

## Introductory Note

Dear readers,

We are well aware that the results of our work presented in this annual report are almost a year old, and can understand that this may lead to your decision not to read further. Nevertheless, we would like to draw your attention to these short introductory remarks.

Our public annual report is published only after the confidential annual report is read by our addressees. Not respecting this principle would be inappropriate and unfair to our addressees. This year the publication of the public annual report was delayed by our decision to take the following step. In June we were criticized by the College of Regional Court Chairmen and the Union of Judges. Representatives of these organizations objected to our interpretation of information obtained about the functioning of certain courts and presented in the public annual report. Therefore, we asked the Institute of State and Law of the Czech Academy of Sciences and the Department of Constitutional Law at the Charles University in Prague to provide a legal opinion and evaluation of our reports. Both of these respected departments came to the same conclusion leading to the fact that our public annual reports can retain their current form, content and spirit (which you know from the past).

Please also bear in mind that we have no obligations to publish our public annual reports. Providing a general insight into the results of our work is only a gesture of goodwill.

## **Annual Report of the Security Information Service for 2013**

### **Table of Contents**

Table of Contents .....	1
<b>1. The Nature and Scope of Intelligence Activities .....</b>	<b>3</b>
<b>2. Intelligence Activities and Findings .....</b>	<b>4</b>
2.1. Protection of Major Economic Interests.....	4
2.2. Organized Crime .....	7
2.3. Counterintelligence Activities .....	10
2.4. Protection of the Constitutionality and of the Democratic Foundations of the Czech Republic	11
2.5. Terrorism.....	14
2.6. Proliferation of Weapons of Mass Destruction and their Carriers, Conventional Weapons and Explosives .....	15
2.7. Cybersecurity .....	16
<b>3. Protection of Classified Information.....</b>	<b>18</b>
3.1. Administrative Security.....	18
3.2. Security of Information and Communications Systems.....	18

3.3. Physical Security.....	18
3.4. Crisis Management .....	18
<b>4. Cooperation with Intelligence Services of the Czech Republic and with other State Authorities .....</b>	<b>19</b>
4.1. Cooperation with Intelligence Services of the Czech Republic.....	19
4.2. Cooperation with the Police of the Czech Republic.....	19
4.3. Cooperation with other State Authorities and Institutions.....	20
<b>5. Cooperation with Intelligence Services of Foreign Powers .....</b>	<b>20</b>
<b>6. Oversight .....</b>	<b>22</b>
6.1. External Oversight.....	23
6.2. Internal Audit .....	23
<b>7. Maintenance of Discipline; Handling Requests and Complaints.....</b>	<b>24</b>
7.1. Investigation of Conduct Suspected of Having the Traits of a Misdemeanour, of a Disciplinary Infraction, and of other Infractions.....	24
7.2. Investigations of Complaints and Notifications .....	24
7.3. Activities of the BIS Police Authority .....	24
7.4. Cooperation with other Public Administration Authorities.....	24
<b>8. Budget.....</b>	<b>25</b>

## 1. The Nature and Scope of Intelligence Activities

The activities, the status and the scope of powers and responsibilities of the Security Information Service (BIS) as an intelligence service of a democratic state are provided for in relevant acts, especially in Act No. 153/1994 Coll., on the Intelligence Services of the Czech Republic, as amended, and in Act No. 154/1994 Coll., on the Security Information Service, as amended. The BIS is also governed in its activities by the Constitution of the Czech Republic, the Charter of Fundamental Rights and Freedoms, international treaties, and other legal regulations of the Czech Republic.

Under Section 2 of Act No. 153/1994 Coll., intelligence services are state agencies for the acquisition, collection and evaluation of information (hereinafter referred to as “securing information”) important for protecting the constitutional order, major economic interests, and the security and defense of the Czech Republic. Under Section 3 of Act No. 153/1994 Coll., the BIS is an intelligence service securing information within its powers and responsibilities defined in Section 5, Paragraph 1 of Act No. 153/1994 Coll. on:

- schemes and activities directed against the democratic foundations, the sovereignty, and territorial integrity of the Czech Republic,
- the intelligence services of foreign powers,
- activities endangering state and official secrets,
- activities the consequences of which may jeopardize the security or major economic interests of the Czech Republic,
- organized crime and terrorism.

Under Section 5, Paragraph 4 of Act No. 153/1994 Coll., the BIS also fulfills further tasks as defined by specific legislation (e.g. Act No. 412/2005 Coll., on the Protection of Classified Information and Security Clearance, as amended) or international treaties by which the Czech Republic is bound.

Furthermore, Section 7 of Act No. No. 153/1994 Coll. stipulates that the responsibility for the activities of the BIS and for the coordination of its operation lies with the Government. According to Section 8, Paragraph 4 of this Act, the Government assigns tasks to the BIS within the scope of the Service’s powers and responsibilities. The President of the Czech Republic is entitled to task the BIS with the knowledge of the Government.

To fulfill its tasks, the BIS is authorized to cooperate with other intelligence services of the Czech Republic. Section 9 of Act No. 153/1994 Coll. stipulates that this cooperation must be based on agreements concluded between the intelligence services with the consent of the Government.

Under Section 10 of Act No. 153/1994 Coll., the BIS may cooperate with intelligence services of foreign powers only with the consent of the Government.

## 2. Intelligence Activities and Findings

A summary of all the intelligence activities in which the BIS engaged in 2013 is part of the classified *Report on the Activities of the Security Information Service for 2013* – a report the BIS submits to the President of the Czech Republic and to the Government in accordance with Section 8, Paragraph 1 of Act No. 153/1994 Coll.

During the course of the year, again in accordance with Section 8, Paragraph 1 of Act No. 153/1994 Coll., the BIS informed entitled addressees about individual intelligence findings and the results of analyses on which the overview of its activities in this public annual report is based.

In 2013, the BIS submitted almost 400 documents to the President and members of the Government. More than 300 documents were sent to relevant state authorities, the Police of the Czech Republic, the Office for Foreign Relations and Information (in Czech: *Úřad pro zahraniční styky a informace – ÚZSI*), and to Military Intelligence (in Czech: *Vojenské zpravodajství – VZ*).

Fulfilling its obligations under Act No. 412/2005 Coll., the BIS was asked by the National Security Office (in Czech: *Národní bezpečnostní úřad – NBÚ*) to conduct more than 21 000 security clearance investigations for the issuance of security clearance certificates for natural and legal persons.

### 2.1. Protection of Major Economic Interests

Regarding the protection of major economic interests, the BIS has been focusing in the long term on securing information on the following issues: the financial management of state entities, their strategic decision-making, external factors influencing their strategic planning, and on energy security. Generally speaking, phenomena endangering the major economic interests of the Czech Republic do not change much over time. The Czech Republic constantly faces the following problems: a careless or ineffective approach adopted by state representatives to key economic decisions; illegal activities (corruption, clientelism, extortion, public contract rigging etc.); business activities of private or foreign entities aimed against long-term business and strategic goals of the state (e.g. acquisitions of strategic companies, attempts at monopolization); lobbying in its basic, legal form, but also in its covert form pursuing obscure goals or deploying false, biased arguments.

