20/18	Funds earmarked for meeting the national targets of the EUROPE 2020 strategy	MoRD, OoG	Mr. Kinšt	SAO Board	30 Aug.2021	6/2021
20/19	Measures aiming at reducing energy performance of residential buildings supported from the Integrated Regional Operational Programme and from the New Green Savings Programme	MoRD, MoE	Mr. Neuvirt	SAO Board	30 Aug.2021	4/2021
20/20	Funds from the Enterprise and Innovation for Competitiveness Operational Programme granted to small and medium enterprises for consultancy, marketing, and training and in relation to the Covid-19 pandemic	MoIT	Mr. Hrnčíř	SAO Board	19 Apr.2021	3/2021
20/21	State property and funds under the management of the General Financial Directorate	MoF	Mr. Reisiegel	SAO Board	20 Sept.2021	6/2021
20/22	State funds earmarked for investments into social services	MoLSA	Mr. Vedral	SAO Board	19 July 2021	4/2021
20/23	State budget funds and European funds provided for food aid for the most deprived persons and earmarked to reduce food waste	MoLSA, MoH	Mr. Procházka	SAO Board	18 Oct. 2021	6/2021
20/25	Closing account of the state budget chapter „Ministry of Justice“ for the year 2020, financial statements of the Ministry of Justice for the year 2020, and data submitted by the Ministry of Justice for the evaluation of the state budget implementation for the year 2020	MoJ	Ms. Steidlová	SAO Board	20 Sept. 2021	6/2021
20/27	State property and funds allotted to the General Inspection of Security Forces	GISF	Mr. Vedral	SAO Board	28 June 2021	4/2021
20/29	State property and funds allotted to the Military Intelligence of the Czech Republic	MoD	Mr. Stárek	SAO Senate	29 Nov. 2021	The audit report was not published in accordance with Section 30(3) of the SAO Act

Audit number	Subject of audit	Chapter administrator	The audit report was drawn up by SAO member	Audit report approved	Date of approval of the audit report	Publication in the SAO Bulletin number/year
20/32	Funds spent in connection with the epidemiological situation in the Czech Republic	MoI, MoH, SAMR	Mr. Kubiček	SAO Board	15 Mar. 2021	1/2021
20/33	Closing account of the state budget chapter „Grant Agency of the Czech Republic“ for the year 2020, financial statements of the Grant Agency of the Czech Republic for the year 2020, and data submitted by the Grant Agency of the Czech Republic for the evaluation of the state budget implementation for the year 2020	GACR	Mr. Vedral	SAO Board	19 July 2021	4/2021
20/34	Closing account of the state budget chapter „Ministry of Industry and Trade“ for 2020, financial statements of the Ministry of Industry and Trade for 2020, and data submitted by the Ministry of Industry and Trade for the evaluation of the state budget implementation for the year 2020	MoIT	Ms. Steidlová	SAO Board	30 Aug.2021	4/2021
21/01	Selected state property and funds under the management of the Ministry of Foreign Affairs	MoFA	Mr. Kinšt	SAO Board	29 Nov. 2021	6/2021
21/02	State property and funds under the management of the Ministry of Defence to fulfil tasks of the Military History Institute Prague	MoD	Mr. Šmucr	SAO Board	18 Oct.2021	6/2021
21/04	State property and funds under the management of the Administration of State Material Reserves	SMRA	Mr. Beznoska	SAO Board	08 Nov. 2021	6/2021
21/13	State property and funds under the management of the CPP Transgas	MoIT	Mr. Hrnčíř	SAO Board	13 Dec. 2021	1/2022

Annex 3: Overview of audits whose approved audit reports were discussed by the Committee on Budgetary Control of the Chamber of Deputies of Parliament of the Czech Republic in 2021

Committee Resolution	Date of the session	Session No.	Audit Report	Government Material No.	Government Resolution No.	Summary of the Committee's resolution
253	24 June 2021	46	18/14	714/19 1531/20	678/19	The Committee takes note of: a) Audit report 18/14, b) the opinion of the Ministry of Health contained in Part III/a of Government Material No.714/19, c) Government Resolution No.678/19, d) information on the implementation of measures taken to eliminate the shortcomings mentioned in the audit report contained in Part II of Government Material No.1531/20.
252	24 June 2021	46	17/13	268/18	387/18	The Committee takes note of: a) Audit report 17/13, b) the opinion of the Ministry of Health contained in Part IV of Government Material No.268/18, c) Government Resolution No.387/18.
251	24 June 2021	46	16/19	791/17 1/19	780/17	The Committee takes note of: a) Audit report 16/19, b) the opinion of the GA CR contained in Part III of Government Material No. 791/17, c) the opinion of the Office of the Government of the Czech Republic on the opinion of the GA CR contained in Part III of Government Material No. 791/17, d) Government Resolution No. 780/17, e) information on the implementation of measures from the opinions of the GA CR and the Office of the Government of the Czech Republic on audit report contained in Part II of Government Material No. 1/19.
250	24 June 2021	46	18/12	295/19	669/19	The Committee takes note of: a) Audit report 18/12, b) the opinion of the Ministry of the Interior contained in Part III of Government Material No.295/19, c) Government Resolution No.669/19.
249	24 June 2021	46	17/14	646/18	719/18	The Committee I. takes note of: a) Audit report 17/14, b) the opinion of the Ministry of Health contained in Part III of Government Material No. 646/18, c) Government Resolution No 719/18; II. requests the Minister of Health to submit to the Committee information on the outlook for the financing of the National Institute of Mental Health on 1 September 2021 and 1 September 2022.
248	24 June 2021	46	17/11	438/18	380/18	The Committee takes note of: a) Audit report 17/11, b) Government Resolution No.380/18.

