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OFFICE OF HUNGARY

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of Audit Reports on the Financial Management and Control of
EU Funds in Hungary in 2010

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INTRODUCTION

In line with the efforts of the Contact Committee¹ comprised of the chairpersons of the SAIs of the EU Member States and the provisions in Paragraph 4 of Parliamentary Resolution No. 43/2005. (V. 26.) on the acceptance of the Report on the 2004 Activities of the State Audit Office of Hungary (SAO), this Summary presents Hungary's financial relations with the EU and the findings of the audits conducted in 2010 related to EU financial assistance. The Parliamentary Resolution requires the State Audit Office to provide a comprehensive picture of the practice of spending regarding all EU funds and, within this framework, to review from a professional aspect the work of national institutions performing the audit of financial flows related to EU funds as well as to present the audit findings.

The Summary on 2010 is the 6th in the series spanning a time period that provides a sufficient basis for the presentation of trends. In accordance with the original objective of the Summary, the President of the State Audit Office of Hungary decided that more prominence should be given to presenting the trends of utilising EU funds. To that end, indicators have been developed and used to keep track of the changes in the use of EU assistance. This Summary presents the main trends of recent years against a set of key indicators and their analysis – some of which indicators are quantified while others are not quantifiable.

As far as the time horizon of the Summary is concerned, the presentation of each topic continues to follow the basic principle of focusing on information, data and audit findings relevant to 2010. In order to achieve its main objective of drawing a comprehensive and objective picture, the Summary also discusses current events and developments in 2011.

The annual reports that are based on the processing of Member State data and reports are made public by the European Commission at the beginning of the second year following the year under review. Consequently, at the time of compiling this Summary the latest international comparative data were available for 2009. The Summary provides an analysis of Hungary's utilisation of assistance, i.e. its absorption capacity, its net position, and explains key developments at the level of the EU.

The Summary presents the tasks and powers of various organisations and their role in auditing EU funds. In this Summary, the participants of the institutional system are consistently described in the structure and with the names

¹ The Contact Committee has confirmed in a number of resolutions that the development of audits on EU Funds served the interests of the national parliaments of the EU Member States as well as the common interests of the Member States. An essential element of this is that the independent national SAIs should prepare reports on the utilisation of EU funds and the development of financial management in the respective Member State in the year under review. This may contribute both directly and indirectly to a more efficient and more transparent use of the EU budget.

applicable in the period under review, i.e. in 2010. For the sake of transparency, we give an overview of Hungary's payments to the EU budget, the utilisation of funds that are included in the central budget of the Republic of Hungary, of funds listed as out-of-budget items and of funds that can be applied for directly from the EU, as well as an evaluation of the spending of subsidies granted directly to local governments as beneficiaries. The Summary pays special attention to the subject of irregularities. In order to be comprehensive, the Summary also gives an account of funds indirectly linked to EU membership (EEA/Norwegian Financing Mechanism, Swiss-Hungarian Cooperation Programme).

In the course of compiling this summary, the SAO used the experiences of both internal and external, Hungarian and EU audit institutions. Although the findings of some of these audits (e.g. SAO) are available to the general public, it is appropriate that the Summary should also present such findings in order to be comprehensive. The audit findings of the European Commission, the Audit Authority/Body Responsible for issuing the Final Declaration and of the internal audit units are published in the Summary in a synthesized manner, as their reports are not public.

A major challenge for Hungary in 2010 was to increase the magnitude of the drawing of EU funds in the 2007–2013 EU budget period in a deteriorating economic situation. The National Development Plan was successfully closed financially in 2010, with the overall result of committing almost all of the funds. However, the closure procedure pointed out the need for more coordination in the operation of institutional actors, and that in the future more emphasis should be laid on the efficient and effective use of the funds and on the processes of irregularity and claims management.

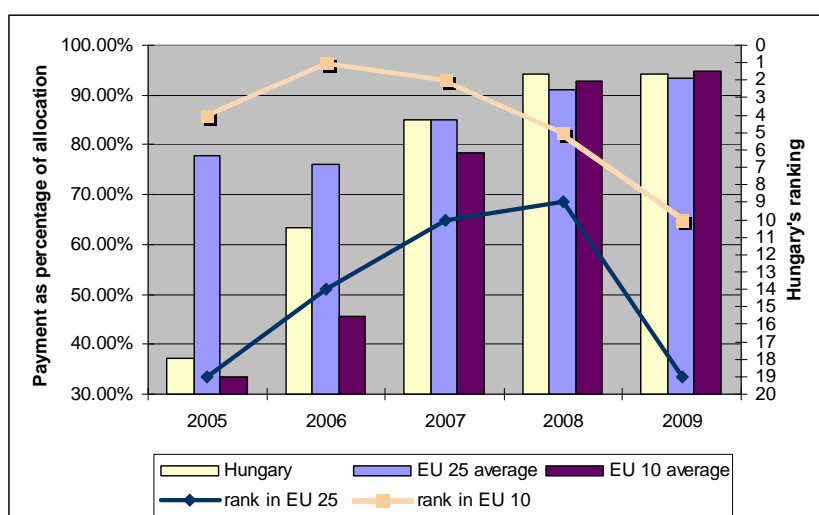
We hereby express our gratitude to the leaders and staff of the Ministry of National Economy, the Hungarian State Treasury, the Directorate General for Audit of European Funds, the National Development Agency, the Ministry of Rural Development, the Agricultural and Rural Development Agency and the National Tax and Customs Administration for their cooperation and readiness to help.

EVALUATION OF THE USE OF EU FUNDS AGAINST A SET OF INDICATORS

The present Summary aims to provide a comprehensive picture of how EU funds are used, the work of national organisations auditing such use, and the findings of the audits. The analysis – having had the same content and structure for years – enables the presentation of trends as reflected by the following six indicators, each focusing on a key issue.

1. Absorption in international comparison

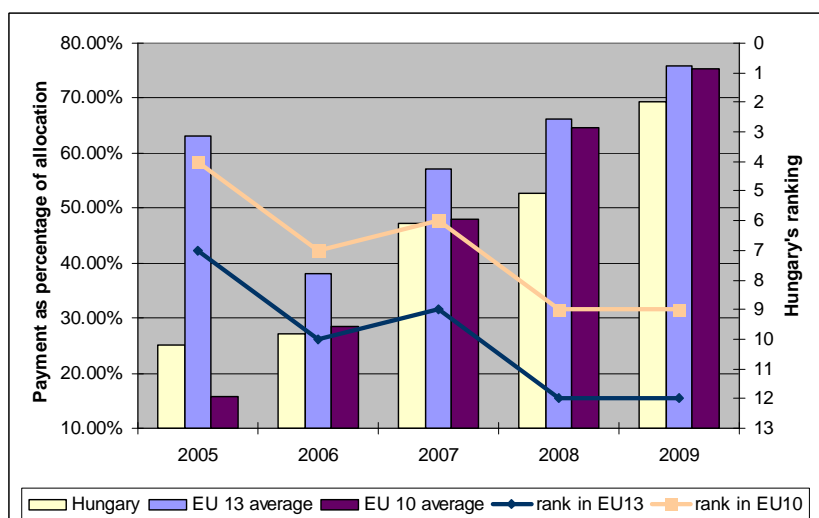
1.1. Structural Funds



In terms of Structural Funds payments, Hungary ranked in the middle except for the outstanding rates in 2006 and 2007. With its payment rate of 94.12% at the end of 2009, Hungary ranked 18th in the EU-25 at the close of the period, barely falling short of the 95% threshold.

Source: European Commission

1.2. Cohesion Fund



In terms of Cohesion Fund payments, Hungary has been on a steadily declining trend in comparison with other Member States ever since its accession. In 2008–2009, Hungary ranked in the lower third, ahead of only Poland and the two Member States that joined the EU in 2007.

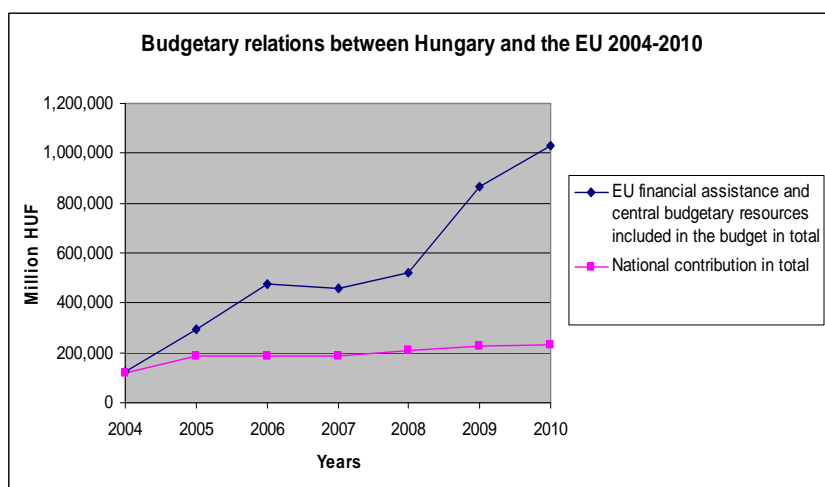
Source: European Commission

2. Evaluation of Annual Summaries

Each year, Hungary has complied with the Commission’s requirements for the Annual Summary.

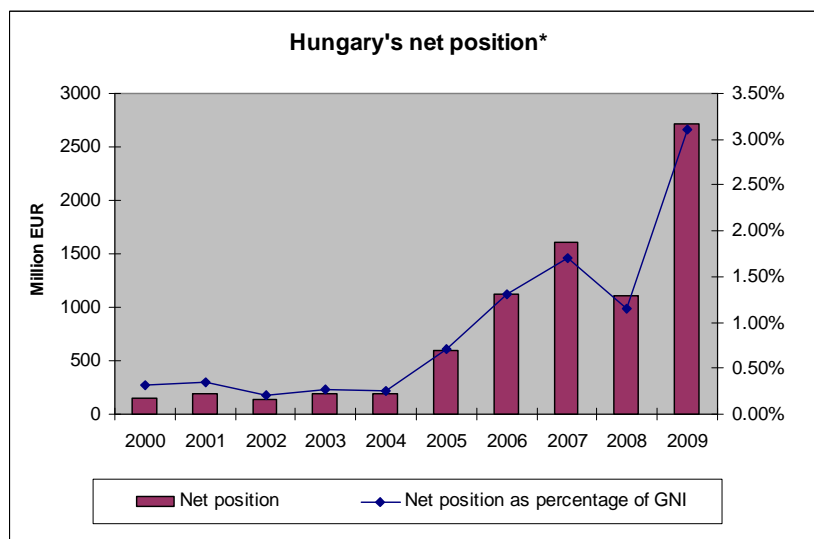
Evaluation criteria	2008	2009	2010
Annual Summary submitted to the Commission	✓	✓	✓
Use of the template provided by the Commission	✓	✓	✓
Comprehensive analysis on a voluntary basis	✓	✓	✓
Statement of assurance on a voluntary basis	✓	✓	✓
Compliance with minimum requirements	✓	✓	✓
Acceptance by the EU Commission	✓	✓	✓

3. Budgetary relations between Hungary and the EU



The funds appearing in the budget of the Republic of Hungary (EU + domestic resources) as well as the refund showed a gradual increase in the 2004-2010 period, with a slight decline in 2007 and a major upswing in 2009-2010. Amounting to nearly HUF 127 billion in 2004, EU expenditures stated in the budget reached HUF 1,032 billion in 2010. The national contribution also increased each year in parallel with increasing GNI and as a result of introducing GNI contributions for Sweden and the Netherlands.

4. Net position

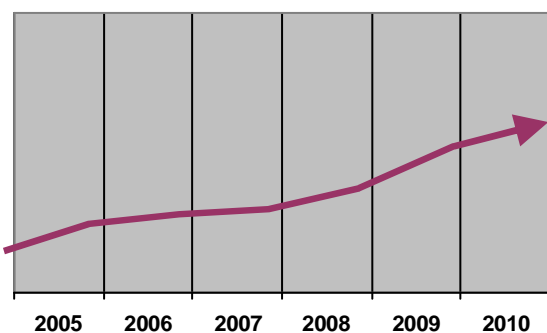


Hungary's financial balance with the EU budget has been positive ever since the pre-accession period. The 2007 balance of EUR 1,605.92 million corresponds to 1.7% of the GNI. Following the decline in 2008, the net position reached EUR 2,719.4 million (3.1% of the GNI) by 2009.

* adjusted difference of the payment obligation and the assistance plus operating cost

Source: European Commission

5. Rating of the conditions for assistance: medium



Essentially, the conditions were developed and applied in compliance with EU requirements.

The institutional system underwent extensive changes in 2010, also involving management and staff.

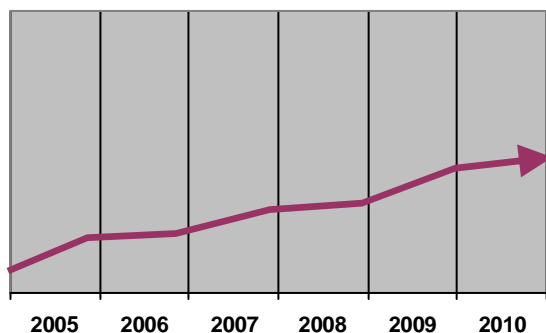
In 2010–2011, significant progress was made in respect of the control system for the regularity of public procurement in the area of regulating the use of assistance and the IT system.

The control and audit system requires improvement in certain other fields. Coordination between the various control levels is not efficient enough.

Despite continuous improvements to the Unified Monitoring and Information System, several deficiencies existed.

The measures taken to review public procurement process and the financing of Intermediate Bodies mark a trend of improvement in conditions.

6. Rating of irregularity management: medium



The practice of handling irregularity cases was not unified.

Irregularity procedures continue to take longer to conduct than their prescribed duration.

The reporting system is a critical area of irregularity management.

The implementation of the internet-based reporting system developed by the European Commission is considered a step forward.

The irregularity management processes have been reviewed by the National Development Agency.

Based on progress made in terms of the ratio of deficiencies and progressive initiatives, the mechanism of irregularity management is rated slightly better than the medium level of previous years.