Therefore, intelligence services need to focus not only on illegal activities, which are easily defined and described, but also on legal activities or activities on the border of illegality which are more difficult to define. Often, these activities are sophisticated, carefully thought-out and lead to more serious consequences. In some cases these activities take the form of several consecutive actions, which do not threaten the major economic interests of the Czech Republic individually and can be perceived as beneficial to the public. However, their ultimate goal is to promote ideas contradictory to public interests and to complicate the state's defense against them once their ultimate goal is revealed.

Many negative, persisting phenomena attracting the interest of the public, the media, and of non-governmental organizations are in fact an expression of deeper structural defects. In 2013, the BIS therefore focused on the identification and detailed description of the causes in order to portray a clear and indisputable connection between the described defect and its manifestations. Skepticism in relation to these connections is often a reason for justifying the needlessness or uselessness of reforms.

This can be illustrated on the state's inconsistent approach to protecting its proprietary rights in trading companies and state enterprises. Boards of directors which should be the main tool used by owners to oversee their companies often play only a symbolic role. This leads to the rising influence of the company's management. By providing various benefits the management extends its influence over board of director members. As a result, the shareholder gradually loses the ability to oversee the company's financial management using standard tools. Given the non-existent role of the boards of directors, state representatives are forced to turn to the management, which is therefore able to establish ties with state representatives and further strengthen its role. The absence of oversight and responsibility enables the management to promote its interests damaging the administered companies. The state's failure to protect its proprietary rights leads to rigged public contracts, unfavorable asset sales, clientelism influencing staffing etc.

In 2013, the BIS submitted classified reports to entitled addressees describing several cases of non-functional boards of directors in state companies and illustrated the situation by providing practical examples. In one case, a CEO of a state company offered to award a public contract to a company owned by a family member of a board of director member in exchange for his loyalty concerning votes in the board of directors. Variations of such behavior are present in almost all government departments (e.g. the transport or energy industry).

The state's failure to protect its proprietary rights is often connected to the existence of long-term, unfavorable business relations between state companies and private contractors. Moreover, these business relations are often difficult to sever. Usually the executive directors of joint-stock companies, who have informal ties to state representatives and keep their posts for long periods of time, negotiate obscure and often non-terminable contracts with befriended companies. These contracts usually have the following characteristics: they are not favorable for the state company; they include complex contract amendments; are accompanied by the loss of key documents; impose high contractual penalties on the state; or include a great number of interconnected services. Finding a new contractor is therefore very expensive. As a result, a new contractor is often not chosen even after establishing a new management with no ties to the previous contractor.

The BIS informed entitled addressees e.g. about the following case. A sole contractor providing certain services to a state company felt threatened by the management and started to draw up contract amendments, expanding the scope of already signed contracts (date of expiration, volume of services). The state company was unable to find its copies of these amendments, and was therefore forced to accept them, even though the style and content of these amendments indicated they were faked.

Practices described above were noticeable especially in the case of state-run holding companies as the ownership structure of such companies limits the shareholder's ability to effectively assess the management's strategic plans. Furthermore, the owner's limited interest in overseeing a holding company enables to hide the company's losses or other problematic business aspects. Some state companies attempted to refer certain activities, e.g. the management of key investments, to their subsidiaries in order to limit the oversight of their financial management, e.g. the circumvention of the Act on Public Contracts.

Moreover, state companies also attempted to hide the actual state of their finances. Transferring assets to different constituents of one ownership structure occurred in relation to presenting overall financial results. Changing individual accounting entries was also a significant

problem. The entries were changed in order to present better financial results or to hide individual expenses under one larger accounting entry in order to conceal the transfer of funds from the company.

In managing its proprietary rights the state should adhere to specific rules enabling greater oversight of state companies. One key aspect is to introduce a simple ownership structure (i.e. the state should prevent the creation of complex holding structures or a large number of subsidiary companies). Furthermore, the state should focus on stressing the responsibility of board of director members and of those responsible for the governance of proprietary rights. Oversight of more complex ownership structures should focus not only on overall results, but also on the results of the individual constituents (i.e. subsidiaries) concentrating on asset transfers between companies with the same owner.

Given the reputation of state enterprises, it could be surprising that from a long-term perspective the state is able to promote its interests in these enterprises more efficiently than in joint-stock companies. However, this is probably the result of the possibility of audits conducted by the Supreme Audit Office (in Czech: *Národní kontrolní úřad – NKÚ*) and by the more profound effects of public oversight, which if effective, limits the abilities of the management of state companies to create opaque business and staff structures.

In 2013, adverse external economic conditions putting pressure on the financial management of state-run entities, especially those in the market environment, were a growing trend. In many cases this trend was accompanied by the necessity to deal with the consequences of major errors made in the past. In several cases both these factors led to divestment<sup>1</sup> and to asset restructuring.

For example, the BIS described a case of a state financial institution entering into business contracts worth billions of Czech crowns which proved to be highly unprofitable. When signing these contracts this financial institution ignored known risks often due to active interventions of the management with ties to the counterparty. Interested individuals influenced the decision-making of the state company concerning problematic business contracts even after no longer cooperating with this company.

Financial or guarantee obligations arising from contracts signed more than 15 years ago are a further burden from the past. The fact that parts of these claims are owned by individuals with ties to state representatives and with the ability to advance their interests in state institutions responsible for the decision-making regarding these often contentious claims puts the state at a disadvantage.

The development of transport infrastructure was accompanied by attempts of construction companies to collude. The aim of entering into collusive agreements was to rig bids in order to arrange for a steady inflow of work and to increase the original prices.

For example, the BIS described the case of a client (a senior official of a state organization responsible for infrastructure development) aiding the collusion of construction companies by providing information on the client's plans. He shared this information only with a few chosen companies which were considered open to a possible collusive agreement. The official probably

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<sup>1</sup> divestment – the opposite of investment, the reduction of some kind of asset – property interests, securities, etc.

acted in this way in order to facilitate and accelerate the drawing of construction funds as disputes among construction companies lead to delays. However, such behavior leads to doubts regarding the system of motivating senior officials in state organizations and the quality of tenders organized by clients under the Act on Public Contracts.

The BIS also focused on the energy industry and on energy security. The year 2013 was marked by major changes in the ownership of key companies (e.g. transit gas pipelines, brown coal power plants and mines) and by price disputes (e.g. brown coal, oil transit fees).

Well-capitalized energy companies attempting to create the following vertical link: supplier (producer, miner) – carrier – distributor – businessman trading in all branches of the energy industry followed a long-term trend. Such attempts occurred in the gas industry, oil industry and power engineering. Existing European or Czech legislation not allowing some entities to take part in this integration did not prevent the entities from circumventing the laws by employing third-party companies with covert links (the links can be based not only on ownership, but also on close business relations with certain interdependence). Such covert integration poses risks threatening competition and – in the case of politically governed foreign companies – security and politics.

In 2013, investment and operating conditions influencing the business activities of energy companies were negatively impacted by regulatory and legislative changes of questionable objectivity and expert quality. Some of these changes were related to supporting renewable energy resources. Due to errors made in the past, renewable energy puts considerable strain on the state. Amendments of relevant Acts and the creation of subordinate regulations were subject to lobbying taking advantage of the incompetence of authorized state representatives. Energy industry investments were hindered by the instability of the energy industry, falling energy prices and by growing consumer reluctance to contribute financially to further energy projects.

