



Summary

of the Audit on the Impact of the Operation of and Assistance to the National Civil Fund on the Development of Social and Civil Relations and on the More Efficient Performance of Certain Public Benefit Tasks of Priority Importance (1127)

Objectives and scope of the audit

The objective of the audit was to evaluate whether in the operational and professional support system of the National Civil Fund (NCF), the development of social and civil society relations were ensured by the regulatory and institutional system of NCF, the distribution of subsidies and the control of the utilisation thereof. Furthermore, it was evaluated whether regular authorisations were applied, whether the transparency of subsidies was ensured, whether the supported organisations utilised subsidies in line with the rules and whether the SAO recommendations on the efficiency and control of subsidies were implemented. The audit covered the operation of NCF in the period of 2008-2010, which was carried out at the Ministry of Public Administration and Justice, the NCF Board, the managing body and 30 civil organisations. NCF provided a subsidy for operational and professional purposes amounting to HUF 22.8 billion for civil organisations in the audited period.

Main findings

The regulatory and institutional system of NCF, the allocation of subsidies and the control of the utilisation thereof did not ensure the effective development of social and civil society relations, and did not promote the more efficient performance of state and local government public tasks. The harmonisation of funding objectives with the applicants' requirements was not evaluated or reviewed. Since the beginning of the operation of NCF, no modifications were made to the allocation of resources, to the definition of the basis for the operational subsidy within the regulation of subsidies, as well as to the upper limit of the subsidy to be provided for one civil organisation within one fiscal year.

The regulation of the operation of NCF developed in line with the act on the transparency of subsidies provided from public funds, which entered into force in 2008. In order to increase transparency, the management of objections to be made by applicants, the proceeding for legal remedy, the allocation of responsibilities necessary for task performance, as well as the reporting and disclosure requirements were not regulated. The Board restructured the funding principles of 2010 with the aim of simplification, which, however, provides an

opportunity for the different interpretation of accounts, and makes regular accounting more difficult and results in a prolonged procedure.

The institutional system of NCF was constituted by the Board, the colleges, the managing body and the ministry headed by the minister responsible for social and civil society relations. The organisation of NCF is fragmented, it is characterised by duties allocated without assigned responsibilities and by coordination deficiencies. Relating to the regular changes in the personnel occurring every three years, the technical arrangement of the handover-takeover and the rules of procedure were not specified.

In order to make decisions in principle, the Board established permanent and ad-hoc working groups from the members of the Board, a part of which did not perform their tasks. Indicators were not completely defined and monitoring systems were not established. Regulations did not stipulate the monitoring of the utilisation of subsidies and they did not specify the criteria to be applied for the evaluation of professional and efficiency features of the implementation of funding objectives. In the absence of provisions, professional reports did not contain measurable data appropriate for the evaluation of performances.

The objectives of professional applications did not entirely cover the provisions stipulated in the Act on the National Civil Fund. In the course of the operation of NCF, the financing of long-term projects, the support of own resources thereto were not enabled, and the management of NCF did not take the opportunity of granting repayable subsidies. The call for proposals was launched only for granting non-repayable subsidies in line with the decision of Board, despite the fact that the Act on the National Civil Fund ensured the possibility of granting repayable subsidies. The efficiency and effectiveness of the subsidy system continued to be hindered by the long implementation period of proposals, which had already been objected to by the earlier SAO report.

The harmonised and systemic regulation of the control functions of NCF were not elaborated by the Board, and the conditions of a more efficient operation of the subsidy system were not created. The Board did not control the implementation of its decisions, it did not establish the preliminary control of the calls for proposals and it did not evaluate the utilisation of subsidies. The audits established in the course of the admission of applications and the accounting for subsidies put emphasis on the formal aspects, which were only partly suitable for detecting errors. The authorisation of completing the documentation twice enabled by the implementing regulation of the Act on the National Civil Fund did not result in a significant improvement of the accounting discipline of civil organisations, as out of the financial statements issued only every fifth was appropriate without a completion of the documentation despite the fact that the organisations received operational and professional support year by year. In the

course of completion of the documentation, the managing body accepted also further accounting records not appearing in the financial accounts of the organisation, instead of items which could not be linked to the utilisation of the subsidy and which were rejected by the managing body.