SUMMARY EVALUATION, CONCLUSIONS

1. INTERNATIONAL COMPARISON IN THE LIGHT OF 2009 FIGURES

In order to evaluate the data on the utilisation of EU funds by Hungary, we examined Hungary's position among EU Member States in terms of financial effectiveness, i.e. the commitments made by Hungary for structural and cohesion assistance for the period of 2000-2006 and the amount of payments effected in 2009 in comparison with the other Member States. The international comparison relies on the annual reports of the European Commission published in 2010.²

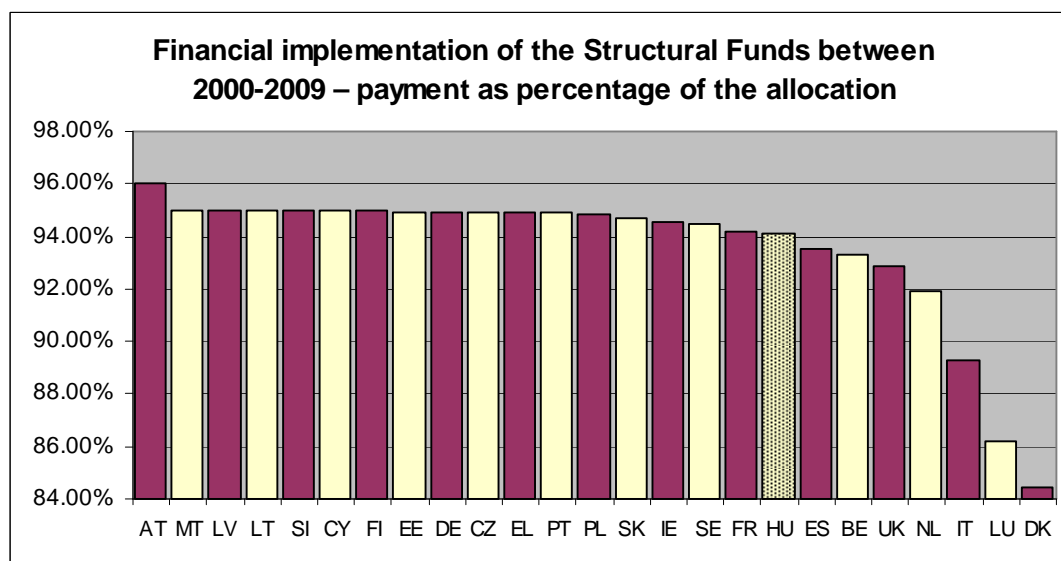
As regards **Structural Funds**, payments to Member States from the European Regional Development Fund (ERDF) for the period 2000-2006 amounted to EUR 121,200 million by the end of 2009, corresponding to 93.5% of the total allocation³. Payments from the European Social Fund (ESF) reached 93% of the total allocation by the end of 2009, with a total of EUR 63.8 billion disbursed to Member States over the entire period. Payments to Member States under the European Agricultural Guidance and Guarantee Fund (EAGGF) Guidance Section amounted to EUR 468.2 million in 2009, EUR 1.5 billion less than the amount paid in 2008. The reduction is due to the fact that by the end of 2008, 91.9% of the payment allocation for the entire period had been paid, and the majority of the programmes had reached the 95% payment threshold.

Payments from the Structural Funds were made to Hungary as follows: 62.1% ERDF, 22% ESF, 15.7% EAGGF Guidance Section, 0.2% Financial Instrument for Fisheries Guidance (FIFG). According to the Commission's Fifth Report on Economic, Social and Territorial Cohesion, preliminary findings indicate that EU assistance contributed to a nearly 1% increase in Hungary's GDP.

Hungary has committed 100% of its total allocation of EUR 1,995.72 million by contracts, and the volume of payments reached 94.12% by 31 December 2009. Payments by Member States range from 84.41% (Denmark) to 96.05% (Austria), with Hungary ranking in the middle (Figure 1). Overall, the 25 Member States used 93.49% of the EUR 211,875.16 million, indicating that Hungary performed above the average. The trend of the last years is shown in Indicator 1.1 on page 5.

²The EU-level summaries and reports prepared by the European Commission are based on data for 2009, due to the deadlines for the submission of reports and data by the Member States.

³ Under Article 32 of Council Regulation (EC) No 1260/1999 laying down general provisions on the Structural Funds, payments made in respect of a programme is limited to 95% until the programme is finally closed by the Commission.

Figure 1

Source: Report from the Commission, 21st Annual Report on the Implementation of the Structural Funds (2009)

As regards the **Cohesion Fund**, 100% of the payment credits for the projects financed under the two programming periods had been executed by 2009. Out of the five best performing Member States over the entire period (79.5% to 81.5%), four joined the EU in 2004. As in the previous year, Hungary ranked in the lower third with 69.4% payment ratio, ahead of only Poland and the two Member States that joined the EU in 2007 (Figure 2). The trend of the last years is shown in Indicator 1.2 on page 5.

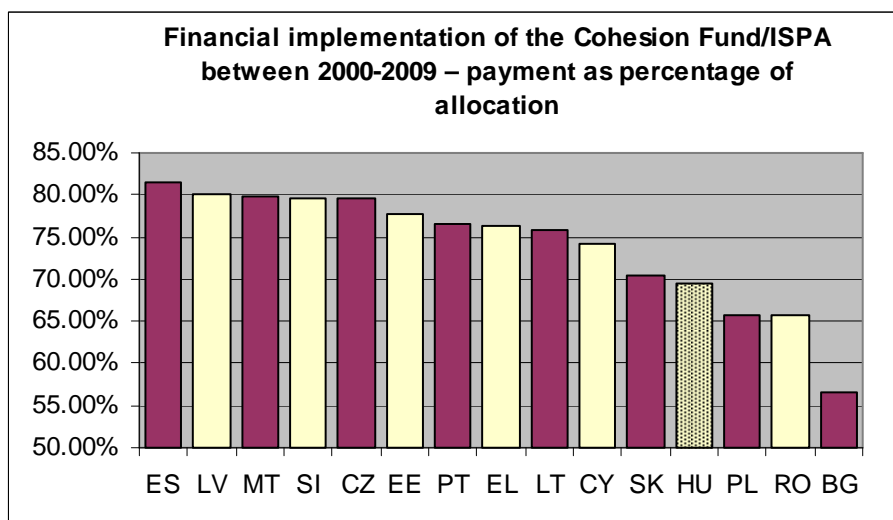
The number of projects to be closed was reduced from 976 in 2008 to 893 by the end of 2009. At the end of 2009, Hungary had 36 projects to be closed out of 47 in total.

According to the European Commission's 2009 Annual Report on the Implementation of the Cohesion Fund, an excessive deficit procedure was launched against a total of eleven Member States⁴, which could result in the suspension of payments from the Cohesion Fund. With respect to its previous recommendations on correcting the excessive deficit, the European Council decided in 2009 that Hungary had taken effective action to implement those recommendations, and issued new recommendations on the implementation of further measures.

An unqualified opinion was given for the Cohesion Fund systems in six Member States⁵ in respect of the functioning of the management and control systems, and for nine Member States including Hungary the opinion was qualified as having a moderate impact due to significant deficiencies affecting key elements of the systems.

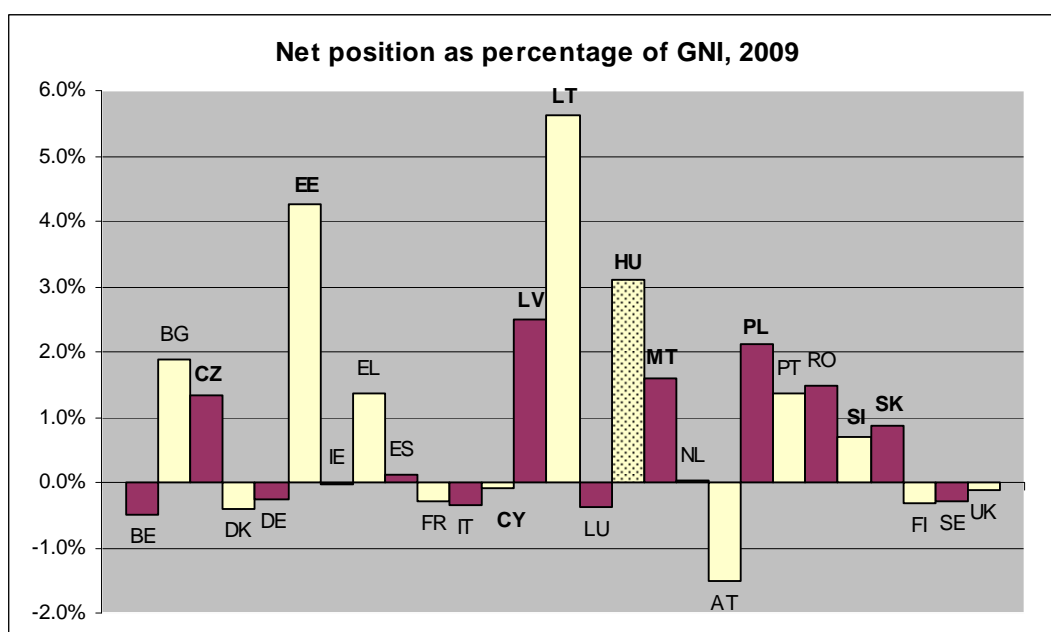
⁴ Greece, Spain, Portugal, Czech Republic, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia

⁵ Cyprus, Estonia, Greece, Malta, Portugal, Slovenia

Figure 2

Source: Report from the Commission, Annual Report on the Implementation of the Cohesion Fund (2009)

As regards **net position** in international comparison, Hungary ranks third in the EU-10 behind Lithuania (5.61%) and Estonia (4.27%) with an outstanding result for 2009. Germany continues to be the largest net contributor to the EU budget, contributing approximately EUR 8.1 billion in excess of the refunds it received. Following in rank are France (EUR 4.7 billion) and Italy (EUR 4 billion). However, if net positions are compared to the economic strength of the Member States concerned, Austria is the largest contributor to the EU budget with a negative net position corresponding to 1.5% of its GNI. In that regard, Germany ranks lower with a net position amounting to “only” 0.26% of its GNI, preceded by Belgium (0.49%), Denmark (0.42%), and Luxembourg (0.39%) (Figure 3).

Figure 3

Source: European Commission

Under the requirements of the general Financial Regulation of the EU, Member States, including Hungary, have been submitting statements to the European Commission in the form of **annual summaries** since 2007 concerning the regularity and legal compliance of EU-related revenues and expenditures based on reviews of management and control systems and sample checks by the national Audit Authorities.

The European Commission's Directorates General for Regional Policy and for Employment concluded in their annual implementation reports that the summaries of 26 out of the 27 Member States satisfied the minimum requirements set by the Commission. Additional data had to be requested in one case (Spain) on grounds of essential information lacking on the 2000-2006 period. Sixteen Member States presented comprehensive analyses on a voluntary basis, and the summaries of 11 Member States included comprehensive statements of assurance on expenditures in accordance with the Commission's requirements. Hungary's rating for the last three years is shown in Indicator 2 on page 6.

In its annual summary on 2010, Hungary presented a comprehensive analysis and issued a comprehensive statement. The Directorate General for Audit of European Funds issuing the summary was of the opinion that as at 31 December 2010, the management and control system of the structural measures determined for the 2000-2006 and 2007-2013 periods complied with the relevant regulatory requirements and worked efficiently. Accordingly, they provided adequate assurance that the expenditure declarations certified for the Commission were correct, and consequently they provided adequate assurance that the underlying transactions were legal and regular.

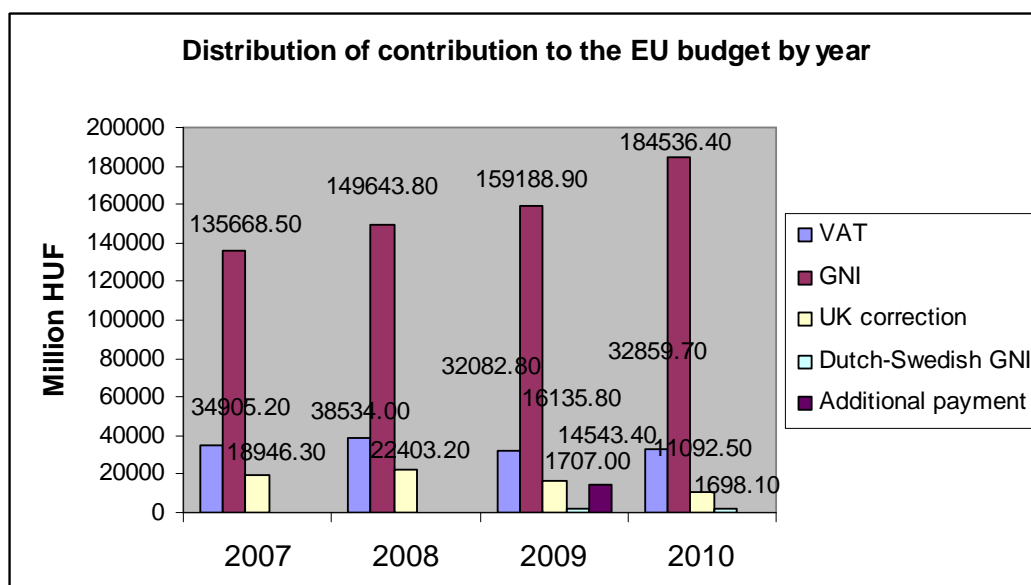
In 2010, Hungary prepared its National Action Plan for the national implementation of the **EU 2020 Strategy**, based on which it submitted the **National Reform Programme** to the Commission on 15 April 2011. In addition to structural reforms promoting growth, the Programme reinforced the quantified commitments included in the Action Plan with which Hungary intends to contribute to EU 2020 objectives and explained key government measures. The Commission published its evaluation of the national plans on 7 July 2011 with country-specific recommendations. Recommendations for Hungary included decreasing fiscal deficit and public debt, increasing access to the labour market, increasing the capacity of the National Employment Service, and improving the business environment by reducing administrative burdens.

2. FINANCIAL RELATIONS BETWEEN HUNGARY AND THE EUROPEAN UNION BETWEEN 2004 AND 2010

When examining EU transfers accounted for during the implementation of the budget of the Republic of Hungary and off-budget transfers (see Annex 2), it can be concluded that **Hungary's contribution to the EU budget** amounted to HUF 133 billion in 2004 and remained steady between 2005-2008, followed by a marked increase in 2009 and 2010. The national contribution and the internal structure of traditional own resources as well as the ratios of payment titles changed to a lesser extent between 2005 and 2007. From 2008,

national contribution showed an increasing trend, contrasting the declining trend of traditional own resources. In 2010, the increasing trend of national contribution continued while the amount of traditional own resources significantly exceeded the levels of the previous years (Figure 4).

Figure 4



Source: SAO final accounts report

Hungary's contribution to the EU budget through the national contributions increased year by year, the main underlying reason of which is that the growth in gross national income was coupled with an increase in the GNI-based contribution (calculated using a rate applied to the national GNI). The other reason for the increase in Hungary's payment obligation in 2009 was the entry into force of the GNI contribution obligation to be met for Sweden and the Netherlands and the related one-off additional payment. In 2010, Hungary's traditional own resources were significantly increased by customs duties, and the national contribution was increased by GNI-based contribution. The gross GNI for Sweden and the Netherlands, and the UK correction were lower than in the previous year.

The funds related to EU relations and appearing in the budget of the Republic of Hungary (EU + national sources) as well as the refund showed a gradual increase in the 2004-2010 period, with a slight decline in 2007 and a major upswing in 2009. Amounting to nearly HUF 127 billion in 2004, expenditures stated in the budget in relation to EU programmes (EU assistance + national sources) reached HUF 1,032 billion in 2010, including assistance accounted for on an ex post basis. The trend of the last years is shown in Indicator 3 on page 6.