## 2.2. Organized Crime

In 2013, the BIS focused on modern organized crime, i.e. on the dysfunction of state authorities, clientelism and corruption in key state and local (regional, statutory) bodies.

Corruption and the dysfunction of state authorities were closely linked to a threat to the legality and legitimacy of exercising state power. This threat was represented by advocacy groups attempting to influence state authorities and local administration bodies. In order to achieve this goal the advocacy groups made use of their ties to state officials and local administration representatives, and of poor legislation in certain areas.

The following issues are the main sources of a dysfunctional public administration: non-transparent decision-making; obscure business relations; low responsibility of civil servants; service outsourcing; and insufficient coordination among public sector entities.

Furthermore, the BIS focused on systemic shortcomings in the state's financial management of state property. These shortcomings include: transactions with unneeded property, including the sale of non-essential state property (usually below market prices); buying needed property (usually above market prices); or receiving subsidies for buying, repairing or administering property. In such cases legitimate interests can lead to real estate speculations.

Such speculations are often accompanied by behavior punishable by law or by lawful activities extremely unfavorable for the state. Parties involved in real estate transactions employ methods and means which are legal apart; however, their combination leads to an illegal transaction. Such methods include: rigged expert reports; providing information only to chosen (befriended) entities;

transferring individual responsibility to collective bodies and consulting companies; personnel changes in the management of institutions leading to difficulties in holding local administration representatives responsible for the business projects they approved, etc.

The BIS considers e.g. the following business transaction as unfavorable for the state. The company České dráhy (ČD) sold houses no. 47 and 49 in Opletalova street in Prague to the private company Apuro a.s. for 203 million CZK. Apuro a.s. then sold these houses to Charles University in Prague for 402,5 million CZK. This transaction was subsidized by the Ministry of Education, Youth and Sports which provided 372 million CZK. Non-professional behavior on the part of state representatives pursuing only the interests of their own institutions led to this sale.

A further example of dysfunctional public administration regarding the financial management of state property is the opaque acquisition of an office building based at Dobrovského no. 1278/25 in the Prague district of Holešovice made by the Ministry of Labor and Social Affairs. The Ministry intended for the building to serve as the seat of the Czech Employment Office without inviting a public tender for this seat. The Ministry bought the office building in November 2013 for 299 million CZK in cooperation with the joint-stock company Alkatria. Alkatria has an unclear ownership structure and bought the building in May 2013 for 140 million CZK from the company Economia. The price difference and the fact that the owner of the building attempted to sell it to two other state institutions are highly suspicious.

In 2013, the BIS also devoted attention to public contracts and concluded that changes in the Act on Public Contracts are not consistent and the legislative process is significantly influenced by lobby groups.

In March 2011, the Ministry of Regional Development drew up a key transparency proposal amending the Act on Public Contracts. The goal of this amendment was to limit corruption, increase transparency in awarding public contracts, and improve the efficiency of spending public funds. Reducing the price limits for public contracts with legally stipulated stricter conditions on their transparency and professionalism was crucial for introducing these changes. However, the Ministry did not draw up necessary implementing regulations in time and did not introduce educational programs needed for implementing the new rules which were subject to approval by the Chamber of Deputies (lower house) of the Czech Parliament and were to enter into force in April 2012. Therefore, the goals of the amendment could not be achieved. Moreover, the amendment was criticized by representatives of clients, contractors and their professional bodies.

In spring 2013, the Ministry started working on a new amendment to the Act on Public Contracts. This amendment postponed or revoked newly introduced institutes, but retained existing limits on small scale contracts. The goal of this amendment was to revive the economy, simplify public contracts, accelerate the allocation of EU subsidies, etc. The amendment was approved by the Government in August 2013, by the Senate in October 2013 and by the new Chamber of Deputies at the end of November 2013.

The Senate took advantage of its temporarily-increased powers and set the limit for small scale contracts for supplies and services to 2 million CZK and for contracts for construction work to 6 million CZK. This decision contradicts the current situation in Europe and the prevailing trends, therefore the situation in the Czech Republic regarding public contracts has returned to the stage before April 2012. In less than two years, the public administration introduced two consecutive amendments to the Act on Public Contracts which de facto contradict themselves. As a result, the Act on Public Contracts has remained unchanged in its original unsatisfactory form.

Furthermore, the BIS focused on illegitimate activities in allocating EU subsidies in the period 2007–2013. 2013 was marked by intense pressure to allocate all subsidies. This pressure was manifested by the accelerated approval of projects or by the transfer of finances between different operational programs. Moreover, this pressure led to violations of the law, to the approval of non-effective or purposeless projects, and to the circumvention of pre-conditions (ex ante conditionalities) of the European Commission.

The allocation of subsidies therefore did not have the awaited positive consequences. Quite on the contrary, the Czech Republic had to face interventions made by the European Commission or by authorities responsible for the individual operational programs. The interventions were aimed at changing the allocated financial amount or at the suspension of individual programs. As a result, the Czech Republic sustained major financial losses. Moreover, trust in the quality and professionalism of the public administration was significantly damaged.

The Operational Program Environment (especially subsidies allocated to water management infrastructure and to projects lowering the flood risk) is an example illustrating a discrepancy between the approved projects and the pre-conditions for allocating subsidies. Insufficient oversight led to the approval of a number of projects contravening the agreed conditions.

Inefficiency and the risk of transferring public funds to middlemen were characteristic of the project “Internships in companies – education in practice” run by the Further Education Fund. This two year project had a budget of 800 million CZK and was co-financed by the Education for Competitiveness Operational Program. This project brought financial benefits primarily to the internship providers. No relevant analyses proved that the internships have a positive effect on employment in the Czech Republic.

The BIS also focused on regional dysfunction in public administration caused by clientelistic groups linking local political representatives, local administration representatives and businessmen. These clientelistic groups concentrated on public services as this sector receives substantial funding from public and EU budgets. Dysfunction was characteristic of the following industries: health care, education, transport and waste management.

These groups engaged in typical modern organized crime activities, such as clientelism, corruption, conflict of interest, or the abuse of public funds. In 2013, these activities occurred in several regions.

In one region the clientelistic group was formed by representatives of regional and local administration bodies and businessmen. During 2013, this group was investigated by law enforcement authorities. By outsourcing public services the group aimed to transfer funds from the state budget. It focused mainly on the health industry in the given region. By rigging public contracts the group attempted to control services provided to regional health facilities. Moreover, the group was interested also in other public services in the region.

Another clientelistic group engaged in activities related to consulting on subsidies and to education. This group had ties to local administration bodies and state authorities. In 2013, this group focused on a key regional waste management project. This project received non-standard support and promotion in the region. Moreover, attempts were made to influence the legislative process as a whole.

The BIS looked into several conflict of interest cases involving civil servants playing a role in the decision-making on public contracts and subsidies, or having information at their disposal which they used to their own profit.

For example, a conflict of interest was discovered in the case of a state official responsible for allocating funds to several projects funded from operational programs. This individual had ties to companies providing consultations on allocating subsidies and to companies receiving the subsidies. An opaque ownership structure of the involved companies is often a means of concealing a conflict of interest.

