



---

STATE AUDIT  
OFFICE OF HUNGARY

Hungarian experiences  
in the course of performance auditing the utilisation of  
Structural Funds

# Outline

1. Introduction
2. The State Audit Office of Hungary examines the utilization of EU funds (in general)
3. Performance audits conducted in recent years
4. Performance audit of the National Development Plan I. (2006)
  - Performance audit process
  - Audit findings

---

# Introduction

## Mandate of the State Audit Office of Hungary

- The Activity of the State Audit Office of Hungary is regulated by law.  
(Act XXXVIII of 1989)
- The State Audit Office of Hungary is the supreme audit organ of the state.

# ORGANISATION OF SAO

## ELECTED LEADERS (PRESIDENT, VICE PRESIDENTS)

Parlamentary and public relations, quality assurance, advisory activity

### DIRECTOR GENERAL

Central level of public finances audit directorate

### DIRECTOR GENERAL

Local government and regional audit derctorate

## SCOPE OF ACTIVITY

### REGULARITY AUDIT

- institutional financial statements
- chapter-managed appropriations
- national economic accounts

### REGULARITY AUDIT

- political parties,
- social organisations
- public foundations

### PERFORMANCE AUDIT

- EU subsidies
- financial institutions
- health care and social institutions
- cultural, and educational institutions
- investments
- taxes and customs

### REGULARITY AND PERFORMANCE AUDIT

- health care services
- social services
- infrastructure development
- educational services
- cultural services

### COMPREHENSIVE AUDIT

- education, culture and science
- defence and justice
- production sector and infrastructure

### COMPREHENSIVE AUDIT

- local governments' budgetary relations
- financial management of local governments

---

**The SAO examines the utilization of EU funds  
by three ways of audits**

- by comprehensive audits,
  - by the annual financial regularity audit and
  - by performance audits.
- 
- In 2008 the SAO issued the third time the Summary of Audit Reports on the Financial Management and Control of EU Funds in Hungary.
  - The SAO performs coordinated, bi- and multilateral and parallel audits on the utilisation of EU funds in the framework of international co-operations.

---

# Performance Audit / 1 2006-2009

- 2006 - The time based audit on the implementation of the National Development Plan I.
- 2007 - The operations of the national monitoring and control system of EU subsidies available for Hungary
- 2007-2008 - The impact of EU sources and of pure national sources on the development of the economy

---

## Performance Audit / 2 2006-2009

- 2008 – the audit of the utilisation of the INTERREG provisions
- 2008-2009 – the audit of the utilisation of funds aiming at the solid waste management
- 2009 – the audit of the main waste water management projects

