



SUMMARY

of the Audit on the Activities Related to the Exercise of Proprietary Rights Over State Property in 2011 (12109)

Objectives and scope of the audit

In the course of our audit, we evaluated whether the system of reporting on state property was regulated; and whether the measures aimed at resolving the record-keeping and accounting problems of the state property entrusted to the Hungarian State Holding Company (HSHC) and the National Land Fund Management Organisation (NLFMO) were effective. It was also assessed whether the regulation concerning the company portfolio belonging to the state property entrusted to the HSHC and the Hungarian Development Bank (HDB) was clear and sufficient, and whether the controlling system and control by the owner operated effectively. Furthermore, we also evaluated whether statutory provisions were applied in the property utilisation contracts of the real estates that are part of the state property entrusted to the HSHC and assigned for utilisation as well as the property utilisation contracts of the real estates that are used by central budgetary institutions.

Main findings

The exercise of ownership rights over state property was shared by the Minister of National Development and the Minister of Rural Development via three organisations (HSHC, HDB, NLFMO). The government's strategic concept was once again a missing element of state property management in 2011. The National Asset Management Directives and the Annual National Asset Management Programme were not completed. There was no approved medium-term strategy for the utilisation of National Land Fund assets and no related annual plan was prepared. The rules related to the content and procedure of statements to be prepared by the government on state property were not fully specified by legal regulations.

The fact that property recording data are not reliable or complete has been a long-standing problem with the exercise of ownership rights over state property. The regulation on state property does not provide clear guidance on the complete and standardised record-keeping of state property. Furthermore, the data supply on assets belonging to the NLFMO or the methods thereof were not regulated by the property managers. Action plans were prepared every year to resolve the problems of the general ledger and analytical record-keeping systems of the assets entrusted to the HSHC; which problems have been present since the

establishment and which have impacted the approval of the statements. The problems of record-keeping went unresolved in 2011 as well.

The handover of the HSHC's assets belonging to the National Land Fund to the NLFMO was split into three rounds which – among other things, due to the changing of the portfolio of real properties – was prolonged significantly. The documentation deficiencies of the HSHC general ledger-analytical record-keeping system applied between 2008 and 2010 in relation to the Land Fund did not provide a sound basis for the handover of assets belonging to the Land Fund. The earlier problems of the Land Fund's record-keeping – which until that point existed only within the HSHC organisation – were brought to the surface as a result of the handover of assets. The NLFMO began setting up a new system of property recording, and of financial and corporate management. Moreover, due to the significant deviation between the asset record data and real estate record data handed over and the state of utilisation, the NLFMO carried out the legal audits of all lands belonging to the Land Fund by involving external experts.

In 2011, the HSHC formulated more detailed requirements and expectations in order to monitor the financial management of state-owned companies. The HSHC has yet to establish aspects suitable to measure the fulfilment of requirements and objectives of property management – apart from the indicator (ROE) suitable for the designation and follow-up of capital efficiency requirements. At the same time, they renewed the controlling system in order to ensure that it provides more detailed and precise information. They assessed the company portfolio in order to decrease it by minority shares, if possible, that are not substantial from an economic aspect.

The efficient exercise of ownership rights over HSHC's state-owned properties and the utilisation of the various real estates are influenced by legislative environment, utilisation obligations, the content of utilisation contracts, diligence by the property managers and supervision by the owners as well. The exerciser of ownership rights may impose only limited sanctions on non-adherence to or breach of property management contracts and data reporting obligations by the property manager.

In certain cases, the invoicing of the property management fees for selected real properties was not performed at all or was performed erroneously. The fees have been reviewed by the HSHC, subsequently, however, it failed to act comprehensively – with respect to the contracts audited – in the interest of collecting these fees. The HSHC assessed the real properties used by the central budgetary institutions as well as the relevant utilisation/lease contracts. In the interest of the rationalisation of real estate management and of making it more cost-efficient, in 2011 the HSHC sent out letters of reminder to the central

budgetary institutions to review the contracts of real estates leased with high rent or utilised with low rent.

2011 was the NLFMO's first complete year as an exerciser of ownership rights. It performed part of its tasks without rules of procedure, and only established the rules of operation of the property recording system in part. The detailed tendering, evaluation and contracting regulations of the leasehold of lands entered into force mid-December 2011. The internal control system is not fully comprehensive yet. Due to the delay in the handover of accounting documents, the revenues for the 2010 fiscal year were not invoiced by the NLFMO in every case.

The HDB completed its first complete year as an exerciser of ownership rights. It has established organisational units adapted to the performance of the task, developed the related operating regulations and set up the controlling system. It has developed the 2011–2015 medium-term strategy regarding the property management of companies, as well as the partial strategies based thereon.

The 2010 integration of the HSHC's audit organisations eliminated parallel audits; at the same time, the complete and transparent regulation of activities was only accomplished in part. No comprehensive strategic considerations related to property management were identifiable in audit topic selection. The audit tasks of the NLFMO's Audit Committee are not regulated in detail and in an accountable manner; and no reports at all were prepared on the tasks specified in its 2011 work plan.

Recommendations

We recommended that the Minister of National Development take measures to elaborate documents defining the strategic and annual frameworks of the management of state property, as well as measures concerning the detailed determination of the content elements of government statements and the regulation of the procedural order of reporting. Another recommendation was for the Minister to monitor the development of the HSHC's new integrated property recording system through regular reporting, in the interest of the system ensuring the fulfillment of requirements set out in the legal regulations.

We recommended the Minister of Rural Development to initiate that the data reporting requirements of those utilising the assets of the Land Fund be laid down in law, in the interest of having up-to-date information available on the actual financial situation. Another recommendation was for the Minister to monitor the development of the NLFMO's new integrated property recording, financial and corporate management system through regular reporting, in the interest of the system ensuring the fulfillment of requirements set out in the legal regulations.

We recommended that the President of the National Land Fund Management Organisation take measures regarding missing regulations and the establishment of the NLFMO's complete internal control system. The President should prepare the statement on the enforcement of land policy directives, the situation of the National Land Fund and the activity of the NLFMO for 2010–2011, in order to ensure that of the Government is able to fulfil its reporting obligation.