The BIS focused also on conflicts of interest involving local politics in several Czech regions. Politically active individuals in these regions could abuse their posts for financial self-enrichment or for the enrichment of close family members. Land speculations are a further aspect of conflicts of interest on the local level. Individuals active in public services with access to classified information on various infrastructure development projects requiring the purchase or exchange of land play a role in inviting and awarding tenders for these projects. Such practices have been observed, for example, in the development of road and rail infrastructure.

The BIS always informed relevant authorities (including law enforcement authorities and the prosecutor's office) in cases when obtained information fell under their powers and responsibilities. For example, the BIS informed the Czech National Bank about ties between the employees of a certain savings association and organized crime.

### 2.3. Counterintelligence Activities

Based on the threat level posed to Czech interests and citizens, the BIS continued to focus its counterintelligence efforts in 2013 on Russian and Chinese intelligence activities in the Czech Republic. Both the Russian and the Chinese embassy employ intelligence officers serving under diplomatic cover. In 2013, the number of such officers at the Russian embassy was extremely high. Moreover, further intelligence officers travelled to the Czech Republic individually as tourists, experts, academics, businessmen etc. It is unfortunate that the denial of visas or accreditations for Russian citizens with ties to Russian intelligence services leads to retaliation against Czech career diplomats. However, allowing Russian covert intelligence officers (including officers who engaged in hostile espionage in the Czech Republic or the EU) to freely enter the Czech Republic would mean yielding to extortion and abandoning the sovereignty of the Czech Republic.

Russian and Chinese intelligence services aimed to strengthen and extend their influence in the Czech Republic. Russian intelligence services attempted to make use of both open and covert political, media and societal influence to promote Russian economic interests in the Czech Republic (harmed by the losses of EGAP in relation to Russian projects and by the problems surrounding the Leningrad Nuclear Power Plant). Chinese intelligence services attempted to make use of economic arguments in order to promote Chinese political interests in the Czech Republic.

It may seem that exerting influence by employing active or other measures is not an espionage tactic. In fact, quite the opposite is true. Retired KGB Major General Oleg Kalugin described active measures in a CNN interview as *"the heart and soul of Soviet intelligence": "Not intelligence collection, but subversion: active measures to weaken the West, to drive wedges in the Western community alliances of all sorts, particularly NATO, to sow discord among allies..."*. The Cold War and the Soviet Union remain remnants of the past; however, the Russian passion for active measures (and agents under non-official cover) has not waned. Our today's world differs only in one aspect from the past: the "divide and rule" policy in relation to the Czech Republic, EU and NATO is employed not only by the Russians, but also by the Chinese.

Russian and Chinese open, semi-covert and covert active measure operations aimed at expanding influence in the Czech Republic rely on easily influenced Czech citizens helping them either intentionally or unintentionally. The Russians and the Chinese focus mainly on journalists, members of parliamentary political parties, civil servants, lobbyists, networking organizations, the management of employer or employee organizations, activists and non-governmental organizations. In order to prevent the expansion of Russian and Chinese influence (and espionage in general) it is necessary to realize that interest expressed by a Russian/Chinese diplomat, journalist or expert may not be caused by one's exceptionalism, but by intentions to make use of such ties for intelligence purposes.

A certain unwillingness to accept the security risks posed by Russia and China can be illustrated by the 9<sup>th</sup> Prague Security Conference which took place on November 15, 2013. There is no doubt that Edward Snowden's Prism revelations had severe political and security implications. However, conference participants agreed that these revelations point mainly to USA betraying its partners. Criticism of US intelligence activities aimed against US partners was met either with silent approval or with applause. With one exception, discussions at the conference completely ignored problems related to Russian (e.g. the Russian spies Simm, Delisle, the Anshlags, Dressen, Veitman, etc.) and Chinese intelligence activities.

## **2.4. Protection of the Constitutionality and of the Democratic Foundations of the Czech Republic**

### **Heightened ethnic tensions and anti-Roma protests**

Heightened ethnic tensions in some Czech regions posed the greatest risk to democracy in the Czech Republic. From a long-term perspective, anti-Roma sentiments present in parts of Czech society could pose a more serious threat to the safety of the Czech Republic than the more radical groups of right-wing extremists which are much smaller and are quite well mapped.

Czech citizens are frustrated by difficult relations with some members of the Roma community and by no solutions to these problems. This frustration can anytime (based on even a small impulse) lead to radicalism and to support for populist or right-wing extremist entities creating the impression they have a solution to the problems. Moreover, this frustration can increase the problem and lead to skepticism and distrust among the public toward the democratic principles of the Czech Republic.

In 2013, heightened ethnic tensions led to a number of anti-Roma protests often accompanied by violence. Usually, these protests were caused by smaller incidents between the Roma minority and the white majority.

At first, anti-Roma protests differed from typical events held by right-wing extremists. The majority of those attending the protests were local residents expressing their dissatisfaction with the stance of state authorities responsible for addressing the Roma issue and with what they perceived as an insufficient response to addressing this issue. However, the character of the anti-Roma protests gradually changed.

The number of events held by unhappy citizens decreased and more events were organized by right-wing extremists. Moreover, the participation of local residents in such events declined. Gradually, the majority of those attending these events were not local residents but right-wing extremists, hooligans and various other troublemakers.

At first, most of the protests were accompanied by violence, however, gradually events held by local residents were peaceful and violence was present at events attended by a majority of right-wing extremists and other radicals.

It gradually became clear that right-wing extremists and other radicals attending violent protests were interested mainly in “getting the adrenalin going”, not in finding a solution to problems. A number of events were already planned as violent.

The original reasons leading the public to express its negative stance toward the Roma minority and to take part in events held by right-wing extremists were soon accompanied by further arguments.

Ironically, measures adopted by the police were among the new reasons. The police managed to prevent disorder; however, their strict stance led some locals to believe that the police “protects only the Roma minority” and does not focus enough on protecting the everyday lives of “normal” citizens.

The media also played a considerable role by labeling these events as “extremist”, even though local residents were well aware of the fact that they formed the majority at these protests.

Some local administration bodies and regional police representatives attempted to ease the tensions by describing the situation in areas with heightened ethnical tensions as calm, however, locals did not share their view and these statements did not have the desired effect.

One-sided and biased statements made by various pro-Roma activists and non-governmental organizations did not help the situation. These statements often blamed the white majority for the situation and attributed no responsibility to the Roma minority.

Comparing these biased statements to everyday reality and the worsening financial situation of a large part of the white majority led to falling trust in standard democratic principles and to growing support for more extremist views. It is not surprising that right-wing extremists took advantage of this situation and that this affected the anti-Roma events.

### **Right-wing Extremism**

In 2013, the nationalist radical /neo-Nazi scene did not pose an actual threat immediately threatening the democratic principles of the Czech Republic. The several serious events were not of systemic nature and as a whole did not increase the threat posed by right-wing extremism.

The scene remained fragmented and consisted mainly of a number of smaller entities focusing primarily on their local interests. Relations among individual groups were often ambivalent – in some regions individual groups engaged in close cooperation (e. g. some activists took part in the activities of several groups); in other regions intense rivalry existed among the individual groups and no closer ties were established.