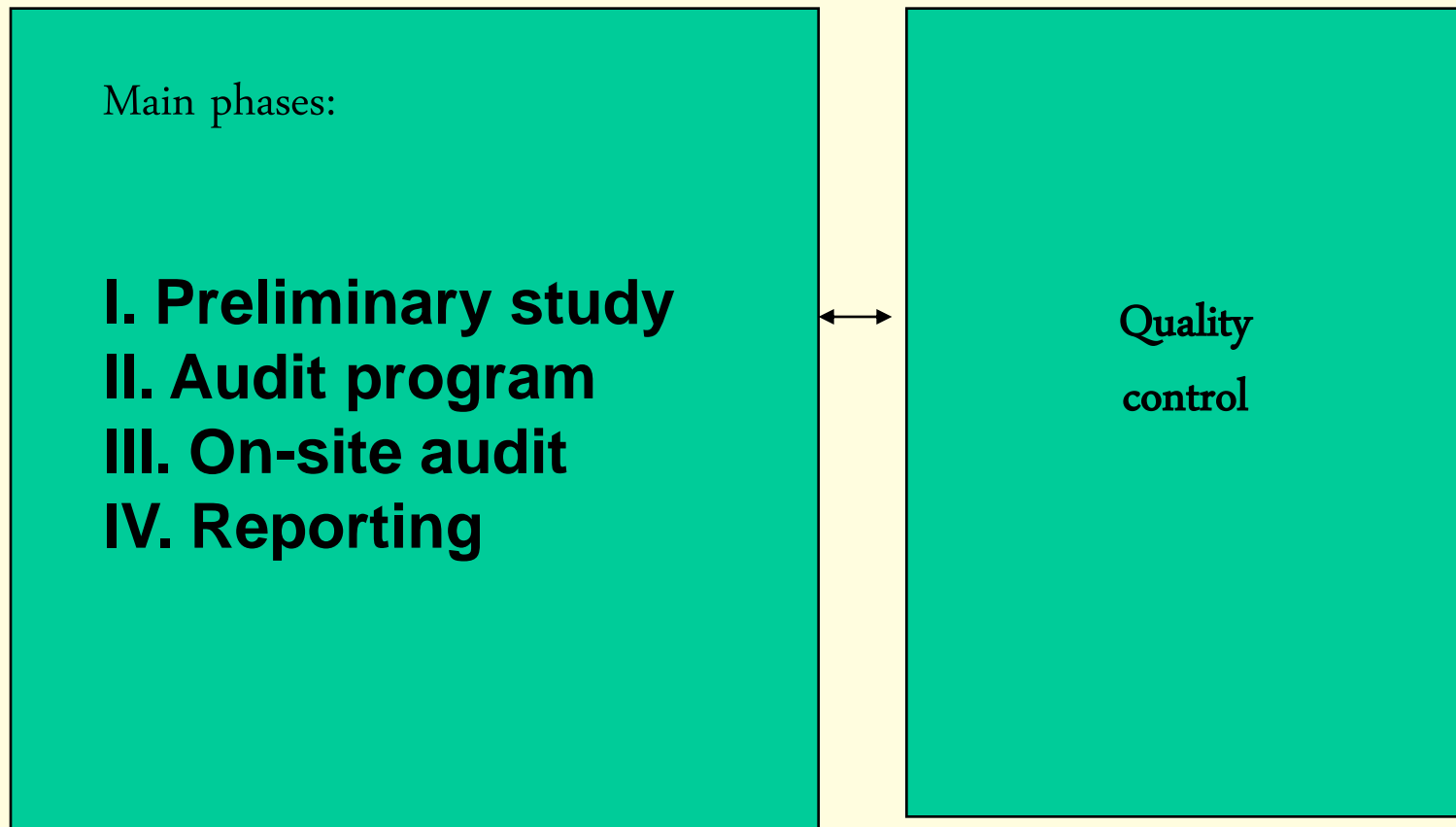
---


# **The Performance Audit of the implementation of the National Development Plan I. (2006)**



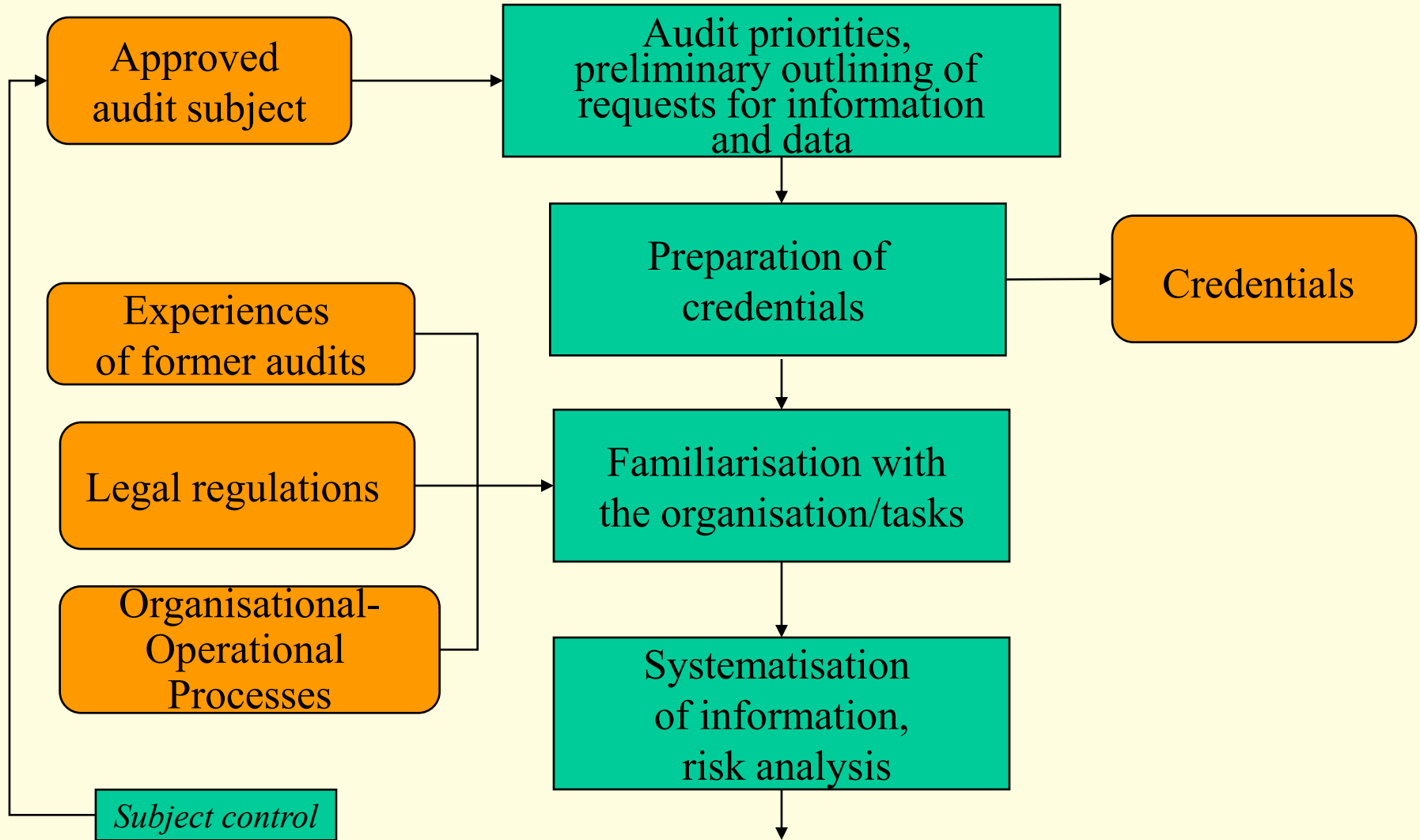