In terms of its **net position**⁶, Hungary's financial balance with the EU budget has been positive ever since the pre-accession period. The increasing trend is due, in part, to the fact that from 2007 programmes were being implemented under two programming periods, and in part to Hungary's increased absorption capacity. The 2007 balance of EUR 1,605.92 million corresponds to 1.7% of the GNI. Following the decline in 2008, the net position reached EUR 2,719.4 million (3.1% of the GNI) by 2009. The trend of the last years is shown in Indicator 4 on page 7.

The level of EU assistance granted each year followed the life cycle of the programmes. Following the peak in utilisation in 2006-2007, the programmes of the 2004-2006 programming period (National Development Plan, National Rural Development Plan, PHARE/Transition Facility) gradually expired in 2008-2009. After a slow start in 2007-2008, the New Hungary Development Plan (NHDP) and the New Hungary Rural Development Programme (NHRDP) related to the new programming period showed outstanding utilisation figures in 2009. The utilisation rate of the NHDP was 1.5 times higher in 2010 than in the previous year, in contrast with a slight decline in the case of the NHRDP.

The utilisation of the Cohesion Fund resources was in line with the unfavourable picture presented in the international comparison. The projects progressed at a very modest rate: compared to the previous year, the ratio of payments increased by 15% in 2009 (this ratio ranged between 13-23% for the other Cohesion Fund beneficiaries), falling by a significant 28% in 2010.

Off-budget agricultural market subsidies varied year by year, showing a fluctuating trend. Following an outstanding amount of nearly HUF 300 billion in 2005, the subsidies dropped in 2006 and were on an upward trend until 2009, falling again in 2010 to approximately a half of the previous year's level. The amount of the subsidies was greatly influenced by the financing requirement of the intervention. In the case of direct subsidies, the rules allow accounting for the payments in the subject year as well as in the following year. That is the main reason for the differences in utilisation between years, which, however, has shown an increasing trend since 2006. The trend of the last years is shown in Indicator 4 on page 7.

In accordance with EU and Hungarian legislation, in 2010 the EU was due to receive HUF 230.2 billion from Hungary, while EU assistance and related national co-financing were recognised in the amount of HUF 1,032 billion. (New Hungary Development Plan: 70.11%, New Hungary Rural Development Programme: 16.06% Cohesion Fund: 8.65%, National Development Plan: 2.18%, other EU assistance: 1.89%, other structural assistances: 0.91%, Fisheries Operational Programme: 0.14%, National Rural Development Plan: 0.05%, SAPARD: 0.01%, Transition Facility: 0.01%). See Annexes 2 and 3/A for details.

In 2010, **off-budget subsidies** were paid in the amount of HUF 297 billion (SAPS: HUF 247.4 billion, agricultural market subsidies: HUF 49.7 billion),

⁶ Balance of the financial year concerned as adjusted with the items specified by the Commission.

prepaid from the Single Treasury Account by the Paying Agency and subsequently refunded to the state budget by the European Union (Annex 3/B). The SAPS subsidy directly paid by the EU was complemented by a national subsidy (top-up) of HUF 24.1 billion from national funds.

Within other EU revenues, the balance of the appropriations amounted to HUF -8.7 billion in 2010 as a result of subsequent reimbursement for EU assistance.

3. SYSTEM OF CONDITIONS FOR EU ASSISTANCE IN HUNGARY

The **institutional system** necessary for the receipt and administration of EU funds was established in Hungary in accordance with EU requirements and taking account of the national legal regulations. Key institutional actors are described in Annex 4.

Following the changes in government structure in 2010, extensive changes were carried out in the management and control system of structural subsidies, including the management and staff of the National Development Agency (NDA), the managing authorities (MAs) and intermediate bodies (IBs), as well as of the Audit Authority and the Certifying Authority.

As of 1 July 2010, the Government appointed the Directorate General for Audit of European Funds (DGAEF) as the legal successor to the Government Audit Office in charge of audit authority duties and other audit tasks in respect of assistance from the European Regional Development Fund, the European Social Fund, the Cohesion Fund, and other EU and international assistance.

High fluctuation and staff shortages in certain organisations remained a factor significantly increasing the risk to programme and project implementation.

The fluctuation rate was 89.7% at the organisation responsible for the control of the EU-related public procurement processes and 88.6% at one intermediate body, involving the replacement of virtually all staff. In the opinion of the SAO, insufficient staffing at the intermediate body for the Transport Operational Programme caused disruptions in the discharge of its duties as an IB. The same applied to the rest of the IBs under the direct or indirect supervision of the Minister of National Development. Opportunities for staff increase were limited under a directive by the Minister of National Development concerning wage management.

In 2010, managing authorities and intermediate bodies continued the parallel management of assistance programmes under the two programming periods. The tasks under the 2004–2006 programming period primarily concerned programme and project closure and irregularity, debt and claims management.

Although a system of Service Level Agreements (SLAs) between the National Development Agency and the intermediate bodies was introduced from 2007 to ensure the consistency of cost-effective and performance-based funding for intermediate bodies, the funding system of IBs remained inconsistent in 2010. The lenient performance requirements that were applied posed the risk of prematurely forespending the allocated funds. At the SAO's recommendation,

remuneration practices under SLAs were reviewed before the end of 2009, but the recommendations failed to be implemented in 2010. By June 2011, new SLAs were elaborated and concluded with intermediate bodies, taking account of the findings of the review.

Without prejudice to the responsibility of the European Commission for the execution of the general budget of the European Communities, the financial audit of EU funds is primarily assumed by the Member States. In connection with their duties, Member States shall perform control at three levels (financial management controls, system and sample checks as well as the review of final expenditure declarations).

As in previous years, audits conducted in 2010 identified **areas of management and control functions in need of improvement**, indicating the need to further strengthen the management and control system in particular with regard to managing authorities and intermediate bodies.

In respect of the 2007-2013 period, the Audit Authority provided an unqualified opinion only on three international cooperation programmes⁷. Qualified opinions were provided on each of the operational programmes of the New Hungary Development Plan. In case of the Fisheries Operational Programme, the body responsible for audit provided an unqualified opinion.

According to the findings of the SAO audit on the final accounts, the human resources of the Internal Audit Department of the National Development Agency were insufficient for auditing the use of EU funds, with particular regard to the fact that it also had other duties to attend to including record keeping, data supply, risk management, etc. Taking into account the workload and the number of staff involved in internal audit, the SAO maintained its previous finding that in 2011, the available capacity of the Internal Audit Department would be sufficient to cover only a fragment of the audit tasks assigned to it. In order to ease capacity constraints and to perform special tasks (e.g. with technical, public procurement and financial content), the Internal Audit Department engaged experts, subcontractors and external resources. However, the Internal Audit Department also had to allocate capacities for the coordination of external audits.

The SAO found that the first-level reviews by the managing authorities and intermediate bodies, with a few exceptions, essentially complied with requirements. In the field of on-the-spot checks preceding payments, deficiencies were found in terms of regulation and the conduct of the reviews.

In its capacity of Paying/Certifying Authority, the National Authorising Officer's Office conducted 13 fact-finding visits in 2010, during which it identified minor deficiencies primarily of an administrative nature that did not influence on the eligibility of costs.

⁷ European Territorial Cooperation programmes between Hungary and Romania and Hungary and Slovakia, and the South East Europe Transnational Cooperation Programme.

Reviews by the Treasury often detected deficiencies relating to the completeness of the data in the Unified Monitoring and Information System and delays in administration. Findings also concerned irregularity management on grounds of meeting deadlines and the level at which irregularity decisions had been documented.

Pursuant to the findings and recommendations of EU audits conducted in Hungary⁸, an agreement was reached between the National Development Agency and the European Commission on restructuring the control system for public procurement, the reinforcement of financial management controls, and the development of a public procurement action plan containing the measures to be taken. As a result of the process, the control system for public procurement was modified in two stages, and the new system was also provided for in Government Decree 4/2011. (I. 28.)

In respect of public procurement procedures related to EU funds, the tasks related to financial management controls were carried out from 27 November 2010 by the Department for the Supervision of Public Procurement, established on the basis of the Unit for Procurement and Coordination within the National Development Agency. The tasks related to quality reviews, regularity reviews and reviews of amendments to public procurement contracts remain in the new system, but the beneficiary is obliged to take account of the findings contained in the reports of the Department for the Supervision of Public Procurement. The commencement of any public procurement procedure and the announcement of its result require approval from the Department. Countersigning any services contract by the intermediate body requires the Department's approval with respect to public procurement law.

The new rules of procedure are applicable to public procurement procedures commenced after 8 December 2010. The opinion of the SAO is that public procurement projects commenced prior to that date should be reviewed in a timely manner before programme/project closure in order to avoid any financial corrections. Otherwise public procurement irregularities would continue to pose a high risk to Hungarian budget resources.

With regard to the control system for EU assistance, parallel and overlapping reviews and excessive burden on the auditees are persistent problems. However, account should be taken of the fact that audit authorities work in different hierarchies, with different audit objectives, and have to be independent from one another in functional terms.

As part of auditing the implementation of the 2010 budget of the Republic of Hungary, the SAO, in respect of the EU Developments chapter, qualified the reliability of chapter-managed appropriations and their compliance with the provisions of the Act on Accounting and of Government Decree 249/2000. (XII.

⁸ In several cases, the EU Commission found that in Hungary, public procurement related to EU assistance was not administered in compliance with the relevant directive. The public procurement types of negotiation without a call for competition and restricted call were applied too often instead of the open procedure, thereby limiting the access of enterprises to contracts financed from public money.

24.) on Specialities of the Public Finances Organisations' Reporting and Public Accounting Rules. The National Development Agency (NDA) prepared a partial statement for each operational programme/chapter-managed appropriation on the use of the chapter-managed appropriations of Chapter XIX 'EU Developments' in 2010. The statements are aggregated in the consolidated statement on chapter-managed appropriations. The final accounts audit formulated a separate opinion on each partial statement.

Out of the 31 partial statements prepared by the NDA, an unqualified opinion was provided by the SAO on 13 statements, 8 of which (Economic Development OP, Implementation OP, INTERACT 2007-2013, Appropriation Use Accounts, Appropriation Use Accounts for Task Financing Environment, Agriculture and Rural Development OP, Economic Competitiveness OP, Environment Protection and Infrastructure OP) included an emphasis of matter paragraph. Qualified opinions were given on 11 partial statements (Cohesion Fund environmental projects, Transport OP, Social Renewal OP, Social Infrastructure OP, Environment and Energy OP, Central Transdanubia OP, North Great Plain OP, Central Hungary OP, European Territorial Cooperation, EEA / Norwegian Financing Mechanism projects, Human Resources Development OP), and 7 partial statements (State Reform OP, Electronic Administration OP, West Pannon OP, South Transdanubia OP, South Great Plain OP, North Hungary OP, Swiss-Hungarian Cooperation Programme) were rejected, failing in the SAO's opinion to provide a true and fair view of the material and financial situation of the entities under review.

Errors were detected in the total amount of HUF 16.4 billion, corresponding to 1.87% of the total expenditure in the consolidated statement on chapter-managed appropriations of the EU Developments chapter, pursuant to which the SAO issued a qualified opinion on the consolidated statement. The majority (88.9%) of the errors were detected during the audit of balance sheets. The errors detected had an impact on the authenticity of the balance sheets, and will also impact the cash-based accounting of subsequent years.

As in previous years, audits in 2010 **identified a number of deficiencies in respect of the recording and monitoring systems** managing individual assistance programmes.

Audits on the **Unified Monitoring and Information System (UMIS)** concluded that the system had basically done a good job of keeping records, but, despite improvements in the course of time, it still had several deficiencies. The reliability of data content was reduced by the fact that intermediate bodies uploaded the UMIS records in different ways and to various extents. Several audits pointed out that the records in the system were neither complete nor up to date.

To ensure the stable and efficient operations of the UMIS, the National Development Agency extended and restructured the system in several stages, as part of which a number of existing functions were enhanced and rationalised. The live operation of the INTERREG Monitoring and Information System (INTERREG MIS) 2007-2013 started during 2009 and 2010 following the upload of live data for each programme. The system will become fully functional based on the lessons learned from the first stage.

According to the information from the Hungarian State Treasury responsible for the operation of the **Treasury Monitoring System** (TMS), and in line with the statement of the National Development Agency, the technical conditions for data exchange were available, but data transfer from the UMIS was still neither regular nor complete in 2010.

The **Integrated Administration and Control System** (IACS), enabling the management and recording of agricultural subsidies and the relevant payments, provided adequate IT support despite minor delays in the development of software facilitating the implementation of procedures, and the deficiencies identified.

In the course of examining the legal compliance of payments effected by means of unique generation while the operation of the system was suspended (owing to the suspended service of the developer and operator), the Internal Audit Department of the Agricultural and Rural Development Agency put forward a proposal for the earliest possible adoption of orders, the detection of duplicate payments, and the correction of certain incorrectly recorded data. In order to ensure that cases of legal remedy are fully documented in the IACS, the Department proposed that court decisions adopted pursuant to court action should be filed and scanned immediately following receipt by ARDA.

The Certifying Body found that four developers have write, modify and delete access to the live database of the IACS, causing a conflict of roles. (According to the information provided, this is necessary because developers occasionally carry out emergency troubleshooting in the live IACS.)

As regards the contractual relations concerning the development of the IACS, the Internal Audit Department contested the fact that the Agricultural and Rural Development Agency failed to develop and follow a strategy for the stronger enforcement of its interests which would have reduced its dependency on third parties, offered a choice of alternatives, or resulted in better negotiating positions and reduced costs in the course of contracting.

The trend of the conditions for EU assistance in Hungary (institutional system, control system) is shown in Indicator 5 on page 7.

A critical area of **irregularity management** is the reporting system, as on several occasions the reports were inaccurate and incomplete, and/or were sent late. The final accounts audit by the SAO found the reporting system unreliable and unsuitable for drawing substantiated conclusions.

It was not possible to establish whether a particular organisation did not send its report because no irregularities occurred, or due to omission. The organisations at different levels of the reporting system were not subject to audit obligations and did not perform such functions. Practice was inconsistent as regards the form of reporting irregularities.

In 2010, in order to ensure uniform compliance with Member States' obligation to provide information, and to improve the quality of irregularity reports, the OLAF Coordination Bureau provided Hungarian organisations with a sample report and a detailed completion guide in addition to organising professional events for the staff of institutions involved in reporting.

The lack of a precise definition of irregularity has been a problem for years both at the Member State and at the EU level, as a result of which various practices evolved as to what cases to handle in an irregularity procedure and what cases to report on the basis of the procedure. Therefore, the number of cases and the amounts concerned are not sufficient in themselves to describe the appropriateness of the irregularity management system.

In order to comply with the European Commission's requirement for electronic data supply and to correct the above deficiencies, OLAF introduced a new reporting system in 2010. The Irregularity Management System (IMS) also covers communication between the Member State and the Commission as well as between the organisations within the Member State.

