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ÁLLAMI
SZÁMVEVŐSZÉK

SUMMARY

of the Evaluation of the Tendering, Planning and Preparation of Investment Projects Implemented with EU Funding since 2007 and Based on Government Decision (1281)

Objective and scope of the audit

The State Audit Office of Hungary audited investment projects based on Government decision and implemented with EU financing from 2007 according to its strategy and in line with the objective of carrying out performance audits of programmes and investments financed from public funds in the interest of the more efficient and more effective utilisation of public funds, furthermore in accordance with SAO's year 2011 audit plan.

The specific objective of the audit was to assess whether the selection procedure for projects based on Government decision implemented with EU financing from 2007 was expedient and efficient, whether the selection of projects was effective, and whether the utilisation of funds was consistent with the achievement of goals.

Main findings

In 2007-2013, the Government decided – in line with legal regulations – on the approval of individual projects not subject to tendering, to be financed from EU funds close to six times as much as those available for the 2004-2006 period (New Hungary Development Plan – NHDP – HUF 8,000 billion). The ratio that could be spent on these typically large amount development projects were not stipulated in advance for the sake of accelerating the utilisation of funds. Beneficiaries, i.e. public sector institutions, however, were not prepared for this fast use of funds. Typically for the applied selection procedure, the elaboration and evaluation of audited projects took 100-900 days, a year and a quarter on average. There were projects for which a subsidy contract could not be concluded even during 3-4 years (e.g. the Hungarian National Ambulance Service project directed at rescue/air rescue).

Close to HUF 2,100 billion (27% of the HUF 8,000 billion) was committed through contracts for 345 projects until the end of 2010. This does not include all of the supported projects, because support for some projects was revoked due to lack of elaboration and/or funds (e.g. expansion of the Museum of Fine Arts below street level).

Although government level decision-making complied with the applicable regulations, it was not efficient and warranted from the professional, technical, territorial and regional aspect in the case of roads marked with 4-5 digits (e.g. nationwide subsidiary road network linking settlements), which comprised a quarter of priority projects. According to the National Development Agency's (NDA) opinion, this is how a budget could be appropriated for the development of national roads (without tendering) with the exclusion of municipalities that manage local roads.

We repeatedly pointed out the lack of a medium-term development plan coordinating domestic demands and resources while encompassing sector and regional plans. For lack of a national level medium-term plan, those proposing projects cited various EU and Hungarian requirements, the national and regional significance of projects, while the substantiation of needs and the approximate scale of funds required for them was not known at national level.

Inadequacies in preparation, the dragging out of public procurement procedures, irregularities, and lack of funds hindered project implementation. Aside from the 18 already implemented and audited projects (HUF 30.6 billion), the completion of an additional 18 (HUF 334.2 billion) was planned until the end of 2011, but the implementation of these is running late (by six months or even several years). HUF 161.6 billion (48%) was paid to beneficiaries close to the original completion deadline out of HUF 334.2 billion.

Of the 18 implemented and audited projects, two served institutional operation purposes. From the other 16 projects aimed at convergence, growth and employment 12 (75%) were successful (set goals were achieved from the budgeted support with slight delays in time). These included: four road renovations (59 km), one junction construction (1.2 km), the Animal Park in Nyíregyháza, the development of the Aqua-Palace leisure pools in Hajdúszoboszló, the Heart of Budapest Programme, equipment purchasing at the Ministry of Defence State Health Centre, and a training programme. For lack of stable long-term ideas, training methodology materials and concepts produced in the scope of 4 projects (25%) with support of HUF 4.3 billion have not yet been put to use. This depends on the public sector's future concept and needs.

The fact that beneficiaries implemented one in three projects (6 of the 18 implemented) with irregularities had a negative impact on project implementation (time demand and utilisation of EU funds).[1]The fact that it was ministry, municipality organisations and other operators financed by the budget that committed irregularities (violation of public procurement procedures, incorrect performance certification, and improper cooperation with supporting entity) should be highlighted.

Development goals corresponded to the various goals in the New Hungary Development Plan (general) and in the given operational programme, but the Government did not assess the degree to which the projects contributed to achieving goals. Furthermore, the National Development Agency – which provided support – also did not evaluate the contribution of these projects to goals until the audit was concluded.

Recommendations

We recommended the Minister of National Development to commission an inquiry into why the degree of projects' contribution to the key goals in the NHDP (establish conditions for growth, employment and convergence) was not assessed when support proposals for priority development were made. Based on the results of this inquiry, the Minister should take the necessary measures (designation of those responsible and evaluation of experience for planning in the future). We recommended them to commission the review of the current situation of projects struggling with contract conclusion and implementation problems, as well as of the substantiation of plans. Decisions and their implementation must be assigned to the lowest possible territorial level that still has the greatest oversight (principle of subsidiarity) for future development projects, and priority project selection procedures should only be extended to project proposals that actually need a Government decision.

We recommended the Minister of National Economy, with the involvement of the Minister of National Development to they take action to survey tasks and funding needs resulting from EU and domestic legislative obligations, as well as for scheduling these at national level. They should commission a review of the funding needs for EU environmental and other commitments undertaken upon accession, and the feasibility of commitments in light of available EU and national funds. Furthermore, we recommended them to

[1] For instance, project no. 1 was implemented from HUF 230.4 million and HUF 108 million of support was revoked due to public procurement related irregularities (which was subsequently charged to national budget resources).

take measures to draft a medium term plan broken down per geographical territories containing specific projects that contribute most to Hungary's key objectives.

We recommended the **Minister of National Economy** to take measures for the elaboration of comprehensive legislative regulations directed at the reinforcement of planning state development tasks. They should take action to specify standard requirements and methodology for the bodies overseeing chapters in the interest of the strategic planning of state development tasks (SAO also articulated the recommendations earlier on, in 2008).