# Performance Audit

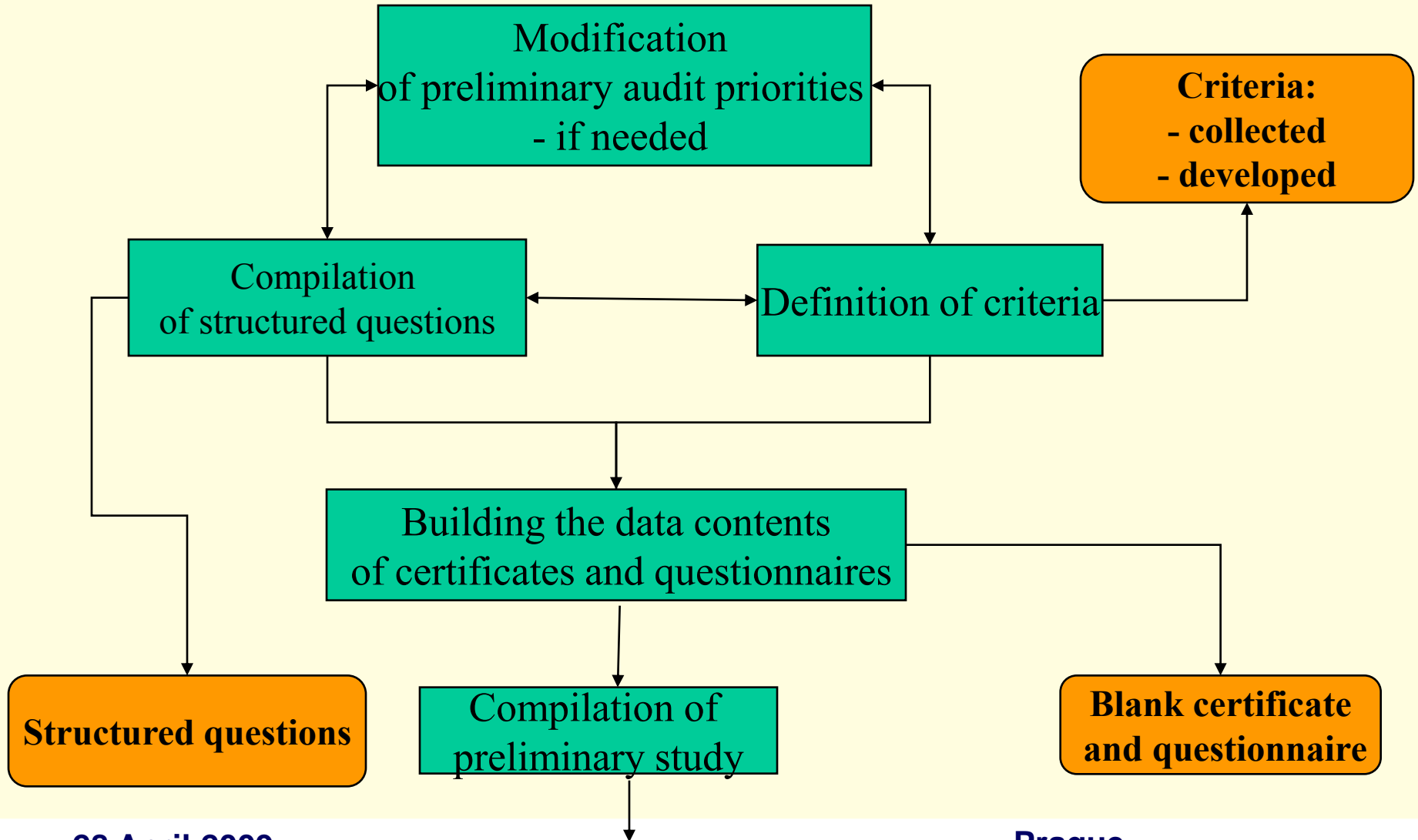
## main phases



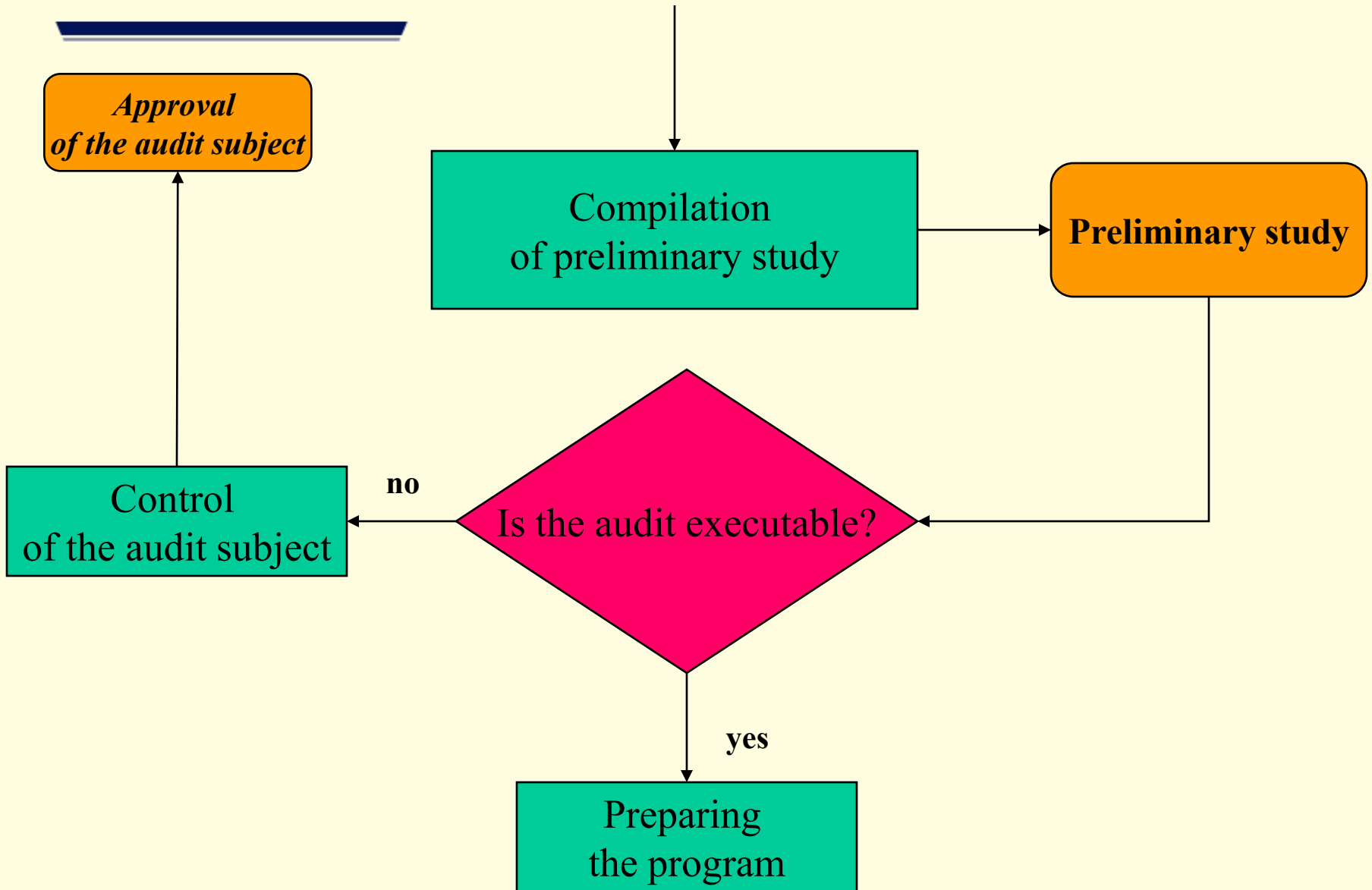


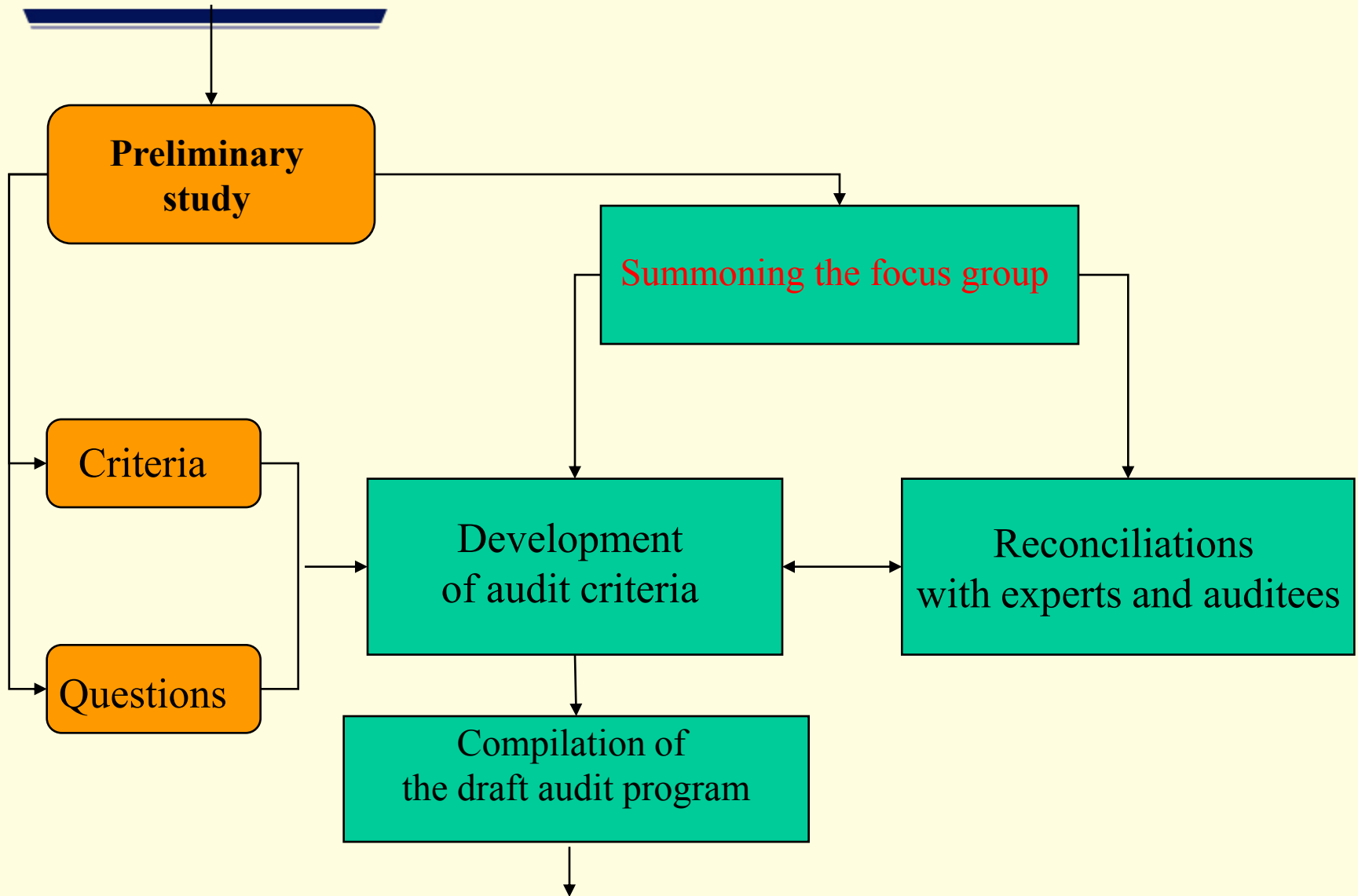
## Detailed process of performance auditing