The internet-based IMS simplifies and accelerates the reporting process, while contributing to improved data quality on irregularities. The records can be queried against various criteria, enabling efficient traceability as well as faster and more in-depth analysis of the data contained in the reports. The full deployment of the system in Hungary in the field of structural assistance has been hindered by the fact that in order to avoid recording the data in two systems (UMIS and IMS), the establishment of the IT connection is expected only when the modules have been finalised.

Based on evaluations and analyses of irregularities and of the claims resulting from irregularities, the National Development Agency decided to conduct a comprehensive review of the national regulation on irregularity management. The review led to changes in the provisions for irregularity management and in the relevant chapter of the Common Operational Manual. Progress has been made in a number of other fields such as the possibility of legal remedy, records on the first occurrence of irregularities, other procedural clarifications, introduction of the simplified procedure, mandatory examination of wilful conduct, and an updated reporting section.

In its final accounts audit, the SAO identified the time required for conducting and closing irregularity procedures as being the most critical aspect of irregularity management. The time limit of 45 calendar days as specified in Hungarian legislation was rarely observed in practice. Proceedings in an average case took 54 days to conduct for intermediate bodies and 76 days for the National Development Agency.

Aware of this problem, the institutional system launched a complex review of the irregularity system at the end of 2010. As a result, Government Decree 4/2011. (I.28.) laid down an updated procedural time limit for the examination of irregularities, specifying the dates of commencing and terminating the procedure and the possibility to suspend procedural time limits.

In respect of the 2004-2006 programming period, the institutional system forwarded 83 irregularities to the OLAF Coordination Bureau in 2010, including OLAF Reports to be added to the recording system and previously submitted as a result of data cleaning for OLAF Reports. The majority of irregularities occurred under Economic Competitiveness OP and Human Resources Development OP.

In case of the New Hungary Development Plan, a relatively small number of irregularities were detected, with 25 new cases reported to the OLAF Coordination Bureau in 2009 and 36 in 2010. Most of the irregularities occurring concerned the Social Renewal OP, in particular training. As regards agricultural subsidies, 114 cases concerned the EAGF and 16 cases concerned SAPARD in 2010.

Based on NDA data, in most cases the irregularities were detected in the course of first-level reviews, usually while reviewing documents/invoices during on-the-spot checks. The vast majority of the procedures were conducted by intermediate bodies, with a minority being conducted by managing authorities. In 82% of the procedures, irregularity investigations were also conducted, and irregularities were found in 48.7% of the cases investigated, and fraud was suspected in 21 cases (0.58%). It is important to note that owing to the data deficiencies referred to earlier, the analysis fails to provide a reliable overview of the situation of irregularities.

Based on progress made in terms of the ratio of the deficiencies explained and proactive initiatives, the mechanism of irregularity management is rated slightly better than the medium level of previous years (Indicator 6, page 8).

In the absence of the claims management module in UMIS for the New Hungary Development Plan, intermediate bodies in charge of claims management were forced to find workaround solutions such as keeping Excel-based records. As a result, the data on record were incomplete and were not automatically accessible by the managing authority⁹.

In 2010, the volume of claims continued to increase significantly. The increasing amounts underline the importance of claims management, as significant amounts may have an impact on the use of allocations for operational programmes. Recovery of outstanding claims becomes increasingly difficult over time, with an elevated exposure to bad debts. According to UMIS data, the recovery rate for claims was approximately 55%.

The effectiveness of collection to secure the claims varied by case and was often doubtful. The level of claims was influenced by exemption from providing further collateral¹⁰. The number and amount of claims depended on the amounts of assistance for the projects under the given operational programme, as well as on the number and type of beneficiaries. These were also the main influences on the degree to which collateral secured recovery of the claims (typically between 70-80%). In the event of failure or irregularity of projects implemented by government beneficiaries, bad debt is incurred by the budget.

In the case of amounts to be reclaimed but not to be collected, the SAO identified several cases where, most frequently on grounds of the lacking claims

⁹ The functions required to trace and manage withdrawn and recovered claims became operational on 1 November 2011.

¹⁰ No collateral is required in respect of assistance below HUF 25 million, non-investment support and assistance for research and development, and for budgetary institutions.

management module in the UMIS, instead of demanding immediate repayment, the money was left with the beneficiary or on the administrative account for months, thereby financing the beneficiary and making the same degree of negative impact on the budget. Delays may be a risk to making full use of the allocations for the operational programmes.

The SAO found that the regulation of claims management was detailed and thorough, and intermediate bodies generally organised claims management adequately. However, speed is essential in carrying out the tasks, as the later the required measure is taken, the greater the risk of failure¹¹. In the case of litigation, bankruptcy and liquidation, there is virtually no chance for recovering the claims. A more efficient supervision and control of intermediate bodies by managing authorities is particularly hindered by the lack of the claims management module in the UMIS, which has not been completed for years¹².

In the case of subsidies for agriculture and rural development, beneficiaries had the right to appeal free of charge, and the essentially compensatory solution for protracted claims management enabled beneficiaries to use the unlawfully claimed assistance for years in certain cases, and without any interest charged. For lack of regulation, the ARDA did not charge default interest on its claims, therefore these costs also had to be financed temporarily by the national budget.

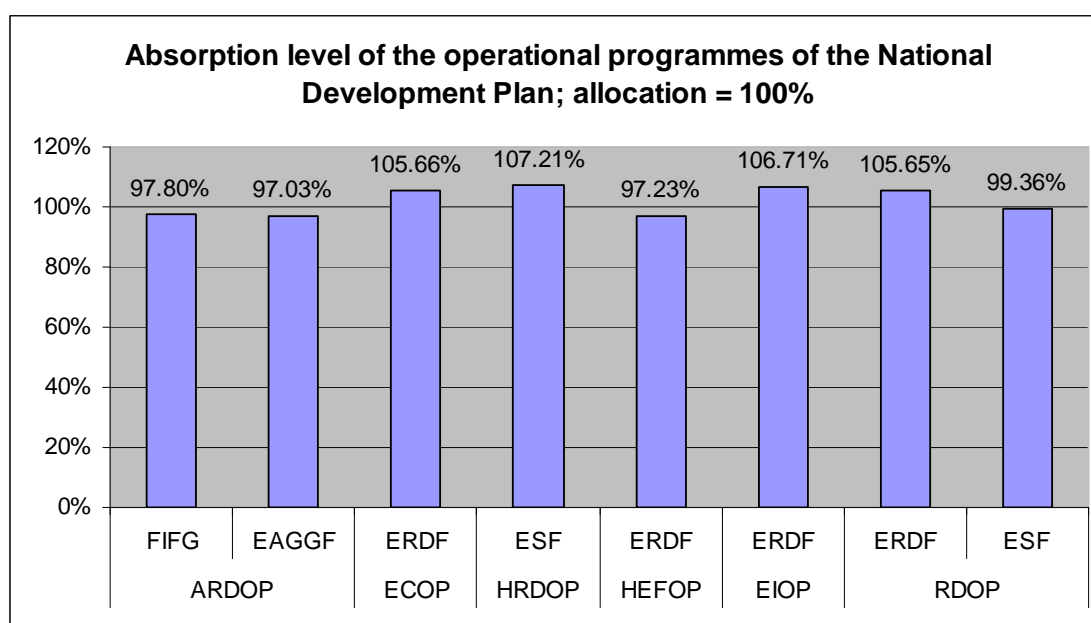
4. MAIN FINDINGS AND CONCLUSIONS OF AUDITS AND REPORTS ON THE USE OF EU FUNDS IN 2010

Under the **National Development Plan**, assistance was paid in the amount of HUF 678.12 billion for the 19,410 contracts in effect. 66.1% of the contracts were awarded to SMEs receiving a quarter of the assistance in volume. The greatest share of the assistance (58.1%) was channelled to non-profit organisations of the state and local governments.

The implementation of the National Development Plan in financial and absorption terms can be considered effective, using 99.1% of the financial allocation (see Figure 5 for absorption levels). However, minimising the loss of resources entailed additional national expenditure. Unused allocations amounted to approximately HUF 6 billion. In order to meet absorption targets, so-called reserve projects were supported, as a result of which the related costs exceeded the original allocation by approximately HUF 26.5 billion (5-7%).

¹¹ The NDA incorporated a number of preventive controls (compensation, collateral, deduction) to guard against the above, cf. Instruction by the Ministry of National Development No. 24/2011. (V.6.), Common Operational Manual, Chapter XV.

¹² Based on information from the NDA, preparations for the development were made in 2010, and the functionality is expected to be implemented in autumn 2011.

Figure 5

Source: final expenditure declarations for the operational programmes

In addition to evaluating the execution of the National Development Plan in terms of absorption, more emphasis must be placed on evaluating achievement of performance targets and the realisation of findings. The effectiveness of the programmes can be assessed only following the closure of the complete closing process by the EU Commission.

The National Development Plan contributed to the creation and preservation of a total of 34,500 jobs and training for approximately 330,000 individuals as part of the quality development of human resources. As a result of the assistance, the homes of 113,000 residents were connected to the sewerage system, and 723 km of roads were constructed, modernised or renovated. However, the implementation of the NDP failed to improve the economic and social differences between the regions, thus the balanced development of Hungary's regions remains a priority. 78% of Regional Development OP funds were channelled to the four less developed regions, but due to the modest amounts of assistance and the variety of objectives, the impact of the OP was felt in only a few limited geographical areas that concentrated the demand for grant programmes and assistance.

Due to the financial crisis and in order to increase absorption, Hungary submitted a request to the Commission asking for an extension of the deadline for the eligibility of the expenditures related to the Economic Competitiveness OP, Environment Protection and Infrastructure OP, Human Resources Development OP, Agriculture and Rural Development OP and EQUAL Community Initiative until 30 June 2009. In its decision, the Commission authorised the extension of the eligibility period, extending the deadline for the submission of programme

closing documents and final declarations until 30 September 2010, with the exception of the Regional Development OP.¹³

The systems audits preceding the final declarations generally found a limited occurrence of errors. No significant deficiencies were found with ARDOP-FIFG, RDOP, HRDOP and EQUAL, where all or a vast majority of the claims had been recovered before closure. Therefore, the Body Responsible for Issuing the Final Declaration issued an unqualified final declaration. Qualified final declarations were issued in respect of Economic Competitiveness OP, Environment Protection and Infrastructure OP and ARDOP-EAGGF on grounds of the large number of open irregularity cases and failure to collect the unlawfully used assistance in the case of a large number of projects.

With all operational programmes, some cases remained open (e.g. irregularity procedures) and pending (e.g. incomplete projects), concerning which the Commission asked Hungary for clarification.

Before this Summary was closed, the European Commission had approved the final expenditure declarations for RDOP ERDF and HRDOP ESF and ERDF, which it found to be in compliance with the provisions of the relevant EU regulation and the closure guidelines. Consequently, the amounts specified in the declarations were transferred to Hungary. The Commission approved the final implementation report for the Environment Protection and Infrastructure OP.

The closure of programmes under the 2000-2006 programming period involves the risk that claims outstanding upon closure of the EU Commission's review process and bad debts are charged to the national budget.

Under the **Cohesion Fund**, the EUR 1,500 million Community assistance allocated to Hungary for the 2000-2006 period was available until 31 December 2010. Extended deadlines for project closure could be requested from the EU Commission with reasonable justification.

The payment deadline for one transport project was extended until 30 June 2012. For seven environmental projects, the Managing Authority requested extended deadlines for project completion, of which five requests have been approved to date by the EU Commission, with the rest of the requests pending.

Out of the 43 projects financed by the Cohesion Fund, the Commission to date has approved three of the seven closing financial statements submitted. The closure of eight projects has been postponed until 2011-2012. For the remaining 28 projects, physical closing had been completed, but the closing financial statements were not prepared in due time, due partly to open irregularity cases and the absence of final reports. The SAO considers this to be a risk because in the event of significant delays, the EU Commission may refuse to pay the withheld 20% out of the EU funding provided.

¹³ In case of RDOP, the deadline of 31 December 2008 for the eligibility of expenditures was maintained, and the final declaration was to be submitted to the Commission until 30 March 2010.

Virtually all transport projects reached the 80% payment rate: EU payments reached 81% by 31 December 2010. Environmental projects had a 48% payment rate, which could put the full payment of the commitment at risk. In the case of one transport and two environmental projects, the EU Commission approved the statements and transferred the withheld 20% of EU funding to Hungary.

In its final accounts audit, the SAO found that the regulation of procedures for the maintenance period were established in due time at the intermediate body for environmental projects, and was in progress at the transport IB at the end of 2010. As only a short time had elapsed since project closure, maintenance reports were not received. The Managing Authority and the IBs are not aware of any project where the maintenance of the completed investment is doubtful.

During 2010, the Body Responsible for Issuing the Final Declaration conducted two audits in the transport sector preceding the issuance of the final declaration. Qualified final declarations were issued in both cases.

The remaining projects are being closed in 2011, which, however, is impeded by excessive burden on the institutional system from simultaneous closures. Consequently, the closing statement and final declaration had not been completed for any of the projects by the time this Summary was closed.

Within the framework of the programmes of **INTERREG IIIA**, altogether 388 cross-border projects and 65 transnational/interregional projects were implemented on the Hungarian side. As a result of overcommitments, contracts were concluded for 106% of the original allocation.

In 2010, the Body Responsible for Issuing the Final Declaration concluded that only a few errors had occurred, and that they had been adequately handled by the organisations participating in the process. The shortcomings were deemed to carry low risk in terms of the regular and transparent operation of the system as well as from the standpoint of controllability.

Based on the review and evaluation of the systems audits preceding closure, unqualified final (sub-)declarations were issued for all four INTERREG IIIA programmes.

The total value of the assistance awarded by the EU to Hungary within the framework of the **Transition Facility** programme for 2004-2006 amounted to EUR 37.07 million, complemented by national co-financing of nearly EUR 11.19 million (excluding VAT). The professional and financial implementation of the projects was closed in 2010, and 94.3% of the contracted amount had been paid.

According to the information received from DGAEF, following the reorganisation of the implementation agency tasks of the Central Finance and Contracts Unit, documents were being transferred between the National Development Agency and VÁTI Nonprofit Ltd. in 2011, being a major obstacle to conducting audits, which are still in progress as a result.

Out of the 2,342 applications submitted in three rounds under the **EEA and the Norwegian Financing Mechanism** programme, 99 were approved,

and 99.21% of the available allocation was committed to applications. 85 projects were closed within the deadline, the remaining payments related to the interim reports are due by 31 October 2011. The final reports are to be approved by the donor states by 30 April 2012.

The National Focal Point cancelled 8 projects, and the time limit for the implementation of another 6 projects was extended until 30 April 2012 with the approval of the donor states and subject to strict conditions.