Committee Resolution	Date of the session	Session No.	Audit Report	Government Material No.	Government Resolution No.	Summary of the Committee's resolution
247	24 June 2021	46	18/10	174/19 178/20	235/19	The Committee takes note of: a) Audit report 18/10, b) the opinion of the Ministry of Defence contained in Part IV of Government Material No.174/19, c) Government Resolution No.235/19, d) the evaluation of the measures adopted to the audit report contained in Part II of Government Material No.178/20.
246	24 June 2021	46	19/12	1096/20	92/21	The Committee takes note of: a) Audit report 19/12, b) the opinions of the Ministry of Labour and Social Affairs, the Ministry of Finance, Generali Česká pojišťovna a.s. and Kooperativa pojišťovna, a.s., Vienna Insurance Group contained in Parts IV to VII of Government Material No. 1096/20, c) Government Resolution No. 92/21.
245	24 June 2021	46	19/33	1113/20	91/21	The Committee I.takes note of: a) Audit report 19/33, b) the opinion of the Ministry of the Interior contained in Part III of Government Material No. 1113/20, c) Government Resolution No 91/21; II. requests the Minister of Agriculture to include in the Report on the State of the Forest and Forestry of the Czech Republic 2020 an indicator of the average timber monetisation for 2018, 2019 and 2020 and to submit this report to the Committee when it is issued.
243	10 June 2021	45	18/25	1042/19 669/20	12/20	The Committee takes note of a) Audit report 18/25, b) the opinion of the Prague Municipal Court (PMC) contained in Part IV of Government Document No. 1042/19, c) Government Resolution No. 12/20, d) the information of the PMC on the implementation of measures taken to eliminate the shortcomings mentioned in the audit report contained in Part II of Government Document No. 669/20.
242	10 June 2021	45	18/27	651/20 46/21	719/20	The Committee takes note of: a) Audit report 18/27, b) the opinion of the MoA and the MoE contained in Part III of Government Material No. 651/20, c) Government Resolution No. 719/20, d) the information of the MoA on the status of implementation of the measures taken to eliminate the shortcomings mentioned in the audit report contained in Part II of Government Material No. 46/21.

Committee Resolution	Date of the session	Session No.	Audit Report	Government Material No.	Government Resolution No.	Summary of the Committee's resolution
241	10 June 2021	45	17/26	716/18	716/18	The Committee takes note of: a) Audit report 17/26, b) the opinion of the MoA and SAIF contained in Part III of Government Material No. 716/18, c) Government Resolution No. 716/18.
240	10 June 2021	45	17/22	674/20 13/21	720/20	The Committee I. takes note of: a) Audit report 17/22, b) the opinion of the Ministry of Labour and Social Affairs contained in Part IV of Government Material No. 674/20, c) Government Resolution No. 720/20, d) the information of the MoLSA on the implementation of the measures to the audit report contained in Part II of Government Material No 13/21; II. requests the Minister of Labour and Social Affairs to submit to the Committee a report on the implementation of the IS Employment, IS Benefits and IS Integrated Support and Operational Data on 1 September 2021, 1 March 2022 and 1 September 2022.
239	10 June 2021	45	20/32			The Committee suspends consideration of this item until 31 August 2021.
237	02 June 2021	44	16/30	83/18	198/18	The Committee takes note of: a) Audit report 16/30, b) the opinion of the Ministry of Finance contained in Part III of Government Material No 83/18, c) Government Resolution No 198/18.
236	02 June 2021	44	16/32	260/18	381/18	The Committee takes note of: a) Audit report 16/32, b) the opinion of the MoLSA contained in Part III of Government Material No.260/18, c) the opinion of the Mol contained in Part III of Government Material No.260/18, d) Government Resolution No.381/18.
235	02 June 2021	44	16/12	1060/17	789/17	The Committee takes note of: a) Audit report 16/12, b) the opinion of the MoRD contained in Part III of Government Material No.1060/17, c) Government Resolution No.789/17.