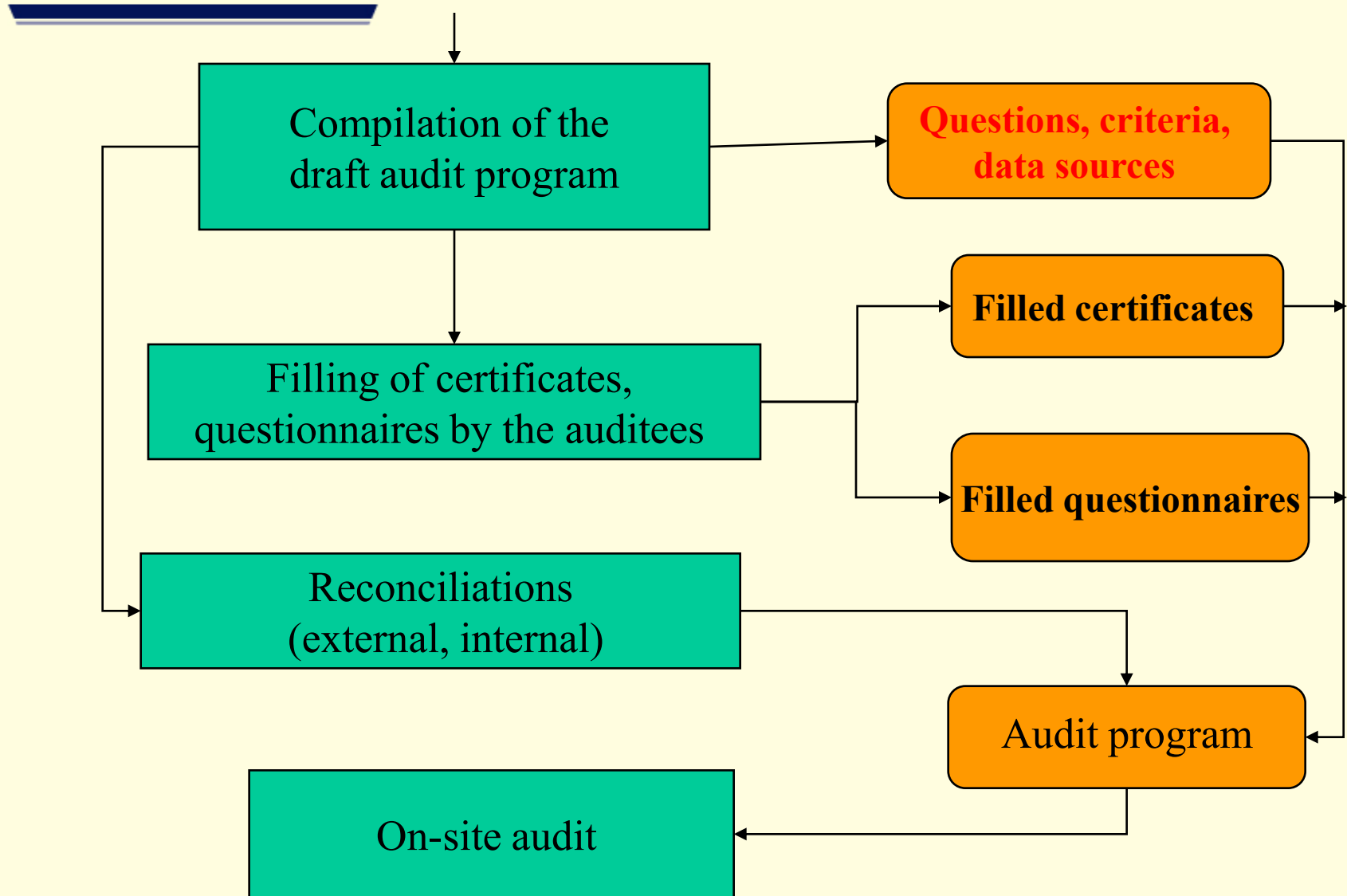




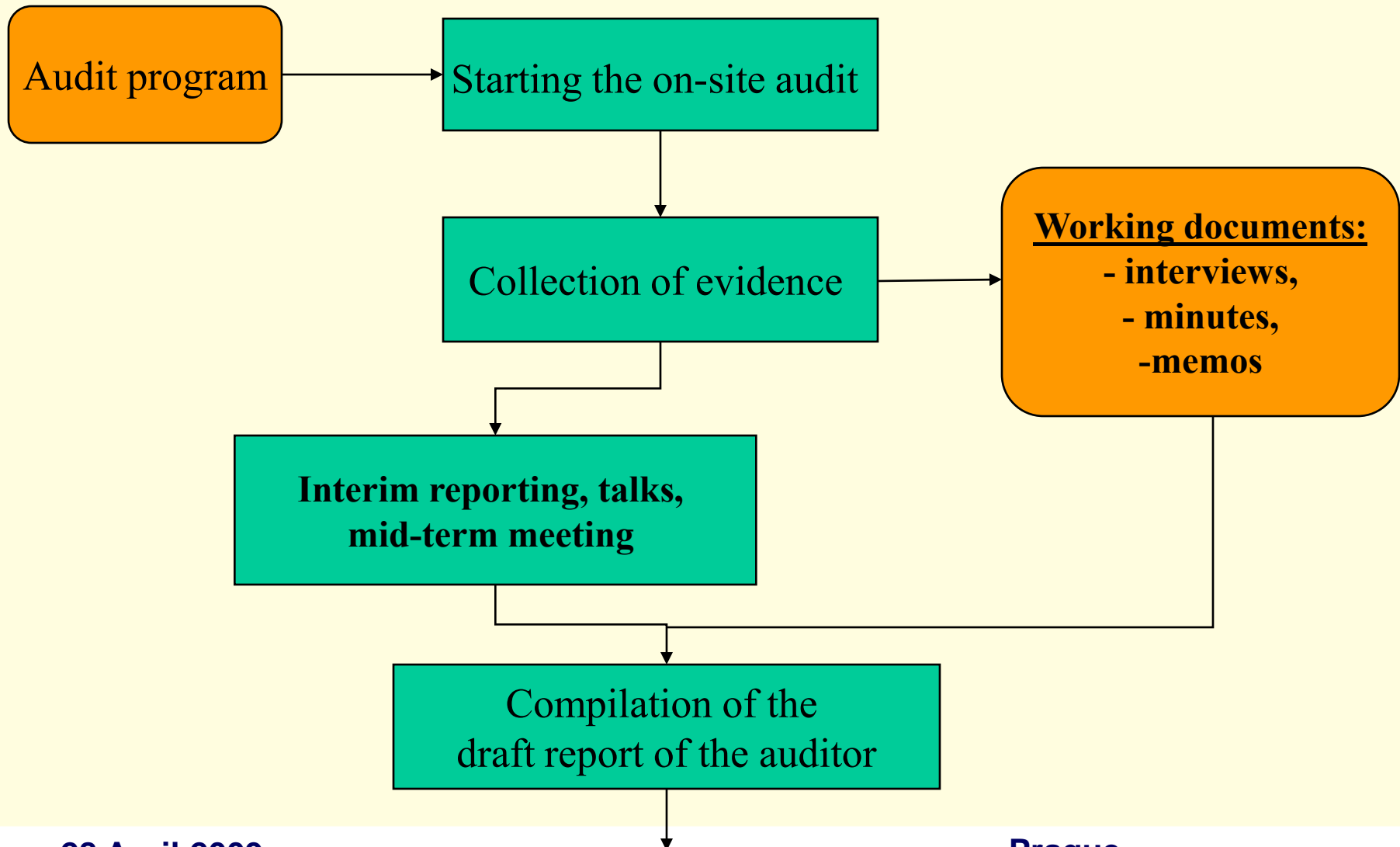
# PRELIMINARY STUDY/3



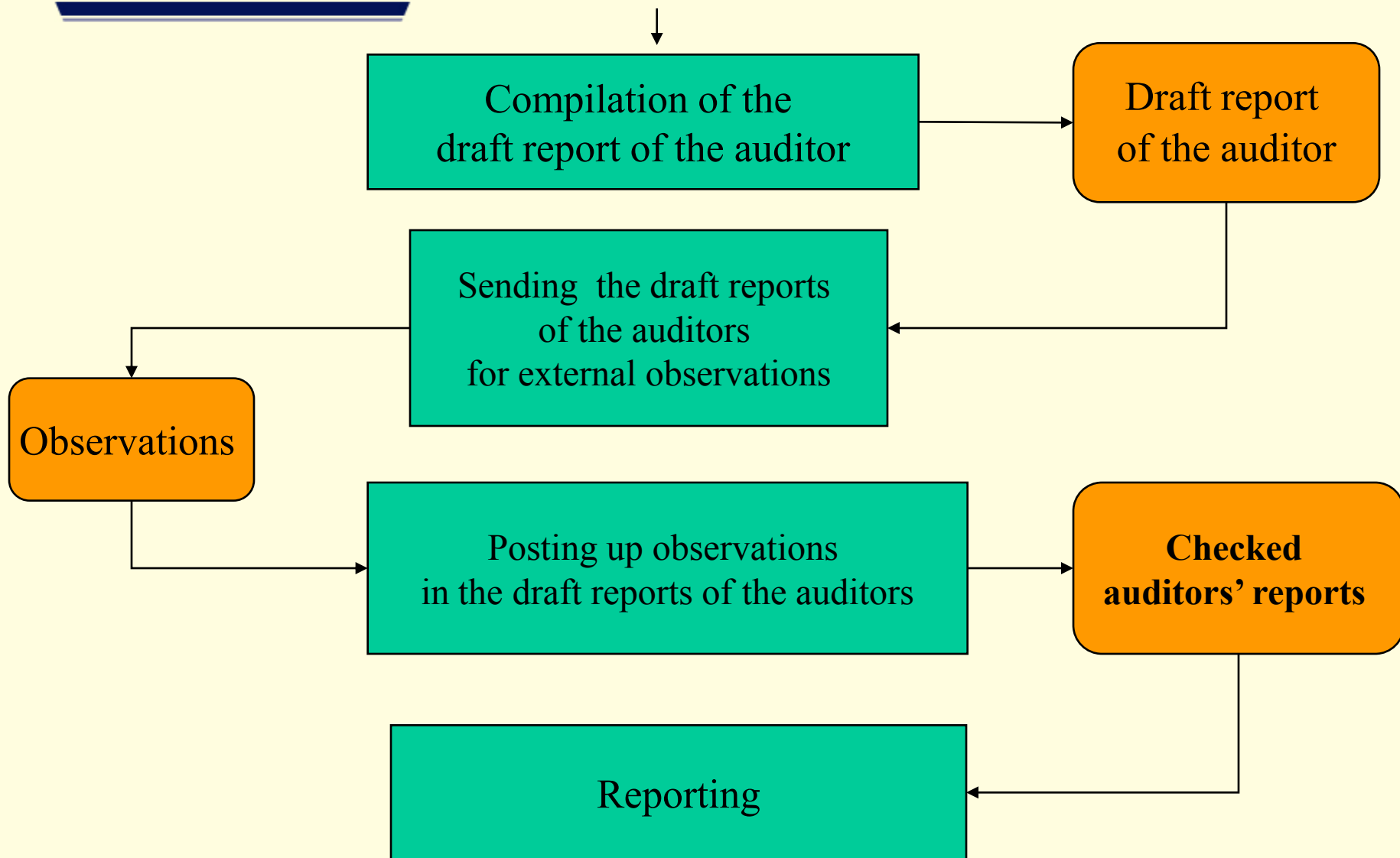




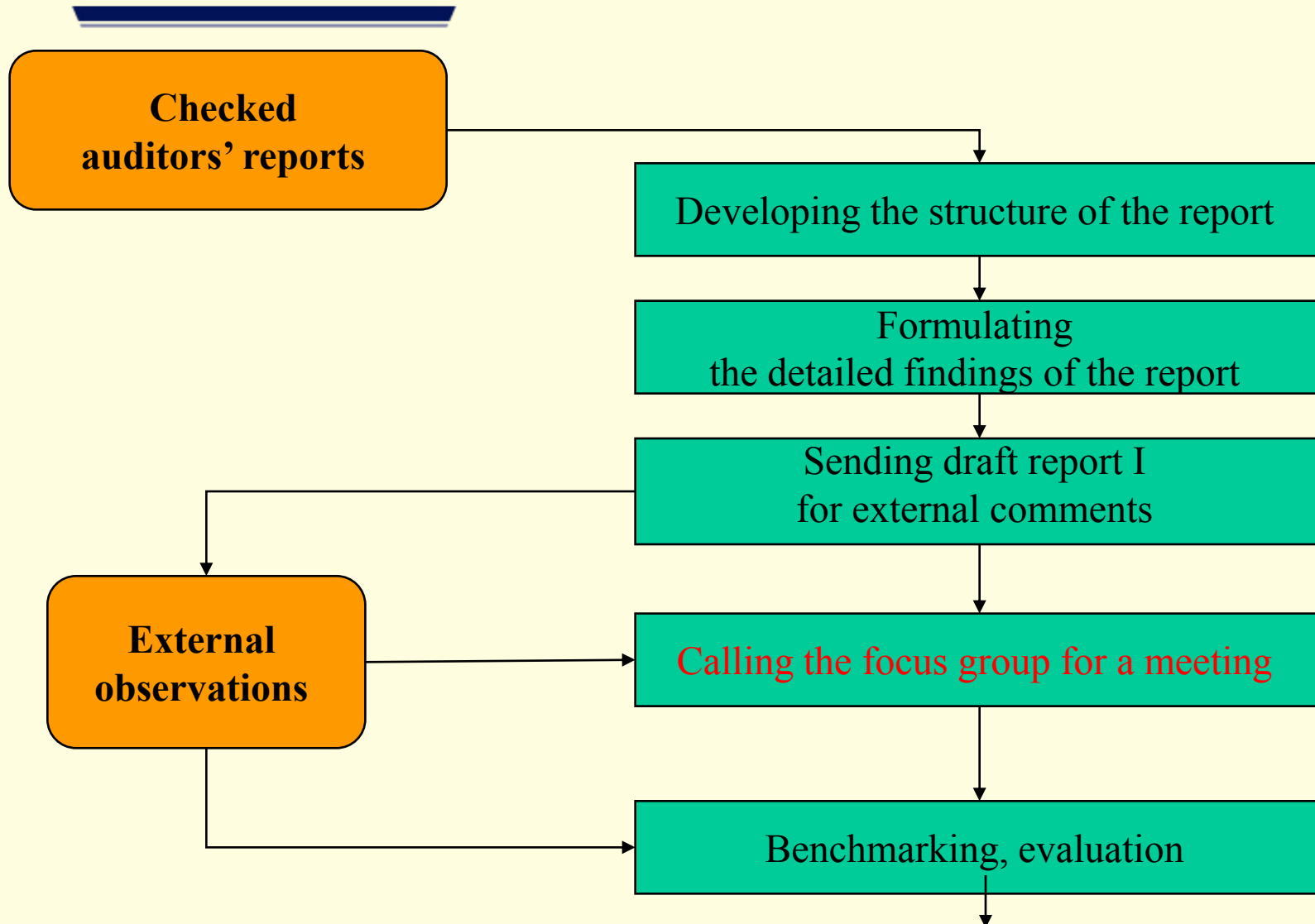
## III. ON-SITE AUDIT/1



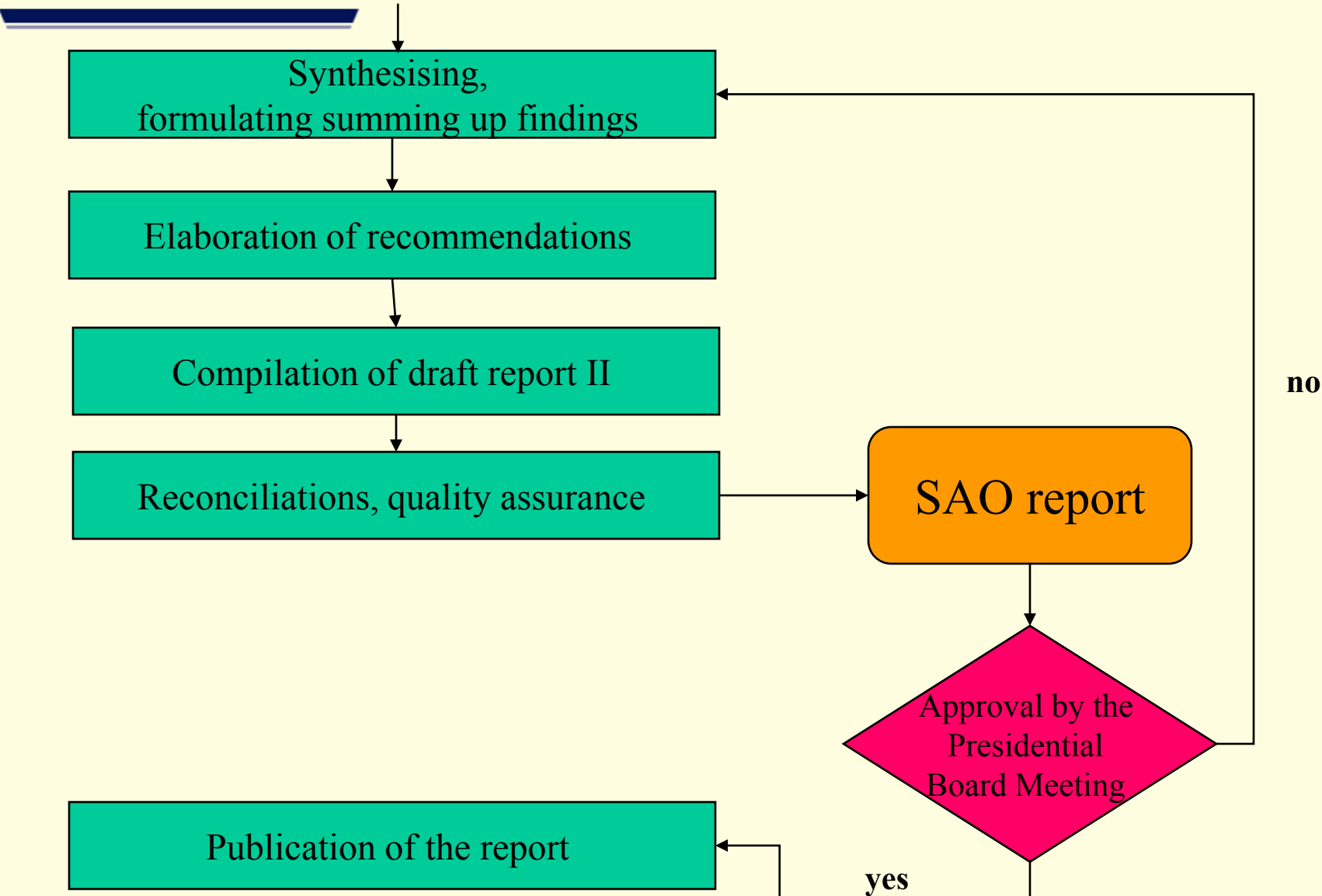




## IV. REPORTING/1



## IV. REPORTING/2



# Performance Audit of the implementation of the National Development Plan I.

## The NDP's system of objectives

**General  
objective**

**Convergence to the social and economic level of the  
EU**

**Specific  
objectives**

**More  
competitive  
economy**

**Better  
utilisation of  
human resources**

**Better quality  
environment and  
basic  
infrastructure**

**More balanced  
regional  
development**

**Priorities**

**Improvement of the  
competitiveness of  
the producing  
sector**

**Enhancement of  
employment and  
development of  
human resources**

**Better  
infrastructure,  
cleaner  
environment**

**Strengthening of  
the regional and  
local potentials**

## The tools of implementation

### *5 Operational Programmes*

**ECOP**

Economic Competitiveness OP

**HRDOP**

Human Resources Development OP

**EPIOP**

Environment Protection and Infrastructure OP

**ARDOP**

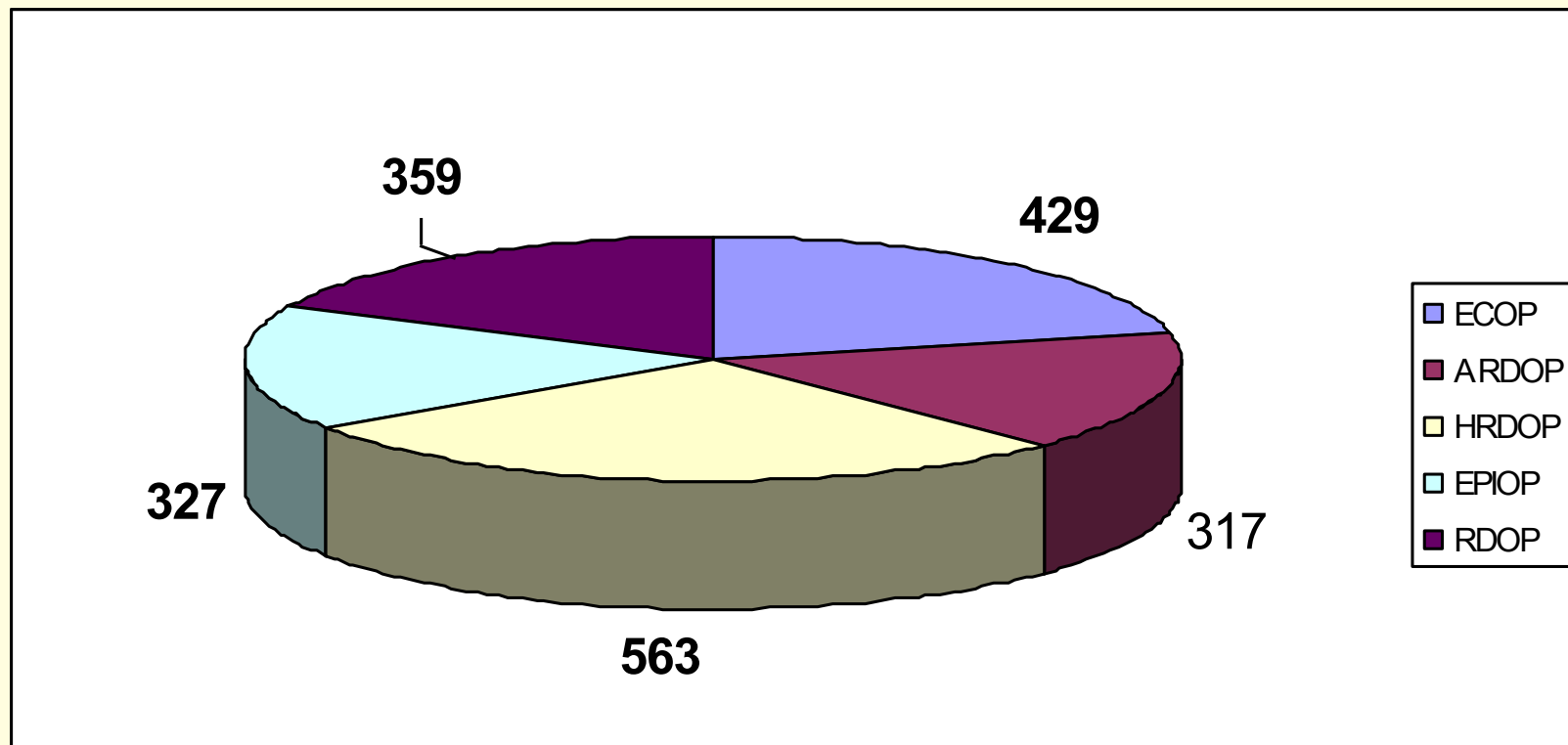
Agricultural and Rural Development OP

**RDOP**

**Regional Development OP**

4 sectoral OPs

## EU Support Framework (EUR million)



In the years 2004-2006, EUR 1,995.7 million (HUF 507.9 billion) was available from the Structural Funds and EUR 700.3 (HUF 178.2 billion) was available from the central budget for the implementation of the NDP. The annually available funds must be accounted within two years from availability.

---

## Structure of the question tree

<b>Main question:</b>	<b>Did the implementation of the NDP serve the prorated achievement of the objectives, and the utilisation of the available resources effectively and efficiently?</b>