In 2013, the individual groups engaged in various activities. Some groups focused on political and promotional activities, other groups took part in protests expressing solidarity to a certain cause, or in charitable work (e.g. they took part in flood cleanup in several parts of the Czech Republic or provided material support to several animal shelters). Some individuals participated in violent events.

Anti-Roma protests against Roma criminality and unadaptable way of life were the only issue bringing together a greater number of right-wing extremists. The far right attempted to take advantage of anti-Roma sentiments in society, e. g. this issue was highlighted during campaign rallies held before the Chamber of Deputies elections which took place on October 25 and 25, 2013.

As in previous years, right-wing extremists organized traditional protests and meetings, especially at the occasion of national holidays or days commemorating important events of the neo-Nazi movement. Some of them were held in order to honor the memory of deceased activists.

Furthermore, right-wing events accompanied by music were held. These events were not typical right-wing extremist events as they usually took the form of metal or hard rock concerts. Performing bands usually did not profess their support (at least not openly) for right-wing extremism. Concerts abroad also remained popular.

The Internet played a significant role in promoting right-wing extremism and in enabling communication between individual groups.

In 2013, cooperation among Czech and foreign right-wing extremists was based on personal contacts between individuals. It was no surprise that Czech extremists continued to work with German and Slovak extremists. Czech extremists (especially hooligans) established closer ties to extremists from Poland. A small part of the extremist scene had ties to activists from other countries.

### Left-wing Extremism

In 2013, left-wing extremists did not pose a direct threat to the democratic principles of the Czech Republic. They displayed their aversion to democracy by words (in speeches and online articles) rather than by actual deeds. The greatest risk posed by left-wing extremists were disruptions to public order caused by their clashes with right-wing extremists during public protests.

In 2013, the left-wing extremist scene did not undergo any major changes and continued to stagnate. The mobilization potential of left-wing extremists remained minimal due to the low number of members, disputes between individual members, ideological differences, and further ongoing problems. The left-wing extremist scene consisted of a number of small local groups. In 2013, left-wing extremists engaged in activities similar to those in the past.

Anarchist-autonomous groups faced internal disputes; nevertheless, they managed to organize a number of cultural or educational events. The goal of these events was to attract potential supporters and unite current members. The following events aimed at current members were held: concerts, fundraisers, memorial ceremonies, lectures, debates, movies etc. Events aiming to address the public and promote anarchist-autonomous stances and ideologies were usually smaller and of regional character.

Marxist-Leninist groups had a low mobilization potential, and were therefore not very active in holding their own events. Usually, they took part in events organized by other groups – memorial ceremonies, services commemorating anniversaries significant for the Communist movement, conferences, meetings, protests supporting foreign groups etc.

In the first half of 2013, Marxist-Leninist and anarchist-autonomous groups criticized Petr Nečas' Cabinet and its reforms. Several left-wing activists took part in anti-government protests organized by various leftist initiatives and groups.

In 2013, antifascists in the far-left scene continued focusing on fighting right-wing extremists. Anti-Roma protests were an impulse for action. Left-wing extremists launched campaigns supporting the Roma minority and took part in opposing anti-Roma protests organized either by right-wing extremists or local residents. Thanks to a great number of police officers deployed to ensure security during the protests clashes between right-wing and left-wing extremists occurred rarely.

Furthermore, antifascists opposed also other events held by their ideological adversaries – the far right. In addition, they kept an eye on neo-Nazis and representatives of the Worker's Party of Social Justice, published information about them on the Internet and carried out direct attacks on leading right-wing extremists.

In 2013, the number of squatter activities slightly rose. There were several attempts to occupy empty buildings. However, these attempts were mostly of symbolic character. The squatters' goal was not to settle in the buildings, but to point out the number of empty and decaying buildings and the non-existence of welfare housing.

## 2.5. Terrorism

In 2013, the BIS focused on the following security threats potentially posing a risk to the Czech Republic: significant foreign events potentially impacting the security of the Czech Republic; trends in religious radicalization in the Czech Republic; and risks linked to the potential ways Iran could react to international attempts to increase the transparency of Iran's nuclear program.

Within the context of international cooperation, the BIS took part in assessing several major terrorist attacks: Nairobi's Westgate mall attack; the murder of a British soldier in London; and the Boston Marathon bombings. These attacks were influenced, among other things, by growing jihadist propaganda on the Internet. In 2013, the aim of this propaganda was radicalization and recruiting new members of terrorist organizations. Easy access to potential new members all over the world is a major advantage of online propaganda. The BIS did not reveal any ties connecting the above mentioned events to the Czech Republic.

In 2013, the Syrian conflict and the dramatic developments in Egypt were the two main events in the Arab world affecting the situation in the Czech Republic. Growing jihadist propaganda exercised by terrorist groups led to a rising number of volunteers joining the war in Syria. Radicals from EU member countries were among those travelling to Syria. Some of these fighters managed to return to Europe in 2013. Given the experience they gained fighting in Syria, these individuals pose a significant threat to the Schengen area.

Furthermore, international cooperation and the presence of Czech citizens at the 2014 Sochi Winter Olympic Games were the reasons for the BIS to focus in 2013 on all potential threats posed to this special sporting event. The main goal was to determine whether terrorist organizations aiming to disrupt the Olympic Games did not make use of the geographical position of the Czech Republic for creating support networks. No findings made by the BIS supported such theories.

The BIS also focused on religious radicalization trends in connection to the Czech Republic. In 2013, the BIS detected tendencies present also in Muslim communities in Western Europe, e.g. the attempts to introduce Islamic law in the Czech Republic. In 2013, social conditions in the Czech Republic were not favorable for introducing sub-elements of Islamic law into the Czech Muslim

community. Therefore, some Czech Muslims and their supporters attempted to improve the image of Islam and Islamic values in the eyes of the Czech society.

Czech citizens with a sceptical approach to Islam reacted critically not only to the above mentioned efforts, but also to some manifestations of Islam. Everything generally considered a manifestation of Islamism in the Czech Republic became a target of criticism, including the highly publicized wearing of Muslim scarves in educational institutions; online messages urging others to join the Syrian conflict; statements of senior Czech Muslim officials; or the construction of new prayer rooms. In 2013, the BIS detected a large scale of manifestations of Islamoscepticism, ranging from moderate criticism to radical verbal attacks. Reactions to speeches held by Muslims in the Czech Republic were often published online. Some forms of verbal attacks may radicalize even currently moderate Muslims. Nevertheless, the BIS did not detect any cases of radicalization in the Czech Muslim community related to the activities of the Islamosceptical scene.

During 2013, the BIS adopted preventive intelligence measures as a precaution against a potential crisis in talks between Iran and the international community. These talks focused on Iran's obligation to prove that its nuclear program is for peaceful purposes only and to cooperate on increasing its transparency. The BIS evaluated the risks related to Iran's reaction in case all peaceful solutions were to fail. However, worst-case scenarios did not unfold. In the framework of international cooperation, the BIS participated in monitoring the observation of sanctions imposed by the international community.