Committee Resolution	Date of the session	Session No.	Audit Report	Government Material No.	Government Resolution No.	Summary of the Committee's resolution
230	13 May 2021	43	19/01	168/20 1001/20	180/20	The Committee takes note of: a) Audit report 19/01, b) the opinion of the MoIT contained in Part IV of Government Material No. 168/20, c) Government Resolution No. 180/20, d) the MoIT's information on the implementation of the measures taken on the audit report contained in Part II of Government Document No. 1001/20.
229	13 May 2021	43	18/24	98/20 1267/20	139/20	The Committee takes note of: a) Audit report 18/24, b) the opinion of the MoRD contained in Part IV of Government Material No. 98/20, c) Government Resolution No. 139/20, d) the information of the MoRD on the implementation of corrective measures to the CP contained in Part II of Government Material No. 1267/20.
228	13 May 2021	43	17/34	1172/18 414/19	229/19	The Committee takes note of: a) Audit report 17/34, b) the opinion of the MoF contained in Part III of Government Document No.1172/18, c) Government Resolution No.229/19, d) the information of the MoF on the status of implementation of the measures taken to remedy the deficiency referred to in the audit report contained in Part II of Government Document No.414/19.
225	13 May 2021	43	17/16	333/18	389/18	The Committee I. takes note of: a) Audit report 17/16, b) the opinion of the Ministry of Culture contained in Part IV of Government Material No 333/18, c) Government Resolution No. 389/18; II. requests the Minister of Culture to submit to the Committee by 31 December 2022 information on the status of implementation of the Programme for the Care of National Cultural Treasures from 2007.
224	13 May 2021	43	19/09	1006/20	645/21	The Committee I. takes note of: a) Audit report 19/09, b) the opinion of the MoC contained in Part IV of Government Material No. 1006/20; II. requests the Minister of Culture to submit information to the Committee on the progress of the implementation of the measures to remedy the shortcomings identified during the audit on 1 September 2021, 1 March 2022, 1 September 2022 and 1 March 2023.

Committee Resolution	Date of the session	Session No.	Audit Report	Government Material No.	Government Resolution No.	Summary of the Committee's resolution
223	13 May 2021	43	18/35	935/19 567/20	835/19	The Committee takes note of: a) Audit report 18/35, b) the opinion of the CMA contained in Part IV of Government Material No. 935/19, c) the opinion of the MoT contained in Part V of Government Material No. 935/19, d) Government Resolution No. 835/19, e) information on the implementation of measures taken to eliminate the shortcomings mentioned in the audit report contained in Part II of Government Material No. 567/20.
222	13 May 2021	43	16/13	875/17	784/17	The Committee takes note of: a) Audit report 16/13, b) the opinion of the MoEYS contained in Part III of Government Material No. 875/17, c) Government Resolution No. 784/17, d) information on the implementation of corrective measures resulting from the opinion of the MoEYS on the audit report dated 21 February 2019, Ref: PS2019/002751.
221	13 May 2021	43	18/21	169/20	181/20	The Committee takes note of: a) Audit report 18/21, b) the opinion of the MoT contained in Part IV of Government Material No.169/20, c) Government Resolution No.181/20.
220	13 May 2021	43	18/22	275/20	687/20	The Committee takes note of: a) Audit report 18/22, b) the opinion of the MoF, MoT and MoE contained in Part III of Government Material No.275/20, c) Government Resolution No.687/20.
218	05 May 2021	42	19/24	1523/20	252/21	The Committee takes note of: a) Audit report 19/24, b) the opinion of the MoA contained in Part III of Government Material No. 1523/20, c) Government Resolution No. 252/21.
217	05 May 2021	42	16/14	544/17	792/17	The Committee takes note of: a) Audit report 16/14, b) the opinion of the Ministry of Agriculture and SAIF contained in Part III of Government Material No.544/17, c) Government Resolution No. 792/17, d) information of the Minister of Agriculture on the status of implementation of measures taken to eliminate deficiencies stated in the audit report dated 29 January 2019, file No. PS2019 / 1189. e) information from the SAIF on the implementation of the corrective measures resulting from the opinion of the Ministry of Agriculture and the SAIF on the audit report dated 19 Feb. 2019, No. PS2019/2302.

Committee Resolution	Date of the session	Session No.	Audit Report	Government Material No.	Government Resolution No.	Summary of the Committee's resolution
215	14 April 2021	41	19/04	780/20	914/20	The Committee takes note of: a) Audit report 19/04, b) the opinions of the MoA and the MoE contained in Part III of Government Material No. 780/20, c) Government Resolution No. 914/20.
214	14 April 2021	41	18/19	1129/19 1134/20	11/20	The Committee I. takes note of: a) Audit report 18/19, b) the opinion of the Ministry of Culture contained in Part IV of Government Material No 1129/19, c) Government Resolution No. 11/20, d) information on the implementation of the measures contained in the opinion of the Ministry of Culture contained in Part II of Government Material No. 1134/20; II. requests the Minister of Culture to submit to the Committee by 30 June 2018 an analytical proposal for a radical simplification of the legal framework for the system of distribution of funds not only for the support of the living arts, but also in the area of support of artistic crafts and folk art, so as to minimally burden the creators and the authorities with artificial bureaucratic obstacles.
212	24 March 2021	40	18/06	349/19	674/19	The Committee takes note of: a) Audit report 18/06, b) the MoIT's opinion contained in Part IV of Government Material No 349/19, c) Government Resolution No 674/19.
211	24 March 2021	40	18/34	569/19	684/19	The Committee takes note of: a) Audit report 18/34, b) the opinion of the MoT contained in Part IV of Government Material No. 569/19, c) Government Resolution No. 684/19.
205	07 Jan.2021	37	16/26	563/18 725/20	43/19	The Committee takes note of: a) Audit report 16/26, b) the opinion of the Ministry of the Interior contained in Part IV of Government Material No. 563/18, c) the opinion of the Ministry of the Interior contained in Part V of Government Material No. 563/18, d) Government Resolution No. 43/19, e) the information of the Ministry of Finance on the fulfilment of the task from Government Resolution No. 43/19 contained in Part II of Government Material No. 725/20.