A positive finding of on-site monitoring visits was that grant application funds were highly successful particularly at regional level, enabling the implementation of small, low-budget projects, which were, at the same time, spectacular and very useful for smaller communities. The critical phase of implementation comprised the preparation and conduct of public procurement. In addition, project pre-financing was a difficult task for project owners that were not well capitalised. The quality of project management was generally a key factor in project implementation.

The audit of VÁTI Nonprofit Ltd. acting as intermediate body conducted by the Internal Audit Department of the National Development Agency found eligibility and documentation problems. An audit by the Internal Audit Unit of the Paying Authority found that overall the Paying Authority performed its duties in compliance with the requirements; however, deficiencies were detected in setting the accounting exchange rate and calculating the buffer amounts associated with the repayment of assistance.

On 1 January 2007, the second programming period started for Hungary, resulting in the potential allocation of development resources amounting to nearly HUF 7,000 billion (EUR 24.9 billion, including national co-financing) until 2013 within the framework of the **New Hungary Development Plan (NHDP)** and its 15 operational programmes.

In view of the financial allocation available for 2007-2013, the time proportionate financial implementation of the New Hungary Development Plan significantly fell below the planned level. According to the NDA's assessment, 54% of the seven-year financial allocation had been awarded to beneficiaries up to 31 December 2010, 48% had been contracted, and 17% had been paid (Table 1). The ratio of awarded and contracted assistance was higher for programmes with large financial allocations, among which the Transport OP has contracted an outstanding 67% of its allocated assistance.

Table 1**Progress of the NHDP by procedure type, 2007–2010**

	NHDP allocation		Awarded funding		Contracted funding		Paid funding	
	EUR million	HUF billion	HUF billion	%	HUF billion	%	HUF billion	%
Priority projects			1779.42	22%	1615.02	20%	573.07	7%
Tendering schemes			2176.17	27%	1927.32	23%	671.58	8%
Financial instruments*			230.3	3%	205.33	3%	63.57	1%
Technical assistance			209.65	3%	194.56	2%	97.28	1%
NHDP	29,319	8,209	4,395.54	54%	3,942.23	48%	1,405.50	17%

Source: NDA report on the utilisation of development assistance from the EU

* includes the amounts paid to the resource management organisation

Exchange rate: EUR/HUF 280.

The number of large Transport OP and Environment and Energy OP projects approved by the Government rose to 28, of which the NDA forwarded 26 to the European Commission. From these, 21 projects were supported by the Commission until the end 2010. Assistance was contracted for approved large projects in excess of 25% of the entire contract volume under the New Hungary Development Plan, with payment level approximating 20% of all payments.

The assessment of action plans identified the lack of feedback to the Operational Programmes in the mechanism of action plan development. The professional aim of further concentrating the use of funds was only partially fulfilled by action plans: in the 2009-2010 period, in case of certain operational programmes the apparent concentration of schemes actually meant their subdivision into additional components. As of 2010, the NHDP reformed by the new Government has been renamed as New Széchenyi Plan. In 2011-2013, Hungary has access to approximately HUF 2,000 billion worth of EU funds.

According to the SAO's final accounts report, the deadlines set for the grant process phases were not fully observed by managing authorities and intermediate bodies, which may lead to delays in the payment and use of grants. The 75-day time limit allowed between the submission of applications and the adoption of grant decisions was exceeded in the case of almost a half of the projects under review. In case of the items under review, the periods between grant decisions and contracting were unnecessarily long (35 to 194 days).

According to the interim assessment of the status of the New Hungary Development Plan as at 31 December 2009, in view of the past payment

schedule and of accelerated contracting in 2009-2010, much of the payments will be made in 2012. Such a 'bottleneck' in payment carries risks, i.e. the exchange rate applicable at the time of drawing funds during the year concerned can be critical.

The interim assessment underlines having found the field of effectiveness to be the most deficient, and that the measurability of results and impacts needs further improvement. Recommendations are made to rethink the conditions of certain schemes, to identify target groups appropriately, to strengthen territorial cohesion, and, in order to ensure an adequate level of absorption, to review the implementation risk in high-budget projects. In parallel with reducing the administrative burden on beneficiaries, there is also a need for more intensive auditing and, as highlighted in other analyses, for closer cooperation between the ministries developing specific strategies, the National Development Agency, and the intermediate bodies representing the operational level.

The Audit Authority detected the following general problems with respect to the New Hungary Development Plan:

- Deficiencies and unclear regulation of quality reviews on the tasks delegated by the managing authorities to intermediate bodies and/or resource management organisations. In case of technical assistance projects, errors were detected in the field of reporting by IBs.
- High risk, systemic deficiency in the field of conducting and auditing public procurement procedures and of harmonising the legal framework with the EU legislation. The joint Decree 16/2006. (XII. 28.) by the Minister of Prime Minister's Office and the Minister of Finance does not specify whether in the case of assistance over HUF 1 billion, IBs are supposed to conduct a preliminary review of the public procurement documents submitted in the first round of two-round projects.
- Suspected irregularities detected in connection with eligible costs are attributable to deficiencies in the first-level control system and the inadequate definition of eligible costs.
- A stricter observation of deadlines is needed particularly in the case of decisions on applications for grants, contracting, payment processes and the submission of irregularity reports.

The following main problems emerged with respect to individual operational programmes:

In the case of the Transport Operational Programme, the DGAEF detected a systemic error of high risk to the functional independence of the institutional system, and several errors of medium risk mainly concerning the consistence of guidance on eligibility. On grounds of the findings of the previous systems audit and of the public procurement irregularities involved in the Budapest Metro Line 4 project, the European Commission interrupted the payments on a Transport OP transfer request. Following an investigation, the Commission effected the payment.

A high-risk deficiency identified by the systems audit of the Environment and Energy Operational Programme was the absence of questions concerning public procurement in the Common Operational Manual and the checklist for intermediate bodies, as a result of which information obtained from ex post reviews of project progress reports were not connected to payments. The public procurement procedures for the preparation projects launched pursuant to Government Decision No. 1067/2005. (VI. 30.) were considered to be of risk by the Audit Authority, the Commission and the European Court of Auditors, as a result of which the Managing Authority began the review of public procurement procedures for the so-called 'Decision 1067' projects.

In the case of the Social Infrastructure and Social Renewal Operational Programmes, the methodology of on-the-spot checks does not classify beneficiaries' use of account summaries as a risk factor, thus relatively large amounts of expenses settled often fail to be checked. The European Commission's audit of the Social Renewal Operational Programme in 2010 found that owing to deficiencies in the audit trails of the Managing Authority and the Intermediate Body, it was not possible to determine the volume of assistance given from various sources to each beneficiary, which could lead to the irregular accumulation of assistance. Hungary has submitted its comments on the audit findings to the Commission.

In the case of the State Reform and Electronic Administration Operational Programmes, project audits detected errors of high risk and suspected irregularity for lack of reasonable grounds for the selection of public procurement procedure types, failure to conduct public procurement procedures, and unjustified acceleration of negotiated procedures. The detected errors exceeded the materiality threshold. For that reason, the management system for the two OPs was classified as 'partially operational and requiring substantial improvement'.

The systems audit on the Central Hungary Operational Programme classified the entire OP to be of high risk in terms of the deficiencies in the Managing Authority's monitoring of intermediate bodies and the resource management organisation. The Audit Authority suspected a system-related irregularity in certain outsourced tasks of the IBs being outsourced in violation of statutory requirements, particularly of those laid down in the Public Procurement Act; however, the suspected irregularity was not substantiated by the procedure conducted. Overall, a recommendation was made to strengthen the first-level control system in order to ensure the regularity of operations. Similarly to the Economic Development Operational Programme, problems had emerged with the JEREMIE programme¹⁴ concerning application of the 'de minimis' rule.

Through the Central Hungary OP, the EU Commission reviewed whether the Audit Authority operated in compliance with EU regulations, and whether annual audit reports and opinions were substantiated. The review of the Managing Authority, the intermediate bodies and the Certifying Authority found that the Audit Authority had audited the management and control systems of the OP in compliance with standards; however, some deficiencies were pointed

¹⁴ Priority 1.3 of the Central Hungary OP

out. Concern was raised that the IBs had failed to develop procedures to monitor maintenance following programme closure, and on-the-spot checks had only been carried out following submission of the final payment request.

The 2010 implementation reports on Regional Operational Programmes under the Convergence Objective identified local governments' drastically reduced funding as a general problem. Reduced funding led to a number of project withdrawals in various project stages. The absence or delayed access to own resources poses the risk of delays in concluding subsidy contracts, thereby putting the progress of the entire programme at risk. This was confirmed by the SAO's audit, which found that subsidy contracts had been concluded for only about a third of the applications received. The 2009 systems audit by the Audit Authority found that it was important to strengthen the Managing Authority's supervision of intermediate bodies particularly in the case of the MA for RDOP, which supervises a total of 13 intermediate bodies including those of the Central Hungary OP and a resource management organisation. Project audits identified several cases of suspected irregularity concerning the selection of the type of public procurement procedure.

Due to the nature of **cross-border and transnational programmes** under the European Territorial Co-operation objective of regional policy, programmes were implemented at varying paces in 2010. For certain programmes, new calls for applications were announced; grant decisions were adopted following the evaluation of the projects submitted, and subsidy contracts were concluded. Implementation of previously supported projects had begun, and in some cases payments had also started.

The Audit Authority issued an unqualified opinion for each of the four cross-border programmes funded by ERDF. According to the internal audit at the National Authorising Officer's Office, the processes of the Certifying Authority related to the European Territorial Cooperation Programme were applied in compliance with the Operational Manual and the provisions of the relevant EU and national legislation. As a deficiency, the report pointed out the absence of the irregularity module in INTERREG Monitoring and Information System 2007-2013.

In the case of the Hungary–Slovakia–Romania–Ukraine European Neighbourhood and Partnership Instrument Cross-Border Cooperation Programme, the NDA Internal Audit Department pointed out deficiencies in the development of the INTERREG MIS 2007-2013 programme and the procurement of equipment. During its site visit, the European Commission found that the management and control systems of the European Neighbourhood and Partnership Instrument were compliant; however, it indicated the need for further development in a number of areas to improve efficiency. The Commission put forward recommendations concerning the use of accrual-based accounting, the development of the INTERREG MIS, the rules of origin applied in public procurement, the completion and use of checklists, signatures on bank transactions, appropriate use of the four eyes principle, and the separation of operational and financial duties.

The Audit Authority issued unqualified opinions in respect of the Hungary-Romania and Hungary-Slovakia Cross-border Cooperation Programmes, the

South East Europe Transnational Cooperation Programme, and the Hungary-Croatia IPA Cross-border Co-operation Programme. Opinion was rejected on the Hungary-Croatia IPA Cross-border Co-operation Programme concerning the period between 1 July 2009 and 30 June 2010, as the compliance assessment of the management and control systems of the programme, submitted on 30 June 2010, was approved by the EU Commission on 6 August 2010, and in 2009, costs were not settled with the EU Commission, thus no systems audits or sample checks were carried out.

For the general programme “**Solidarity and Management of Migration Flows**”, the Audit Authority conducted a joint systems audit on the European Integration Fund (EIF), the European Refugee Fund (ERF) and the European Return Fund, and a separate systems audit on the External Borders Fund (EBF). The 2009 systems audits of the 2007 programme found that in the absence of approved rules of procedure to regulate the tasks of tendering, awarding grants and contracting, the application of a legally compliant procedure was not fully guaranteed. Based on the 2010 systems audits of the 2008 programme, the Audit Authority confirmed overall compliance in terms of the specification, allocation and functional separation of the tasks of the bodies involved in management and control, and the specification of decision-making and responsibility levels within each body.

According to the systems audit on information technology, the IT system provided adequate support for the processes concerned, the roles and responsibilities relating to the system were adequately delimited, and records were complete and up to date to the required extent. However, deficiencies were found in the development of regulation, documentation, access to the test and training environments, operations, and in regulations for data protection and confidentiality.

Project audits detected systemic deficiencies primarily in the field of regulation. In several cases, the detected systemic deficiencies had an impact on all projects, generally in terms of regulation. For EIF, the audit of the 2007 allocation detected suspected irregularity in public procurement in respect of technical assistance, and a one-off error concerning 2008. In one ERF project, expenses were claimed which were not eligible under the Fund (2007 allocation). As regards the EBF, the audit detected suspected irregularities relating to public procurement and the payment of assistance without reasonable justification in case of two projects (allocations in 2007 and 2008). As a result of the subsequent procedures, financial corrections were made.

In case of EBF projects audited in 2010, only a part of the expenses claimed were eligible, as a result of which financial and physical implementation was not regular in certain cases.

One-off errors detected in the course of project audits concerned the field of IT records, on-the-spot checks, cash vouchers, compliance with accounting deadlines, and human resources administration.

Based on its systems and project audits, the Audit Authority found it justified to issue unqualified opinions for all four funds on both years under review.

The priorities of the **Swiss-Hungarian Cooperation Programme** were implemented to varying extent. 2010 was mostly a year of tendering activities; in a few cases, projects were also evaluated and selected. In the case of most priorities, however, evaluation and contracting was not completed until 2011, and project implementation started for three of the priorities.

Audits by the DGAEF and the NDA Internal Audit Department detected systemic errors of high risk in respect of technical assistance in the fields of eligibility, the reliability of records and the level of documentation. The systemic errors were confirmed by sample checks.

Overall, the DGAEF found that in the national institutions established for assistance management, the institutional and regulatory requirements for the discharge of duties were met despite minor deficiencies, and the conditions for implementing the Programme according to its objectives are adequately provided. Internal procedures and operational manuals were consistent with the applicable legislation.

Commitments under the Swiss Contribution can be undertaken within 5 years following the decision by the Swiss parliament on providing the funding made on 14 June 2007, in a way that the last project proposals can be submitted two months prior to the final commitment date of 13 June 2012, i.e. before 13 April 2012.

With regard to **agricultural and rural development subsidies**, based on preliminary data, HUF 533.5 billion were used in 2010, 79.8% of which was from EU funds. This amount is about three times the amount of subsidies in the year preceding EU accession, and falls short of the 2009 payments by approximately HUF 100 billion.

The allocation from EU sources approved by the European Commission for direct subsidies exceeded EUR 831.57 million (HUF 229.3 billion) in 2010, which was complemented by national top-up funding (HUF 24 billion) provided from own resources.

As part of the CAP reform, additional funds were reallocated to the New Hungary Rural Development Programme after 2010. As part of the European Economic Recovery Package, the European Council awarded EUR 48.3 million to Hungary, the full amount of which Hungary is using to restructure the milk sector.

Subsidies amounting to nearly EUR 5 billion (HUF 1,300 billion)¹⁵ can be drawn through the measures of the **New Hungary Rural Development Programme**, mainly for investments aiming to increase the competitiveness of the agricultural sector and to preserve the values of the natural and rural built environment. The amount of EU and national subsidies of nearly EUR 600.83 million¹⁶ in 2010, were paid with regard to the legal titles of subsidies announced within the framework of the NHRDP (regions falling

¹⁵ The EAFRD allocation for 2007–2013 is EUR 3.8 billion, amounting to EUR 5.26 billion together with the national co-financing.