The revenues of the civil organisations audited on-site amounted to HUF 5714.9 million between 2008-2010, the 52.8% of which originated from the subsystems of public finances. State subsidy had an important role in financing the activity of organisations, which increased from HUF 810.9 million in 2008 to HUF 1197.6 million in 2010. The operational and professional subsidies of NCF amounted to HUF 633.1 million, which constituted 21% of the amount provided from public finances. Every sixth of the civil organisations covered at least 90% of their public benefit activity from the operational and professional subsidies of NCF in the average of the audited period, which does not provide a guarantee for the continuous task performance and sustainability. It can be attributed to the deficiency of the subsidy system that the organisations could receive a subsidy amounting to millions of HUF only because at the evaluation of applications the examination of the conditions of a stable operation was not stipulated.

Operational subsidies did not have a dominant role in the financing of human resources of civil organisations, the possibilities for the purchase of equipment were limited. Out of the programmes implemented from professional subsidies, the activity connected to the Hungarian population outside the borders of Hungary and the environmental projects were directly linked to public benefit tasks and the continuous performance thereof. The content and professional substantiation of the organisations' reports on public benefit were different, they were not suitable for preparing a summary at the level of the national economy. In the absence of regulation, the reports on public benefit did not contain the value of voluntary work which was interpreted in a different way; particularly its value added to the activity of the organisation.

It can be attributed to regulatory and control deficiencies that the SAO audit established a discrepancy totalling HUF 19,549 thousand as a result of the review of the original accounting records, the documents presented and the financial accounts issued. Of the discrepancy, the realisation of nearly HUF 10 million was not documented, the accounting for approximately HUF 6 million did not comply with legal regulations, the utilisation of the remaining amount was not in line with the objective and the contractual provisions. Based on the documents issued, the audit could not ascertain whether the effective provisions of the Act on the National Civil Fund were implemented in case of HUF 13,100 thousand of operational subsidies. Within the subsidies received from NCF, the rate of irregularly accounted and utilised amounts was 16.6% in case of the organisations audited on-site and 11% in case of those audited on the basis of documents.

We experienced several infringements of law in the financial management of civil organisations, besides the quantified errors. They did not have the regulations stipulated in the Act on Accounting, they did not apply the documentary system and discipline in bookkeeping, and they did not ensure the transparency of the utilisation of public funds. The disclosure obligation stipulated in the Act on Public Benefit Associations was not fulfilled in case of one fourth of the organisations, and the subsidies were not presented according to granters and objectives in the reports on public benefit. The SAO notified the Prosecution Service of the Republic of Hungary about the responsibility of the chairman of an organisation concerning fund management irregularities, on the basis of which investigations were launched.

Despite the action plans sent as a result of the earlier SAO report, the recommendations of the SAO were implemented with a delay or they were not implemented at all. The Minister of Social Affairs and Labour did not provide for the elaboration of the monitoring system and the performance of tasks assigned to the managing body. Within its powers, the Board determined the scope of costs which can be accounted as part of the operational subsidy. However, it did not eliminate the overlaps between the operational and professional funding objectives and it did not modify the funding principle regarding the limit of operational subsidies. The decision on the use of a single evaluation form was made in 2009, and the uniform evaluation criteria were stipulated in 2010.

The irregularities and system errors, as well as the failure to fulfil the objectives specified in the Act on the National Civil Fund, revealed by the SAO audit – and already indicated by the SAO in 2006 – justify the establishment of a new institutional and regulatory basis for the system. The conditions could be created in the act under preparation on the operation and support of civil organisations and in implementing regulations, with particular attention to the requirements of transparency, accountability and controllability.

Recommendations

We recommended the Board to modify the funding principles on the application of consolidated legal titles of expenditures in order to interpret regular accounts in a uniform way; take measures in order to ensure the efficient and effective operation of working groups and the performance of tasks which have not been implemented yet.

Moreover, we recommended the managing body of NCF and further six organisations providing support to arrange for the repayment of subsidies utilised and accounted irregularly, which was revealed in the course of the on-site audit.