Annex 4: Overview of audits whose approved audit report was discussed by the Government of the Czech Republic in 2021

Government Resolution No.	Date of the session	Government Material No.	Audit No.	Government-imposed measures	Deadline for action
932	25 Oct. 2021	1075/21	20/12	The Government instructs the Head of the Office of the Government of the Czech Republic, the Minister of Justice, the Ministers of Education, Youth and Sports, and Health to implement the measures contained in the opinion set out in Part III of document No. 1075/21 and to inform the Government of their implementation within six months of the adoption of this resolution.	25 April 2022 (within six months)
931	25 Oct. 2021	860/21	20/06	The Government instructs the Minister of Education, Youth and Sports to implement the measures contained in the opinion set out in Part IV of document No. 860/21 and to inform the Government of their implementation within 24 months of the adoption of this resolution.	25 October 2023 (within 24 months)
930	25 Oct. 2021	1045/21	20/10	The Government instructs the First Deputy Prime Minister and the Minister of the Interior to implement the measures contained in the opinion set out in Part III of document No. 1045/21 and to inform the Government of their implementation within six months of the adoption of this resolution.	25 April 2022 (within six months)
929	25 Oct. 2021	829/21	20/05	Not saved.	-
928	25 Oct. 2021	919/21	20/20	The Government instructs the Deputy Prime Minister and the Minister of Industry and Trade and the Minister of Transport to implement the measures contained in the opinion contained in Part IV of Document No. 919/21 and to inform the Government of their implementation within six months of the adoption of this Government Resolution.	25 April 2022 (within six months)
927	25 Oct. 2021	899/21	20/13	The Government instructs the Deputy Prime Minister, the Minister of Industry and Trade and the Minister of Transport to implement the measures contained in the opinion contained in Part IV of document No. 899/21 and to inform the Government of their implementation by 30 September 2026.	30 September 2026
647	19 July 2021	583/21	20/03	The Government instructs the Minister of Defence to implement and evaluate the measures contained in the opinion referred to in Part IV of document 583/21 and to inform the Government of the outcome within six months of the adoption of this resolution.	19 January 2022 (within six months)
646	19 July 2021	523/21	20/02	Not saved.	-
645	19 July 2021	1006/20	19/09	The Government instructs the Minister of Culture: 1. to ensure the implementation of the measures contained in the opinion set out in Part IV of document No 1006/20, 2 2. to inform the Government of the implementation of these measures within 16 months of the adoption of this resolution.	19 November 2022 (within 16 months)
460	17 May 2021	455/21	19/28	The Government instructs the Minister of Education, Youth and Sports to implement the measures contained in the opinion set out in Part III of document 455/21 and to inform the Government of their implementation within six months of the adoption of this resolution.	17 November 2021 (within six months)
459	17 May 2021	230/21	19/25	The Government instructs the Deputy Prime Minister, the Minister of Industry and Trade and the Minister of Transport to implement the measures contained in the opinion set out in Part IV of document 230/21 and to inform the Government of their implementation within six months of the adoption of this resolution.	17 November 2021 (within six months)

