



ÁLLAMI
SZÁMVEVŐSZÉK

Summary
of the Audit on the Financial Management of the
Hungarian Post Co. Ltd. (1124)

Objectives and scope of the audit

The objective of the audit was to evaluate whether the person exercising proprietary rights and the management operated the Hungarian Post Co. Ltd. (the Post) regularly, effectively and expediently. Special attention was paid to the evaluation of the performance of public service tasks as well as to whether those responsible for the postal market sector ensured an adequate management and regulatory background for the preparation to the postal market liberalisation obligatory from 1 January 2013.

Main findings

The Government has been failing to elaborate the national postal policy and the sectoral development concept since 2007. The responsible ministries have not developed the postal market strategy and the related regulatory system. The strategy of the postal market opened to competition will specify the future market model and the method of financing the universal service. However, in the first half of 2011 it was still being prepared by the Ministry of National Development. From 1 January 2013, the Hungarian postal market will also be opened to European service providers, which constitutes significant economic and possibly social risks to the operation of the Post. The state-owned Post of a strategic importance, which was designated by law to provide universal service and reserved services may suffer a partial loss in market share due to the entry of potential competitors, which may lead to the decrease of its outstanding employment opportunities.

The Post is delaying in the preparation for the market opening. It was also caused by the fact that neither the organisations responsible for property management, nor those responsible for the operation of the postal market did not prepare the concepts which the company could follow and according to which it could have established its own business plan in a substantiated way. In the absence of the above, the Post outlined the planned vision in its corporation strategy which was revised and modified on a yearly basis. It constitutes a further problem that both the Post's role played in state property and the owner's intentions with the company operating under market circumstances in the future are unclear.

The Post fulfilled its public service tasks, namely the timely delivery of letters and packages within universal services for the fixed price, in a good quality, above the level of EU requirements, operating quality assurance continuously. Approximately half of its revenues originated from its market activity, therefore it faced continuously the challenges of competition and the changes of the market. In its core activities, the volume of letters, the number and total amount of transactions initiated by a payment order ('the yellow cheque') diminished continuously, it lost market share in the letter and package market and its competitiveness decreased. It is also due to the fact that the electronic service systems replacing the traditional forms of correspondence and payment were developed in the government (e-public administration), the commercial (e-commerce) and banking sector (e-banking). The unfavourable market trends and the economic crisis had a negative effect on the financial management of the Post. The major challenge for the Post – already now, before the market opening – is to maintain its stable financial management, competitiveness, existing market positions and revenues and to minimise its loss of market share. The revenues of the Post show a downward trend. In its business plan, it forecasts 2011 as its last profitable year, and in the medium term it predicts a loss increasing year by year between 2012 and 2014. The financial management turning into a loss entails also the risk that from the market opening, the expenditures of the universal services still covered by the revenues from the services provided by the Post will have to be financed by the State to the account of the budget. The forecasting control system operated by the Hungarian State Holding Company exercising proprietary rights does not contain adequate information – having regard to the profitability of the Post –, to facilitate that the Post reacts to the possible negative turns in its financial management in time, with appropriate decisions.

The financial management of the Post was basically stable, it closed its business years between 2008-2010 with a positive balance sheet and it paid a dividend of altogether HUF 12.3 billion to the state budget. Its financial management was influenced by the changing market conditions (e.g. the reducing demand for its services, the economic crisis, the increase in its costs) and the new rules on the management of client funds leading to a decreasing liquidity and the increase of its credit demand from 2009 also had an unfavourable effect. The liquidity of the company was also deteriorated by dividend deprivation, which reduced the resources of investments and developments, too.

The investments realised in 2008-2010 lagged significantly behind the annual investment plans approved by the owner as part of the business plan in spite of the fact that the incomplete realisation of investments is considered by all strategy papers as a factor having a negative effect on the future competitiveness.

In the financial management of the Post, the planning of investments and the utilisation of resources did not justify the correctness of resource allocation and the substantiation and durability of plans. Due to the changing strategic concepts and business environment, the implementation process of certain investments, which were not adequately prepared, showed the uncertainty of business decisions. The investments, developments and replacements of assets, which were not implemented or were implemented with a delay, had a negative effect on the equipment. It is also demonstrated by the fact that approximately 37.6% of the gross assets amounting to HUF 146 billion in 2011, i.e. assets amounting to HUF 55 billion were reduced to zero, however this amount should increase by HUF 20 billion by the end of the year according to the plans. An important condition of the continuous course of business, the ability of coping with the market and the long-term effectiveness of the Post is that it recovers its utilised stocks in the course of operation and restores the depreciation of its assets within the amortisation cycle.

The investments of the National Logistics Centre served the improvement of operational efficiency. The mechanical condition of technical equipment installed until the end of 2005 required further developments already at the end of the decade. However, as a result of the concepts and ideas continuously changing due to among others the uncertainties of financing, the commencement of the investment aiming at the development of the logistics network was postponed. The last decision on the further development of the National Logistics Centre was taken in spring 2011, the implementation thereof had not yet begun at the time of closing the on-site audit, which increases the operational risk of the equipment used.

The implementation of the contract concluded – in the amount of more than HUF 1.2 billion – for the procurement and installation of point-of-sale terminals enabling also the payment with credit cards suffered a delay of nearly two years. Besides the delay, the process was characterised also by incomplete documentation, therefore the accuracy and substantiation of the amount of damage and indemnity reported by the Post could not be established.

In the audited period, the real property was managed without a strategy, as well as without detailed plans of asset and warehouse management. The control system of real estate sales was not able to ensure entirely the application of cost-effectiveness criteria due to the deficiencies in regulation, the preparation of decisions, documentation and internal audit, as well as financial management control. The consequence of certain sales was financial loss (e.g. the real estate in Szántód, the children's holiday resort in Siófok) or the irregular conclusion of contracts (the winner and the actual purchaser were not the same person in the case of the real estates in Enyingi Street and Aradi Street in Siófok), as well as the

conclusion of an unfavourable lease contract (Postal Education Centre). The omission of optimisation of storage capacities led to spare storage capacities.

Recommendations

We recommended the Minister of National Development to take measures to elaborate the postal market strategy in time in order to facilitate the preparation of postal market actors to the new market situation, as well as to harmonise the asset utilisation strategy and the postal market strategy to be able to formulate a feasible vision of the Post as well as to continuously control the preparation of the Post to liberalisation in order to avoid the possible loss of state property. We recommended the CEO of the Hungarian State Holding Company to take measures to the completion of the controlling information of financial management risks of the Hungarian Post Co. Ltd. in order to facilitate the timely decision-making of owners. Our recommendations addressed to the CEO of the Hungarian Post Co. Ltd. aim at the management of HR policy risks, the establishment of responsibilities in relation to real property management and the procurement of point-of-sale terminals, as well as the reduction of risks.