¹⁶ HUF 167 billion calculated at an exchange rate of EUR/HUF 277.95.

under the convergence and non-convergence objectives together), 24.49% of which was used for the payment of obligations undertaken as part of the National Rural Development Plan, carried over to the New Hungary Rural Development Programme.

Payments by the Commission were effected in the form of advances, based on declarations of expenditure. The total amount of the advance and subsidy transferred by the EU exceeded EUR 1.369 million between 2007-2010. Meeting the liability stemming from the 'n+2' rule is not expected to cause a problem, as financial performance reached 123.55% by the end of 2010.

As in case of the National Development Agency, human resource capacities were not aligned with tasks to be performed. Based on the problems revealed during the final accounts audit by the SAO, the attitude of the management of the Ministry towards audit issues was criticised. Therefore, as in previous years, the audit recommended a reorganisation of working processes, the strengthening of independent internal audit, the alignment of resources with tasks, and the realisation of the findings detecting the deficiencies.

As regards consistence between the funds needed to implement EU agricultural subsidies and national co-financing, and advances on such funding needs from the Single Treasury Account, the SAO's final accounts audit found that prior to the completion of the audit, no regulation was available to provide at least a framework to determine the rules for the management and institutional use of the uncommitted funds temporarily available to the Agricultural and Rural Development Agency (ARDA) being in charge of managing the appropriation and agricultural subsidies.

In the case of agricultural and rural development subsidies, the **Certifying Body** (CB) in charge of external audit issued an unqualified opinion on both the EAGF and the EAFRD, and established that the reports to be submitted to the Commission on the 2010 EAGF and EAFRD financial year were, in all material aspects, reliable and complete, and provided a fair view of the total net expenditure charged to the EAGF and the EAFRD.

The Certifying Body found that the system of on-the-spot checks was organised and operated at the Paying Agency in an efficient and regular manner. In line with the SAO's final accounts report, concerning the performance of tasks by the Internal Audit Department of the ARDA, the CB concluded that the Department performed its tasks in compliance with the applicable legislation and presidential instructions.

The Certifying Body detected a major error concerning the conformity of financial limits: the ARDA had exceeded the 2009 financial allocation for SAPS by a significant amount of EUR 3.8 million, attributable to the calculation of the redistribution rate. The CB maintained its earlier recommendations on allocation monitoring concerning the development of an allocation monitoring module in IACS, and the compilation of a list of pending court actions involving the ARDA.

As a deficiency of medium significance, the CB further noted that the implementation manual for the SAPS was incomplete as regards the specific terms of advance payments while also failing to specify the requirements for part payments (as a result, it was not possible to verify whether the ARDA was effecting part payments only after all required reviews had been closed).

The Certifying Body found with respect to auditing that regular reviews on the operations of local action groups were not enabled by the EAFRD Managing Authority, therefore the EU's requirement that the MA should intensively supervise local action groups was not fully complied with.

Concerning direct and indirect subsidies financed by the EAFRD, the Certifying Body established findings of medium significance in respect of the control activities of payment authorisation, administrative reviews, and the assignment of powers.

Concerning requests for assistance and payment relating to assistance under the titles 'Procurement of standalone machinery and technological equipment without construction', 'Modernisation of cultivation facilities' and 'Adding value to agricultural products' of the New Hungary Rural Development Programme, a review by the Ministry of Rural Development found deficiencies in connection with authorisation documents, planning and implementation.

The European Commission paid a total of six audit visits to Hungary in 2010. The compliance audit on restructuring in the sugar industry found that Hungarian authorities had not complied with the requirements, as in former sugar production facilities a number of structures (mainly silos) remained despite the use of assistance for full dismantling. Following bilateral negotiations initiated on grounds of differences in interpreting the restructuring regulations, Hungary submitted supplementary information to the Commission. The inquiry was in progress at the time this Summary was closed.

As part of reviewing EAGF/EAFRD cross compliance, the Commission found that Hungarian authorities had failed to comply with the requirements laid down in the relevant regulations, therefore it proposed corrective measures. The Commission also put forward recommendations for the general structure of the control system, audit statistics on sanctions, the selection of audit samples, compliance with the requirements for the Good Agricultural And Environmental Conditions, stricter conduct of on-the-spot checks, tasks relating to audit reports, and the application of deductions and exclusions. The audit was in progress at the time this Summary was closed.

As part of the compliance audit of the Single Area Payment Scheme and the area-based rural development scheme for 2008-2009, recommendations were made to update the reference parcels in the Land Parcel Identification System and in the Geographical Information System (e.g. due to inland waters), to exclude aerodromes from eligible areas, to assess the application system, and to bring the results of on-the-spot checks up to date.

In connection with the audit on producer groups and producer organisations, the Commission disapproved the practice followed when granting preliminary recognition. The scope of the audits conducted by ARDA until 2010 did not

include a review of the minutes of the annual general meetings of the producer organisations concerned. Following bilateral negotiations between the European Commission and the Hungarian authorities, the latter submitted the supplementary information requested by the Commission. The audit was in progress at the time this Summary was closed.

As part of its review of the measure 'Agri-environment and Less favoured Areas' under Axis II of the New Hungary Rural Development Programme, the Commission put forward findings, inter alia, about compliance with the basic requirements of agri-environmental commitments, verification of compliance, and sanctions for non-compliance. In June 2011, bilateral negotiations were held between the Commission and the Hungarian authorities. Sanctions continue to be negotiated, concerning which the Commission has requested supplementary information. The draft reply was being edited at the time this Summary was prepared.

Following its 2009 review of EAFRD measures 'Modernisation of agricultural holdings' and 'Recognition of producer groups', the Commission contemplated exclusions amounting to a significant EUR 20 million. In ARDA's judgement, the financial risk in managing the title 'Modernisation of agricultural holdings' was significantly lower than that assumed by the Commission. Supplementary data were supplied as part of further negotiations, and the authorities commissioned an independent expert to carry out an inquiry. The inquiry was in progress at the time this Summary was closed.

Based on the comments made during the review of accounting clearance of the EAGGF Guarantee Section concerning the wine sector and in particular the abandonment of vineyards and the restructuring and conversion of vineyards, as well as the distillation of by-products, no proposal was put forward for financial corrections.

The key findings of the ECA's 2010 performance audit of the measure 'Modernisation of agricultural holdings' (Measure 121 of the NHRDP) concerned the focus of support for rural development programmes, the national methods of implementing the investment measure, the satisfaction of the needs of individual approved investments as specified in the NHRDP, and the collection of evidence (reports, studies, assessments on the impacts of the measure). The comments of the Hungarian authorities about the non-viability of the simple replacement of existing investment assets (replacement investments) were forwarded to the ECA, and the ECA's reply did not arrive by the time of closing this Summary.

During its on-site visit relating to the Single Area Payment Scheme, the ECA detected a presumed quantifiable error and a known error: the excess of the national financial allocation in 2009, and over-declaration resulting from the payment of assistance for an inaccurately measured area. The Hungarian authority explained the derogation from the financial allocation and provided a detailed description of the methods for refund of overpayments by final beneficiaries, and the impact of such refunds on assistance amounts.

At the third level of the control system, the Special Service selected 73 economic entities for the 2009/2010 audit period, and all audits included in the audit plan

were closed. The 2010/2011 audit plan for the EAGF included 102 planned and an additional six exceptional ex-post audits. By 30 June 2011, 101 ex-post audits had been completed, with the remaining 7 ex-post audits being suspended because of ongoing cross-checks in Hungary and abroad. Based on requests from abroad, the Special Service undertook two audits in 2010, and informed the requesting Member State about the findings of those audits. In 2010, the Special Service contacted foreign special services in five cases and received a response in each case.

With respect to **SAPARD**, the 2010 audit by the Certifying Body was directed at the SAPARD agency tasks concerning the operation period of the projects and the management of the outstanding claims. As a separate aspect, the audit covered the financial closing of the projects as well as the examination of the rules of procedure related to irregularity management and the projects concerned. In respect of accreditation criteria, findings and recommendations of minor significance were made on organisation, resources and written procedures, whereas internal audit and the separation of powers were found to be compliant.

As in previous years, the Certifying Body pointed out that the human resource capacity was still not sufficient in each branch office to perform the monitoring tasks. Shortfalls were found in carrying out the document-based monitoring activities in the case of several branch offices concerning the evaluation and assessment of the annual reports.

In connection with the financial closure of projects, the Certifying Body established that the Operational Manual adequately explained related tasks such as the rules of procedure regarding the cancellation of lien, authorisation letters and other collateral, and the documentation kept in project folders at the branches was found to be compliant.

During the review of the rules of procedure of irregularity management, the Certifying Body found that the rules of procedure provided sufficient scope for action for ARDA for withdrawal and cancellation due to irregularity, and did not allow ARDA to initiate unlawful withdrawal. At the branches, the cases were traceable, and the documents of the irregularity management procedure were available in the project folders. The Certifying Body deemed the completeness, accuracy and handling of the records of claims adequate.

Annexes: 5 ea 22 sheets

ANNEXES

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- Annex 2 Budgetary relations between Hungary and the European Union
2004–2010
- Annex 3/A EU subsidies included in the bill on the execution of the 2010 budget of
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- Annex 5 Audits, summaries and reports relevant to the year 2010 serving as a
basis for the present Summary

ABBREVIATIONS

ARDA	Agricultural and Rural Development Agency
ARDOP	Agriculture and Rural Development Operational Programme
CAP	Common Agricultural Policy
CB	Certifying Body
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
EAGGF	European Agricultural Guidance and Guarantee Fund
EBF	External Borders Fund
ECA	European Court of Auditors
EEA	European Economic Area
EIF	European Integration Fund
ENPI	European Neighbourhood and Partnership Instrument
ERDF	European Regional Development Fund
ERF	European Refugee Fund
ESF	European Social Fund
EU	European Union
EU-10	The 10 Member States that joined the EU on 1 May 2004
DGAEF	Directorate General for Audit of European Funds
FIFG	Financial Instrument for Fisheries Guidance
Final accounts	Report No. 1117 on the Audit on the Execution of the Budget of the Republic of Hungary for the Year 2010
GDP	Gross Domestic Product
GNI	Gross National Income
HRDOP	Human Resources Development Operational Programme
IACS	Integrated Administration and Control System
IB	Intermediate Body
IMS	Irregularity Management System Internet based irregularity reporting system
INTERACT	INTERREG Animation Cooperation and Transfer
INTERREG MIS	INTERREG Monitoring and Information System
IPA	Instrument for Pre-Accession Assistance
JEREMIE	Joint European Resources for Micro to Medium Enterprises
MA	Managing Authority
NAO	National Authorising Office
NDA	National Development Agency
NDP	National Development Plan
NHDP	New Hungary Development Plan
NHRDP	New Hungary Rural Development Programme
OLAF	European Anti-Fraud Office (Office Européen de Lutte Anti-Fraude)
OP	Operational Programme

RDOP	Regional Development Operational Programme
SAO	State Audit Office of Hungary
SAPARD	Special Accession Programme for Agriculture and Rural Development
SAPS	Single Area Payment Scheme
SI-HU	Slovenia- Hungary cross-border cooperation programmes 2007-2013
SLA	Service Level Agreement
UMIS	Single Monitoring and Information System
Treasury	Hungarian State Treasury

Budgetary relations between Hungary and the European Union 2004-2010

HUF million

Contribution to the EU budget	2004	2005	2006	2007	2008	2009	2010
Customs duties	13 461,0	26 571,9	26 913,8	27 980,9	26 689,4	24 883,2	34 275,4
Sugar levies/production charges		1 546,6	600,0	-59,4	1 637,4	471,1	162,5
Traditional own resources total	13 461,0	28 118,5	27 513,8	27 921,5	28 326,8	25 354,3	34 437,9
VAT-based contribution	19 111,5	26 820,8	30 456,5	34 905,2	38 534,0	32 082,8	32 859,7
GNI-based contribution	88 320,3	141 970,7	139 025,9	135 668,5	149 643,8	159 188,9	184 536,4
UK correction	12 289,6	17 478,6	16 129,5	18 946,3	22 403,2	16 135,8	11 092,5
Dutch-Swedish GNI (from 2009 on)						1 707,0	1 698,1
(One-off) Additional payment						14 543,4	
National contribution total	119 721,4	186 270,1	185 611,9	189 520,0	210 581,0	223 657,8	230 186,7
Other		374,4					

HUF million

Support titles included in the national budget (EU+central budgetary resources)	2004	2005	2006	2007	2008	2009	2010
National Development Plan	5 608,3	121 834,2	233 115,2	209 521,4	116 753,8	32 037,1	22 765,0
New Hungary Development Plan				10 003,1	124 957,5	468 807,9	729 080,1
Other structural assistance	1,8	968,7	7 953,8	11 642,3	8251,2	2625,0	9 566,9
Cohesion Fund/ISPA	19 625,1	44 410,6	100 188,0	94 682,6	107 444,4	123 478,8	89 925,9
Schengen Facility	0,0	3 248,9	9 678,6	35 580,3	591,1		—
National Rural Development Plan	0,0	49 681,8	65 938,4	66 835,7	9911,8	810,7	483,5
New Hungary Rural Development Programme				18 704,2	84 803,0	184 496,6	167 019,1
SAPARD	14 949,5	29 712,0	9 196,3	1 398,3	-	183,8	43,5
Fisheries Operational Programme						52,7	1 467,0
PHARE/Transition Facility	43 841,6	32 801,5	39 937,6	5 203,5	4386,8	1464,3	626,1
Other EU assistance	—	2 027,3	4 484,1	5 440,1	11 896,8	15 290,2	19 760,3
Total financial assistance	84 026,3	284 685,0	470 492,0	459 011,5	468 996,4	829 247,1	1 040 737,4
Subsequent refund of EU assistance	42 813,4	8 457,7	7 773,9	—	51 102,6	28 670,5	-8 734,4
Total of EU financial assistance and central budgetary resources included in the budget	126 839,7	293 142,7	478 265,9	459 011,5	520 099,0	866 069,2	1 032 003,0

HUF million

Out-of-budget items financed directly through the Single Treasury Account	2004	2005	2006	2007	2008	2009	2010
Agricultural subsidies*	855,0	159 133,3	19 826,5	47 653,2	47 623,7	91 421,0	49 748,7
Single Area Payment Scheme	77 647,0	148 022,9	93 405,7	119 992,1	156 173,0	228 712,1	247 412,0
Total	78 502,0	307 156,2	113 232,2	167 645,3	203 796,7	320 133,1	297 160,7

* agricultural and intervention subsidies

Source: SAO reports on the execution of the budget of the given year

**EU subsidies included in the bill on the execution
of the 2010 budget of the Republic of Hungary
and the the related national co-financing**

HUF million

Amounts included in the central budget as funds received from the EU, and the related national co-financing resources	Expenditures from EU resources	Expenditures from central budgetary resources	Total Expenditure
National Development Plan	0,0	22 765,0	22 765,0
Cohesion Fund	19 020,7	70 905,2	89 925,9
New Hungary Development Plan	669 375,2	59 704,9	729 080,1
Other structural assistance	1 769,7	7 797,2	9 566,9
National Rural Development Plan	0,0	483,5	483,5
New Hungary Rural Development Programme	112 692,1	54 327,0	167 019,1
Fisheries Operational Programme	1 098,4	368,6	1 467, 0
SAPARD	0,0	43,5	43,5
Transition Facility	215,7	410,4	626,1
Other EU financial assistance	9 806,5	9 953,8	19 760,3
Refunds (including the subsequent refund of EU assistance)	-8 734,4	0,0	-8 734,4
Total financial assistance *	805 243,9	226 759,1	1 032 003,0

EU subsidies implemented via out-of-budget funding

Out-of-budget items financed directly through the Single Treasury Account	Total Single Treasury Account financing (HUF million)
Direct subsidies to producers (SAPS)	247 412,0
Agricultural marketing subsidies	46 051,0
Export subsidies	480,9
Internal market subsidies	19 143,6
Other agricultural market subsidies	26 913,9
Of which: separated sugar subsidies	11 064,4
Market interventions	3247,7
Reimbursement of intervention related warehousing and transportation costs	2950,1
Reimbursement of intervention related financing costs	297,6
Total out-of-budget items	297 160,7

Management and control system of structural and agricultural subsidies in Hungary

Management and control system of structural assistance in Hungary

In order to create an efficient institutional system necessary for the receipt and utilisation of funds related to structural assistance, as of 1 July 2006 the Government established the **National Development Agency** (NDA) as the general legal successor of the former National Development Office. The **managing authorities** of the operational programmes of the 2004–2006 and 2007-2013 programming periods (National Development Plan – NDP, New Hungary Development Plan – NHDP) performed their tasks within the organisational framework of the NDA. In the new government structure, the NDA is supervised by the Ministry of National Development.