Government Resolution No.	Date of the session	Government Material No.	Audit No.	Government-imposed measures	Deadline for action
458	17 May 2021	398/21	19/20	The Government instructs the First Deputy Prime Minister and the Minister of the Interior and the Minister of Defence to implement the measures contained in the opinion set out in Part III of document 398/21 and to inform the Government of their implementation within six months of the adoption of this resolution.	17 November 2021 (within six months)
457	17 May 2021	142/21	19/26	The Government instructs the Director of the NUCIB and the First Deputy Prime Minister and Minister of the Interior to implement the measures contained in the opinion contained in Part IV of document 142/21 and to inform the Government on the implementation of the measures taken within six months of the adoption of this resolution.	17 November 2021 (within six months)
258	08 March 2021	1610/20	19/23	The Government instructs the Minister of Labour and Social Affairs to implement the measures contained in the opinion set out in Part IV of document 1610/20 and to inform the Government of their implementation within six months of the adoption of this resolution.	08 September 2021 (within six months)
257	08 March 2021	1601/20	19/21	The Government instructs the Minister of Regional Development to implement the measures contained in the opinion set out in Part IV of document 1601/20 and to inform the Government of their implementation within six months of the adoption of this resolution.	08 September 2021 (within six months)
256	08 March 2021	1474/20	19/10	The Government instructs the Deputy Prime Minister, the Minister of Industry and Trade and the Minister of Transport to implement the measures contained in the opinion set out in Part IV of document 1474/20 and to inform the Government of their implementation within six months of the adoption of this resolution.	08 September 2021 (within six months)
255	08 March 2021	48/21	19/31	The Government instructs the Minister of Education, Youth and Sports to implement the measures contained in the opinion set out in Part III of document 48/21 and to inform the Government of their implementation within six months of the adoption of this resolution.	08 September 2021 (within six months)
254	08 March 2021	1567/20	19/19	The Government instructs the Minister of Education, Youth and Sports and the Minister of Regional Development to implement the measures contained in the opinion contained in Part III of document 1567/20 and to inform the Government of their implementation within six months of the adoption of this resolution.	08 September 2021 (within six months)
253	08 March 2021	1588/20	19/18	The Government instructs the Minister of Agriculture to implement the measures contained in the opinion set out in Part III of document 1588/20 and to inform the Government of their implementation within six months of the adoption of this resolution.	08 September 2021 (within six months)
252	08 March 2021	1523/20	19/24	The Government instructs the Minister of Agriculture to implement by 31 December 2021 the measures contained in the opinion set out in Part III of document 1523/20 and to inform the Government of their implementation within six months of the adoption of this resolution.	08 September 2021 (within six months)
93	01 Feb. 2021	1402/20	19/29	The Government instructs the Minister of Labour and Social Affairs to ensure the implementation of the measures contained in the opinion set out in Part IV of document 1402/20 and to inform the Government of their implementation within six months of the adoption of this resolution.	01 August 2021 (within six months)

Government Resolution No.	Date of the session	Government Material No.	Audit No.	Government-imposed measures	Deadline for action
92	01 Feb. 2021	1096/20	19/12	The Government instructs the Minister of Labour and Social Affairs and the Deputy Prime Minister and Minister of Finance to implement the measures contained in the opinions set out in Parts IV to VII of document No. 1096/20 and to inform the Government of their implementation within six months of the adoption of this resolution.	01 August 2021 (within six months)
91	01 Feb. 2021	1113/20	19/33	The Government instructs the Minister of Agriculture to: 1. implement the measures contained in the opinion contained in Part III of Document No. 1113/20 by 31 December 2024,2 2. inform the Government of the implementation of the corrective measures taken to address the findings contained in the audit report within six months of the adoption of this Resolution.	1 December 2024 01 August 2021 (within six months)
90	01 Feb. 2021	1180/20	19/13	The Government instructs the Minister of Defence to implement and evaluate the measures contained in the opinion referred to in Part IV of Document No. 1180/20 and to inform the Government of the outcome within six months of the adoption of this resolution.	01 August 2021 (within six months)
89	01 Feb. 2021	1445/20	19/22	The Government instructs the Minister of Regional Development to implement the measures contained in the opinion set out in Part III of Document No. 1445/20 and to inform the Government within six months of the adoption of this Resolution on their implementation.	01 August 2021 (within six months)
88	01 Feb. 2021	1193/20	19/16	Not saved.	-
87	01 Feb. 2021	1152/20	19/14	The Government instructs the 1st Deputy Prime Minister and the Minister of the Interior to inform the Government: 1. on the implementation of the measures contained in the opinion contained in Part III of document 1152/20 within six months of the adoption of this resolution,2 2. on the results of the analysis of the needs of citizens and their demand for digital services within six months of its implementation.	01 August 2021 (within six months)
86	01 Feb. 2021	1153/20	18/32	The Government instructs the Deputy Prime Minister and Minister of Finance and the Minister of Labour and Social Affairs to implement the measures contained in the opinion set out in Part III of Document No 1153/20 and to inform the Government within six months of the adoption of this resolution on their implementation.	01 August 2021 (within six months)
85	01 Feb. 2021	1086/20	19/34	The Government instructs the Deputy Prime Minister and the Minister of Finance to implement the measures contained in the opinion contained in Part III of Document No. 1086/20 and to inform the Government within six months of the adoption of this resolution on their implementation.	01 August 2021 (within six months)

Annex 5: Sources for visualizations

Public finance

Macroeconomic data; **source:** CSO, IISST, MoF's macroeconomic forecast.

State revenue

The share of the CSSA's expenditure on the collection of insurance premiums and related activities in the CSSA's total expenditure in 2018; **source:** SAO audit report No. [20/01](#).

Efficiency of the audit process at employers; **source:** SAO audit report No. [20/01](#).

Social security contributions as a share of total taxation in the European Union in 2018; **source:** <https://stats.oecd.org/viewhtml.aspx?datasetcode=REV&lang=en>, data exported on 20 February 2020.

Digitalization

Overall Digital Economy and Society Index (DESI) year 2021; **source:** <https://digital-strategy.ec.europa.eu/en/policies/desi>.