## **2.6. Proliferation of Weapons of Mass Destruction and their Carriers, Conventional Weapons and Explosives**

Nuclear, chemical and biological (bacteriological and toxic) weapons of mass destruction and their carriers (WMDs) are one of the biggest security threats worldwide. According to international obligations and Czech national legislation, WMDs cannot be disseminated (i.e. proliferated).

However, in order to develop and produce their own WMDs, high-risk proliferation countries (North Korea, Iran and Syria) need specific technologies, know-how, engineering devices, and specific materials they are either unable to produce by themselves, or that facilitate WMD development and production. The aim of these countries is to eliminate their reliance on supplies from abroad and become self-sufficient in WMD development and production.

The international community imposes sanctions against high-risk countries prohibiting direct deliveries of dual-use goods, military equipment, weapons, explosives, and the acceptance of payments for such items. In order to obtain the goods with needed specifications, high-risk countries resort to various means, including pre-planning complicated trade routes via third countries. Furthermore, they also make use of front companies or entities unaware of the real purpose of the trade and of the extent of the involvement of other companies. Companies from high-risk countries often put forward their demands for exploitable goods on commercial websites with unclear hosting. Complicated trade routes are accompanied by payments which aim to prevent the identification of the trade routes and of the companies involved.

The Czech Republic – a traditional engineering country known for high-quality products, materials and technologies - is not immune to the demands of high-risk countries for proliferation-sensitive goods. Strict legislative measures and export control are obstacles hindering direct purchases of such goods in the Czech Republic.

Early identification of demand and planned trades in proliferation-sensitive goods is complicated by the fact that some goods do not have the characteristics of internationally controlled items. However, a device with the characteristics of a controlled item can be assembled from goods with such characteristics. This can be illustrated by the demand for special components usable for military drone development and production.

Military equipment, weapons and explosives are among the items controlled in foreign trade. High-risk Sub-Saharan, Southeast Asian, and Middle East and Near East countries expressed interest in obtaining these controlled items. The international community prohibits or significantly limits arms exports to countries with unstable or repressive regimes and to countries in armed conflicts. For example, due to the ongoing Nagorno Karabakh conflict, the Organization for Security and Cooperation in Europe (OSCE) imposed an arms embargo on Azerbaijan and Armenia. Therefore, Czech activities promoting export to the area are limited by international obligations. The violation of these obligations would harm the good name of the Czech Republic in the international control regimes.

The possibility of controlled items being abused in international trade cannot be completely excluded. Therefore, it is extremely important to pay attention even to partial findings about changes in companies, their business partners, or in the ways of preparing and conducting trades. Such changes indicate the emergence of unacceptable risks in relation to international obligations of the Czech Republic.

## 2.7. Cybersecurity

In 2013, the BIS focused on risks linked to cyberattacks on critical state ICT infrastructure carried out by both domestic and foreign entities. Penetrating computer systems is often a matter of prestige and of testing their own capabilities for domestic entities - hactivist groups and computer hackers who pose a threat to ICT systems crucial for functional public administration, financial markets, the economy, or the activities of security corps. Foreign entities are usually intelligence services and patriotic hackers of foreign countries launching attacks on information systems and their users in order to gain access to information that may lead to technological advances or other benefits. Their motivation is often economic, military or ideological. The BIS always attempts to obtain information in time in order to prevent cyberattacks on important information systems of the Czech Republic and defend them against data theft or sabotage.

A growing market share of the Chinese companies Huawei and ZTE in the Czech Republic poses a potential threat to the Czech Republic. Both companies are long suspected of cooperating with Chinese security services and of engaging in spying activities. In the past, some countries excluded Huawei from taking part in public tenders or from establishing sensitive information networks as the security risks outnumber the economic savings offered by these companies. Experts stress that these two companies ignore error reports and do not work on removing errors. Furthermore, experts point out that Chinese hardware might include deliberate mistakes (backdoors) allowing illegal remote access to a device. Backdoors can be used to cripple the enemy's communication infrastructure or to gain access to sensitive information.

As in the previous year, the BIS focused on foreign cybercriminals exploiting the Visapoint system and obtained a number of findings on this exploitation. The Visapoint system was designed to improve the transparency and efficiency of the visa process by enabling foreigners to electronically schedule an appointment for an interview with a Czech consular officer. In some countries successfully passing this interview is a condition for obtaining a visa to enter the Czech Republic.

However, shortly after the system was introduced, problems emerged as cybercriminals attempted to exploit the new system for their own benefit. By creating automatized tools quickly occupying all the appointment dates in the Visapoint system, they prevented legitimate applicants from scheduling an appointment. The applicants were forced to pay considerable sums of money to these cybercriminals for arranging a Visapoint appointment (i.e. freeing an appointment date and enabling applicant registration). In several countries the situation caused significant troubles to applicants and the Visapoint system became a target of foreign media criticism. Based on repeated complaints voiced by foreigners the ombudsman asked the European Commission to investigate the whole case.

During 2013, hactivists carried out several attacks mainly on the web sites of state and non-state organizations and state representatives. At the beginning of the year, they planned extensive cyberattacks on the official websites of the Prague Castle and the Civic Democratic Party (ODS) and on the personal websites of former President Klaus and former Prime Minister Nečas. The aim of these attacks was to express disapproval of the amnesty granted by the outgoing President Václav Klaus. It is alarming that the Czech Republic is witnessing the emergence of groups with the capabilities and motivation to carry out cyberattacks also against more significant targets than the websites of public authorities.

In 2014, we expect a decrease in the activities of domestic hactivist and related hacker groups. These movements are ideologically disparate and lack a stronger figure and leadership allowing them to gain more supporters among people with advanced IT skills. These groups might try to attract public attention by carrying out simple DDoS or defacement attacks. Foreign intelligence services and hackers will strive to gain information from important information systems targeting users by cleverly exploiting information available on social sites and in open sources.

Furthermore, the BIS focused on information and communication systems used by central state administration bodies, security services, or by Integrated Rescue System bodies. Attention was devoted especially to identifying possible vulnerabilities, security deficiencies, and risks that could be exploited for launching cyberattacks against these ICT systems.

### **3. Protection of Classified Information**

#### **3.1. Administrative Security**

In 2013, the BIS focused on the following activities regarding administrative security: drawing up expert opinions regarding classified information; evaluating documents based on determining the classification level in accordance with Act No. 412/2005 Coll.; interpreting the list of classified information under the powers and responsibilities of the BIS and of relevant inner regulations; and on providing methodological help to BIS departments.

#### **3.2. Security of Information and Communications Systems**

All BIS information systems processing classified information have a valid National Security Office (NBÚ) certificate. Information systems with certificates expiring in 2013 were successfully re-certified, checked by the NBÚ, and the certificates were prolonged. The re-certification also included an update to security documentation.

#### **3.3. Physical Security**

In the area of physical security, the BIS implemented measures aimed at improving special rule systems providing for the operation of BIS buildings, their technical protection and their physical guarding in order to meet the requirements on the protection of classified information provided for in Act No. 412/2005 Coll., as amended by the new Regulation No. 454/2011 Coll.

Documentation on BIS offices and buildings was regularly updated. Due to the relocation of some workplaces, relevant documentation was updated to reflect the current situation.