<b>Structured questions:</b>	<b>I. Was the established system of criteria suitable for efficient implementation?</b>
	<b>II. Did the preparation of the NDP effectively contribute to the development of the absorption ability?</b>
	<b>III. Was the effectiveness of implementation ensured?</b>
	<b>IV. Was the institutional cooperation efficient?</b>
	<b>V. Were the customers satisfied with the implementation?</b>

## Summary of the findings of the performance audit / 1

<b>Structured questions:</b>	<b>Answers:</b>
<b>I. Was the established system of criteria suitable for efficient implementation?</b>	
<ul style="list-style-type: none"> <li>• <b>Planning</b></li> </ul>	<p>Lack of harmony and balance of the financial and physical planning (revised planning in the case of ARDOP and HRDOP).</p>
<ul style="list-style-type: none"> <li>• <b>Coordination of the EU and domestic strategies</b></li> </ul>	<p>In the absence of approved domestic sectoral strategies, the strategy established in the NDP was only partially based on the former. (Lack of domestic strategies in the ARDOP, HRDOP and ECOP)</p>
<ul style="list-style-type: none"> <li>• <b>Coordination of the EU and domestic resources</b></li> </ul>	<p>Resource utilisation is only partially harmonised. Planned harmonisation can be observed only in the field of environmental protection and infrastructure development.</p>
<ul style="list-style-type: none"> <li>• <b>Regulation and institutional system</b></li> </ul>	<p>Regulation and the finalisation of the institutional system were performed in parallel with the implementation of the programme.</p>
<ul style="list-style-type: none"> <li>• <b>IT registration system</b></li> </ul>	<p>Development was carried out concurrently with implementation, which deteriorated efficiency. Data insufficiency in the system hindered comprehensive evaluation.</p>



