



ÁLLAMI
SZÁMVEVŐSZÉK

SUMMARY

**of the audit on the financial management of the European Social Fund National
Implementing Agency Public Service Non-profit Company (14016)**

Objectives and scope of the audit

For the years 2008 to 2012, our audit assessed the regularity of the internal control system, financial and asset management, and performance of responsibilities of the Company, which was established in 2000 as a public benefit organisation for the implementation of employment, schooling and educational programmes, and programmes financed by the European Social Fund, and has been operating as a non-profit limited liability company since 2009. The scope of the audit also included an assessment of the control activities carried out by the ministries exercising ownership rights and by the National Development Agency acting as a managing authority. This audit was connected to and relied on the findings of our audit on the 2012 state budget execution.

The Company was primarily engaged in the management of national financing programmes between 2008-2010, and from 2011 its activities focused on the intermediation of EU funds. As part of this, in the audited period the Company distributed funds for national programmes amounting to around 50 billion HUF, and managed the payment of EU funds of about 800 billion HUF for the Social Renewal, Social Infrastructure and Central Hungary Operational Programmes.

Key findings

We found that the Company performed its tasks only partially adequately, while the regulation of the application system was found to be adequate both with regard to the national financing programmes and programmes financed by the EU.

We found errors and deficiencies in the operation of the application system. The assessment of the applications for funds in the national financing programmes was partially adequate, as the evaluation committees occasionally deviated from the applicable minimum thresholds when adopting financing decisions. Another deficiency was the absence of the countersignature on commitments for some of the subsidy contracts.

In the case of EU programmes, errors were detected in the publication of calls for applications and in the financial countersignatures (147.2 million HUF). Our audit also found that in one case (48.9 million HUF) the required statement on conflicts of interest had not been provided, the Company's legal predecessor, the previous intermediate body (Support Management Directorate of the Ministry of Education and Culture), despite the absence of a statement on conflicts of interest, failed to disqualify the application.

In the audited period, the internal controls of the company operated overall adequately. Our audit found deficiencies in the operation of shareholder controls, which affected the asset management of the Company. The findings of our audit suggest that the company's asset management was overall adequate; however, the traceability of asset movements was not realised comprehensively, with several years of delays in the final settlement of the ownership relations of the taken over assets.

Our audit found that the Company's structure of revenues changed in line with changes in statutory responsibilities, a reduced scope of responsibilities connected to the national subsidy schemes managed, and a broader scope of responsibilities for programmes financed from EU funds. In the audited period, the Company earned revenues from subsidies received under the relevant budget acts, and from the incomes received for the management of national and EU funds. Operating aid granted to the company decreased from 1.1 billion HUF in 2008 to less than 100 million HUF in 2012, while revenues earned as an intermediate body for EU tendering activities rose from approximately 0.7 billion HUF in 2008 to 4.0 billion HUF in 2012. Between 2007 and 2010, the company generated a profit amounting to a total of 1.4 billion HUF from its revenues as an intermediate body, which it utilised by the end of 2012 with the exception of 50 million HUF.

The audit found that the financial management of the Company was overall adequate in 2008–2012. At the same time, the audit detected errors and deficiencies in the areas of financial accounts, extraordinary depreciation, accounting for accruals and deferred income, and the recording of claims and liabilities; these, however, given their magnitude, had no impact on the regularity of financial management. Solvency was uninterrupted in the audited period.

We put forward recommendations to the entity exercising ownership rights concerning the adequate and continuous operation of shareholder controls with a view to the protection of state property, and to the president of the National Development Agency in order to ensure that the errors detected in the operation of the application system for EU programmes were corrected and that the necessary measures were implemented.

The full report is available online at www.asz.hu. The latest news on the State Audit Office of Hungary can be found on the www.aszhirportal.hu website.