Digital Public Services (DESI); **source:** <https://ec.europa.eu/digital-single-market/en/digital-public-services>.

List of agendas planned to be digitalised according to the Act; **source:** Act No. 365/2000 Coll. on Public Administration Information Systems and on Amendments to Certain Other Acts.

Business support

Manufacturing industry and technology and strategic service centres; **source:** SAO audit report No. [20/13](#).

Development of the result indicator of the support programme *Marketing*; **source:** SAO audit report No. [20/20](#).

Transport

Visualisation - Total allocation; **source:** SAO audit report No. [20/14](#).

Dispersion of unit prices per kilometre of cycle paths co-financed from the SFTI budget; **source:** SAO audit report No. [20/11](#).

Defence and security

Total number of foreigners in the Czech Republic; **source:** the Czech Statistical Office.

Growth in expenditure and overall activity of the GISF; **source:** SAO audit report No. [20/27](#).

Social policy

Visualization - Evaluation of the fulfilment of the objectives of the *National Drug Policy Strategy for the period 2010-2018*; **source:** SAO audit report No. [20/12](#).

Number of accepted and unmet requests for residential services; **source:** SAO audit report No. [20/22](#).

Year-on-year increase in the capacity of residential social services; **source:** SAO audit report No. [20/22](#); Statistical Yearbook of Labour and Social Affairs.

Healthcare

Visualization - Unauthorized expenditure of funds; **source:** SAO audit report No. [19/30](#).

Visualisation - Inventories, orders and total purchases of selected commodities; **source:** SAO audit report No. [20/32](#).

Education

Expenditure of non-investment appropriations by budget headings in 2020; **source:** SAO audit report No. [20/06](#).

Development of individual components of institutional financing of public universities in the years 2014-2020; **source:** SAO audit report No. [20/06](#).

Ranking of the Czech Republic in 2013-2020 according to the individual areas of the *Universitas 21* ranking (comparison of the quality of higher education systems); **source:** SAO audit report No. [20/06](#).

Environment

Result of the Czech Hydrometeorological Institute (CHMI) monitoring in 2019; **source:** SAO audit report No. [20/04](#).

Number of areas with exemptions from the hygiene limit for pesticide substances; **source:** SAO audit report No. [20/04](#).

Share of areas with a population of up to 5 000 inhabitants in the total number of areas; **source:** SAO audit report No. [20/04](#).

Energy efficiency

Revenues from auctioning of emission allowances and share of the SAO programme; **source:** SAO audit report No. [20/05](#).

Funds spent on energy savings in public buildings from the National Audit Office; **source:** SAO audit report No. [20/05](#).

Visualization - MoIT estimate of the number of buildings that do not meet energy performance requirements; **source:** SAO audit report No. [20/05](#).

Total funds spent on energy savings in residential buildings; **source:** SAO audit report No. [20/19](#).

Meeting the Czech Republic's annual savings target under the *Europe 2020* strategy; **source:** SAO audit report No. [20/19](#).

Culture

Visualization - National Heritage Institute; **source:** SAO audit report No. [20/16](#).

Reconstruction of the Army Museum Žižkov; **source:** SAO audit report No. [21/02](#).

Preparation of the construction of multifunctional halls in MTM Lešany; **source:** SAO audit report No. [21/02](#).

Foreign funds

The extent to which the national targets of the *Europe 2020* strategy are met or not met; **source:** SAO audit report No. [20/18](#).

Implementation of the evaluation of the contributions of the ESI funds to the fulfilment of the national objectives in the NDP 2014-2020; **source:** SAO audit report No. [20/18](#).

Financial audit

Ministry of Justice; **source:** SAO audit report No. [20/25](#).

Grant Agency of the Czech Republic; **source:** SAO audit report No. [20/33](#).

Ministry of Industry and Trade; **source:** SAO audit report No. [20/34](#).



Zpráva nezávislého auditora o ověření účetní závěrky organizační složky státu Nejvyšší kontrolní úřad, se sídlem 170 04 Praha 7, Jankovcova 1518/2, identifikační číslo: 49370227, určená podle ustanovení § 33, odstavec 3 zákona č. 166/1993 Sb. Poslanecké sněmovně

Výrok auditora

Provedli jsme audit přiložené účetní závěrky organizační složky státu Nejvyšší kontrolní úřad sestavené na základě českých účetních předpisů, která se skládá z rozvahy k 31. 12. 2021, výkazu zisku a ztráty za rok končící 31. 12. 2021 a přílohy této účetní závěrky, která obsahuje popis použitých podstatných účetních metod a další vysvětlující informace.

Podle našeho názoru účetní závěrka podává věrný a poctivý obraz aktiv a pasiv organizační složky státu Nejvyšší kontrolní úřad k 31. 12. 2021 a nákladů, výnosů a výsledku jejího hospodaření za rok končící 31. 12. 2021 v souladu s českými účetními předpisy.