## Summary of the findings of the performance audit / 2

<p><b>II. Did the preparation of the NDP effectively contribute to the development of the absorption ability?</b></p>	<p>The Tender Preparation Fund (TPF) supported fewer projects than planned. Efficiency was deteriorated by the fact that the tenders had to be revised several times for the documents of the NDP were finalised after the invitation of tenders by the TPF.</p>
<p><b>III. Was the effectiveness of implementation ensured?</b></p>	
<ul style="list-style-type: none"> <li>• Tender selection</li> </ul>	<p>Delays compared to the processing deadline specified in the legal regulation, which resulted in the delayed implementation of supported projects.</p> <p>During the selection it was not checked whether the supported projects fitted the programme level objectives, or not. As a result, the planned objectives and resources were not efficiently harmonised, and the convergence of the underdeveloped regions did not improve either.</p>
<ul style="list-style-type: none"> <li>• Contracting for the funds</li> </ul>	<p>The funds were contracted, albeit with delay.</p>
<ul style="list-style-type: none"> <li>• Project implementation</li> </ul>	<p>The start and implementation of the projects were delayed.</p>

## Summary of the findings of the performance audit / 3

<b>III. Was the effectiveness of implementation ensured? (cont.)</b>	
<ul style="list-style-type: none"> <li>• Prorated completion of the financial objectives</li> </ul>	<p>Delay in the completion of the annual financial objectives despite the introduction of the system of advance payments.</p>
<ul style="list-style-type: none"> <li>• Efficiency of the planned utilisation of resources</li> </ul>	<p>Deviations from the planned level of efficiency, and lack of harmony between the used resources and the achieved results, because it was not checked how the efficiency of the individual projects fitted the planned programme level efficiency.</p>