#### **3.4. Crisis Management**

Focusing on the protection of classified information in emergencies, Plans for Building and Area Security, which are part of Security Projects, were updated.

## 4. Cooperation with Intelligence Services of the Czech Republic and with other State Authorities

### 4.1. Cooperation with Intelligence Services of the Czech Republic

The BIS regularly provides intelligence and findings to the Military Intelligence and the Office for Foreign Relations and Information. Cooperation with these services takes place at different levels encompassing operational, analytical and service activities.

In 2013, the BIS cooperated on fighting terrorism with other intelligence services of the Czech Republic – either individually or working together in the Joint Intelligence Group of the Cabinet Office of the Czech Republic.

The BIS closely cooperated with the Office for Foreign Relations and Information and the Military Intelligence also on WMD proliferation and illegal trade in military equipment mainly by exchanging information related to trades between Czech entities and entities, for instance, in the Russian Federation, the Republic of Azerbaijan and Libya.

The BIS also regularly cooperated with Czech intelligence services on investigations requested by foreign partner intelligence services.

### 4.2. Cooperation with the Police of the Czech Republic

Section 8, Paragraph 3 of Act No. 153/1994 Coll. stipulates that the BIS must provide information to the Police of the Czech Republic. In many cases cooperation between various departments of the BIS and the police draws on the nature of submitted information and takes the form of joint meetings. Given the powers and responsibilities of the BIS, these meetings are usually held with the Department for Uncovering Organized Crime (in Czech: *Útvar pro odhalování organizovaného zločinu*), the Department for Uncovering Corruption and Financial Crime (in Czech: *Útvar pro odhalování korupce a finanční kriminality*), the Foreign Police Department (in Czech: *Služba cizinecké policie*), or with economic crime units.

In addition to this type of cooperation, the BIS works with individual police units within the Police of the Czech Republic and participates in a whole range of operational and service activities.

Together with a specialized police unit, the BIS has been investigating an extensive network of malware-infected computers.

Partial findings related to some cyber attackers, whose activities may be a security threat, were obtained in cooperation with the Department of Information Criminality of the Headquarters of the Police of the Czech Republic and other police units in the course of 2013.

Furthermore, the BIS played an active role in regular meetings of the National Contact Point for Terrorism (in Czech: *Národní kontaktní bod pro terorismus - NKBT*) falling under the remit of the Department for Uncovering Organized Crime of the Service of the Criminal Police and Investigations and focusing mainly on a faster exchange of relevant information related to terrorism.

In 2013, the BIS continued to cooperate with the Police of the Czech Republic on issues regarding the illegal trade and manipulation with military equipment, security equipment, guns, ammunition, explosives, hazardous materials, and the fight against WMD proliferation.

### 4.3. Cooperation with other State Authorities and Institutions

In 2013, the BIS worked closely with the National Security Authority (NBÚ) mainly on the following investigations based on NBÚ requests: investigations pertaining to personal and industrial security and security clearances; security clearance investigations for the issuance of security clearance certificates for natural and legal persons; or investigations for the revocation of security clearance and security eligibility certificates. Based on NBÚ requests, the BIS carried out security clearance investigations examining whether a natural or legal person holding a security clearance or security eligibility certificate still meets the requirements for their issuance.

NBÚ and BIS representatives took part in a number of meetings aiming to improve mutual cooperation and its effectiveness stressing the focus on the legality of security investigations and their efficiency.

Furthermore, Act No. 412/2005 Coll. imposes on the BIS the duty to report findings indicating that a natural or legal person holding a security clearance or security eligibility certificate no longer meets the requirements for their issuance. In accordance with Section 8, Paragraph 3 of Act No. 153/1994 Coll., and Section 140, Paragraph 3 of Act No. 412/2005 Coll., the BIS submits such information to the NBÚ and to other intelligence services if their members or employees are concerned.

Regular consultations with the Czech National Bank management concerning bank sector cases were held.

Cooperation with the Financial Analytical Unit of the Ministry of Finance (in Czech: *Finančně analytický útvar - FAÚ*), the Directorate General of Customs (in Czech: *Generální ředitelství cel – GŘC*) and the General Financial Directorate (in Czech: *Generální finanční ředitelství - GFŘ*) continued. Consultations regarding state property management and economic competition (state aid handouts) consultations were held with the Office for the Protection of Competition (in Czech: *Úřad pro ochranu hospodářské soutěže – ÚOHS*).

Furthermore, cooperation with state prosecutor's offices of various levels took place – ranging from district to supreme state prosecutor's offices.

The Security Services Archive and the Institute for the Study of Totalitarian Regimes cooperated with the the BIS Archive on drawing up opinions regarding the declassification and publishing of documents originating from former State Security activities.

## **5. Cooperation with Intelligence Services of Foreign Powers**

The BIS is authorized by the Government to cooperate bilaterally with 104 services of 65 countries. In 2013, the BIS was actively in contact with 63 foreign partner services. As far as multilateral cooperation is concerned, the BIS was very active in the Counter- Terrorist Group (CTG) and the NATO Civil Intelligence Command (CIC).

The most active exchange of information traditionally took place between the BIS and the services of EU and NATO member states focusing on the fight against terrorism, counter-intelligence, and increasingly the issue of proliferation. In 2013, less attention was devoted to organized crime and extremism. The BIS also engaged in successful operational cooperation with traditional long-term partners outside the Euro-Atlantic space.

In 2013, the number of reports produced for foreign partners and the number of meetings with foreign services was similar to that in 2012.

## 6. Oversight

Section 12 of Act No. 153/1994 Coll. on Intelligence Services of the Czech Republic stipulates that the activities of the BIS are subject to oversight by the Government and the Parliament.

The Act defines neither the scope nor the manner of the government oversight. It is based on further provisions of Act No. 153/1994 – on the Government's entitlement to assign tasks to the BIS within the Service's legal powers and responsibilities and to assess their fulfillment; and on the fact that the BIS is accountable to the Government, which also coordinates its activities and appoints and dismisses the Director of the BIS. Section 8, Paragraph 1 of Act No. 153/1994 Coll. states that the BIS must submit reports on its activities to the President and to the Government once a year and whenever it is requested to do so. Government oversight focuses on all BIS activities.

Act No. 154/1994 Coll. on the Security Information Service (i.e. the BIS), as amended, provides for parliamentary oversight. Under Section 18 of the said Act, the responsibility for overseeing the activities of the BIS lies with the Chamber of Deputies of the Czech Parliament, which sets up a special oversight body (the Standing Oversight Commission). Sections 19 and 20 of the said Act provide specifically for the powers of the Oversight Commission. Authorized members of the oversight body may: enter BIS buildings when accompanied by the BIS Director or by a BIS member designed by the Director for this purpose; acquaint themselves with information and documents to the extent stipulated by this Act; and request due explanation from the BIS Director should they feel that the activities of the BIS illegally curb or harm the rights and freedoms of citizens.

The BIS regards external government and parliamentary oversight as an important prerequisite for its activities contributing to high-quality fulfillment of the tasks in the range of its powers and responsibilities.

