



SUMMARY

of the Audit on the Planning and the Interim Modifications of the Chapter-Managed Appropriations of the 2011 Budget in Terms of Financial and Professional Substantiation (1299)

Objective and scope of the audit

In the course of our audit, we evaluated the requirements of financial and professional substantiation of the planning and the interim modifications of the chapter-managed appropriations of the 2011 budget, as well as the 2011 financial management processes' compliance with the plans (from the planning phase, through the modifications of appropriations until the final utilisation or the accumulation of residues). For the audit, 51 chapter-managed appropriations of 9 chapters, exceeding HUF 100.0 million were selected, which were affected mostly by the government's measures aiming at stabilisation of balance.

With the experience of our audit, we wish to assist in the better substantiation of the planning of the 2014 budget and of the execution of the 2012 budget. With our recommendations, we wish to promote the establishment of task-based planning.

Main findings

In the regulatory system and conditions of the 2011 planning and utilisation of the chapter-managed appropriations, there were no significant changes compared to the previous years. The Guidelines published by the minister responsible for public finances, envisaged the implementation of a new planning practice as a general objective for 2011, according to which the baseline planning methodology would be replaced by the identification of state tasks and the resources necessary for the implementation thereof. However, the detailed provisions concerning the specification of the concrete planning requirements still contained the rules of baseline planning. As a part of that, justifications had to be written only for additional demands, while legislative changes and the modification of the title orders of chapter-managed appropriations could change also the purpose of the utilisation of basic appropriations.

The 2011 planning of chapter-managed appropriations was basically in compliance with the provisions stipulated by legal regulations and the Guidelines of the Ministry of National Economy, however, in the absence of an adequate

written and arithmetic justification, it did not ensure completely the harmony between the tasks related to the planned appropriations and the purpose of utilisation, as well as resources.

According to the experience of the on-site audit, the financial and professional substantiation of planning was not satisfactory in case of those chapter-managed appropriations, where the professional substantiation of the appropriation was constituted only by the tasks specified in the government decree on the tasks and powers of specific ministers, as well as the state secretary managing the Prime Minister's Office, while financial substantiation contained only the previous year's factual data and needs assessments. Specific cost plans and calculations were not prepared for the substantiation of the appropriation (in case of 16 statutory lines). The documents presented by the ministries as an evidence of the substantiation of appropriations were not related to the planning of appropriations in several cases, but they supported the utilisation of appropriations (in case of 4 statutory lines).

The appropriation approved in the Act on the Budget was too low in case of two statutory lines. The lack of resources of the appropriation of the Ministry of National Resources, entitled 'Supplement of the social institutional normative subsidies of churches', was compensated (the National Assembly provided for an additional subsidy of HUF 8715.5 million), while the lack of resources of the Road Budget of the Ministry of National Development caused the incomplete implementation of public tasks related to public road maintenance, which endangered the successful completion of projects and increases the risk that the specific EU subsidy will have to be reimbursed.

The organisations managing the chapters fulfilled their regulatory obligation related to the management and utilisation of chapter-managed appropriations with an average delay of 4 months, which hindered the utilisation of appropriations in compliance with plans. The procedural rules were different in terms of form, structure and content. The provisions of the Act on Public Finances and the government decree issued for its implementation did not ensure the establishment of a regulation of a single structure and level of detail.

With the government measures during the year (blocking, obligation to form reserves) fundamentally modified the utilisation of chapter-managed appropriations, and limited the financial management according to plans and the fulfilment of the requirement of predictability. The blockings ordered by the Government in 2011 and the reductions of appropriations caused typically the incomplete or delayed task performance, the rescheduling thereof, the decrease of the scope and volume of tasks, as well as the reduction of the resources provided for the operation of civil society organisations.

The reduction of the amount of subsidies and the approved additional funds altogether decreased the expenditure appropriations of the priority statutory lines by HUF 32,631.0 million (21.0%) and by HUF 6545.9 million (4.2%) in the scope of authority of the National Assembly and in that of the Government, respectively. In order to decrease the effects of blocking, the demands for additional subsidies, submitted by the organisations managing the chapters, were fulfilled from the reserve for extraordinary government measures (HUF 2755.1 million). The amendment of the Act on Public Finances moderated the demands for subsidies from the central budget, as it made it possible to reallocate chapter-managed appropriations within the titles in 2011.

The modifications of appropriations of the organisations managing the chapters increased by HUF 48,358.5 million (31.1%) expenditure appropriations, whose resources were the previous year's residue (HUF 47,976.5 million) and the additional revenues and refunded subsidies (HUF 382.0 million). The reallocations within the chapters redistributed the appropriations between the titles and the statutory lines. The modifications of appropriations and the reallocations were substantiated in terms of financial and professional aspects, however the high number thereof hampered the financial management according to plans, the scheduling of utilisation according to objectives and the transparency of accounts.

Besides the freezings and the modifications of appropriations, the implementation of objectives and tasks financed from the chapter-managed appropriations were hindered by the provision of forming mandatory reserves and the ban on concluding contracts, decreed in the last quarter of the year.

The fulfilment of the obligation to form reserves, ordered by the Government during the year caused an accumulation of debts of different amounts, as a result of the delay of the due payment obligation. The cancelling of the obligation to form reserves at the end of the year did not have any actual effect on the financial management of chapter-managed appropriations, it could not moderate significantly the rescheduling of payment obligations for 2012.

Besides planning problems and government interventions, the accumulation of residues was influenced also by the delay in the publication of the procedural rules, the preparation not sufficiently substantiated, the deficiencies of the decision-making mechanism, as well as the frequent delays in procedures (e.g. tenders).

As a result, the actual modified expenditure appropriations of chapter-managed appropriations covered by the audit amounted to 83.3% of the planned appropriations (HUF 137,115.4 million), while the actual modified revenue

appropriations thereof equalled 99.6% of the planned amount (HUF 100,018.2 million), the accumulated residues amounted to HUF 27,782.1 million.

The SAO audit on the utilisation of chapter-managed appropriations revealed errors of form and content at subsidy contracts and the financial accounts submitted by beneficiaries and reviewed by the organisations managing the chapters, which can be attributed to the deficiencies in the operation of internal controls.

Recommendations

In the interest of the more effective utilisation of public funds, the strengthening of the utilisation of appropriations according to plans, as well as in order to ensure the harmony between tasks and resources, we recommended the minister responsible for public finances to elaborate the legislative and methodological base of task-based planning and the set of criteria of the introduction thereof.

In order to establish a uniform regulation, we recommended the Minister of National Economy to stipulate comprehensively the requirements of form and content of chapter regulations (decrees, internal regulation) related to the management and utilisation of chapter-managed appropriations, with special regard to the new tasks emerging during the year and the rules of the utilisation of appropriations carried over to the following fiscal year.