<ul style="list-style-type: none"> <li>• Well-foundedness of resource utilisation, the expected utilisation of resources with regard to the 'N + 2 years' restriction</li> </ul>	<p>The planned resource utilisation is not well-founded, since the OPs do not use a standard methodology and the financial schedules forming annexes to the contracts are not used as a basis everywhere. The impact of contract amendments are not taken into account.</p>
<ul style="list-style-type: none"> <li>• Completion of resource utilisation with regard to the 'N+2 years' restriction</li> </ul>	<p>It is risky, because in addition to the delay in implementation, after the 8% due in 2006, in 2007 already 42%, while in 2008 50% must be used and accounted. Therefore, implementation must be accelerated.</p>

---

## Questions, criteria, data sources

### **Question:**

1. Is the principle of 3 E-s (VFM) applied during the process of granting the given subsidies?
- 1.1 Are the planned results of the accepted projects and the planned utilisation of the sources in accordance?

### **Criteria:**

Comparing the principles under SPD with the applied practice. Cost-benefit indicators.

### **Data sources:**

SMIS, applications, contracts

## Indicators of projects belonging to the transport priority of EPIOP

as of 8 March 2006			
Name of the project	Project costs	Km	HUF million/km
	HUF million		
EPIOP-2.1.1. Road rehabilitation total:	13 737	114,72	120
EPIOP-2.1.2. Ring roads, by-pass roads total:	29 153	46,42	628
EPIOP-2.1.3 Road expansions (4-lane) total:	10 322	15,74	656
<b>Grand total:</b>	<b>53 212</b>	<b>176,88</b>	<b>301</b>
EPIOP output target value 1154 km, initial value 894 km	53 091	260,00	204
<b>Rate of achievement of the output target</b>	<b>100%</b>	<b>68%</b>	<b>147%</b>

As a result of the audit, in the conciliatory phase of the draft report the EPIOP MA announced a new invitation to tender for the better achievement of the planned indicators.