Základ pro výrok

Audit jsme provedli v souladu se zákonem o auditorech a standardy Komory auditorů České republiky pro audit, kterými jsou mezinárodní standardy pro audit (ISA) případně doplněné a upravené souvisejícími aplikačními doložkami. Naše odpovědnost stanovená těmito předpisy je podrobněji popsána v oddílu Odpovědnost auditora za audit účetní závěrky. V souladu se zákonem o auditorech a Etickým kodexem přijatým Komorou auditorů České republiky jsme na Nejvyšším kontrolním úřadu nezávislí a splnili jsme i další etické povinnosti vyplývající z uvedených předpisů. Domníváme se, že důkazní informace, které jsme shromáždili, poskytují dostatečný a vhodný základ pro vyjádření našeho výroku.

Jiné skutečnosti

Účetní závěrka organizační složky státu Nejvyšší kontrolní úřad (dále také „organizace“) za rok končící 31. 12. 2020 byla ověřena jiným auditorem, který ve své zprávě ze dne 15. února 2021 vydal k této závěrce výrok „bez výhrad“.

Odpovědnost prezidenta Nejvyššího kontrolního úřadu (dále jen prezident Úřadu) za účetní závěrku

Prezident Úřadu odpovídá za sestavení účetní závěrky podávající věrný a poctivý obraz v souladu s českými účetními předpisy a za takový vnitřní kontrolní systém, který považuje za nezbytný pro sestavení účetní závěrky tak, aby neobsahovala významné (materiální) nesprávnosti způsobené podvodem nebo chybou.

Při sestavování účetní závěrky je Prezident Úřadu povinen posoudit, zda je organizace schopna nepřetržitě trvat, a pokud je to relevantní, popsat v příloze účetní závěrky záležitosti týkající se jejího nepřetržitého trvání a použití předpokladu nepřetržitého trvání při sestavení účetní závěrky, s výjimkou případu, kdy Prezident Úřadu plánuje zrušení organizace nebo ukončení její činnosti, resp. kdy nemá jinou reálnou možnost než tak učinit.

Odovědnost auditora za audit účetní závěrky

Naším cílem je získat přiměřenou jistotu, že účetní závěrka jako celek neobsahuje významnou (materiální) nesprávnost způsobenou podvodem nebo chybou a vydat zprávu auditora obsahující náš výrok. Přiměřená míra jistoty je velká míra jistoty, nicméně není zárukou, že audit provedený v souladu s výše uvedenými předpisy ve všech případech v účetní závěrce odhalí případnou existující významnou (materiální) nesprávnost. Nesprávnosti mohou vzniknout v důsledku podvodů nebo chyb a považují se za významné (materiální), pokud lze reálně předpokládat, že by jednotlivě nebo v souhrnu mohly ovlivnit ekonomická rozhodnutí, která uživatelé účetní závěrky na jejím základě přijmou.

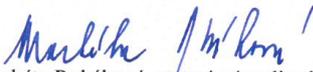
Při provádění auditu v souladu s výše uvedenými předpisy je naší povinností uplatňovat během celého auditu odborný úsudek a zachovávat profesní skepticismus. Dále je naší povinností:

- Identifikovat a vyhodnotit rizika významné (materiální) nesprávnosti účetní závěrky způsobené podvodem nebo chybou, navrhnout a provést auditorské postupy reagující na tato rizika a získat dostatečné a vhodné důkazní informace, abychom na jejich základě mohli vyjádřit výrok. Riziko, že neodhalíme významnou (materiální) nesprávnost, k níž došlo v důsledku podvodu, je větší než riziko neodhalení významné (materiální) nesprávnosti způsobené chybou, protože součástí podvodu mohou být tajné dohody (koluze), falšování, úmyslná opomenutí, nepravdivá prohlášení nebo obcházení vnitřních kontrol.
- Seznámit se s vnitřním kontrolním systémem organizace relevantním pro audit v takovém rozsahu, abychom mohli navrhnout auditorské postupy vhodné s ohledem na dané okolnosti, nikoli abychom mohli vyjádřit názor na účinnost jejího vnitřního kontrolního systému.
- Posoudit vhodnost použitých účetních pravidel, přiměřenost provedených účetních odhadů a informace, které v této souvislosti prezident Úřadu uvedl v příloze účetní závěrky.
- Posoudit vhodnost použití předpokladu nepřetržitého trvání při sestavení účetní závěrky Prezidentem Úřadu a to, zda s ohledem na shromážděné důkazní informace existuje významná nejistota vyplývající z událostí nebo podmínek, které mohou významně zpochybnit schopnost organizace nepřetržitě trvat. Jestliže dojdeme k závěru, že taková významná nejistota existuje, je naší povinností upozornit v naší zprávě na informace uvedené v této souvislosti v příloze účetní závěrky, a pokud tyto informace nejsou dostatečné, vyjádřit modifikovaný výrok. Naše závěry týkající se schopnosti organizace nepřetržitě trvat vycházejí z důkazních informací, které jsme získali do data naší zprávy. Nicméně budoucí události nebo podmínky mohou vést k tomu, že organizace ztratí schopnost nepřetržitě trvat.
- Vyhodnotit celkovou prezentaci, členění a obsah účetní závěrky, včetně přílohy, a dále to, zda účetní závěrka zobrazuje podkladové transakce a události způsobem, který vede k věrnému zobrazení.