The National Development Agency also acted as a Managing Authority in respect of programmes under the EQUAL and INTERREG Community Initiatives, the Cohesion Fund, the IPA and ENPI financial instruments and certain ETC programmes. The NDA's responsibilities also included the preparatory, organisational and coordination tasks related to PHARE and the Schengen Fund, the Transition Facility, the EEA/Norwegian Financing Mechanism and the Swiss-Hungarian Cooperation Programme.

The managing authorities delegated a part of their tasks to **intermediate bodies** (IBs), while retaining responsibility for the operational programmes. Fifteen intermediate bodies were designated to implement the New Hungary Development Plan.

The tasks of the managing authorities and intermediary bodies continued following the financial closure of the operational programmes, because even after physical closure, it is necessary for projects to be monitored for maintenance, on-the-spot checks to be performed, maintenance to be verified for compliance, and claims to be managed.

For the adequate verification of expenditures, the **National Authorising Officer's Office** (NAO Office) as a **Paying/Certifying Authority** was authorised to control the whole system with regard to financial administration. In the course of preparing irregularity reports and submitting such reports to the European Commission, the NAO Office was acting as a liaison and control point between the executive body and the OLAF Coordination Bureau. In addition, the Paying/Certifying Authority also carried out fact-finding visits and fact-finding audits in order to certify for the European Commission, in a substantiated manner, the efficient operation and legal compliance of the management and control system of the organisations (Managing Authority and Intermediate Body) certifying the expenditures stated in cost declarations.¹⁷

¹⁷ As of 1 January 2011, the National Authorising Officer's Office operates as part of the Hungarian State Treasury.

With respect to the EEA/Norwegian Financing Mechanism and other instruments for assistance, the NAO Office performed the tasks arising from the relevant international agreements and related to financial administration, accounting records, cost verification and control activities. Additionally, in compliance with EU standards, it performed the financial administration, accounting and institution development tasks assigned to the Ministry of Finance/Ministry for National Economy of Hungary in relation to the pre-accession instruments and the Transition Facility.

The **State Audit Office of Hungary**, being the financial and economic audit organisation of the National Assembly and the supreme audit organ of the state is entitled, in the capacity of external auditor, to conduct audits concerning all areas of public finances, and – by controlling the utilisation of assistance received from the EU and payments to the EU – it efficiently participates in protecting the financial interests of the EU.

The **SAO's mid-term strategy**, revised in December 2010, aims to promote the transparent and sound management of public finances with its value creating audits performed on a solid professional basis, thus contributing to 'good governance'. To that end, in addition to the enforcement of regularity requirements, the SAO gives priority to performance audits on programmes financed using public funds. A marked element of the new strategy is the creation of the integrity based, transparent and accountable utilisation of public funds.

The new strategy places new emphasis on providing an opinion on the budget. Additionally, in order to enforce reliable financial management, the SAO intends to strengthen its advisory role in the audit of EU and other international funds and liabilities, paying special attention to cooperation in the audit activity of the EU Commission and the European Court of Auditors concerning Hungary. Following structural changes in government, as of 1 July 2010, the **Directorate General for Audit of European Funds** as the legal successor to the Government Audit Office acted as **Audit Authority and performed other audit tasks** in respect of assistance from the European Regional Development Fund, the European Social Fund, the Cohesion Fund, and other EU and international assistance. The Annual Summary required by the European Commission was also compiled by the Government Audit Office/Directorate General for Audit of European Funds. In terms of its organisation and activities, the Directorate General for Audit of European Funds is independent of the Managing and Certifying Authorities and all intermediate bodies. The Directorate General is supervised by the minister in charge of public finances.

The internal audit function set forth in the national legal regulations regulating the implementation of assistance programmes was performed by the functionally independent **internal audit** sections of the organisations concerned. Within the audit system of EU assistance, internal audit also comprises multiple levels.

The Internal Audit Department of the National Development Agency is responsible for the internal audit of the organisational units of the Agency (including the managing authorities) and for the audits at beneficiaries and

organisations participating in the administration of the subsidies related to the use of international assistance. The Internal Audit Department was also in charge of administration and coordination of external audits conducted at the Agency and, in certain cases, for participating in the work of the irregularity committees.

The most important part of **financial management controls** was carried out by intermediate bodies and, in respect of public procurement, the EU Procurement Control and Coordination Unit of the National Development Agency.

Based on the Cooperation Agreement concluded with the NDA, the **Hungarian State Treasury** performs ex-post audits on the processing of the applications and invoices submitted by beneficiaries as well as the regularity of recording the transactions in the Unified Monitoring and Information System (UMIS) by the intermediate bodies. Where requested by the NDA, the Treasury also audits the payment forecasts prepared by the intermediate bodies. In addition to fact-finding audits, the Treasury cooperates with IBs identified by the NDA in conducting first-level on-the-spot checks, and also conducts such checks independently on projects specified by the NDA.

Operational programmes were **continuously monitored by means of operating Monitoring Committees**. The Monitoring Committees for the New Hungary Development Plan typically met twice a year to discuss the progress of the programmes, any modification to the operational programmes, findings of audits and action plans. Tasks related to **project-level monitoring** were carried out by intermediate bodies, as part of which they managed reports on project progress and maintenance. As a project-level **financial monitoring** tool, UMIS was used to collect, organise and supply programme and project data. Institutions participating in the management of subsidies used UMIS to perform their duties concerning implementation, payment, control and monitoring, and in meeting related obligations to provide information.

Management and control system of EU agricultural subsidies

In respect of agricultural subsidies, the role of **Competent and Managing Authority** was played by the Minister of Agriculture and Rural Development prior to the change in government in 2010, and the Minister of Rural Development following the restructuring of the government (as of 29 May 2010). The Agricultural and Rural Development Agency (ARDA) acted as Paying Agency in respect of the European Agricultural Fund for Rural Development and the European Agricultural Guarantee Fund, and as an intermediate body in respect of the European Fisheries Fund.

The Agricultural and Rural Development Agency is an independent legal entity and a budgetary institution with its own financial management under the direction of the minister of (agriculture and) rural development, with full competence for its appropriations. ARDA performed certain elements of the

authorisation function with the involvement and cooperation of other organs, or saw to their performance through outsourcing of the task.

The **first audit level** of agricultural subsidies was comprised of the compliance audit of the institutional system of the Member State Paying Agency (ARDA). Within the framework of semi-annual and interim Certifying Body audits, the Competent Authority continuously monitored the fulfilment of the accreditation criteria and the realisation of the findings described in the reports of earlier years.

The **second level of audits** was represented by the audit functions of the Paying Agency and of the Competent Authority.

At the third level, the Hungarian Customs and Finance Guard performed in-process (physical, compliance and substitution) checks concerning export procedures involving export reimbursement related to the payments from EAGF, and ex post-audits related to such payments. In addition, the Special Service set up at the Central Control Directorate supervised the conduct of scrutiny on undertakings as regulated in Council Regulation (EC) 485/2008. Until 31 December 2010, the Special Service was a separate department of the Central Control Directorate of the Hungarian Customs and Finance Guard, and the ex-post audits related to the payments financed from EAGF were conducted by the regional audit centres.

The customs authority conducted the physical and substitution checks built in the process related to the export procedure of agricultural products entitled to reimbursement, regulated by Regulation (EC) No 1276/2008.

In the new government structure, the Special Service continued its operations as a separate unit of the Department of Risk Management and Risk Analysis at the Head Office of the National Tax and Customs Administration, under the supervision of the Vice President for Strategy.

As of 2011, the regional audit centres were discontinued, and their tasks were taken over by the county and Budapest customs and finance guard directorates, and the Priority Affairs and Large Taxpayers Customs and Finance Guard Directorate. The conduct of ex-post EAGF audits was assigned to the county and Budapest customs and finance guard directorates, and to the Priority Affairs and Large Taxpayers Customs and Finance Guard Directorate.

The **fourth level of audit** was constituted by the annual financial accounts and their audit by the European Commission. The compliance audit of the European Commission covering multiple years evaluated the annual report of the Paying Agency together with the certificate of the **Certifying Body**.

In respect of the 2010 EAGF / EAFRD financial year of, the consortium comprised of KPMG Hungary Ltd. and KPMG Consulting Ltd. acted as a Certifying Body for EAGF and EAFRD under an agreement with the Ministry of Rural Development, and conducted additional checks under separate engagements, the findings of which were incorporated into the Certifying Body report. The CB performed the audit of the annual report of the Paying Agency for the 2010 EAGF / EAFRD financial year, and checked the internal audit systems operated by the Paying Agency.

The Internal Audit Department of the Agricultural and Rural Development Agency supervised the utilisation of the EU funds of EAGF, EAFRD and European Fisheries Fund, the designated monitoring tasks of the ARDOP and SAPARD programmes as well as the economic and financial developments influencing the operation of the national subsidies and of the Agency.

Following closure of the SAPARD Programme, the Agricultural and Rural Development Agency was in charge of monitoring during the maintenance period and conducting the related ex-post audits, including the monitoring of the implementation and operation of the projects as well as performing programme monitoring tasks. However, following closure of the SAPARD Programme, ARDA no longer had reporting obligations to the EU Commission, the Managing Authority or the SAPARD Monitoring Committee.

In 2010, the follow-up and post-closure tasks of the SAPARD Certifying Body for 2007-2011 were carried out by KPMG, acting as the Certifying Body for EAGF.

Irregularity management

In the case of programmes managed with shared management, the Member State is responsible, inter alia, for the investigation and management of irregularities and other abuses related to EU funds as well as for the implementation of the relevant and required corrective measures. Different rules prevailed in the civil law legal relationship at the National Development Agency managing structural and cohesion support, and in the administrative legal relationship at the Agricultural and Rural Development Agency managing the agricultural subsidies.

Regarding **cohesion assistance**, the managing authorities are responsible for irregularity management. The records are kept in the Unified Monitoring and Information System. The MA sends a report on the irregularity procedures initiated, the measures taken and their outcomes to the Paying/Certifying Authority, which forwards the report to the OLAF Coordination Bureau. The Agricultural and Rural Development Agency managing **agricultural subsidies**, had a procedure in place based on the rules of administrative proceedings, and irregularity management was incorporated into the process of administration. No separate records of irregularities were kept. ARDA considered only those cases as irregularities where final, enforceable decisions demanding the repayment of the subsidy were taken as a result of the irregularity. ARDA reported on the irregularities to the OLAF Coordination Bureau from its Integrated Administration and Control System (IACS).

The irregularity reports prepared on irregularities managed in relation to EU subsidies are recorded, analysed and forwarded to the OLAF by the OLAF Coordination Bureau. As a general rule, as of 2006 information is to be provided to OLAF on irregularities where the EU part of the amount involved in the irregularity is greater than EUR 10,000.¹⁸

¹⁸ Furthermore, no report is required on items arising as a result of the beneficiary's bankruptcy, irregularities reported by the beneficiary on a voluntary basis, or those detected prior to disbursement.

The **OLAF Coordination Bureau** provided liaison between the OLAF and the national system of institutions managing EU funds, as part of which one of its core tasks was to coordinate and facilitate information exchange between the OLAF and the national organisations on activities violating the financial interests of the Community. The Bureau participated in and coordinated fulfilment of the national legal, administrative and operational obligations related to protecting the financial interests of the EU to varying extent according to the possibilities provided by national regulations. Inter alia, the Bureau contributed to the development of the national irregularity management system, facilitated the exchange of professional views, and cooperated with OLAF on its missions, including on-the-spot checks carried out in Hungary.

Major institutions managing structural support under the 2004–2006 programming period

Support programme / fund	Managing Authority	Paying Authority	Intermediate Body	Auditing organisation
National Development Plan	National Development Agency	National Authorising Officer's Office ¹⁹	as defined by legal provisions	Government Audit Office/Directorate General for Audit of European Funds
Cohesion Fund	National Development Agency	National Authorising Officer's Office	KvVM FI (KöFI as of 1 November 2010), KIKSZ Transport Development Zrt.	Government Audit Office/Directorate General for Audit of European Funds
INTERREG (IIIA) ²⁰	National Development Agency	National Authorising Officer's Office, VÁTI Nonprofit Ltd.	VÁTI Nonprofit Ltd. (Joint Technical Secretariat)	Government Audit Office/Directorate General for Audit of European Funds
EQUAL	National Development Agency	National Authorising Officer's Office	ESZA Nonprofit Ltd.	Government Audit Office/Directorate General for Audit of European Funds
Transition Facility (Phare)	National Aid Coordinator: National Development Agency	National Authorising Officer's Office	VÁTI Nonprofit Ltd.	Government Audit Office/Directorate General for Audit of European Funds

¹⁹ As of 1 January 2011, the National Authorising Officer's Office continues its operation under the Hungarian State Treasury due to the restructuring of the system.

²⁰ In case of the Austria-Hungary and Slovakia-Hungary-Croatia programmes, the tasks are assigned to the foreign partners and Hungarian institutions contribute by performing national tasks.