## Summary of the findings of the performance audit / 4

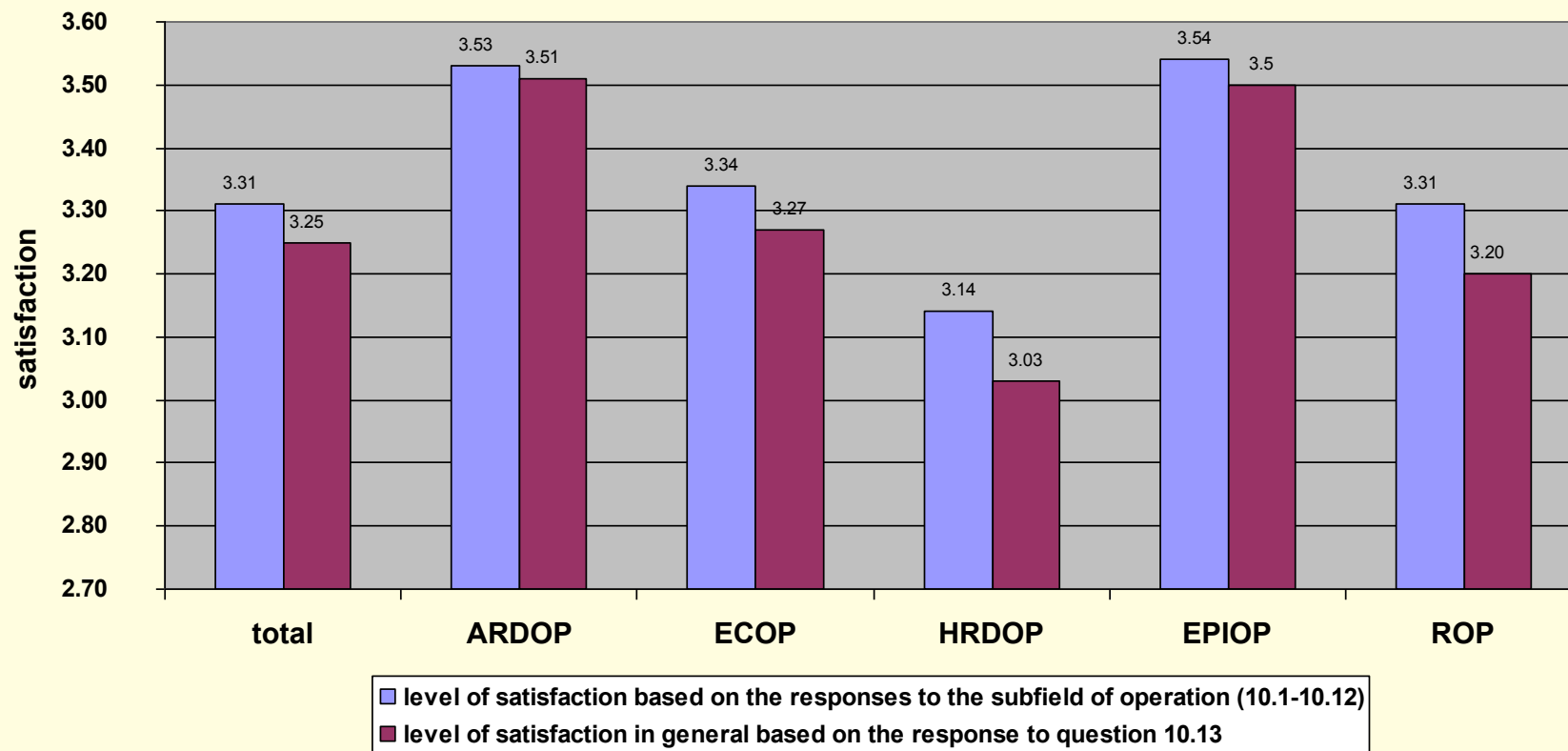
IV. Was institutional cooperation efficient?	Poor efficiency in cooperation, the system of performance measurement was not developed, the cost-efficiency of the institution system was not inspected.
V. Were the customers satisfied with implementation?	Due to the delays in the implementation processes customer satisfaction was low. This requires improvement.
<b>The impact of implementation on the achievement of the objectives</b>	
<ul style="list-style-type: none"> <li>• priorities</li> </ul>	Deviations from the planned target values, since in addition to the project level indicators it was not inspected how the supported projects impacted the programme level indicators.
<ul style="list-style-type: none"> <li>• specific objectives</li> </ul>	Due to the prorated delay of programme implementation, and the full-scale realisation of completed projects in the two-year period after project completion the impacts could not be felt yet.
<ul style="list-style-type: none"> <li>• general objectives</li> </ul>	A Due to the prorated delay of programme implementation, and the full-scale realisation of completed projects in the two-year period after project completion the impacts could not be felt yet.

### Satisfaction results of the different fields of operation

Respondents evaluated the level of satisfaction on a scale of 1 to 5 from 'completely satisfied' to 'not at all satisfied'.

<b>publication of and getting acquainted with the invitation to tender</b>	<b>4,11</b>
<b>obtaining information necessary for the preparation of the tender</b>	<b>3,79</b>
<b>knowledge of the evaluation criteria of the tenders</b>	<b>3,58</b>
<b>communication with the institutions involved in the operating process</b>	<b>3,46</b>
<b>possibility to receive assistance from TPF</b>	<b>3,23</b>
<b>tender evaluation</b>	<b>3,03</b>
<b>process of signing the support contract</b>	<b>3,01</b>
<b>process of accounting the full amount of support</b>	<b>2,79</b>
<b>compliance with the prescribed deadlines and terms</b>	<b>2,70</b>
<b>process of paying part of the support fund</b>	<b>2,67</b>
<b>substantiation of the explanation in case the tender is rejected</b>	<b>2,49</b>
<b>on average</b>	<b>3,31</b>

## The levels of satisfaction with the different fields of the operational programmes and in general



## Summary of the findings of the performance audit / 5

<b>Main question:</b>	<b>Summary response:</b>
<b>Did the implementation of the NDP serve the prorated achievement of the objectives, and the utilisation of the available resources effectively and efficiently?</b>	<b>Some delay could be observed in the prorated implementation of the financial and physical objectives of the NDP. During implementation, the efficiency aspects of the utilisation of support were neglected while measures were taken to accelerate financial performance.</b>



**In addition to utilising the findings of the on-site  
audit we recommend:  
to the minister heading the Prime Minister's Office**

1. to ensure the balance and harmony of the financial planning and the physical and natural planning of the system of objectives during the preparation of NDP II.
2. to develop a system for support mediation that makes it possible to meet the processing deadlines prescribed by the legal regulations.
3. to require the quarterly breakdown of the financial schedule – forming a mandatory annex to the support contract – depending on the size of the project determined by means of risk analysis.
4. to ensure that a standard practice is developed for the planning of resource utilisation based on the financial annexes of the support contracts; to take measures accordingly for the acceleration of resources with regard to the N+2 years restriction on the utilisation of EU funds.
5. to have the harmony of the resources and objectives reviewed in places where regrouping was carried out.
6. to perform the cost-efficiency analysis of the institutional system of the Structural Funds, and thus foster the implementation of the planned institutional system of NDP II.

---

Thank you for your attention

[www.tothnekk@asz.hu](mailto:www.tothnekk@asz.hu)

Katalin Tóth

Head of Department

SAO of Hungary