Naší povinností je informovat Prezidenta Úřadu mimo jiné o plánovaném rozsahu a načasování auditu a o významných zjištěních, která jsme v jeho průběhu učinili, včetně zjištěných významných nedostatků ve vnitřním kontrolním systému.

V Mostě dne 4. 2. 2022

AGIS audit, a. s., J. Průchy 1682/1, Most, číslo auditorského oprávnění 117



Ing. Markéta Rybáková, statutární auditorka odpovědná za audit, na jehož základě byla zpracována tato zpráva nezávislého auditora, číslo auditorského oprávnění 1821

List of abbreviations

3E	economy, efficiency, effectiveness
ACCA	Association of Chartered Certified Accountants
AR	audit report
BS	balance sheet
CEF SEE	Centre of Excellence in Finance
Cycling Strategy 2020	National Strategy for the Development of Cycling Transport in the Czech Republic for the years 2013-2020
CHMI	<i>Czech Hydrometeorological Institute</i>
Commission	European Commission
Committee	Contact Committee of the EU SAIs
CSO	Czech Statistical Office
CSSA	Czech Social Security Administration
DCA	Department of the Chief eGovernment Architect of the Ministry of the Interior
DESI	Digital Economy and Society Index
EC	European Commission
ECA	European Court of Auditors
ECIIA	European Confederation of Internal Audit Institutions
EDA	European Defence Agency
EED	Energy Efficiency Directive
EIPA	European Institute of Public Administration
ESF	European Social Fund
ESI funds	<i>European Structural and Investment Funds</i>
EU	European Union
EUROCONTROL	European Aviation Safety Agency
EUROSAI	European Organisation of Supreme Audit Institutions
FA	financial audit
FSs	financial statements
GDP	gross domestic product
GISF	General Inspectorate of Security Forces
GFD	General Financial Directorate
ICT	information and communication technologies
IFPP	INTOSAI Framework of Professional Pronouncements
IISST	Integrated Information System of the State Treasury
INTOSAI	International Organisation of Supreme Audit Institutions
INTOSAI WGEA	INTOSAI Working Group on Environmental Auditing
INTOSAI WGITA	<i>INTOSAI Working Group on Information Technology Audit</i>
INTOSAI WG SDG KSDI	INTOSAI Working Group on Sustainable Development Goals and Key Sustainable Development Indicators
IPP	integrated plant protection
IROP	Integrated Regional Operational Programme
IS	<i>information system</i>
ISLO	INTOSAI Standards Liaison Officers
ISSAI	International Standards of Supreme Audit Institutions
IT	information technology
MDs	medical devices
MHIP	Military Historical Institute Prague
MoT	Ministry of Transport
MoF	Ministry of Finance
MoRD	Ministry for Regional Development
MoD	Ministry of Defence

ABBREVIATIONS

MoIT	Ministry of Industry and Trade
MoLSA	Ministry of Labour and Social Affairs
MoJ	Ministry of Justice
MoEYS	Ministry of Education, Youth and Sports
Mol	Ministry of the Interior
MoH	Ministry of Health
MoA	Ministry of Agriculture
MoFA	Ministry of Foreign Affairs
MoE	Ministry of the Environment
MTM	Military Technical Museum
NAPs	National Action Plans
NATO	North Atlantic Treaty Organization
NGEU	NextGenerationEU
NGfS	New Green for Savings
NHI	National Heritage Institute
Notes	Financial statement “notes to the financial statements”
NRP	National Recovery Plan
OECD	Organisation for Economic Co-operation and Development
OP	operational programme
OP EIC	Operational Programme Enterprise and Innovation for Competitiveness
OP FMA	Operational Programme Food and Material Aid
OP RDE	Operational Programme Research, Development and Education
OPT	Operational Programme Transport
OPF	Operational Programme Fisheries
OP TA	Operational Programme Technical Assistance
OP En	Operational Programme Environment
OSSZ	District Social Security Administration
P&L	profit and loss account
PPE	personal protective equipment
RFA	Refugee Facilities Administration (RFA) of the Mol
SAI	Supreme Audit Institution
SAIF	State Agricultural Intervention Fund
SAO	Supreme Audit Office
SCA	State Closing Accounts
SDGs	Sustainable Development Goals
SEF	State Environmental Fund
SFTI	State Fund for Transport Infrastructure
SME	small and medium-sized enterprises
SMRA	State Material Reserves Administration
SOCE	statement of changes in equity
TiNA	Technology and Innovation Network for Audit
Transgas	state enterprise CPP Transgas
UN	United Nations
VAT	value added tax
V4	the grouping of supreme audit institutions of the Visegrad Group countries (Czech Republic, Hungary, Poland and Slovakia)
WGEA	EUROSAI Working Group on Environmental Auditing
WGIT	EUROSAI IT Working Group



Czech Republic
Supreme Audit Office