Act No. 154/1994 Coll. on the Security Information Service (i.e. the BIS), as amended, provides for court oversight of the use intelligence technology. According to Sections 10 and further Sections of this Act, permissions to use intelligence technology are granted by the Chair of the Senate of the High Court of Justice in Prague who also oversees their use. Furthermore, according to Section 11a of Act No. 153/1994 Coll., as amended, the Chair of the Senate of the High Court of Justice in Prague also decides about requests from the BIS to obtain information subject to bank secrecy in order to fulfill specific tasks related to fighting the financing of terrorism. The Court not only grants the permission to a written BIS request, but it also monitors whether the reasons for the request are still valid - if not the permission is revoked.

Oversight regarding BIS management of state-assets and of the funds allocated to the BIS from the state budget is carried out by relevant state authorities and by the Ministry of Finance as stipulated in Act No. 320/2001 Coll. on Financial Audit in Public Administration and on the Amendment to some Acts (the Financial Audit Act), as amended, and Act No. 166/1993 Coll. on the Supreme Audit Office, as amended.

External oversight of the BIS is carried out by authorities and institutions with the legal right to oversee individual activities of the BIS.

## 6.1. External Oversight

In 2013, 3 external audits were conducted – an audit of the food processing facility, of the sheltered firing range, and of public health insurance payments and the compliance with other duties of the BIS as the payer of Service officer and employee insurance. No defects were found.

## 6.2. Internal Audit

In 2013, the internal audit group carried out 5 inspections focusing on: compliance with legislation and regulations providing for public procurement; with principles of economical and effective use of public funds (e.g. in the areas of receivables, travel expenses and making inventories of property); and on the implementation of recommendations for improving management and financial activities of the BIS.

Within their scope of powers other expert monitoring units of the BIS conducted 46 inspections. These inspections focused on compliance with internal regulations in respect to economical and effective management of individual BIS departments. The inspections focused on the following areas:

- fulfillment of the budget; adherence to binding limits and the keeping of records; adherence to budget discipline, including adherence to principles of allocating money from the cultural and social needs fund;
- provision of material needs in organizational units and keeping material records;
- monitoring the technical condition of vehicles, required vehicle inspections, adherence to fuel consumption norms;
- monitoring the structural condition of buildings and their usage in accordance with their intended purpose; conducting prescribed inspections; adherence to principles of occupational safety and hygiene, fire protection, water management, and of ecology; monitoring energy consumption.

Employees of the archive and of the control group carried out over 50 archive inspections related to records management. The inspections focused mainly on establishing that no classified documents or their parts were missing, on meeting administrative requirements, and on the precision of keeping record entries.

As far as physical security and the consolidation of security documents are concerned, the following inspections were carried out: adherence to requirements for the storage of classified documents; inspections of installed security elements, including of objects and individual elements of security lock systems.

Emergency Plans for BIS buildings were updated in order to protect BIS members in emergencies.

## **7. Maintenance of Discipline; Handling Requests and Complaints**

### **7.1. Investigation of Conduct Suspected of Having the Traits of a Misdemeanor, of a Disciplinary Infraction, and of other Infractions**

In this area the BIS Inspection Department focuses on traffic accidents involving Service members which are investigated by relevant authorities of the Police of the Czech Republic. The Inspection Department is responsible for findings that cannot be provided by the police but are important for a decision in the matter.

In 2013, the Inspection Department completed 119 investigations of cases in which BIS officers were suspected of having committed disciplinary breaches or of conduct having the traits of a misdemeanour. This number includes also the investigations of extraordinary incidents.

Of the total of 119 cases, 83 pertained to transportation, e.g. traffic accidents involving services or private vehicles, damage to service vehicles, and suspicions of other violations of the Act on Road Traffic.

### **7.2. Investigations of Complaints and Notifications**

In 2013, the BIS Inspection Department investigated complaints, notifications and suggestions from BIS members as well as from other entities. No submission was declared a complaint. Compared to 2012, the number of notifications and motions increased. A noticeable increase of reports made by citizens reflected the publication of the BIS Annual Reports for 2011 and 2012.

### **7.3. Activities of the BIS Police Authority**

In cases where a member of the BIS is suspected of having committed a crime, members of the BIS Inspection Department play the role of a police authority in the sense of Section 12, Paragraph 2 of the Code of Criminal Procedure.

In 2013, the BIS police authority was active in several related cases having to do with the ownership of assets; suspicions of committing the crime of endangering classified information, of abusing the legal powers of an official, of bodily harm and of violating house freedom. The majority of these cases were referred to the relevant state prosecutor's office.

### **7.4. Cooperation with other Public Administration Authorities**

The BIS Inspection Department cooperates with other public administration authorities primarily in connection with letters rogatory, which are most often sent by authorities of the Police of the Czech Republic engaged in criminal or misdemeanour proceedings. The number of requests made by public administration authorities is steady with minimal changes.

## 8. Budget

The budget of the BIS in 2013 was stipulated by Act. No. 504/2012 Coll. from December 31, 2012, on the State Budget of the Czech Republic for 2013. Income was set at CZK 136,300,000 and expenditure at CZK 1,111,104,000.

Total income amounted to CZK 139,955,000, i.e. to 102,7 %. Social security payments and contributions to the state employment policy accounted for the majority of total income. Similarly to other chapters of the state budget, the remainder of income consists mainly of regular revenues from BIS activities. The sale of unneeded property contributed only minimally to this income.

During the course of the year several changes occurred influencing the budget. The Ministry of Finance adopted 4 budgetary measures; therefore the BIS expenditure budget as of December 31, 2013 amounted to CZK 1,151,366,000.

At the end of the period in question the final expenditure budget, i.e. funds available in 2013, amounted to CZK 1,186,111,000. Actual expenditure amounted to CZK 1,162,157,000.

Salaries and equipment payments accounted for the majority of total expenditure as high-quality personnel play a key role in the functioning of an intelligence service. Personnel expenditures also include pensions and severance benefits for Service members whose service has ended. These benefits are mandatory and their amount cannot be influenced in any way.

Further current expenditures include mainly standard expenditures for services, fuels and electrical power expenses ensuring the normal functioning of the organization. Expenditures for repairs and maintenance were aimed at assuring the operability and appropriate technical condition of the property and buildings of the BIS.

More than a third of capital investment expenditures were invested in buildings and equipment. Individual projects involving intelligence, communications, IT and security equipment, and in a minimal extent also the purchase of new vehicles accounted for remaining capital expenditures.

Furthermore, financial means from the budget were allocated to the maintenance and operation of current BIS information systems focusing on communications infrastructure, data storage and central data processing.

Information and communication technologies are undergoing constant development increasing the capacity and security requirements imposed on administered information systems. Therefore, it was necessary to continuously update selected hardware and software components of both certified and non-certified systems. Some important communications elements were modernized in order to increase speed and to secure the stability and availability of communication transfer lines.

The BIS is a specific chapter of the state budget as it is essential to comply with requirements on the protection of classified information provided for in Act No. 412/2005 Coll. on the Protection of Classified Information and on Security Clearance, especially in the areas of physical, administrative, and personnel security and in the area of security of information and communications systems. The need to take these facts into consideration in the whole spectrum of activities of the BIS leads to many expenditures that do not occur in other organizational units of the state.