Major institutions managing cohesion support under the 2007–2013 programming period

Support programme / fund	Managing Authority	Certifying Authority	Intermediate Body	Audit Authority
New Hungary Development Plan	National Development Agency	National Authorising Officer's Office	as defined by legal provisions	Government Audit Office/Directorate General for Audit of European Funds
European Territorial Cooperation ²¹	National Development Agency	National Authorising Officer's Office	Joint Technical Secretariat: VÁTI Nonprofit Ltd.	Government Audit Office/Directorate General for Audit of European Funds
Instrument for Pre-Accession Assistance	National Development Agency	National Authorising Officer's Office	VÁTI Nonprofit Ltd.	Government Audit Office/Directorate General for Audit of European Funds
European Neighbourhood and Partnership Instrument	National Development Agency	National Authorising Officer's Office	VÁTI Nonprofit Ltd.	Government Audit Office/Directorate General for Audit of European Funds
South East Europe Transnational Cooperation Programme 2007–2013	National Development Agency	National Authorising Officer's Office	Joint Technical Secretariat: VÁTI Nonprofit Ltd.	Government Audit Office/Directorate General for Audit of European Funds
Central Europe Transnational Cooperation Programme 2007-2013	the tasks are assigned to the foreign partners, and Hungarian institutions contribute by performing national tasks.			
Solidarity and Management of Migration Flows (EIF, ERF, RF, EBF)	Responsible Authority and Certifying Authority: Ministry of Justice and Law Enforcement, succeeded by the Ministry of the Interior in the new government structure			Government Audit Office/Directorate General for Audit of European Funds

²¹ In case of the Austria-Hungary and Slovenia-Hungary programmes, the tasks are assigned to the foreign partners, and Hungarian institutions contribute by performing national tasks.

Major institutions managing other international cooperation support

Support programme / fund	Organisation in charge of implementation	Paying Authority	Intermediate Body	Auditing organisation
Norwegian/European Economic Area Financing Mechanism	National Focal Point: National Development Agency	National Authorising Officer's Office	VÁTI Nonprofit Ltd.	Government Audit Office/Directorate General for Audit of European Funds
Swiss-Hungarian Cooperation Programme	National Coordination Unit: National Development Agency	National Authorising Officer's Office	VÁTI Nonprofit Ltd., Venture Finance Hungary Ltd.	Government Audit Office/Directorate General for Audit of European Funds

Major institutions managing agricultural subsidies

Support programme / fund	Managing Authority	Competent Authority	Paying Agency	Certifying Body	Other institutions
New Hungary Rural Development Programme (EAGF)	Ministry of Agriculture and Rural Development / Ministry of Rural Development		Agricultural and Rural Development Agency	KPMG	
EAFRD				KPMG	Hungarian State Treasury
National Rural Development Plan				KPMG	
SAPARD				KPMG	
Agriculture and Rural Development Operational Programme			Intermediate Body: Agricultural and Rural Development Agency	Government Audit Office/Directorate General for Audit of European Funds	National Development Agency

Audits, summaries and reports relevant to the year 2009 serving as a basis for the present Summary

Audits conducted by the SAO

Audit title	Reference number
Report on the Audit on the Processes of Managing Irregularities, Debts and Financial Claims relevant to the Utilization of EU Funds	1010
Report on the Audit of the implementation of the National Development Plan	1110
Report on the Audit of the Execution of the Budget of the Republic of Hungary for the Year 2010	1117

Reports compiled by the Audit Authority

Report title	Reference number
Summary Audit Report on the Swiss-Hungarian Cooperation Programme for the period between 22 May 2008 – 31 December 2010	35-29/93/2011.
Final declaration and report – Cohesion Fund – 2000/HU/16/P/PT/001 – reconstruction of the Budapest-Cegléd-Szolnok-Lőkösháza railway line (Stage I: Vecsés-Szolnok railway section)	13-8/14/2010.
Final declaration and report – Cohesion Fund – 2001/HU/16/P/PT/007 – rehabilitation of the Budapest-Cegléd-Szolnok-Lőkösháza railway line (Stage II: Budapest-Vecsés and Szolnok-Lőkösháza railway section Phase II. Szolnok Mezőtúr and Békéscsaba – Lőkösháza railway sections)	35-378/1/2010.
Hungary–Slovakia–Ukraine Neighbourhood Programme (CCI number: 2004CB160PC002): Hungarian part of the Closing Statement pursuant to Article 38(1) f) of Regulation (EC) No 1260/1999 and Article 15 f) of Regulation (EC) 438/2001	13-26/25/2010.
Hungary–Slovakia–Ukraine Neighbourhood Programme (CCI number: 2004CB160PC002): Final Declaration	
Annual summary report on the structural measures and the European Fisheries Fund – 2010	35-120/6/2011.
Annual audit report on the period between 1 July 2009 and 30 June 2010 of the State Reform Operational Programme and the Electronic Public Administration Operational Programme based on Article 62(1) d) of Council Regulation (EC) No 1083/2006	35-445/52/2010.
Annual opinion regarding the State Reform Operational Programme and the Electronic Public Administration Operational Programme	

Annual audit report on the period between 1 July 2009 and 30 June 2010 of the Economic Development Operational Programme based on Article 62(1) d) of Council Regulation (EC) No 1083/2006	35-445/39/2010
Annual opinion based on the Economic Development Operational Programme	
Annual audit report on the period between 1 July 2009 and 30 June 2010 of the Environment and Energy Operational Programme based on Article 62(1) d) of Council Regulation (EC) No 1083/2006	35-445/48/2010.
Annual opinion regarding the Environment and Energy Operational Programme	
Annual audit report on the period between 1 July 2009 and 30 June 2010 of the Central Hungary Operational Programme based on Article 62(1) d) of Council Regulation (EC) No 1083/2006	35-445/50/2010
Annual opinion regarding the Central Hungary Operational Programme	
Annual audit report on the period between 1 July 2009 and 30 June 2010 of the regional operational programmes falling under the Convergence objective based on Article 62(1) d) of Council Regulation (EC) No 1083/2006	35-445/49/2010
Annual opinion regarding the operational programmes falling under the Convergence objective	
Annual audit report on the period between 1 July 2009 and 30 June 2010 of the Transport Operational Programme based on Article 62(1) d) of Council Regulation (EC) No 1083/2006	35-445/38/2010
Annual opinion regarding the Transport Operational Programme	
Annual audit report on the period between 1 July 2009 and 30 June 2010 of the Social Renewal Operational Programme and the Social Infrastructure Operational Programme based on Article 62(1) d) of Council Regulation (EC) No 1083/2006	35-445/51/2010
Annual opinion regarding the Social Renewal Operational Programme and the Social Infrastructure Operational Programme	
Annual audit report on the period between 1 July 2009 and 30 June 2010 of the Implementation Operational Programme based on Article 62(1) d) of Council Regulation (EC) No 1083/2006	35-445/53/2010
Annual opinion regarding the Implementation Operational Programme	
Annual audit report on the period between 1 July 2009 and 30 June 2010 of the Hungary-Croatia Cross-Border Cooperation Programme based on Article 29 (2) d) and Article 105 (1) c) Council Regulation (EC) No 718/2007	35-445/21/2010.
Annual audit report on the period between 1 July 2009 and 30 June 2010 of the Hungary-Croatia Cross-Border Cooperation Programme based on Article 62(1) d) and (i) of Council Regulation (EC) No 1083/2006, Article 18 (2) and Annex IV of Council Regulation (EC) No 1828/2006	35-445/43/2010.
Annual audit report on the period between 1 July 2009 and 30 June 2010 of the Hungary-Slovakia Cross-Border Cooperation Programme based on Article 62(1) d) and (i) of Council Regulation (EC) No 1083/2006, Article 18 (2) and Annex IV of Council Regulation (EC) No 1828/2006	35-445/44/2010.

Annual audit report on the period between 1 July 2009 and 30 June 2010 of the South East Europe Transnational Cooperation Programme based on Article 62(1) d) and (i) of Council Regulation (EC) No 1083/2006, Article 18 (2) and Annex IV of Council Regulation (EC) No 1828/2006	35-445/42/2010.
Annual audit report based on Article 38 (1) b) of Council Decision (EC) No 435/2007 and opinion on the management and control systems – European Integration Fund, year 2007 programme	35-209/43/2010.
Annual audit report based on Article 38 (1) b) of Council Decision (EC) No 435/2007 and opinion on the management and control systems – European Integration Fund, year 2008 programme	35-81/26/2011.
Annual audit report based on Article 38 (1) b) of Council Decision (EC) No 435/2007 and opinion on the management and control systems – European Refugee Fund, year 2007 programme	13-5/128/2009.
Annual audit report based on Article 38 (1) b) of Council Decision (EC) No 435/2007 and opinion on the management and control systems – European Refugee Fund, year 2008 programme	35-81/27/2011.
Annual audit report based on Article 38 (1) b) of Council Decision (EC) No 435/2007 and opinion on the management and control systems – European Return Fund, year 2008 programme	35-81/38/2011.
Annual audit report based on Article 32 (3) a) and Article 42 (1) c) of Council Decision (EC) No 574/2007 and opinion on the management and control systems – External Borders Fund, year 2007 programme	35-209/70/2010.
Annual audit report based on Article 32 (3) a) and Article 42 (1) c) of Council Decision (EC) No 574/2007 and opinion on the management and control systems – External Borders Fund, year 2008 programme	35-81/71/2011.

Reports of the Paying/Certifying Authority

Audit title	Reference number
Ministry of National Economy National Authorising Officer's Office – Annual Audit Report 2010 (15 March 2011)	

Reports of the National Development Agency

Report title	Reference number
National Development Agency Internal Audit Department – Annual audit report on the activities carried out in 2010 (May 2011)	
Summary on the developments implemented in the Unified Monitoring and Information System in 2010	
Report on the implementation of the Environment and Energy Operational Programme in 2010 (31 December 2010)	

Report on the implementation of the Transport Operational Programme in 2010 (31 December 2010)

Report on the implementation of the Social Renewal Operational Programme in 2010 (31 December 2010)

Report on the implementation of the Social Infrastructure Operational Programme in 2010 (31 December 2010)

Report on the implementation of the Economic Development Operational Programme in 2010 (31 December 2010)

Report on the implementation of the Electronic Administration Operational Programme in 2010 (31 December 2010)

Report on the implementation of the State Reform Operational Programme in 2010 (31 December 2010)

Report on the implementation of the Central Hungary Operational Programme in 2010 (31 December 2010)

Report on the implementation of the West Pannon Operational Programme in 2010 (31 December 2010)

Report on the implementation of the North Hungary Operational Programme in 2010 (31 December 2010)

Report on the implementation of the Central Transdanubia Operational Programme in 2010 (31 December 2010)

Report on the implementation of the South Transdanubia Operational Programme in 2010 (31 December 2010)

Report on the implementation of the South Great Plain Operational Programme in 2010 (31 December 2010)

Report on the implementation of the North Great Plain Operational Programme in 2010 (31 December 2010)

Report on the implementation of the Implementation Operational Programme in 2010 (31 December 2010)

Audits by the European Commission

Audit title

Reference number

Systems audit of the State Reform Operational Programme

Review of the work of the Audit Authority in order to assure the reliable operation of the systems of the 2007-2013 period (Central Hungary Operational Programme)

2010/HU/REGIO/J2/883/1

On-the-spot audit of the Joint Managing Authority of cross-border programmes: Hungary – Slovakia – Romania – Ukraine

911781-07/12/2010

Compliance audit related to agri-environmental measures (agri-environment, less favoured areas, Measure 214 of the New Hungary Rural Development Programme) with respect to 2009-2010

RD2/2010/11/HULA11LT

Compliance audit related to the sugar market reform	EX/2010/002/HU/LA11 MS
Compliance audit related to cross-compliance	XC/2010/010/HU
Audit within the framework of the clearance of accounts of the EAGGF Guarantee Section on market in wine, abandonment of vineyards, and the restructuring and conversion of vineyards financed from national sources, and distillation of by-products	VT/VI/2010/066/HU
Compliance audit related to area-based subsidies (SAPS)	AA/2010/10
Audit on measures related to producer groups and producer organisations (fruit and vegetable operation programmes and accreditation plans)	FV/2010/010/HU
Commission Report: Annual Report on the Cohesion Fund (2010)	
Report From The Commission to The European Parliament and the Council Protection of the European Union's Financial Interests-Fight Against Fraud - Annual Report 2010	
Investing in Europe's future: Fifth Report on Economic, Social and Territorial Cohesion, November 2010	
21st Annual Report on Implementation of the Structural Funds (2009)	

Audits by the European Court of Auditors

Audit title	Reference number
Audit related to the statement of assurance for the 2010 financial year on the expenditure of the European Social Fund (Social Renewal Operational Programme)	PF-4071
Audit on the efficiency and effectiveness of financial engineering measures for Hungarian SMEs, financed by ERDF (Economic Development Operational Programme)	PF-4084
Audit related to agri-environmental management measures (NHRDP measure 214) (16-24 November 2009)	PF-3786
Audit related to the statement of assurance for the 2009 financial year (DAS 2009): Financial audit of the 2009 expenditures of EAGF	PF-3711
Audit related to the statement of assurance for the 2010 financial year (DAS 2010): Financial audit of the 2010 expenditures of EAGF (SAPS)	PF-4325
Performance audit of the "Modernisation of agricultural holdings" measure (Measure 121 of the New Hungary Rural Development Programme 2007-2013), on the basis of Article 26 of 1698/2005/EC Council Regulation of 20 September 2005	PF-3989 (8901)

Audit reports on agricultural subsidies prepared by the Member State

Report on the audit of the implementation of the EAGF and EAFRD in 2008/2010 conducted by the Certifying Body (17 February 2011)

Report on the audit of the implementation of the SAPARD in 2010 conducted by the Certifying Body (29 April 2011)

Annual Report of the Special Service of the National Tax and Customs Administration

Annual report of the Internal Audit Department of the Agricultural and Rural Development Agency on the year 2010 BL/1 062/2/2011

Report on the progress in 2010 of the implementation of the New Hungary Rural Development Programme (29 June 2011)

Evaluations

Synthesis of the mid-term evaluation of the Operational Programmes KPMG Consulting Ltd. EU and Government Group

Ex-post evaluation of Cohesion Policy programmes (2000-2006) co-financed by the ERDF (Objective 1&2) Synthesis Report European Commission's Directorate General for Regional Policy

Evaluation Almanac 2011 National Development Agency

Final Report for the ex-post evaluation of the European Social Fund (2000 – 2006) European Commission's Directorate General for Employment, Social Affairs and Inclusion

Evaluation report: Evaluation of the project selection procedures of the New Hungarian Development Plan; 19 August 2010 Ernst&Young Consulting Ltd.

Other reports

Annual Report of the Hungarian State Treasury on the performance of the tasks set forth in Article 7/A of Government Decree 281/2006. (XII. 23.) and Article 52 of Government Decree 360/2004. (XII. 26.)

OLAF Coordination Bureau – Summary for the minister responsible for the tax policy (31 May 2011)