



ÁLLAMI
SZÁMVEVŐSZÉK

SUMMARY

**on the audit of the operation and financial management of the Directorate
General for Audit of European Funds (14019)**

Objectives and scope of the audit

As part of our regularity audit, we reviewed the financial management, the performance of tasks, and the structure and operation of the internal control system of DGAEF, an autonomously operating organisation under the Ministry for National Economy of Hungary, for the period of 2010-2012. This audit was connected to and relied on the findings of our audit on the 2012 state budget execution. The scope of the audit included the Ministry's managing and supervisory activities. As DGAEF acts as the audit authority regarding EU funds, the State Audit Office of Hungary audited an organisation that carries out oversight activities.

Key findings

The system- and project audits carried out by DGAEF between 2010-2012 covered the management of EU programmes totalling to 2,500 billion HUF.

As regards the performance of its professional tasks, overall we found that DGAEF's audits carried out on the programmes were highly compliant in terms of overall regularity, and of medium compliance in terms of execution. The latter rating was primarily due to delays in meeting statutory deadlines.

DGAEF's internal control system was found to be only partially adequate as the organisation had no audit trail or IT security regulations in place, and the risk factors involved in its activity had not been identified, analysed, evaluated and classified. We considered it a serious deficiency that internal audit functioned only at the end of the audited period, and that the internal audit manual was not in full compliance with the statutory requirements.

Over the three years of the audited period, the organisation's total actual expenditures amounted to 1,416.2 million HUF. Our audit found that the funding granted to DGAEF under the Budget Act provided insufficient coverage for the expenditures required by the organisation to perform its tasks, which called for an allocation of funds ahead of the pro-rata monthly quota, and the deferral of payment obligations to suppliers. The audited period was characterised by deteriorating equity and liquidity ratios. To ensure continuous operation the organisation used EU subsidies from the National Development Agency on the basis of a subsidy deed and subsidy contract in the total amount of 583.5 million HUF.

The three audited years showed various degrees of increase in DGAEF's staff number, the organisation's budgetary subsidy, and its expenditures made. Between 2010 and 2012, DGAEF's expenditures increased 5.4-fold, its budgetary subsidies 2.3-fold, and its staff number by 22.1%.

As regards DGAEF's own financial management, the audit found that financial powers were exercised appropriately, and the economic events were supported by documents. Irregularities were detected in the settlement of the grants, as the amount of advances on subsidy programmes were not presented in the organisation's financial accounts under liabilities.

The Ministry for National Economy of Hungary adequately performed its management responsibilities, while providing for the regulation, harmonisation and coordination of the auditing of EU grants.

Recommendations

We put forward recommendations to the Director General of DGAEF to ensure that the operation of the internal control system complies with regulations and to ensure the meeting of deadlines; and to the Minister of National Economy for the purpose of adopting measures required for the predictable and uninterrupted performance of DGAEF's tasks. The recommendation regarding the correction of the deficiencies identified in connection with

the Phare and Transition Facilities was addressed to both the Director General of DGAEF and the Minister of National Economy.

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.aszportal.hu website.